UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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 March 31, 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: 001-40378

HONEST

The Honest Company, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**90-0750205**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
12130 Millennium Drive, #500	
Los Angeles, CA	**90094**
(Address of Principal Executive Offices)	(Zip Code)

(888) 862-8818

(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, $0.0001 par value per share	HNST	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of May 5, 2023, the registrant had 93,431,514 shares of common stock, $0.0001 par value per share outstanding.

The Honest Company, Inc.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” (within the meaning of Section 27A of the Securities Act of 1933, as amended (“Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”)) about us and our industry that involve substantial risks and uncertainties. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these words or other similar terms or expressions. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, those set forth in Part II, Item 1A, “Risk Factors,” if any, and other factors set forth in other parts of this Quarterly Report on Form 10-Q as well as in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (the “Annual Report”), filed with the Securities and Exchange Commission (“SEC”) on March 16, 2023. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. These forward-looking statements include, but are not limited to, statements concerning the following:

- our expectations regarding our revenue, cost of revenue, operating expenses, gross margin, adjusted EBITDA and other operating results, including as a result of the Transformation Initiative;
- our expectations regarding the costs, impacts and benefits of the Transformation Initiative;
- our ability to execute a broad-based Transformation Initiative to strengthen the Company’s cost structure and to enable profitable growth;
- our ability to execute the restructuring initiatives to improve margin structure, support a focus on the core of the business, and guide the Company’s allocation of resources to its most critical priorities, including in connection with the Transformation Initiative;
- our strategic initiatives and priorities, including the timing, focus and cadence of our marketing, innovation, and distribution and costovation strategies;
- our ability to offset the high inflationary environment, including commodity prices, labor costs, input cost and transportation cost inflation with price increases, productivity or investing in digital capabilities and a growing revenue base;
- our ability to implement our strategy to deliver sustained long-term growth and profitability;
- our ability to effectively manage our growth;
- the effect of macroeconomic factors, such as supply chain disruptions and inflation on our business and the global economy, including our costs and expenses and shifting consumer demand between our Digital and Retail channels;
- economic conditions, including a potential recession and inflationary pressures and their impact on consumer spending and our operating results;
- our continued revenue growth through our omnichannel strategy and ability to capture growth in whitespace opportunities in the Retail channel;
- our ability to effectively manage our growth;
- the costs and success of our marketing efforts, and our ability to grow brand awareness and maintain, protect and enhance our brand;
- our ability to drive household penetration and increase market share in our product categories;
- our investments in innovation and digital capabilities to fuel growth;
- the market shift towards clean and natural products and the whitespace opportunity it provides for further market penetration and category growth in the clean and natural segments;
- our strategies to address the reduction in demand of certain products in our Household and Wellness product category and the related impact on our business, including as a result of the Transformation Initiative;
- our ability to acquire new consumers and successfully retain existing consumers, including their level of spend with us;
- our expansion with retail and digital customers;
- our ability to retain new distribution partners;
- our ability to bring new products to market and to identify and successfully launch new category adjacencies;
- anticipated trends, growth rates, and challenges in our business and in the markets in which we operate;
- expectations regarding consumer demand and the timing and amount of orders from key customers;
- our ability to achieve or sustain our profitability;
- our practices, commitments and performance related to environmental, social and governance matters;
- future investments in our business, our anticipated capital expenditures and our estimates regarding our capital requirements;
- our ability to offset rising consumer uncertainty and tighter inventory management by retailers;
- our ability to effectively manage our inventory and maintain sufficient inventory to satisfy customer demands and meet revenue targets;

- our ability to liquidate excess inventory related to drops in consumer demand for our products, product discontinuations or product restages;
- our ability to gauge consumer trends and changing consumer preferences;
- our reliance on key personnel and our ability to identify, recruit and retain skilled personnel;
- our ability to obtain, maintain, protect and enforce our intellectual property rights and any costs associated therewith;
- our ability to compete effectively with existing competitors and new market entrants;
- our ability to successfully enter new markets;
- our ability to identify and complete acquisitions that complement and expand our reach and platform;
- seasonality;
- the financial condition of, and our relationships with, our suppliers, manufacturers, distributors and retailers;
- the ability of our suppliers and manufacturers to comply with safety, environmental or other laws or regulations;
- our ability to comply or remain in compliance with laws and regulations that currently apply or become applicable to our business in the United States, such as the U.S. Food and Drug Administration governmental regulation and state regulation, and in other jurisdictions where we elect to do business;
- outcome of legal or administrative proceedings; and
- the growth rates of the markets in which we compete.

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

The Honest Company, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(in thousands, except share and per share amounts)

	March 31, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 9,221	$ 9,517
Short-term investments	2,717	5,650
Accounts receivable, net	45,229	42,334
Inventories	98,474	115,664
Prepaid expenses and other current assets	8,089	15,982
Total current assets	163,730	189,147
Operating lease right-of-use asset	28,398	29,947
Property and equipment, net	14,121	14,327
Goodwill	2,230	2,230
Intangible assets, net	352	370
Other assets	4,610	4,578
Total assets	$ 213,441	$ 240,599
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 25,184	$ 24,755
Accrued expenses	27,018	38,010
Deferred revenue	1,485	815
Total current liabilities	53,687	63,580
Long term liabilities		
Operating lease liabilities, net of current portion	27,855	29,842
Other long-term liabilities	615	817
Total liabilities	82,157	94,239
Commitments and contingencies (Note 8)		
Stockholders' equity		
Preferred stock, $0.0001 par value, 20,000,000 shares authorized at March 31, 2023 and December 31, 2022, none issued or outstanding as of March 31, 2023 and December 31, 2022	—	—
Common stock, $0.0001 par value, 1,000,000,000 and 150,000,000 shares authorized at March 31, 2023 and December 31, 2022, respectively; 93,456,835 and 92,907,351 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	9	9
Additional paid-in capital	589,985	586,213
Accumulated deficit	(458,697)	(439,830)
Accumulated other comprehensive loss	(13)	(32)
Total stockholders' equity	131,284	146,360
Total liabilities and stockholders' equity	$ 213,441	$ 240,599

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

The Honest Company, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)
(in thousands, except share and per share amounts)

	For the three months ended March 31,	
	2023	**2022**
Revenue	$ 83,388	$ 68,719
Cost of revenue	63,186	48,092
Gross profit	20,202	20,627
Operating expenses		
Selling, general and administrative	25,817	19,611
Marketing	10,234	13,465
Restructuring	1,350	—
Research and development	1,459	2,096
Total operating expenses	38,860	35,172
Operating loss	(18,658)	(14,545)
Interest and other income (expense), net	(189)	(61)
Loss before provision for income taxes	(18,847)	(14,606)
Income tax provision	20	20
Net loss	$ (18,867)	$ (14,626)
Net loss per share attributable to common stockholders:		
Basic and diluted	$ (0.20)	$ (0.16)
Weighted-average shares used in computing net loss per share attributable to common stockholders:		
Basic and diluted	93,106,075	91,537,788
Other comprehensive income (loss)		
Unrealized gain (loss) on short-term investments, net of taxes	19	(77)
Comprehensive loss	$ (18,848)	$ (14,703)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

