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 October 1, 2023

OR

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

For the transition period from ___________________ to ___________________

Commission File Number: 001-41059

Lulu’s Fashion Lounge Holdings, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**20-8442468** **(I.R.S. Employer Identification No.)**
195 Humboldt Avenue **Chico, California** **(Address of principal executive offices)**	**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	☐,	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☒		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒
As of November 3, 2023, there were 40,473,551 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; 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, including inflation, interest rates and fuel prices; 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; the unpredictability and adverse effects of the COVID-19 pandemic; 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 Securities and Exchange Commission (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 2023" and/or "2023" relate to the year ending December 31, 2023 and "fiscal 2022" and/or "2022" relate to the year ended January 1, 2023. The fiscal years ending December 31, 2023 and ended January 1, 2023 consisted of 52-weeks.

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 Free Cash Flow 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 Free Cash Flow, as well as a reconciliation of net income (loss) to Adjusted EBITDA and a reconciliation to non-GAAP Free Cash Flow from net cash provided by operating activities. Net income (loss) is the most directly comparable financial measure to Adjusted EBITDA and net cash provided by operating activites is the most directly comparable financial measure to Free Cash Flow, 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)

	October 1, 2023	January 1, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 12,866	$ 10,219
Accounts receivable	3,438	3,908
Inventory, net	41,490	43,186
Assets for recovery	5,743	3,890
Income tax refund receivable	2,869	4,078
Prepaids and other current assets	3,049	3,738
Total current assets	69,455	69,019
Property and equipment, net	4,438	4,391
Goodwill	35,430	35,430
Tradename	18,509	18,509
Intangible assets, net	3,256	3,090
Lease right-of-use assets	30,857	32,514
Other noncurrent assets	5,431	4,251
Total assets	$ 167,376	$ 167,204
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 8,919	$ 5,320
Accrued expenses and other current liabilities	21,203	17,976
Returns reserve	15,694	9,066
Stored-value card liability	12,669	10,828
Lease liabilities, current	5,419	4,456
Total current liabilities	63,904	47,646
Revolving line of credit	11,000	25,000
Lease liabilities, noncurrent	26,780	29,042
Other noncurrent liabilities	956	623
Total liabilities	102,640	102,311
Commitments and Contingencies (Note 7)		
Stockholders' equity:		
Preferred stock: $0.001 par value, 10,000,000 shares authorized, and no shares issued or outstanding	—	—
Common stock: $0.001 par value, 250,000,000 shares authorized; and 40,464,483 and 39,259,328 shares issued and outstanding as of October 1, 2023 and January 1, 2023, respectively	40	39
Additional paid-in capital	250,671	238,725
Accumulated deficit	(185,975)	(173,871)
Total stockholders' equity	64,736	64,893
Total liabilities and stockholders' equity	$ 167,376	$ 167,204

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 (Loss)
(in thousands, except share and per share amounts)
(unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Net revenue	$ 83,118	$ 105,275	$ 280,216	$ 348,689
Cost of revenue	49,593	60,942	161,334	191,211
Gross profit	33,525	44,333	118,882	157,478
Selling and marketing expenses	16,825	19,356	60,984	67,093
General and administrative expenses	21,575	24,418	70,319	75,644
Income (loss) from operations	(4,875)	559	(12,421)	14,741
Interest expense	(442)	(329)	(1,391)	(694)
Other income, net	270	21	716	102
Income (loss) before provision (benefit) for income taxes	(5,047)	251	(13,096)	14,149
Income tax provision (benefit)	(1,158)	(678)	(992)	5,178
Net income (loss) and comprehensive income (loss)	$ (3,889)	$ 929	$ (12,104)	$ 8,971
Basic earnings (loss) per share	$ (0.10)	$ 0.02	$ (0.31)	$ 0.23
Diluted earnings (loss) per share	$ (0.10)	$ 0.02	$ (0.31)	$ 0.23
Basic weighted-average shares outstanding	40,103,152	38,711,915	39,672,938	38,448,656
Diluted weighted-average shares outstanding	40,103,152	38,898,416	39,672,938	38,699,110

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

LULU’S FASHION LOUNGE HOLDINGS, INC.

Condensed Consolidated Statements of Stockholders’ Equity
(in thousands, except share amounts)
(unaudited)

	For the Thirty-Nine Weeks Ended October 1, 2023				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of January 1, 2023	39,259,328	$ 39	$ 238,725	$ (173,871)	$ 64,893
Issuance of common stock for vesting of restricted stock units (RSUs)	491,769	1	—	—	1
Issuance of common stock for special compensation award	208,914	—	—	—	—
Issuance of common stock for employee stock purchase plan (ESPP)	47,502	—	269	—	269
Shares withheld for withholding tax on RSUs	(277,606)	—	(662)	—	(662)
Forfeited shares of restricted stock	(2,720)	—	—	—	—
Equity-based compensation expense	—	—	4,892	—	4,892
Net (loss) and comprehensive (loss)	—	—	—	(5,618)	(5,618)
Balance as of April 2, 2023	39,727,187	40	243,224	(179,489)	63,775
Issuance of common stock for vesting of RSUs	634,567	—	—	—	—
Shares withheld for withholding tax on RSUs	(220,843)	—	(558)	—	(558)
Equity-based compensation expense	—	—	4,054	—	4,054
Net (loss) and comprehensive (loss)	—	—	—	(2,597)	(2,597)
Balance as of July 2, 2023	40,140,911	$ 40	$ 246,720	$ (182,086)	$ 64,674
Issuance of common stock for vesting of RSUs	505,172	—	—	—	—
Issuance of common stock for employee stock purchase plan (ESPP)	52,775	—	218	—	218
Shares withheld for withholding tax on RSUs	(232,465)	—	(467)	—	(467)
Forfeited shares of restricted stock	(1,910)	—	—	—	—
Equity-based compensation expense		—	4,200	—	4,200
Net (loss) and comprehensive (loss)	—	—	—	(3,889)	(3,889)
Balance as of October 1, 2023	40,464,483	$ 40	$ 250,671	$ (185,975)	$ 64,736

	For the Thirty-Nine Weeks Ended October 2, 2022				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	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 (IPO)	—	—	(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
Issuance of common stock for vesting of RSUs	181,868	—	—	—	—
Shares withheld for withholding tax on RSUs	(17,140)		(80)	—	(80)
Equity-based compensation expense	—	—	3,631	—	3,631
Net income and comprehensive income	—	—	—	929	929
Balance as of October 2, 2022	39,095,778	$ 39	$ 235,491	$ (168,625)	$ 66,905

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)

	Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022
Cash Flows from Operating Activities		
Net income (loss)	$ (12,104)	$ 8,971
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,546	2,980
Noncash lease expense	2,699	2,390
Amortization of debt discount and debt issuance costs	117	118
Equity-based compensation expense	13,366	12,245
Deferred income taxes	(2,281)	(3,757)
Loss on disposal of property and equipment	—	11
Changes in operating assets and liabilities:		
Accounts receivable	470	103
Inventories	1,696	(27,240)
Assets for recovery	(1,853)	(2,931)
Income taxes payable	2,243	3,931
Prepaid and other current assets	527	5
Accounts payable	3,620	2,174
Accrued expenses and other current liabilities	11,636	19,544
Operating lease liabilities	(2,464)	(1,806)
Other noncurrent liabilities	(118)	(405)
Net cash provided by operating activities	21,100	16,333
Cash Flows from Investing Activities		
Capitalized software development costs	(1,550)	(1,869)
Purchases of property and equipment	(1,393)	(1,902)
Other	(66)	(97)
Net cash used in investing activities	(3,009)	(3,868)
Cash Flows from Financing Activities		
Proceeds from borrowings on revolving line of credit	10,000	20,000
Repayments on revolving line of credit	(24,000)	(30,000)
Proceeds from issuance of common stock under employee stock purchase plan (ESPP)	487	—
Principal payments on finance lease obligations	(726)	(541)
Payment of offering costs related to the IPO	—	(832)
Withholding tax payments related to vesting of RSUs	(1,199)	—
Other	(6)	(28)
Net cash used in financing activities	(15,444)	(11,401)
Net decrease in cash, cash equivalents and restricted cash	2,647	1,064
Cash, cash equivalents and restricted cash at beginning of period	10,219	11,908
Cash, cash equivalents and restricted cash at end of period	$ 12,866	$ 12,972
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	$ 12,866	$ 12,465
Restricted cash	—	507
Total cash, cash equivalents and restricted cash at end of period	$ 12,866	$ 12,972

(Continued)

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

	Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022
Supplemental Disclosure		
Cash paid during the period for:		
Income taxes, net	$ 82	$ 4,834
Interest	$ 1,325	$ 542
Operating leases	$ 3,885	$ —
Finance leases	$ 807	$ —
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
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	$ 1,053	$ 1,839
Assets acquired under finance lease obligations	$ 983	$ 4,750
Purchases of property and equipment included in accounts payable and accrued expenses	$ 98	$ 53
		(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.

Impact of Macroeconomic Trends on Business

Changing macroeconomic factors, including inflation, interest rates, and overall consumer confidence with respect to current and future economic conditions, have directly impacted our sales in the third quarter of 2023 as discretionary consumer spending levels and shopping behavior fluctuate with these factors. During the first nine months of 2023, we have responded to these factors by taking appropriate pricing, promotional and other actions to stimulate customer demand. These factors are expected to continue to have an impact on our business, results of operations, our growth and financial condition.

Liquidity

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of October 1, 2023, the Company had total cash and cash equivalents of $12.9 million and amounts due under the revolving line of credit of $11.0 million.

In November 2021 the Company entered into a Credit Agreement to provide the Revolving Facility that provides for borrowings up to $50.0 million. The credit agreement contains various financial covenants and matures on November 15, 2024 as described in Note 5, Debt.

The Company is evaluating sources of debt financing. However, the Company believes the cash on hand and cash provided by operations in conjunction with certain cash conservation measures to be taken as necessary, including adjustments to marketing and other variable and capital spend, will enable the Company to meet its obligations as they become due within one year. The condensed consolidated financial statements do not reflect any adjustments relating to the outcome of this uncertainty.

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 fiscal years ending December 31, 2023 and ended January 1, 2023 consisted of 52-weeks.

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

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the Unites 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 October 1, 2023 and its results of operations for the thirteen and thirty-nine weeks ended October 1, 2023 and October 2, 2022 and its cash flows for the thirty-nine weeks ended October 1, 2023 and October 2, 2022. The results of operations for the thirty-nine weeks ended October 1, 2023 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2023 or for any other future annual or interim period.

The condensed consolidated balance sheet as of January 1, 2023 was derived from the Company's audited consolidated financial statements, which are included in the Company's Annual Report on Form 10-K as filed with the SEC on March 14, 2023.

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 1, 2023, 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 a major credit-worthy financial institution within the United States. To date, the Company has not experienced any losses on its cash deposits. As of October 1, 2023 and January 1, 2023, a single wholesale customer represented 6% and 15%, respectively, of the Company's accounts receivable balance. No customer accounted for greater than 10% of the Company's net revenue during the thirteen and thirty-nine weeks ended October 1, 2023 and October 2, 2022.

Leases

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 (loss). Fixed and variable lease expense on operating leases is recognized within operating expenses in the condensed consolidated statements of operations and comprehensive income (loss). 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.

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.

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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 thirteen and thirty-nine weeks ended October 1, 2023 and October 2, 2022 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 included in accrued expenses and other current liabilities during the thirteen and thirty-nine weeks ended October 1, 2023 and October 2, 2022 (in thousands):

	Deferred Revenue	Stored-Value Cards
Balance as of January 1, 2023	$ 69	$ 10,828
Revenue recognized that was included in contract liability balance at the beginning of the period	(69)	(1,720)
Increase due to cash received, excluding amounts recognized as revenue during the period	122	2,022
Balance as of April 2, 2023	122	11,130
Revenue recognized that was included in contract liability balance at the beginning of the period	(122)	(1,129)
Increase due to cash received, excluding amounts recognized as revenue during the period	98	2,355
Balance as of July 2, 2023	$ 98	$ 12,356
Revenue recognized that was included in contract liability balance at the beginning of the period	(98)	(631)
Increase due to cash received, excluding amounts recognized as revenue during the period	71	944
Balance as of October 1, 2023	$ 71	$ 12,669

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	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
Revenue recognized that was included in contract liability balance at the beginning of the period	(101)	(3,568)
Increase due to cash received, excluding amounts recognized as revenue during the period	42	4,278
Balance as of October 2, 2022	$ 42	$ 8,812

Selling and Marketing Expenses

Advertising costs included in selling and marketing expenses were $12.4 million and $14.8 million for the thirteen weeks ended October 1, 2023 and October 2, 2022, respectively, and $46.9 million and $52.0 million for the thirty-nine weeks ended October 1, 2023 and October 2, 2022, respectively.

Net income (loss) Per Share Attributable to Common Stockholders

Basic net income (loss) per share attributable to common stockholders is computed using net income (loss) attributable to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share attributable to common stockholders represents net income (loss) 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 (loss) per share attributable to common stockholders:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Weighted average shares used to compute net income (loss) per share attributable to common stockholders – Basic	40,103,152	38,711,915	39,672,938	38,448,656
Dilutive securities:				
Unvested restricted stock	—	38,845	—	67,197
Unvested restricted stock units (RSUs)	—	61,330	—	79,745
Special compensation awards	—	86,326	—	103,512
Weighted average shares used to compute net income (loss) per share attributable to common stockholders – Diluted	40,103,152	38,898,416	39,672,938	38,699,110

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Stock options	161,397	—	161,397	—
Unvested restricted stock	36,167	322,793	36,167	322,793
Unvested RSUs	3,772,622	164,547	3,772,622	164,547
Performance stock units	1,811,571	1,151,584	1,811,571	918,593
Employee stock purchase plan shares	117,511	46,494	117,511	46,494
2023 stock-based bonus plan	202,307	—	202,307	—
Total	6,101,575	1,685,418	6,101,575	1,452,427

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 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 adopted this guidance on January 2, 2023, and it did not have a material impact on its consolidated financial statements or disclosure requirements.

Recently Issued Accounting Pronouncements

There are no new recent accounting pronouncements that are expected to have a material impact on our consolidated financial statements.

3. Fair Value Measurements

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts payable, accrued expenses and revolving line of credit. As of October 1, 2023 and January 1, 2023, 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 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.