The Honest Company, Inc.
Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders’ Equity (Deficit)
(Unaudited)
(in thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances at December 31, 2021	—	$ —	91,512,140	$ 9	$ 570,794	$ (391,656)	$ (41)	$ 179,106
Net loss	—	—	—	—	—	(14,626)	—	(14,626)
Other comprehensive loss	—	—	—	—	—	—	(77)	(77)
Stock options exercised	—	—	21,556	—	113	—	—	113
Stock-based compensation	—	—	—	—	3,548	—	—	3,548
Vested restricted stock units	—	—	42,125	—	—	—	—	—
Common stock withheld for tax obligation and net settlement	—	—	(3,611)	—	(20)	—	—	(20)
ASC 842 transition effect	—	—	—	—	—	845	—	845
Balances at March 31, 2022	—	$ —	91,572,210	$ 9	$ 574,435	$ (405,437)	$ (118)	$ 168,889

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances at December 31, 2022	—	$ —	92,907,351	$ 9	$ 586,213	$ (439,830)	$ (32)	$ 146,360
Net loss	—	—	—	—	—	(18,867)	—	(18,867)
Other comprehensive loss	—	—	—	—	—	—	19	19
Stock-based compensation	—	—	—	—	3,772	—	—	3,772
Vested restricted stock units	—	—	549,484	—	—	—	—	—
Balances at March 31, 2023	—	$ —	93,456,835	$ 9	$ 589,985	$ (458,697)	$ (13)	$ 131,284

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

The Honest Company, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	For the three months ended March 31,	
	2023	2022
Cash flows from operating activities		
Net loss	$ (18,867)	$ (14,626)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	668	720
Stock-based compensation	3,772	3,548
Other	1,545	1,675
Changes in assets and liabilities:		
Accounts receivable, net	(2,894)	1,841
Inventories	17,191	(7,749)
Prepaid expenses and other assets	7,884	2,969
Accounts payable, accrued expenses and other long-term liabilities	(10,845)	(1,593)
Deferred revenue	670	20
Operating lease liabilities	(1,885)	(1,507)
Net cash used in operating activities	(2,761)	(14,702)
Cash flows from investing activities		
Proceeds from maturities of short-term investments	2,953	8,849
Purchases of property and equipment	(473)	(240)
Net cash provided by investing activities	2,480	8,609
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	—	(20)
Proceeds from exercise of stock options	—	113
Payments on finance lease liabilities	(15)	(48)
Net cash provided by (used in) financing activities	(15)	45
Net decrease in cash and cash equivalents	(296)	(6,048)
Cash and cash equivalents		
Beginning of the period	9,517	50,791
End of the period	$ 9,221	$ 44,743
Supplemental disclosures of noncash activities		
Capital expenditures included in accounts payable and accrued expenses	$ 25	$ 91

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

1. Nature of Business

The Honest Company, Inc. (the "Company") was incorporated in the State of California on July 19, 2011 and on May 23, 2012 was re-incorporated in the State of Delaware under the same name. The Company is a digitally-native consumer products company dedicated to creating clean- and sustainably-designed products spanning baby care, beauty, personal care, wellness and household care. The Company sells its products through digital and retail sales channels in the following product categories: Diapers and Wipes, Skin and Personal Care, and Household and Wellness.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial information. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2022. The condensed consolidated financial statements are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on a basis consistent with that used to prepare the audited annual consolidated financial statements and include, in the opinion of management, all adjustments, consisting of normal recurring items, necessary for the fair statement of the condensed consolidated financial statements. The consolidated balance sheet as of December 31, 2022 has been derived from the audited financial statements at that date but does not include all of the disclosures required by GAAP.

The condensed consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries after elimination of intercompany transactions and balances. The Company had a change in accounting policy from those disclosed in the audited consolidated financial statements and related notes for the year ended December 31, 2022 related to the adoption of ASU No. 2016-13 (defined below). Refer to "Accounts Receivable" and "Recently Adopted Accounting Pronouncements" below for more information on the adoption of this standard.

Restructuring

The Company incurs restructuring costs in connection with the exiting of certain products and geographical locations, workforce reductions, and other actions. Such costs include employee termination benefits (one-time arrangements), termination of contractual obligations, inventory charges, non-cash asset charges and other direct incremental costs. The Company records employee termination liabilities once they are both probable and estimable for severance provided under the Company's existing severance policy. Other costs associated with a restructuring initiative, such as consulting and professional fees, product or geographical exit costs, accelerated amortization associated with a restructuring initiative, are recognized in the period in which the liability is incurred. Accrued restructuring costs are recorded within Accrued Expenses in the condensed consolidated balance sheets. Refer to Note 14, "Restructuring" included in these condensed consolidated financial statements for more information on the Company's restructuring initiatives.

Segment Reporting and Geographic Information

The Company's Chief Executive Officer, as the chief operating decision maker, organizes the Company, manages resource allocations, and measures performance on the basis of one operating segment. All of the Company's long-lived assets are located in the United States and substantially all of the Company's revenue is from customers located in the United States.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's estimates, which are subject to varying degrees of judgment, include the valuation of inventories, sales returns and allowances, allowances for credit losses, valuation of short-term investments, capitalized software, useful lives associated with long-lived assets, incremental borrowing rates associated with leases, valuation allowances with respect to deferred tax assets, accruals and contingencies, recoverability of non-cash marketing credits, recoverability of goodwill and long-lived assets, and the valuation and assumptions underlying stock-based compensation and for the periods prior to the Company's IPO, the fair value of common stock. On an ongoing basis, the Company evaluates its estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities.

In light of the unknown ultimate duration and severity of COVID-19, the impact of any COVID-19 variants, and ensuing macro factors, the Company faces a greater degree of uncertainty than normal in making certain judgments and estimates needed to apply significant accounting policies. The Company assessed certain accounting matters and estimates that generally require consideration of forecasted information in context with the information reasonably available to the Company as of March 31, 2023 and through the date these condensed consolidated financial statements were issued. Management is not aware of any specific event or circumstance that would require an update to estimates or judgments or a revision to the carrying value of assets or liabilities. However, these estimates and judgments may change as new events occur and additional information is obtained, which may result in changes being recognized in the Company's consolidated financial statements in future periods. For example, based on macro trends within our Household and Wellness product category, consumer demand for sanitizing and disinfecting products decreased over the past few years. As a result, the Company made a decision to exit certain elements of these products during the quarter ended March 31, 2023. Refer to Note 14, "Restructuring" included in these condensed consolidated financial statements for more information on the Company's restructuring initiatives.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with stated maturities of three months or less from the date of purchase. Cash equivalents comprise amounts invested in money market funds.

Accounts Receivable

Accounts receivable is presented net of allowance for credit losses. The Company does not accrue interest on its trade receivables. On a periodic basis, the Company evaluates accounts receivable estimated to be uncollectible, and provides an allowance for credit losses as necessary. The Company considers factors in its allowance for accounts receivable such as historical analysis, credit quality of customers, the age of the accounts receivable balances and current macroeconomic conditions that may impact our customer's ability to pay. The allowance for credit losses was $0.6 million and $0.5 million as of March 31, 2023 and December 31, 2022, respectively.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses the following hierarchy in measuring the fair value of the Company's assets and liabilities, focusing on the most observable inputs when available:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active for identical or similar assets and liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement of the assets or liabilities. Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Fair value is based on quoted market prices, if available. If listed prices or quotes are not available, fair value is based on internally developed models that primarily use market-based or independently sourced market parameters as inputs. Cash equivalents, consisting primarily of money market funds, represent highly liquid investments with maturities of three months or less at purchase. Market prices, which are Level 1 in the fair value hierarchy, are used to determine the fair value of the money market funds. Investments in debt securities are measured using broker provided indicative prices developed using observable market data, which are considered Level 2 in the fair value hierarchy. Certain assets, including long-lived assets, goodwill and intangible assets are also subject to measurement at fair value on a non-recurring basis if they are deemed to be impaired as a result of an impairment review. The fair value is measured using Level 3 inputs in the fair value hierarchy.

Recent Accounting Pronouncements

As an "emerging growth company," the Jumpstart Our Business Startups Act allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. The Company has elected to use the adoption dates applicable to private companies. As a result, the Company's financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective date for new or revised accounting standards that are applicable to public companies.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-13, *Financial Instruments Credit Losses (Accounting Standard Codification 326): Measurement of Credit Losses on Financial Instruments*, to amend the accounting for credit losses for certain financial instruments. This guidance replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses. In November 2019, FASB issued ASU No. 2019-10 which delayed the effective dates of the guidance. This guidance is effective for public business entities that meet the definition of an SEC filer, excluding entities eligible to be smaller reporting companies (“SRC”) for fiscal years beginning after December 15, 2019 and all other entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

3. Revenue

Disaggregation of Revenue

Revenue by sales channel:	For the three months ended March 31,			
	2023		2022	
(In thousands)				
Digital	$	41,814	$	34,260
Retail		41,574		34,459
Total revenue	$	83,388	$	68,719

Revenue by product category:	For the three months ended March 31,			
	2023		2022	
(In thousands)				
Diapers and Wipes	$	53,077	$	43,289
Skin and Personal Care		22,792		21,266
Household and Wellness		7,519		4,164
Total revenue	$	83,388	$	68,719

Non-Monetary Transactions

The Company has in the past and may in the future enter into trade agreements with a vendor to exchange excess inventory for future marketing and transportation credits. The Company recognizes revenue reflecting the fair value of the marketing and transportation credits, with the corresponding short and long-term asset included in prepaid expenses and other current assets and other assets in the accompanying condensed consolidated balance sheets. The Company may use the marketing and transportation credits over four years from the date of the respective agreement, with an option to extend for another two years if agreed upon by both parties. During the three months ended March 31, 2023, the Company did not enter into any new trade agreements.

For the three months ended March 31, 2023, the Company did not recognize any revenue or associated cost of revenue related to these marketing and transportation credits. For the three months ended March 31, 2022, the Company recognized $0.8 million of revenue and $0.5 million of associated cost of revenue based on the timing of delivery of goods. The Company assesses the recoverability of the marketing and transportation credits periodically. Factors considered in evaluating the recoverability include management’s history of credit usage and future plans with respect to advertising, freight and other services for which these credits can be used. Any impairment losses are charged to operations as they become determinable. During the three months ended March 31, 2023, the Company recorded no impairment losses related to these credits and used an aggregate of $0.1 million of credits.

4. Investments

As of March 31, 2023 and December 31, 2022, all investments in debt securities are classified as available-for-sale investments. All investments are reported within current assets because the securities represent investments of cash available for current operations. As of March 31, 2023 and December 31, 2022, the Company held $2.7 million and $5.7 million, respectively, of investments with contractual maturities of less than one year. As of March 31, 2023 and December 31, 2022, the Company did not have any investments with contractual maturities between one and two years. Available-for-sale investments are recorded at fair value, and unrealized holding gains and losses are recorded as a component of other comprehensive income (loss).

The following table summarizes the Company's available-for-sale investments:

	As of March 31, 2023			
(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value
Corporate bonds	$ 1,762	$ —	$ (10)	$ 1,752
Certificates of deposit	968	—	(3)	965
Total investments	$ 2,730	$ —	$ (13)	$ 2,717

	As of December 31, 2022			
(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value
Corporate bonds	$ 3,216	$ —	$ (24)	$ 3,193
Commercial paper	582	—	—	582
Certificates of deposit	1,884	—	(9)	1,875
Total investments	$ 5,682	$ —	$ (33)	$ 5,650

Realized gains and losses on investments in debt securities for the three months ended March 31, 2023 and 2022 were immaterial.

5. Fair Value Measurements

Financial assets measured and recorded at fair value on a recurring basis consist of the following as of:

	March 31, 2023			
(In thousands)	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	$ 2,648	$ —	$ —	$ 2,648
Total cash equivalents	$ 2,648	$ —	$ —	$ 2,648
Short-term investments				
Corporate bonds	—	1,752	—	1,752
Certificates of deposit	—	965	—	965
Total short-term investments	—	2,717	—	2,717
Total	$ 2,648	$ 2,717	$ —	$ 5,365

	December 31, 2022			
(In thousands)	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	$ 9,595	$ —	$ —	$ 9,595
Total cash equivalents	$ 9,595	$ —	$ —	$ 9,595
Short-term investments				
Corporate bonds	—	3,193	—	3,193
Commercial paper	—	582	—	582
Certificates of deposit	—	1,875	—	1,875
Total short-term investments	—	5,650	—	5,650
Total	$ 9,595	$ 5,650	$ —	$ 15,245

The carrying amounts for the Company’s cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to their short maturities.

6. Credit Facilities

In January 2023, the Company entered into a first lien credit agreement (the “2023 Credit Facility”), with JPMorgan Chase Bank, N.A., as administrative agent and lender, and the other lenders party thereto, which provides for a $35.0 million revolving credit facility that matures on April 30, 2026. The 2023 Credit Facility includes a sub-facility that provides for the issuance of letters of credit in an amount of up to $15.0 million at any time outstanding. Availability of the 2023 Credit Facility is based upon a borrowing base formula and periodic borrowing base certifications valuing certain of the Company’s accounts receivable and inventory as reduced by an availability block and certain reserves, if any. The 2023 Credit Facility includes an uncommitted accordion feature that allows for increases in the revolving commitment to as much as an additional $35.0 million, for up to $70.0 million in potential revolving commitment. The 2023 Credit Facility is subject to customary fees for loan facilities of this type, including a commitment fee based on the average daily undrawn portion of the 2023 Credit Facility. The Company recognizes the commitment fee as incurred in interest and other income (expense), net in the condensed consolidated statements of comprehensive loss. For the three months ended March 31, 2023, the commitment fee incurred was immaterial. As of March 31, 2023, there were $4.8 million of outstanding letters of credit and $18.3 million available to be drawn upon.