4. Balance Sheet Components

Property and Equipment, net

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

	Estimated Useful Lives in Years	October 1, 2023	January 1, 2023
Leasehold improvements	3 – 9	$ 4,075	$ 3,802
Equipment	3 – 7	3,019	2,659
Furniture and fixtures	3 – 7	2,032	1,880
Construction in progress		432	36
Total property and equipment		9,558	8,377
Less: accumulated depreciation and amortization		(5,120)	(3,986)
Property and equipment, net		$ 4,438	$ 4,391

Depreciation and amortization of property and equipment for the thirteen weeks ended October 1, 2023 and October 2, 2022 was $0.8 million and $0.7 million, respectively and for the thirty-nine weeks ended October 1, 2023 and October 2, 2022, was $2.2 million and $1.7 million, respectively.

Accrued Expenses and Other Current Liabilities

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

	October 1, 2023	January 1, 2023
Accrued compensation and benefits	$ 4,380	$ 6,751
Accrued marketing	4,371	3,206
Accrued inventory	6,770	3,411
Other	5,682	4,608
Accrued expenses and other current liabilities	$ 21,203	$ 17,976

5. Debt

Revolving Facility

During November 2021, the Company entered into a Credit Agreement with Bank of America (the "Credit Agreement") to provide the Revolving Facility that provides for borrowings up to $50.0 million (the "Revolving Facility"). During the term of the Credit Agreement, the Company can increase the aggregate amount of the 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 thirty-nine weeks ended October 1, 2023, the Company borrowed $10.0 million under the Revolving Facility and repaid $24.0 million of the outstanding balance. The Revolving Facility matures on November 15, 2024, while the Letter of Credit matures on November 8, 2024. As of October 1, 2023, we had $0.3 million outstanding under the Letter of Credit. As of October 1, 2023, we had $38.7 million available for borrowing under the Revolving Facility and $7.2 million available to issue letters of credit.

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 Revolving Facility, taking into account the sum of outstanding borrowings and Letter of Credit obligations. As of October 1, 2023, the interest rate for the Revolving Facility was 7.2%. During the thirteen and thirty-nine weeks ended October 1, 2023, the weighted average interest rate for the Revolving Facility was 8.0% and 7.5%, 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 October 1, 2023, management has determined that the Company was in compliance with all financial covenants.

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 (loss). Debt discounts and issuance costs are presented as a reduction of long-term debt with the exception of debt issuance costs related to the Revolving Facility, which are included in other non-current assets in the condensed consolidated balance sheets. As of October 1, 2023 and January 1, 2023, unamortized debt issuance costs recorded within other non-current assets were $0.2 million and $0.3 million, respectively.

6. Leases

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

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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 on which a lessor makes an underlying asset available for use by the lessee). 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 12 months or less. The Company has multiple finance leases and 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. 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. The Company had immaterial remaining obligations for the base rent related to the short-term leases as of October 1, 2023 and October 2, 2022.

The Company also leases equipment under finance lease agreements expiring on various dates through May 2028.

As of October 1, 2023, 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:	**Operating Leases**	**Finance Leases**	**Total**
2023 (remaining three months)	$ 1,307	$ 575	$ 1,882
2024	5,627	1,504	7,131
2025	6,263	1,504	7,767
2026	4,970	252	5,222
2027	5,138	73	5,211
Thereafter	11,632	8	11,640
Total undiscounted lease payment	34,937	3,916	38,853
Present value adjustment	(6,473)	(181)	(6,654)
Total lease liabilities	28,464	3,735	32,199
Less: lease liabilities, current	(3,779)	(1,640)	(5,419)
Lease liabilities, noncurrent	$ 24,685	$ 2,095	$ 26,780

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.

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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):

	Thirteen Weeks Ended October 1, 2023	Thirty-Nine Weeks Ended October 1, 2023
Finance lease cost		
Amortization of ROU assets	$ 364	$ 1,012
Interest on lease liabilities	35	96
Operating lease cost	1,403	4,099
Short-term lease cost	—	12
Variable lease cost	212	638
Total lease cost	$ 2,014	$ 5,857
Lease cost included in cost of revenue	$ 1,645	$ 4,656
Lease cost included in general and administrative expenses	$ 369	$ 1,201
Weighted-average remaining lease term - finance leases	33 months	33 months
Weighted-average remaining lease term - operating leases	77 months	77 months
Weighted-average discount rate - finance leases	3.63%	3.63%
Weighted-average discount rate - operating leases	6.49%	6.49%

7. Commitments and Contingencies

Litigation and Other

From time to time, the Company may be a party to litigation and subject to claims, including employment claims, wage and hour claims, intellectual property claims, privacy claims, contractual and commercial disputes and other matters that arise in the ordinary course of our business. 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.

During the normal course of business, the Company may be a party to claims that may not be covered wholly or partially 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 October 1, 2023, 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. As of October 1, 2023 and January 1, 2023, no shares of preferred stock were issued and outstanding.

9. Common Stock

The Company has authorized the issuance of 250,000,000 shares of common stock, $0.001 par value ("common stock") as of October 1, 2023 and January 1, 2023, respectively. 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 October 1, 2023, the Company has reserved 161,397 shares of common stock for issuance upon the exercise of stock options, and 1,850,835 shares of common stock available for future issuance under the Lulu's Fashion Lounge Holdings, Inc. Omnibus Equity Plan (the “Omnibus Equity Plan”) and 1,420,331 shares of common stock available for future issuance under the 2021 Employee Stock Purchase Plan (the “ESPP”), respectively. Both equity plans are further 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 and 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.

Under the ESPP, the Company initially reserved 743,803 shares of common stock for future issuance. The number of shares of common stock reserved for issuance 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.

On April 1, 2022, the Company filed a Registration Statement on Form S-8 with the SEC for the purpose of registering an additional 5,921,056 shares of the Company’s common stock, inclusive of 1,536,845 and 384,211 shares associated with automatic increases that occurred on January 3, 2022 under the Omnibus Equity Plan and ESPP, respectively. This registration also included 3,200,000 and 800,000 shares for the Omnibus Equity Plan and the ESPP, respectively, representing two years’ worth of estimated future automatic increases in availability for these plans.

On March 8, 2023, the Company’s board of directors approved the Fiscal 2023 Bonus Plan (“2023 Bonus Plan”) that will grant RSUs to eligible employees, instead of the typical cash bonus. For the thirteen and thirty-nine weeks ended October 1, 2023, equity-based compensation expense for the 2023 Bonus Plan was $0.1 million and 0.2 million respectively. As of October 1, 2023, the unrecognized equity-based compensation expense for 2023 Bonus Plan is $0.4 million and will be recognized over a weighted-average period of 0.54 years.

On June 29, 2023, the Company filed a Registration Statement on Form S-8 with the SEC for the purpose of registering an additional 2,000,000 shares of the Company's common stock under the Omnibus Equity Plan corresponding to the increase in shares approved by stockholders at the 2023 annual meeting of stockholders.

As of October 1, 2023, the Company had 1,850,835 and 1,420,331 shares available for issuance under the Omnibus Equity Plan and ESPP, respectively. 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 vesting schedule 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.