The interest rate applicable to the 2023 Credit Facility is, at the Company’s option, either (a) the Adjusted Term SOFR rate (subject to a 0.00% floor), plus a margin ranging from 1.50% to 2.25% or (b) the CB floating rate, (i) plus a margin of 0.25% or (ii) minus a margin ranging from 0.25% to 0.50%. The margin is based upon the Company’s fixed charge coverage ratio. The CB floating rate is the higher of (a) the Wall Street Journal prime rate and (b) 2.50%.

The 2023 Credit Facility will terminate and borrowings thereunder, if any, would be due in full on April 30, 2026. Debt under the 2023 Credit Facility is guaranteed by substantially all of the Company’s material domestic subsidiaries and is secured by substantially all of the Company’s and such subsidiaries’ assets.

The 2023 Credit Facility contains covenants that restrict, among other things, the Company's ability to sell assets, make investments and acquisitions, grant liens, change the Company’s lines of business, pay dividends and make certain other restricted payments. The Company is subject to certain affirmative and negative covenants including the requirement that it maintains a minimum total fixed charge coverage ratio during the periods set forth in the 2023 Credit Facility. Failure to do so, unless waived by the lenders under the 2023 Credit Facility pursuant to its terms, as amended, would result in an event of default under the 2023 Credit Facility. As of March 31, 2023, the Company is in compliance with all covenants under the 2023 Credit Facility.

7. Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	March 31, 2023	December 31, 2022
Payroll and payroll related expenses(1)	$ 3,151	$ 6,790
Accrued inventory purchases	7,074	17,050
Accrued returns	333	318
Accrued rent(2)	7,791	7,688
Accrued restructuring(3)	428	—
Other accrued expenses	8,241	6,164
Total accrued expenses	$ 27,018	$ 38,010

(1) Includes $0.6 million and $4.3 million of CEO transition related expense as of March 31, 2023 and December 31, 2022, respectively.
(2) Represents short-term operating lease liabilities. Refer to Note 13, "Leases" included in these condensed consolidated financial statements for more information on leases.
(3) Refer to Note 14, "Restructuring" included in these condensed consolidated financial statements for more information on the Company's restructuring initiative.

8. Commitments and Contingencies

Litigation

From time to time, the Company is subject to various claims and contingencies which are in the scope of ordinary and routine litigation incidental to its business, including those related to regulation, business transactions, employee-related matters and taxes, among others. When the Company becomes aware of a claim or potential claim, the likelihood of any loss or exposure is assessed. If it is probable that a loss will result and the amount or range of the loss can be reasonably estimated, the Company records a liability for the loss and discloses the possible loss in the consolidated financial statements. Legal costs are expensed as incurred.

On September 17, 2019, the Nevada Department of Taxation (the “Department”) issued a Deficiency Notice against the Company to initiate administrative legal proceedings before the Department for the alleged non-compliance with employee retention requirements provided in exchange for tax benefits in establishing the Company’s Las Vegas distribution center in a December 2016 Abatement Agreement the Company had executed with the State of Nevada via its Governor’s Office of Economic Development. The Company has denied the allegations. An administrative hearing was held in the matter on January 15, 2021. On June 9, 2021 the court upheld the Department's Deficiency Notice against the Company in its entirety. The loss resulting from this matter was $0.7 million including penalties and interest, for which the Company has paid $0.6 million as of December 31, 2021. During the year ended December 31, 2021, the Company recorded interest expense of $0.1 million in interest and other expense, net on the condensed consolidated statements of comprehensive loss. The Company filed its Notice of Appeal on July 1, 2021 and its opening brief on January 28, 2022. The Department filed its answering brief on March 4, 2022 and the Company filed its reply brief on March 23, 2022. The Nevada Tax Commission heard the appeal on May 2, 2022. The Nevada Tax Commission upheld the Company's appeal and overturned the Department's Deficiency Notice. The Company submitted a refund request for the taxes and interest paid, following the Department's June 9, 2021 decision, that were subject to abatement under the December 2016 Abatement Agreement. The Company recognized $0.7 million in other income in interest and other expense, net on the condensed consolidated statements of comprehensive loss during the year ended December 31, 2022 related to the anticipated refund of taxes and interest paid.

On September 23, 2020, the Center for Advanced Public Awareness (“CAPA”) served a 60-Day Notice of Violation on the Company, alleging that the Company violated California’s Health and Safety Code (“Prop 65”) because of the amount of lead in the Company’s Diaper Rash Cream and seeking statutory penalties and product warnings available under Prop 65. On October 22, 2021, CAPA filed a complaint in California Superior Court in the County of San Francisco (the “Court”) for the alleged Prop 65 violations contained in its 60-Day Notice of Violation. The Company filed its answer and notice of related cases against Prestige Consumer Healthcare, Inc., Burt's Bees, Inc., and Hain Celestial Group, Inc. on January 7, 2022 and has stipulated to relate these cases and transfer them to the Court's Complex Division. The Company intends to vigorously defend itself in this matter. The matter’s outcome and materiality are uncertain at this time. Therefore, the Company cannot estimate the probability of loss or make an estimate of the loss or range of loss in this matter.

On September 15, 2021, Cody Dixon filed a putative class action complaint in the U.S. District Court for the Central District of California alleging federal securities law violations by the Company, certain current officers and directors, and certain underwriters in connection with the Company’s IPO. A second putative class action complaint containing similar allegations against the Company and certain current officers and directors was filed by Stephen Gambino on October 8, 2021 in the U.S. District Court for the Central District of California. These related complaints have been transferred to the same court and a Lead Plaintiff has been appointed in the matter, and a putative consolidated class action complaint was filed by the Lead Plaintiff on February 21, 2022. A derivative complaint was filed by Hayato Ono on behalf of the Company on November 29, 2021 in the U.S. District Court for the Central District of California, alleging breach of fiduciary duties, unjust enrichment, waste, gross mismanagement, and federal securities law violations by the Company’s directors and certain officers. On December 17, 2021, a second derivative complaint containing similar allegations against the Company’s directors and certain officers was filed by Mike Wang in the U.S. District Court for the Central District of California. These two federal derivative cases have been transferred to the same judge who is presiding over the securities class action complaints. A third derivative complaint was filed by Leah Bisch and Raluca Corobana in California Superior Court for the County of Los Angeles on January 3, 2022 with similar allegations. A fourth derivative complaint was filed by David Butler in the U.S. District Court for the District of Delaware on October 19, 2022 with similar allegations. Each of these federal and state court derivative cases have been stayed pending the outcome of a motion for summary judgment in the securities class action. Defendants’ motion to dismiss the putative consolidated class action complaint was filed on March 14, 2022. On July 18, 2022, the Company's motion to dismiss was granted in part and denied in part. On May 1, 2023, the Lead Plaintiff’s motion for class certification in the consolidated class action was granted in part and denied in part, with the U.S. District Court for the Central District of California limiting the certified class to only those persons and entities that purchased or otherwise acquired the Company’s publicly traded common stock pursuant and traceable to the Company’s IPO offering documents prior to August 19, 2021, as well as all persons and entities that acquired ownership of a trading account, retirement account, or any other similar investment account or portfolio containing the Company’s publicly traded common stock that was purchased or otherwise acquired pursuant and traceable to the IPO offering documents prior to August 19, 2021, and were damaged thereby. The Company believes the securities complaints are without merit and intends to vigorously defend itself against these allegations. These matters are in the preliminary stages of litigation with uncertain outcomes at this time. Therefore, the Company cannot estimate the probability of loss or make an estimate of the loss or range of loss in these matters.