The Company’s initial ESPP offering period commenced on August 26, 2022. The ESPP consists of consecutive, overlapping 12-month offering periods that begin on each August 26 and February 26 during the term of the ESPP, and end on each August 25 and February 25 occurring 12 months later, as applicable. Each offering period is comprised of two consecutive six-month purchase periods that begin on each August 26 and February 26 within each offering period and end on each February 25 and August 25, respectively, thereafter. The duration and timing of offering periods and purchase periods may be changed by the Company’s Board of Directors or Compensation Committee at any time. The ESPP allows participants to purchase shares of the Company’s common stock at a 15 percent discount from the lower of the Company’s stock price on (i) the first day of the offering period or on (ii) the last day of the purchase period and includes a rollover mechanism for the purchase price if the stock price on the purchase date is less than the stock price on the offering date. The ESPP also allows participants to reduce their percentage election once during the offering period, but they cannot increase their election until the next offering period.

The Company recognizes equity-based compensation expense related to shares issued pursuant to the ESPP on a graded vesting approach over each offering period. For the thirteen and thirty-nine weeks ended October 1, 2023, equity-based compensation expense related to our ESPP was immaterial and $0.2 million, respectively. During the thirteen weeks ended April 2, 2023, and October 1, 2023 the Company issued 47,502 shares and 52,775 shares, respectively, pursuant to the ESPP six-month purchase period ended February 25, 2023 and August 24, 2023, respectively.

The Company used the Black-Scholes model to estimate the fair value of the purchase rights under the ESPP. For the thirteen and thirty-nine weeks ended October 1, 2023, the Company utilized the following assumptions:

Expected term (in years)		0.50 to 1.00
Expected volatility		93.84 to 99.95 %
Risk-free interest rate		5.44 to 5.61 %
Dividend yield		-
Weighted average fair value per share of ESPP awards granted	$	0.60 to 0.98

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 shares of common stock to satisfy stock option exercises. In connection with the closing of the IPO, no further awards will be granted under the 2021 Equity Plan.

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Former CEO Stock Options and Special Compensation Awards

In April 2021, the Company entered into an Employment Agreement (the "McCreight IPO Employment Agreement") with the former CEO, David McCreight, and granted stock options under the 2021 Equity Plan 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. As previously disclosed on a Form 8-K filed on February 13, 2023 (the "February 13 8-K"), Mr. McCreight voluntarily forfeited 161,396 unvested stock options of the Company. During the thirteen weeks ended July 2, 2023, the forfeiture of 161,396 unvested stock resulted in immediate acceleration of the remaining $1.2 million of compensation expense which was recorded to general and administrative expense. As previously disclosed in the February 13 8-K, the Company and David McCreight also entered into the First Amendment to Lulu's Fashion Lounge Holdings, Inc. 2021 Equity Incentive Plan Stock Option Agreement that extends the post-termination exercise period of 161,397 vested stock options from 90 days to three (3) years from a termination of service other than for cause, death or disability.

Under the McCreight IPO Employment Agreement and subject to ongoing employment, and in light of the closing of the IPO, the former CEO received two bonuses which were 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 recorded the equity-based compensation expense on a straight-line basis over the requisite service periods through March 31, 2022 and March 31, 2023. The Company recorded equity-based compensation expense related to the two bonuses of zero and $0.4 million during the thirteen and thirty-nine weeks ended October 1, 2023, respectively, and $0.4 million and $1.9 million for the thirteen and thirty-nine weeks ended October 2, 2022. During the thirteen weeks ended April 2, 2023 and April 3, 2022, the Company issued 208,914 and 208,914 fully-vested shares, respectively, upon satisfaction of the service performed through March 31, 2023 and March 31, 2022, respectively.

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 1, 2023	322,793	$ 11.35	8.29	
Granted	—	—	—	
Forfeited	(161,396)	$ (11.35)	—	
Outstanding as of October 1, 2023	161,397	$ 11.35	7.54	
Exercisable as of October 1, 2023	161,397	$ 11.35	7.54	$ —
Vested and expected to vest as of October 1, 2023	161,397	$ 11.35	7.54	$ —

Restricted Stock and Restricted Stock Units ("RSUs")

Immediately before the completion of the IPO, the LP was liquidated and the Class P unit holders of the LP (current and former employees or service providers of the Company) 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 $0.2 million and $0.6 million during the thirteen and thirty-nine weeks ended October 1, 2023, respectively, and $0.7 million and $2.2 million during the thirteen and thirty-nine weeks ended October 2, 2022, respectively, related to the exchanged restricted stock. As of October 1, 2023, the unrecognized equity-based compensation expense for all restricted stock is $0.5 million and will be recognized over a weighted-average period of 1.08 years.

The following table summarizes the rollforward of unvested restricted stock during the thirty-nine weeks ended October 1, 2023:

	Unvested Restricted Stock	Weighted-Average Fair Value per Share
Balance at January 1, 2023	78,303	$ 5.38
Restricted stock granted	—	—
Restricted stock vested	(37,506)	4.39
Restricted stock forfeited	(4,630)	4.27
Balance at October 1, 2023	36,167	$ 4.54

During the thirteen weeks ended April 2, 2023, the Company entered into employment agreements with Crystal Landsem, the Chief Executive Officer, (the "CEO Employment Agreement") and Tiffany Smith, the Chief Financial Officer, (the "CFO Employment Agreement"), under which 1,811,572 and 161,088 RSUs were granted, respectively. Under the CEO Employment Agreement, Ms. Landsem received a grant of 1,811,572 RSUs, which vest in quarterly installments beginning on June 30, 2023 through December 31, 2026 and are subject to continued service requirements. Under the CFO Employment Agreement, Ms. Smith received 161,088 RSUs, granted in two parts, with 118,025 and 43,063 RSUs granted on March 17, 2023 and April 30, 2023, respectively, which in combination will vest in three equal installments on March 8, 2024, March 7, 2025 and March 6, 2026, and are subject to continued service requirements. On March 5, 2023, Mr. McCreight received a grant of 25,873 RSUs pursuant to the McCreight IPO Employment Agreement. These RSUs vest in 12 equal installments from April 30, 2023 through March 31, 2024, and are subject to continued service requirements. In addition, under Mr. McCreight's employment agreement for his Executive Chairman role, entered into on November 11, 2022 (the "Executive Chairman Employment Agreement"), Mr. McCreight was entitled to receive a grant of RSUs equivalent to $2 million. The Company initially concluded that the award was subject to the guidance within ASC 718 and was liability-classified upon issuance. On March 17, 2023, the number of RSUs associated with the award became determinable, and the award became equity-classified as it no longer met the criteria for liability classification. Mr. McCreight's 836,820 RSUs were granted in two parts, with 613,116 RSUs granted on March 17, 2023 and 223,704 RSUs granted on April 30, 2023, the combination of which vest in equal, quarterly installments on the date immediately following the last day of each calendar quarter, starting April 1, 2023, and are subject to continued service requirements.

During the thirteen and thirty-nine weeks ended October 1, 2023, the Company granted 141,000 RSUs and 2,908,901 RSUs (inclusive of the aforementioned RSU grants to Ms. Landsem and Ms. Smith), respectively, to certain executives and employees which vest over a three-year service period, and 128,248 RSUs and 1,263,378 RSUs (inclusive of the aforementioned RSU grants to the Executive Chairman) to certain directors which are subject to various vesting schedules as set forth in the Company's Non-Employee Director Compensation Program and the Executive Chairman Employment Agreement. The Company recognized equity-based compensation expense of $3.2 million and $9.2 million during the thirteen and thirty-nine weeks ended October 1, 2023, and $2.2 million and $6.5 million during thirteen and thirty-nine weeks ended October 2, 2022, respectively, related to the RSUs. As of October 1, 2023, the unrecognized equity-based compensation expense is $11.9 million and will be recognized over a weighted-average period of 2.19 years.