On August 10, 2022, Catrice Sida and Kris Yerby filed a putative class action complaint in the U.S. District Court for the Northern District of California alleging violations of California’s Unfair Competition Law, False Advertising Law, Consumers Legal Remedies Act, breach of warranty, and unjust enrichment related to plant-based claims on certain of the Company’s wipes products and seeking declaratory relief, injunctive relief, monetary damages, punitive damages and statutory penalties, and attorneys’ fees and costs. The Company filed its motion to dismiss on October 17, 2022. On December 6, 2022, the Company's motion to dismiss was denied. The Company believes this complaint is without merit and intends to vigorously defend itself in this matter. The matter is in the preliminary stages of litigation and its outcome is uncertain at this time. Therefore, the Company cannot estimate the probability of loss or make an estimate of the range of loss in this matter.

As of March 31, 2023 and December 31, 2022, the Company was not subject to any other currently pending legal matters or claims that based on its current evaluation are expected to have a material adverse effect on its financial position, results of operations, or cash flows should such matters be resolved unfavorably.

Indemnifications

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to investors, directors and officers with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements, services to be provided by the Company, or from intellectual property infringement claims made by third parties. These indemnifications may survive termination of the underlying agreement and the maximum potential number of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The maximum potential number of future payments the Company could be required to make under these indemnification provisions is indeterminable. The Company has never paid a material claim, nor has the Company been involved in litigation in connection with these indemnification arrangements. As of March 31, 2023 and December 31, 2022, the Company has not accrued a liability for these guarantees as the likelihood of incurring a payment obligation, if any, in connection with these guarantees is not probable or reasonably estimable due to the unique facts and circumstances involved.

9. Stock-Based Compensation

Stock Options

The following table summarizes the stock option activity:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2022	14,888,007	$ 5.24
Granted	—	$ —
Exercised	—	$ —
Forfeited/Cancelled	(103,521)	$ 5.11
Outstanding at March 31, 2023	14,784,486	$ 5.24

2021 Equity Incentive Plan

In April 2021, the Company's board of directors adopted the Company's 2021 Equity Incentive Plan (the "2021 Plan"), which became effective in connection with the IPO. All equity-based awards granted on or after the effectiveness of the 2021 Plan are granted under the 2021 Plan. The 2021 Plan provides for grants of incentive stock options ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), to the Company's employees and its parent and subsidiary corporations' employees, and for the grant of nonstatutory stock options ("NSOs"), stock appreciation rights, restricted stock awards, restricted stock units ("RSUs") awards, performance awards and other forms of awards to the Company's employees, directors and consultants and any of its affiliates' employees and consultants. Initially, the maximum number of shares of the Company's common stock that may be issued under its 2021 Plan will not exceed 25,025,580 shares of the Company's common stock. In addition, the number of shares of the Company's common stock reserved for issuance under its 2021 Plan will automatically increase on January 1 of each year for a period of ten years, beginning on January 1, 2022 and continuing through January 1, 2031, in an amount equal to (1) 4% of the total number of shares of the Company's common stock outstanding on December 31 of the immediately preceding year, or (2) a lesser number of shares determined by the Company's board of directors prior to the date of the increase. On January 1, 2023, 3,713,026 additional shares were reserved for issuance pursuant to this provision. The maximum number of shares of the Company's common stock that may be issued on the exercise of ISOs under its 2021 Plan is 75,100,000 shares.

The following table summarizes the RSU activity:

	Number of Shares		Weighted Average Grant Date Fair Value Per Share	
	Non-Employee Directors	Directors, Officers and Employees	Non-Employee Directors	Directors, Officers and Employees
Unvested RSUs at December 31, 2022	452,951	4,165,403	$ 3.44	$ 8.09
Transfer from Employee to Non-Employee Director[1]	1,147,566	(1,147,566)	$ 9.02	$ 9.02
Granted	141,947	3,422,586	$ 3.01	$ 1.91
Vested	(65,999)	(483,485)	$ 8.40	$ 6.54
Forfeited	—	(29,989)	$ —	$ 4.53
Unvested RSUs at March 31, 2023	1,676,465	5,926,949	$ 7.03	$ 4.49

(1) Relates to former Chief Executive Officer RSUs that were reclassified to non-employee director shares for disclosure purposes.

As of March 31, 2023, there was $34.5 million of unrecognized stock-based compensation expense related to unvested RSUs, which is expected to be recognized over a weighted-average period of 2.9 years.

2021 Employee Stock Purchase Plan

In April 2021, the Company's board of directors adopted the Company's 2021 Employee Stock Purchase Plan (the "2021 ESPP"). The Company authorized the issuance of 1,175,000 shares of common stock under the 2021 ESPP. In addition, the number of shares available for issuance under the 2021 ESPP will be annually increased on January 1 of each year for a period of ten years, beginning on January 1, 2022 and continuing through January 1, 2031 by the lesser of (i) 1% of the total number of shares of common stock outstanding on December 31 of the immediately preceding year; and (ii) 3,525,000 shares, except before the date of any such increase, the Company's board of directors may determine that such increase will be less than the amount set forth in clauses (i) and (ii). On January 1, 2023, 928,256 additional shares were reserved for issuance pursuant to this provision. Subject to any limitations contained therein, the 2021 ESPP allows eligible employees to contribute (in the form of payroll deductions or otherwise to the extent permitted by the administrator) an amount established by the administrator from time to time in its discretion to purchase common stock at a discounted price per share.

Under the 2021 ESPP, eligible employees are granted the right to purchase shares of common stock at the lower of 85% of the fair value at the time of grant or 85% of the fair value at the time of exercise. The right to purchase shares of common stock is granted in May and November of each year for an offering period of approximately six months. For the three months ended March 31, 2023, no shares were purchased under the 2021 ESPP. As of March 31, 2023, the Company had 1,955,107 remaining authorized shares available for purchase.