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table summarizes the roll forward of unvested RSUs during the thirty-nine weeks ended October 1, 2023:

	Unvested RSUs	Weighted-Average Fair Value per Share
Balance at January 1, 2023	1,336,674	$ 8.94
RSUs granted	4,172,279	2.67
RSUs vested	(1,631,508)	5.68
RSUs forfeited	(104,823)	5.70
Balance at October 1, 2023	3,772,622	$ 3.51

Performance Stock Units ("PSUs")

Under the CEO Employment Agreement, Ms. Landsem received a grant of 1,811,571 PSUs on March 5, 2023 which vest in three equal annual installments of 603,857 subject to the achievement of trailing ten day volume-weighted average price targets of the Company's common stock and her continued employment on the vesting dates. The Company recognized equity-based compensation expense of $0.6 million and $1.5 million during the thirteen and thirty-nine weeks ended October 1, 2023, related to the PSUs. As of October 1, 2023, the unrecognized equity-based compensation expense is $3.2 million and will be recognized over a weighted-average period of 2.43 years.

The following table summarizes the rollforward of unvested PSUs during the thirty-nine weeks ended October 1, 2023:

	Unvested PSUs	Weighted-Average Fair Value per Share
Balance at January 1, 2023	—	$ —
PSUs granted	1,811,571	2.65
PSUs vested	—	—
PSUs forfeited	—	—
Balance at October 1, 2023	1,811,571	$ 2.65

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 $0.4 million and $1.3 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 thirteen and thirty-nine weeks ended October 3, 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, was recognized over the subsequent 12-month period through November 2022.

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Class P Distributions

Distributions payable to former Class P unit holders ("FCPUs") triggered upon the completion of the Company's 2021 IPO were determined to be settled in the thirteen weeks ended April 3, 2022 as a result of agreements reached with the FCPUs, and were recorded as an increase to additional paid-in capital. The agreements provided for contingent payments to the FCPUs of up to $0.6 million if certain conditions were met, which were recorded as equity-based compensation expense and accrued expenses and other current liabilities in the thirteen weeks ended April 3, 2022. The $0.6 million accrual was subsequently reversed during the thirteen weeks ended July 3, 2022, when the timeframe for the payment conditions expired.

11. Income Taxes

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

	Thirteen Weeks Ended	
	October 1, 2023	October 2, 2022
Income (loss) before provision (benefit) for income taxes	$ (5,047)	$ 251
Provision (benefit) for income taxes	(1,158)	(678)
Effective tax rate	22.9 %	(270.1)%

	Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022
Income (loss) before provision for income taxes	$ (13,096)	$ 14,149
Provision (benefit) for income taxes	(992)	5,178
Effective tax rate	7.6 %	36.6 %

The Company's provision (benefit) for income taxes during interim reporting periods has historically been calculated by applying an estimate of the annual effective tax rate for the full year to "ordinary" income or loss (pre-tax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. When projected "ordinary" income or loss for the full year is close to breakeven, the estimated annual effective tax rate can become volatile due to small changes, resulting in an unreliable estimate of tax for the reporting period. In such instances, the Company will calculate the interim income tax provision or benefit using a discrete effective tax rate method, as allowed by ASC 740-270 "Income Taxes, Interim Reporting," based solely on the year-to-date pretax income or loss as adjusted for permanent differences on a pro rata basis.

We utilized a discrete effective tax rate method to calculate taxes for the thirteen weeks ended April 2, 2023 due to circumstances described above where the estimated annual effective tax rate did not provide a reliable estimate. In the second and third quarters of fiscal 2023, the Company determined that due to updated projected pre-tax results for fiscal 2023 the estimated annual effective tax rate method was no longer subject to the volatility computed in the first quarter.

The Company's pre-tax loss for the period ended October 1, 2023 relative to the Company's projected pre-tax income for fiscal 2023 yielded an annual effective tax rate, which was deemed to be appropriate or meaningful. Based on this fact, the Company determined that the historical estimated annual effective tax rate method would provide a reliable estimate and was used for calculating the interim benefit for the period ended October 1, 2023.

The effective tax rate for the thirteen and thirty-nine weeks ended October 1, 2023 differs from the federal income tax rate of 21% primarily due to non-deductible executive compensation and non-deductible equity-based compensation expense. The effective tax rate for the thirteen and thirty-nine weeks ended October 2, 2022 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.

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.

13. Subsequent Events

No material events have occurred that required recognition or disclosure in these financial statements.

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 1, 2023, filed with the Securities and Exchange Commission (“SEC”) on March 14, 2023 (the “2022 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 2022 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.

Impact of Macroeconomic Trends on Business

Changing macroeconomic factors, including inflation, interest rates, and overall consumer confidence with respect to current and future economic conditions, have directly impacted our sales in the first nine months of 2023 as discretionary consumer spending levels and shopping behavior fluctuate with these factors. During the first nine months of 2023, we have responded to these factors by taking appropriate pricing, promotional and other actions to stimulate customer demand. These factors are expected to continue to have an impact on our business, results of operations, our growth and financial condition.

Liquidity

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of October 1, 2023, the Company had total cash and cash equivalents of $12.9 million and amounts due under the revolving line of credit of $11.0 million.

In November 2021 the Company entered into a Credit Agreement to provide the Revolving Facility that provides for borrowings up to $50.0 million. The credit agreement contains various financial covenants and matures on November 15, 2024 as described in Note 5, Debt.

The Company is evaluating sources of debt financing. However, the Company believes the cash on hand and cash provided by operations in conjunction with certain cash conservation measures to be taken as necessary, including adjustments to marketing and other variable and capital spend, will enable the Company to meet its obligations as they become due within one year. The condensed consolidated financial statements do not reflect any adjustments relating to the outcome of this uncertainty.

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.

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
	(in thousands , except percentages and Average Order Value)			
Gross Margin	40.3 %	42.1 %	42.4 %	45.2 %
Net income (loss)	$ (3,889)	$ 929	$ (12,104)	$ 8,971
Adjusted EBITDA (1)	$ 972	$ 5,364	$ 5,207	$ 30,068
Adjusted EBITDA Margin (1)	1.2 %	5.1 %	1.9 %	8.6 %
Active Customers	2,960	3,230	2,960	3,230
Average Order Value	$ 133	$ 133	$ 133	$ 131

(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.”

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. Active Customer count is as of the last day of the relevant 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 primarily 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 AOV, 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 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 (loss) 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 (loss) 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, and equity-based compensation expense. 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 a percentage of our net revenue.

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
	(in thousands)		(in thousands)	
Net income (loss)	$ (3,889)	$ 929	$ (12,104)	$ 8,971
Depreciation and amortization	1,240	1,130	3,546	2,980
Interest expense	442	329	1,391	694
Income tax provision (benefit)	(1,158)	(678)	(992)	5,178
Equity-based compensation expense (1)	4,337	3,654	13,366	12,245
Adjusted EBITDA	$ 972	$ 5,364	$ 5,207	$ 30,068
Net income (loss) margin	(4.7)%	0.9 %	(4.3)%	2.6 %
Adjusted EBITDA margin	1.2 %	5.1 %	1.9 %	8.6 %

(1) The thirteen weeks ended October 1, 2023 and October 2, 2022 include equity-based compensation expense for RSU awards granted during the period, as well as equity-based awards granted in prior periods. The thirty-nine weeks ended October 1, 2023 include equity-based compensation expense for performance stock units and RSU awards granted during the period, accelerated expense associated with the voluntary forfeiture of stock options, and equity-based awards granted in prior periods. The thirty-nine weeks ended October 2, 2022 include equity-based compensation expense for RSU awards granted during the period, as well as equity-based awards granted in prior periods.

Free Cash Flow

Free Cash Flow is a non-GAAP financial measure that we calculate as net cash provided by operating activities less cash used for capitalized software development costs and purchases of property and equipment. We view Free Cash Flow as an important indicator of our liquidity because it measures the amount of cash we generate.

A reconciliation to non-GAAP Free Cash Flow from net cash provided by operating activities for the thirteen and thirty-nine weeks ended October 1, 2023 and October 2, 2022 is as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Net cash provided by operating activities	$ 12,749	$ 5,745	$ 21,100	$ 16,333
Capitalized software development costs	(524)	(622)	(1,550)	(1,869)
Purchases of property and equipment	(667)	(508)	(1,393)	(1,902)
Free Cash Flow	$ 11,558	$ 4,615	$ 18,157	$ 12,562

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 2022 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 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 primarily 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 12 months ended October 1, 2023, we served 3.0 million Active Customers compared to 3.2 million for the trailing 12 months ended October 2, 2022.

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, international duties and taxes 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.

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.

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 gifted 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 meet our obligations as a public company.

Since our IPO, we have incurred 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 continue to 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 (Benefit) for Income Taxes

The provision (benefit) 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 and net income (loss):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
	(in thousands)			
Net revenue	$ 83,118	$ 105,275	$ 280,216	$ 348,689
Cost of revenue	49,593	60,942	161,334	191,211
Gross profit	33,525	44,333	118,882	157,478
Selling and marketing expenses	16,825	19,356	60,984	67,093
General and administrative expenses	21,575	24,418	70,319	75,644
Income (loss) from operations	(4,875)	559	(12,421)	14,741
Interest expense	(442)	(329)	(1,391)	(694)
Other income, net	270	21	716	102
Income (loss) before income taxes	(5,047)	251	(13,096)	14,149
Income tax provision (benefit)	(1,158)	(678)	(992)	5,178
Net income (loss)	$ (3,889)	$ 929	$ (12,104)	$ 8,971

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2023	October 2, 2022	October 1, 2023	October 2, 2022
Net revenue	100 %	100 %	100 %	100 %
Cost of revenue	60	58	58	55
Gross profit	40	42	42	45
Selling and marketing expenses	20	18	21	19
General and administrative expenses	26	23	25	22
Income (loss) from operations	(6)	1	(4)	4
Interest expense	—	—	—	—
Other income, net	—	—	—	—
Income (loss) before income taxes	(6)	1	(4)	4
Income tax provision (benefit)	(1)	(1)	-	1
Net income (loss)	(5)%	2 %	(4)%	3 %

Comparisons for the Thirteen Weeks Ended October 1, 2023 and October 2, 2022

Net Revenue

Net revenue decreased in the thirteen weeks ended October 1, 2023 by $22.2 million, or 21%, compared to the thirteen weeks ended October 2, 2022. The decrease is primarily the result of a 19% decrease in Total Orders Placed, as well as higher markdowns and return rates compared to the thirteen weeks ended October 2, 2022.

Cost of Revenue

Cost of revenue decreased in the thirteen weeks ended October 1, 2023 compared to the same period of the prior year by $11.3 million, or 19%, compared to the same period last year, which was primarily driven by the impact of lower revenue along with favorability in shipping costs, which decreased with the lower revenue.

Selling and Marketing Expenses

Selling and marketing expenses decreased in the thirteen weeks ended October 1, 2023 by $2.5 million, or 13%, compared to the thirteen weeks ended October 2, 2022 due to lower performance marketing spend and favorability in merchant processing fees, partially offset by higher brand marketing spend as we invested more to increase brand awareness.

General and Administrative Expenses

General and administrative expenses decreased by $2.8 million in the thirteen weeks ended October 1, 2023, or 12%, compared to the thirteen weeks ended October 2, 2022. The decrease was primarily due to $0.8 million decrease in fixed labor, due to delayed hiring of fixed headcount, $1.8 million decrease in variable labor and benefits associated with lower sales volume and operational efficiencies, $0.7 million decrease in D&O insurance costs, professional services and supplies. This was partially offset by $0.7 million related to equity-based awards issued through October 1, 2023.

Interest Expense

Interest expense increased in the thirteen weeks ended October 1, 2023 by $0.1 million, or 34%, compared to the thirteen weeks ended October 2, 2022. The increase is attributable to higher interest rates driving increased interest expense and unused fees related to the Revolving Facility offset by lower average borrowings.

Income Tax Benefit

Our income tax benefit in the thirteen weeks ended October 1, 2023 increased by $0.5 million to a benefit of $1.2 million, compared to a benefit of $0.7 million in the thirteen weeks ended October 2, 2022. The decrease was primarily due to a decrease in our income to a loss before benefit for income taxes.

Comparisons for the Thirty-nine Weeks Ended October 1, 2023 and October 2, 2022

Net Revenue

Net revenue decreased in the thirty-nine weeks ended October 1, 2023 by $68.5 million, or 20%, compared to the thirty-nine weeks ended October 2, 2022. The decrease is primarily the result of a 17% decrease in Total Orders Placed, and higher markdowns and return rates, partially offset by a 2% increase in AOV compared to the thirty-nine weeks ended October 2, 2022.

Cost of Revenue

Cost of revenue decreased in the thirty-nine weeks ended October 1, 2023 compared to the thirty-nine weeks ended October 2, 2022 by $29.9 million, or 16%, which was primarily driven by the impact of lower revenue along with favorability in shipping costs, which decreased with the lower revenue.

Selling and Marketing Expenses

Selling and marketing expenses decreased in the thirty-nine weeks ended October 1, 2023 by $6.1 million, or 9%, compared to the thirty-nine weeks ended October 2, 2022 due to lower performance marketing costs as we utilized a higher mix of promotions and discounts as well as lower merchant processing fees. This was partially offset by higher brand marketing spend through the thirty-nine weeks ended October 1,2023 as we invested more in brand awareness.

General and Administrative Expenses

General and administrative expenses decreased by $5.3 million in the thirty-nine weeks ended October 1, 2023, or 7%, compared to the thirty-nine weeks ended October 2, 2022. The decrease was primarily due to a $5.1 million lower variable labor and benefits costs primarily associated with lower sales volume and operational efficiencies, which was partially offset by higher equity-based compensation expense of $1.1 million related to equity-based awards issued through October 1, 2023. Additionally, there was a $1.5 million decrease in D&O insurance costs, professional services, supplies and recruiting costs.

Interest Expense

Interest expense increased in the thirty-nine weeks ended October 1, 2023 by $0.7 million, or 100%, compared to the thirty-nine weeks ended October 2, 2022. The increase is attributable to higher interest rates and higher average borrowings driving increased interest expense and unused fees related to the Revolving Facility.

Income Tax Provision (Benefit)

Our income tax benefit in the thirty-nine weeks ended October 1, 2023 increased by $6.2 million to a benefit of $1.0 million, compared to a provision of $5.2 million in the thirty-nine weeks ended October 2, 2022. The decrease was primarily due to a decrease in our income to a loss before provision for income taxes.