The following table summarizes the key input assumptions used in the Black-Scholes option-pricing model to estimate the grant-date fair value of the 2021 ESPP:

	For the three months ended March 31, 2023		
Expected life of options (in years)		0.50	
Expected stock price volatility	73.27%	—	79.56%
Risk free interest rate	1.52%	—	4.65%
Expected dividend yield		—%	
Weighted average grant-date fair value per share	$1.09	—	$1.12

Stock-Based Compensation Expense

Stock-based compensation expense related to RSU awards, 2021 ESPP purchases and stock options, as applicable, are as follows:

	For the three months ended March 31,	
	2023	2022
(In thousands)		
Selling, general and administrative	$ 3,713	$ 3,370
Research and development	59	178
Total stock-based compensation expense	$ 3,772	$ 3,548

10. Net Income (Loss) per Share Attributable to Common Stockholders

The Company computes net income (loss) per share using the two-class method required for participating securities. The two-class method requires net income be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. In periods where the Company has net losses, losses are not allocated to participating securities as they are not required to fund the losses. The Company considers its redeemable convertible preferred stock to be participating securities as preferred stockholders have rights to participate in dividends with the common stockholders.

Basic net income (loss) attributable to common stockholders per share is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding. The Company computes diluted net income per share under a two-class method where income is reallocated between common stock, potential common stock and participating securities. Diluted net income (loss) per share attributable to common stockholders adjusts the basic net income (loss) per share attributable to common stockholders and the weighted-average number of shares of common stock outstanding for the potentially dilutive impact of stock options using the treasury stock method.

The following table sets forth the computation of the Company's basic and diluted net loss per share attributable to common stockholders:

	For the three months ended March 31,	
(In thousands, except for share and per share values)	2023	2022
Numerator:		
Net loss	$ (18,867)	$ (14,626)
Net loss attributable to common stockholders - basic and diluted	$ (18,867)	$ (14,626)
Denominator:		
Weighted average shares of common stock outstanding - basic	93,106,075	91,537,788
Weighted average shares of common stock outstanding - diluted	93,106,075	91,537,788
Net loss per share, attributable to common shareholders:		
Basic and diluted	$ (0.20)	$ (0.16)

The following potentially dilutive shares were excluded from the computation of diluted net income (loss) per share because including them would have been antidilutive:

	For the three months ended March 31,	
	2023	2022
Stock options to purchase common stock	14,784,486	16,241,455
Unvested restricted stock units	7,603,414	5,272,215
Employee stock purchase plan	39,157	39,157
Total	22,427,057	21,552,827

11. Income Taxes

In determining quarterly provisions for income taxes, the Company uses the annual estimated effective tax rate applied to the actual year-to-date loss, adjusted for discrete items arising in that quarter. The Company's annual estimated effective tax rate differs from the U.S. federal statutory rate of 21% primarily as a result of a valuation allowance against net deferred tax assets, stock-based compensation, state taxes, nondeductible executive compensation and other permanent differences.

The Company has evaluated the available positive and negative evidence supporting the realization of its gross deferred tax assets, including cumulative losses, and the amount and timing of future taxable income, and has determined it is more likely than not that the assets will not be realized. Accordingly, the Company has recorded a full valuation allowance against the U.S. federal and state deferred tax assets as of each balance sheet date presented.

On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022 (the "Act"), which contains provisions that became effective on January 1, 2023, including a 15% corporate minimum tax and a 1% excise tax on stock buybacks. While the Company is still evaluating the impact of the Act, the Company does not currently expect any material changes on its consolidated financial position, results of operations and cash flows.

During the three months ended March 31, 2023 and 2022, the Company has not recorded any uncertain tax positions and has not recognized interest or penalties in the condensed consolidated statements of comprehensive loss.

12. Related Party Transactions

In April 2020, the Company engaged Summit House Studios LLC, a third-party consultant, to provide digital ad production services. Summit House Studios LLC is owned by a major shareholder of the Company. Based on services provided, the Company incurred immaterial advertising costs for this related party during the three months ended March 31, 2023 and 2022, which was reported as marketing expense in the Company's condensed consolidated statements of comprehensive loss.

In May 2022, the Company engaged, Vault Co., a third-party consultant, to develop and deliver an ongoing brand tracker for the Company. Vault Co. is owned by a major shareholder of the Company. Based on services provided, the Company incurred immaterial advertising costs for this related party during the three months ended March 31, 2023, which is reported as marketing expense in the Company's consolidated statements of comprehensive loss.

13. Leases

The Company's lease portfolio includes both real estate and non-real estate type leases which are accounted for as either finance or operating leases. Real estate leases generally include office and warehouse facilities and non-real estate leases generally include office equipment and machinery. The Company determines if a contract is or contains a lease at inception. The Company's leases have remaining lease terms of less than one to six years. Renewal options that are deemed reasonably certain are included as part of the lease term for the purposes of calculating the Right-of-Use ("ROU") assets and lease liability. The Company elected the practical expedient to not separate lease and non-lease components, as such non-lease components are included in the calculation of the ROU asset and lease liability and included in the lease expense over the term of the lease. The Company uses a discount rate to calculate the ROU asset and lease liability. When the implicit rate is known or provided in the lease documents, the Company is required to use this rate. In cases in which the implicit rate is not known, the Company uses an estimated incremental borrowing rate. Most of the Company's leases do not contain an implicit interest rate; therefore, judgement is required in determining a rate that reflects what would be paid to borrow, on a collateralized basis and over a similar term, for the lease obligations. The Company takes into consideration the terms of its 2023 Credit Facility and any new debt agreements, lease terms, and current interest rates to determine the incremental borrowing rate at lease commencement date. As of March 31, 2023, the Company's weighted-average discount rate was 2.29%, while the weighted-average remaining lease term was 4.3 years.

Operating lease ROU assets and lease liabilities are recorded on the date the Company takes possession of the leased assets with expense recognized on a straight-line basis over the lease term. Leases with an estimated total term of 12 months or less are not recorded on the balance sheet and the lease expense is recognized on a straight-line basis over the lease term. Generally, the Company's lease agreements do not contain material residual value guarantees or material restrictive covenants.

The components of lease expense were as follows (in thousands):

	For the three months ended March 31,	
	2023	2022
Finance lease expense:		
Amortization	$ 16	$ 92
Interest on lease liabilities	—	1
Operating lease expense:		
Operating lease expense[(1)]	1,792	1,783
Sublease income	(501)	(501)
Total lease expense, net	$ 1,307	$ 1,375

(1) Represents the straight-line lease expense of operating leases, inclusive of amortization of ROU assets and the interest component of operating lease liabilities.

Based on the nature of the ROU assets, amortization of finance leases and amortization of operating ROU assets, operating lease expense and other lease expense are recorded within either cost of revenue or selling, general and administrative expenses and interest on finance lease liabilities is recorded within interest and other expense, net in the condensed consolidated statements of comprehensive loss.