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. Our quarterly net revenue in 2022 reflected the highest concentrations in the first and second fiscal quarters compared to the rest of the year, as customer demand remained strong for dresses and event wear, carrying forward the trend seen in 2021 with the resurgence of events and special occasions. The third and fourth fiscal quarters of 2022 were impacted by a worsened macroeconomic environment where consumers generally lowered their spending levels and sought higher levels of promotions and discounts which has continued into the first nine months of 2023. 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, such as the COVID-19 pandemic and the ensuing macroeconomic slowdown that begun in mid-2022, which led to increased promotional discounts and higher markdowns in order to optimize our inventory mix and quantities. Additionally, gross profit has recently been impacted by decreases in discretionary consumer spending as a result of inflation and macroeconomic conditions, increased promotions and discounts in response to decreases in consumer spending, and trends observed regarding the levels of returns.

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 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.

Credit Facilities

During November 2021, we entered into a Credit Agreement with Bank of America (the "Credit Agreement") to provide a revolving facility that provides for borrowings up to $50.0 million (the "Revolving Facility"). During the term of the Credit Agreement, we may increase the aggregate amount of the 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 (the "Letter of Credit"). As of October 1, 2023, we had $11.0 million outstanding under the Revolving Facility and had utilized $0.3 million under the Letter of Credit. As of October 1, 2023, we had $38.7 million available for borrowing under the Revolving Facility and $7.2 million available to issue letters of credit.

The 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 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%). The 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. We were in compliance with our debt covenants under the Credit Agreement as of October 1, 2023. While we expect to continue to be in compliance with our debt covenants, any failure to remain in compliance with our debt covenants may materially adversely affect our liquidity. A commitment fee of 37.5 basis points will be assessed on unused commitments under the Revolving Facility.

Availability and Use of Cash

As of October 1, 2023, we had cash and cash equivalents of $12.9 million. We believe that our cash and cash equivalents, cash flows from operations and the available borrowings under our 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 2022 10-K.

Cash Flow Analysis

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

	Thirty-Nine Weeks Ended	
	October 1, 2023	**October 2, 2022**
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ 21,100	$ 16,333
Investing activities	(3,009)	(3,868)
Financing activities	(15,444)	(11,401)
Net decrease in cash, cash equivalents and restricted cash	$ 2,647	$ 1,064

Operating Activities

Net cash provided by operating activities consists primarily of net income (loss) adjusted for certain non-cash items, including depreciation, amortization, equity-based compensation, the effect of changes in working capital and other activities.

During the thirty-nine weeks ended October 1, 2023, net cash provided by operating activities increased by $4.8 million, as compared to the same period in 2022. The increase was largely a result of a decrease of $28.9 million in inventory purchases as a result of lower sales in the current year due to the impact of increased macroeconomic pressures, along with an increase of $1.4 million in accounts payable. This was partially offset by a $21.1 million decrease in net income, from net income of $9.0 million during the thirty-nine weeks ended October 2, 2022 to net loss of $12.1 million during the thirty-nine weeks ended October 1, 2023. There was also a $7.9 million reduction in accrued expenses and other current liabilities, mainly related to a $2.1 million decrease in accrued inventory due to lower inventory purchases, a $1.9 million decrease in accrued compensation and benefits due to reductions in medical insurance reserves, accrued bonuses and deferred withholding taxes related to the CARES Act. In addition, there was a $1.7 million reduction in accrued marketing due to reduced performance marketing spend as we utilized a higher mix of promotions and discounts.

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.

During the thirty-nine weeks ended October 1, 2023, as compared to the same period in 2022, net cash used in investing activities decreased by $0.9 million. This was attributable to $0.3 million less invested in capitalized software development costs and $0.6 million lower capital expenditures for leasehold improvements, construction in progress, and purchases of computer hardware and equipment for our general operations.

Financing Activities

During the thirty-nine weeks ended October 1, 2023, as compared to the same period in 2022, net cash used in financing activities increased by $4.0 million primarily due to $10.0 million lower borrowings on our revolving line of credit facility in the current year as compared to the same period in 2022 offset by $6 million lower repayments on our revolving line of credit facility in the current year as compared to the same period in 2022.

Contractual Obligations and Commitments

There have been no other material changes to our contractual obligations and commitments as disclosed in our 2022 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 2022 10-K and the notes to the audited consolidated financial statements appearing elsewhere in our 2022 10-K. There have been no significant changes to our critical accounting policies and estimates as disclosed in our 2022 10-K.

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 2022 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 October 1, 2023, 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 October 1, 2023 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, privacy 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 2022 10-K. There have been no material changes to the risk factors previously disclosed in our 2022 10-K.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Amendment to the Company's Non-Employee Director Compensation Program

On November 3, 2023 the Board of Directors of the Company (the "Board") approved an amendment to the Company's Non-Employee Director Compensation Program to increase the amount of compensation paid to the Nominating and Corporate Governance Committee chair and to incorporate compensation for the members and chair of the Company's new Technology and Innovation Committee. Some additional changes were made to clarify the timing of payment of the quarterly cash retainers and RSU awards in lieu of quarterly cash retainers.

The full text of the Non-Employee Director Compensation Program is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q and incorporated hereto by reference.

Establishment of the Technology and Innovation Committee

On November 3, 2023, the Board authorized and established the Technology and Innovation Committee, effective January 1, 2024, to oversee cybersecurity risks with the Audit Committee. The Board appointed Anisa Kumar to serve as Chair of the Technology and Innovation Committee, and Dara Bazzano, Caroline Sheu and Kira Yugay to serve as committee members.

Securities Trading Plans of Directors and Executive Officers

During the thirteen weeks ended October 1, 2023, none of the Company’s directors or officers adopted, modified, or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement”, as such terms are defined under Item 408 of Regulation S-K.

Item 6. Exhibits.

		Incorporated by Reference				Filed/
Exhibit Number	**Exhibit Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Furnished Herewith**
10.1	Amendment to Lulu's Fashion Lounge Holdings, Inc. Non-Employee Director Compensation Program.					*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.					**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.					**
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: November 8, 2023

By: /s/ Crystal Landsem

Crystal Landsem
Chief Executive Officer
(Principal Executive Officer)

Date: November 8, 2023

By: /s/ Tiffany R. Smith

Tiffany R. Smith
Chief Financial Officer
(Principal Financial and Accounting Officer)

LULU'S FASHION LOUNGE HOLDINGS, INC.

NON-EMPLOYEE DIRECTOR COMPENSATION PROGRAM

This Lulu's Fashion Lounge Holdings, Inc. (the "***Company***") Non-Employee Director Compensation Program (this "***Program***") has been adopted by the Company's Board of Directors (the "***Board***") under the Company's Omnibus Equity Plan (the "***Plan***") effective as of January 30, 2022 and amended as of November 3, 2023 (the "***Effective Date***"). Capitalized terms not otherwise defined herein shall have the meaning ascribed in the Plan.