The following tables set forth the amount of lease assets and lease liabilities included in the Company's condensed consolidated balance sheets (in thousands):

Assets	Financial Statement Line Item	March 31, 2023
Finance lease assets	Property and equipment, net	$ 54
Operating lease assets	Operating lease right-of-use asset	28,398
Total lease assets		$ 28,452
Liabilities		
Current		
Finance lease liabilities	Accrued expenses	$ 49
Operating lease liabilities	Accrued expenses	7,791
Non-current		
Finance lease liabilities	Other long-term liabilities	13
Operating lease liabilities	Operating lease liabilities, net of current portion	27,855
Total lease liabilities		$ 35,708

Supplemental information related to the Company's leases for the three months ended March 31, 2023 was as follows:

Weighted-average remaining lease term (in years)	
Finance leases	1.3
Operating leases	4.3
Weighted-average discount rate	
Finance leases	3.00 %
Operating leases	2.29 %
Cash paid for amounts included in the measurement of lease liabilities (in thousands)	
Operating cash flows used in finance leases	$ —
Operating cash flows used in operating leases	$ 1,885
Finance cash flows used in finance leases	$ 15

The Company did not have any non-cash ROU assets obtained in exchange for lease liabilities during the three months ended March 31, 2023 for either finance or operating leases.

Future minimum lease payments required under operating and finance leases as of March 31, 2023, were as follows (in thousands):

	Operating Leases	Finance Leases
Remaining 2023	$ 6,371	$ 40
2024	8,704	23
2025	8,950	—
2026	9,201	—
2027	4,245	—
2028	—	—
Thereafter	—	—
Future minimum lease payments	$ 37,471	$ 63
Less: Amount representing interest	(1,825)	(1)
Present value of future lease payments	$ 35,646	$ 62

As of December 31, 2022, the future minimum rental payments under non-cancelable leases with offsetting sublease revenue were as follows (in thousands):

	Operating Leases	Finance Leases
2023	$ 8,468	57
2024	8,704	21
2025	8,950	—
2026	9,201	—
2027	4,244	—
Thereafter	—	—
Future minimum lease payments	$ 39,567	$ 78
Less: Amount representing interest	(2,037)	(4)
Present value of future lease payments	$ 37,530	$ 74

14. Restructuring

Transformation Initiative

In the first quarter of 2023, the Company began executing a broad-based Transformation Initiative designed to build the Honest brand and drive growth in higher-margin areas of the portfolio, strengthen the Company's cost structure, drive focus on the most productive areas of our business, deliver greater impact from brand-building investments, and improve executional excellence across the enterprise.

Restructuring costs are one of the elements of the Transformation Initiative and are included in restructuring on the condensed consolidated statements of comprehensive loss:

- Employee-Related Costs – Employee-related costs are primarily comprised of severance and other post-employment benefit costs, calculated based on salary levels, prior service and other statutory minimum benefits, if applicable.
- Asset-Related Costs – Asset-related costs consist of accelerated amortization related to visual merchandise in an international retail store taken out of service prior to its existing useful life as a direct result of the restructuring initiatives.
- Contract Terminations – Costs related to contract terminations include continuing payments to a third party after the Company has ceased benefiting from the rights conveyed in the contract, or a payment made to terminate a contract prior to its expiration.

Other costs associated with the Transformation Initiative are comprised of the following:

- Sales Returns and Cost of Revenue – Product returns, chargebacks and markdowns are recorded as a reduction to revenue and inventory write-offs, write-downs or destruction costs as a direct result of the restructuring initiatives to exit certain products or geographic locations are recorded as a component of cost of revenue on the condensed consolidated statements of comprehensive loss when estimable and reasonably assured.

- Other Exit Costs – The Company incurred other exit costs related to the restructuring initiatives, which are included in selling, general and administrative expense on the condensed consolidated statements of comprehensive loss and primarily include the following:
  - Donation expenses, including tariffs, and
  - Consulting and other professional services.

Costs associated with the Transformation Initiative for the three months ended March 31, 2023 were as follows (in thousands):

		Operating Expenses		
Net Revenue(1)	**Cost of Revenue**	**Restructuring Costs**(2)	**Other Exit Costs**(3)	**Total**
$ 456	$ 2,725	$ 1,350	$ 2,431	$ 6,962

(1) Relates to product markdowns.
(2) Refer to the table below for further detail of expenses included in restructuring costs.
(3) Refer to description above for types of expenses included in Other Exit Costs.

	Restructuring Costs			
	Employee-Related Costs	**Asset-Related Costs**	**Contract Terminations**	**Total**
Cumulative through March 31, 2023	$ 462	$ 138	$ 750	$ 1,350

Changes in accrued expenses as of March 31, 2023 relating to the Transformation Initiative were:

	Restructuring Costs				
	Employee-Related Costs(1)	**Asset-Related Costs**	**Contract Terminations**	**Inventory Reserves**	**Total**
Balance at December 31, 2022	$ —	$ —	$ —	$ —	$ —
Charges (adjustments)	462	—	494	3,843	4,799
Cash payments	(34)	—	—	—	(34)
Non-cash asset write-offs	—	—	—	—	—
Balance at March 31, 2023	$ 428	$ —	$ 494	$ 3,843	$ 4,765

(1) Included in accrued expenses as of March 31, 2023. Refer to Note 7, "Accrued Expenses" included elsewhere in these condensed consolidated financial statements.

The Company records costs associated with the restructuring initiatives once the relevant accounting criteria have been met. Accrued restructuring costs of $0.4 million related to severance costs as of March 31, 2023 are expected to result in cash expenditures funded from cash provided by operations in future periods and is included in accrued expenses on the condensed consolidated balance sheets.

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 condensed 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 December 31, 2022 (the "Annual Report"), filed with the Securities and Exchange Commission ("SEC") on March 16, 2023. This discussion, particularly information with respect to our future results of operations or financial condition, business strategy and plans, and objectives of management for future operations, includes forward-looking statements that involve risks and uncertainties as described under the heading "Special Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q. You should review the disclosure under the heading "Risk Factors" in this Quarterly Report on Form 10-Q as well as in the Annual Report for a discussion of important factors that could cause our actual results to differ materially from those anticipated in these forward-looking statements. Unless the context otherwise requires, all references in this Quarterly Report on Form 10-Q to "we," "us," "our," "our company," "the Company" and "Honest" refer to The Honest Company, Inc. and its consolidated subsidiaries.

Overview

The Honest Company, Inc. ("Honest" and, together with its consolidated subsidiaries, the "Company," "we," "us" and "our") is a digitally-native consumer products company dedicated to creating clean- and sustainably-designed products spanning baby care, beauty, personal care, wellness and household care. Our commitment to our core values, continual innovation and engaging our community has differentiated and elevated our brand and our products. Since our launch in 2012, we have been dedicated to developing clean, sustainable, effective and thoughtfully-designed products. By doing so with transparency, we have cultivated deep trust around what matters most to our consumers: their health, their families and their homes. We are an omnichannel brand, ensuring our products are available wherever our consumers shop. Our differentiated platform positions us for continued growth through our trusted brand, award-winning multi-category product offerings, deep digital-first connection with consumers and omnichannel accessibility.