Cash Compensation

Effective upon the Effective Date, annual retainers will be paid in the following amounts to Non-Employee Directors:

Board Service

Non-Employee Director	$50,000

Committee Service

	Chair	Non-Chair
Audit Committee Member	$20,000	$10,000
Compensation Committee Member	$15,000	$7,500
Nominating and Corporate Governance Committee Member	$15,000	$7,500
Technology and Innovation Committee Member[1]	$15,000	$7,500

All annual retainers will be paid out in cash on a quarterly basis in arrears promptly following the end of the applicable fiscal quarter, but in no event more than 30 days after the end of such quarter. If a Non-Employee Director does not serve as a Non-Employee Director, or in the applicable positions described above, for an entire fiscal quarter, the retainer paid to such Non-Employee Director shall be prorated for the portion of such fiscal quarter actually served as a Non-Employee Director, or in such position, as applicable.

Election to Receive Restricted Stock Units ("RSUs") In Lieu of Annual Retainers

General:	The Board or the Compensation Committee may, in its discretion, provide Non-Employee Directors with the opportunity to elect to convert all or a portion of their annual retainers into awards of RSUs ("***Retainer RSU Awards***") granted under the Plan or any other applicable Company equity incentive plan then-maintained by the Company, with each such

[1] The annual retainer for the Technology and Innovation Committee commences on January 1, 2024.

	Retainer RSU Award covering a number of shares of Common Stock calculated by dividing (i) the amount of the annual retainer that would have otherwise been paid to such Non-Employee Director on the applicable payment date by (ii) the average closing trading price of the Common Stock over the 10 consecutive trading days ending with the trading day immediately preceding the grant date (such election, a "***Retainer RSU Election***"). Each Retainer RSU Award will be automatically granted five business days after the end of the fiscal quarter for which the corresponding portion of the annual retainer was earned. Each Retainer RSU Award will be fully vested on the grant date.
Election Method:	Each Retainer RSU Election must be submitted to the Company in the form and manner specified by the Board or its Compensation Committee. An individual who fails to make a timely Retainer RSU Election shall not receive a Retainer RSU Award and instead shall receive the applicable annual retainer in cash. Retainer RSU Elections must comply with the following timing requirements: • Initial Election After Effective Date. Each individual who is a Non-Employee Director as of the Effective Date may make a Retainer RSU Election with respect to annual retainer payments scheduled to be paid in fiscal year 2022, which election must be submitted to the Company no later than the 30th day following the Effective Date, and which election shall become final and irrevocable as of such date. • Initial Election for New Non-Employee Directors. Each individual who first becomes a Non-Employee Director after the Effective Date may make a Retainer RSU Election with respect to annual retainer payments scheduled to be paid in the same fiscal year as such individual first becomes a Non-Employee Director (the "***Initial Retainer RSU Election***"). The Initial Retainer RSU Election must be submitted to the Company on or before the date that the individual first becomes a Non-Employee Director (the "***Initial Election Deadline***"), and the Initial Retainer RSU Election shall become final and irrevocable as of the Initial Election Deadline. • Annual Election. No later than December 31 of each calendar year, or such earlier deadline as may be

	established by the Board or the Compensation Committee, in its discretion (the “***Annual Election Deadline***”), each individual who is a Non-Employee Director as of immediately before the Annual Election Deadline may make a Retainer RSU Election with respect to the annual retainer relating to services to be performed in the following fiscal year (the “***Annual Retainer RSU Election***”). The Annual Retainer RSU Election must be submitted to the Company on or before the applicable Annual Election Deadline and shall become effective and irrevocable as of the Annual Election Deadline.

Equity Compensation

Initial RSU Award:	Each Non-Employee Director who is initially elected or appointed to serve on the Board on or after the Effective Date shall be granted an award of RSUs under the Plan, or any other applicable Company equity incentive plan then-maintained by the Company, covering a number of shares of Common Stock calculated by dividing (i) \$200,000 by (ii) the average closing trading price of the Common Stock over the 10 consecutive trading days ending with the trading day immediately preceding the grant (the “***Initial RSU Award***”). The Initial RSU Award will be automatically granted on the date on which such Non-Employee Director commences service on the Board, and will vest as to one-third of the shares subject thereto on each anniversary of the applicable grant date such that the shares subject to the Initial RSU Award are fully vested on the third anniversary of the grant date, subject to the Non-Employee Director continuing in service on the Board through each such vesting date.
Annual RSU Award:	Each Non-Employee Director who will continue to serve as a Non-Employee Director immediately following an annual meeting of the Company’s stockholders (an “***Annual Meeting***”) shall be granted on the date of such Annual Meeting an award of RSUs under the Plan, or any other applicable Company equity incentive plan then-maintained by the Company, covering a number of shares of Common Stock calculated by dividing (i) \$100,000 by (ii) the average closing trading price of the Common Stock over the 10 consecutive trading days ending with the trading day immediately preceding the grant date (the “***Annual RSU Award***”); *provided*, that if a Non-Employee

	Director is first appointed or elected on a date other than the date of an Annual Meeting, then such Non-Employee Director shall be granted automatically on such date of appointment or election under the Plan, or any other applicable Company equity incentive plan then-maintained by the Company, an award of that number of RSUs calculated by dividing (i) the product of \$100,000 multiplied by a fraction, the numerator of which is the number of days from the date of such appointment or election through the anticipated date of the first Annual Meeting following such appointment or election, and the denominator of which is 365, by (ii) the average closing trading price of the Common Stock over the 10 consecutive trading days ending with the trading day immediately preceding the grant date. The award of RSUs will be automatically granted on the date of the applicable Annual Meeting, appointment or election, and will vest in full on the earlier of (i) the first anniversary of the grant date or (ii) immediately before the next Annual Meeting immediately following the grant date, subject to the Non-Employee Director continuing in service on the Board through such vesting date.

Termination of Service

No portion of an award of RSUs that is unvested at the time of a Non-Employee Director's termination of service on the Board shall vest thereafter.

Change in Control

Immediately before a Change in Control of the Company, all outstanding equity awards granted under the Plan and any other equity incentive plan maintained by the Company that are held by a Non-Employee Director shall become fully vested and/or exercisable, irrespective of any other provisions of the Non-Employee Director's Award Agreement.

Reimbursements

The Company shall reimburse each Non-Employee Director for all reasonable, documented, out-of-pocket travel and other business expenses incurred by such Non-Employee Director in the performance of his or her duties to the Company in accordance with the Company's applicable expense reimbursement policies and procedures as in effect from time to time.

Declining Compensation

Notwithstanding anything to the contrary in this Program, any Non-Employee Director who indicates to the Board that they are waiving their right to receive compensation under this Program shall not receive any compensation under this Program.

Miscellaneous

The other provisions of the Plan shall apply to the RSUs granted automatically under this Program, except to the extent such other provisions are inconsistent with this Program. All applicable terms of the Plan apply to this Program as if fully set forth herein, and all grants of RSUs hereby are subject in all respects to the terms of the Plan. The grant of RSUs under this Program shall be made solely by and subject to the terms set forth in an Award Agreement in a form approved by the Board and duly executed by an executive officer of the Company.

Last Updated: November 3, 2023

* * * * *

Exhibit 31.1

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: November 8, 2023

By: /s/ Crystal Landsem
Crystal Landsem
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Tiffany R. Smith, 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: November 8, 2023

By: /s/ Tiffany R. Smith
Tiffany R. Smith
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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 October 1, 2023 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: November 8, 2023

By: /s/ Crystal Landsem
Crystal Landsem
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

**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 October 1, 2023 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: November 8, 2023

By: /s/ Tiffany R. Smith
Tiffany R. Smith
Chief Financial Officer
(Principal Financial and Accounting Officer)