Our integrated multi-category product architecture is intentionally designed to serve our consumers every day, at every age and through every life stage, no matter where they are on their journey. Our three product categories are Diapers and Wipes, Skin and Personal Care, and Household and Wellness, which represented 64%, 27%, and 9%, respectively, of our revenue for the three months ended March 31, 2023, compared to 63%, 31%, and 6%, respectively, of our revenue for the three months ended March 31, 2022. At the center of our product ecosystem are our diapers, which are a strategic consumer acquisition tool that acts as an entry point for our portfolio, as new parents often go on to purchase products from our other categories for their everyday family needs. Our integrated multi-category product architecture is designed to drive loyalty, increase our consumer wallet share and generate attractive consumer lifetime value.

We believe that our consumers are modern, aspirational, conscious and style-forward and that they seek out high quality, effective and thoughtfully-designed products. We believe that they are passionate about living a conscious life and are enthusiastic ambassadors for brands they trust. As purpose-driven consumers, they transcend any one demographic, spanning gender, age, geography, ethnicity and household income. Honest consumers are often young, mobile-centric and digitally-inclined. We build relationships with these consumers through a disruptive digital marketing strategy that engages them with "snackable" digital content (short-form, easily digestible content), immerses them in our brand values, and inspires them to join the Honest community. Our direct connection with our community enables us to understand what consumers' needs are and inspires our product innovation pipeline, generating a significant competitive advantage over more traditional consumer packaged goods, or CPG, peers.

Our omnichannel approach seeks to meet consumers wherever they want to shop, balancing deep consumer connection with broad convenience and accessibility. Since our launch, we have built a well-integrated omnichannel presence by expanding our product accessibility across both Digital and Retail channels, including the launch of strategic partnerships with Target, Amazon and Walmart in 2014, 2017 and 2022, respectively. For the three months ended March 31, 2023, we generated 50% and 50% of our revenue from our Digital and Retail channels, respectively, compared to 50% and 50%, respectively, for the three months ended March 31, 2022. We maintain direct relationships with our consumers via our flagship digital platform, Honest.com, which allows us to influence brand experience and better understand consumer preferences and behavior. We increase accessibility of our products to more consumers through both the third-party pureplay ecommerce sites that, with Honest.com, comprise our Digital channel, and our Retail channel, which includes leading retailers and their websites. As of March 31, 2023, our products can be found in approximately 50,000 retail locations across the United States, Canada and Europe. Our integrated omnichannel presence provides meaningful benefits to our consumers which we believe are not easily replicated by our competitors. This distinctive business model has allowed us to efficiently scale our business while remaining agnostic as to the channel where consumers purchase our products.

Transformation Initiative

In the first quarter of 2023, we began executing a broad-based Transformation Initiative designed to build the Honest brand and drive growth in higher-margin areas of the portfolio, strengthen our cost structure, drive focus on the most productive areas of our business, deliver greater impact from brand-building investments, and improve executional excellence across the enterprise.

The Transformation Initiative is projected to result in the following:

- Costs associated with the Transformation Initiative, including restructuring costs, are expected to be approximately $10.0 million to $15.0 million for the full year 2023, with $7.0 million recognized during the three months ended March 31, 2023. Refer to discussion under "Results of Operations" below.
    - Restructuring costs, which include employee-related costs, asset-related costs and contract terminations related to exiting retail and online stores in unprofitable geographical locations, in Asia and Europe, were $1.4 million in the three months ended Mach 31, 2023 and were reflected in restructuring on the condensed consolidated statements of comprehensive loss.
- The Transformation Initiative is expected to result in annualized benefits in the range of $15.0 million to $20.0 million, and we expect to begin seeing benefits in late 2023. These benefits include reduction in costs of revenue, reduction in operating expenses and increase in revenue.
- The cash impact of costs related to the Transformation Initiative is expected to be in the range of $4.0 million to $7.0 million for the full year 2023, with an immaterial amount recognized during the three months ended March 31, 2023 and the remainder throughout 2023.
- We expect the restructuring element of the Transformation Initiative to be substantially completed by December 31, 2023.

We may incur other charges or cash expenditures not currently contemplated that may occur as a result of or in connection with the Transformation Initiative.

We believe specific value drivers of the Transformation Initiative include:

1) Brand Maximization

- Leveraging the strength of the Honest brand to drive growth through innovation, margin-accretive products, and marketing effectiveness.
- Executing additional pricing increases across the majority of our product portfolio throughout 2023, following pricing increases in 2022 and in the first quarter of 2023 that resulted in revenue growth driven by both volume and pricing.

2) Margin Enhancement

- Focusing our resources on North America, which includes exiting our low-margin business in Europe and Asia.
- Exiting low-margin elements of the cleaning and sanitization business (included in Household and Wellness product category).
- Executing an inventory, or stock-keeping unit ("SKU"), rationalization program.
- Re-directing resources to accelerate cost savings, including optimization of our contract manufacturing strategies, reduced shipping and logistic costs, and product costs.
- Realigning resources to reflect the prioritization of higher-margin opportunities.

3) Operational Discipline

- Building a culture that emphasizes returns across growth drivers, including marketing, trade promotion, and innovation.
- Managing working capital including the reduction of inventory.

For further details on the Transformation Initiative, refer to Note 14, "Restructuring" included in these condensed consolidated financial statements.

Key Factors Affecting Our Performance

We believe that the growth of our business and our future success are dependent on many factors. While each of these factors presents significant opportunities for us, they also pose important challenges that we must successfully address to enable us to sustain the growth of our business and improve our operations while staying true to our mission, including those discussed below and in the section of this Quarterly Report on Form 10-Q titled "Risk Factors."

Ability to Grow Our Brand Awareness

Our brand is integral to the growth of our business and is essential to our ability to engage and stay connected with the growing clean products consumer. In order to increase the share of wallet of existing conscious consumers and to attract new consumers, our brand has to maintain its trustworthiness and authenticity. Our ability to attract new consumers will depend, among other things, on our ability to successfully produce products that are free of defects and communicate the value of those products as clean, sustainable and effective, the efficacy of our marketing efforts and the offerings of our competitors. Beyond preserving the integrity of our brand, our performance will depend on our ability to augment our reach and increase the number of consumers aware of Honest and our product portfolio. Given higher costs of digital marketing and increased retail distribution, we have and expect to continue to shift the focus of our marketing spend towards supporting retail marketing programs and to make changes in our marketing initiatives to increase brand awareness. We believe our brand strength will enable us to expand across categories and channels, allowing us to deepen relationships with consumers. Our performance depends significantly on factors that may affect the level and pattern of consumer spending in the product categories in which we operate.

Continued Innovation

Research, development and innovation are core elements underpinning our growth strategy. Through our in-house research and development laboratories, we are able to access the latest advancements in clean ingredients and continue to innovate in the clean conscious space. Based in Los Angeles, California, our research and development team, including chemists, an in-house toxicologist and an eco-toxicologist, develops innovative clean products based on the latest green technology. At Honest, product innovation never stops. The improvement of existing products and the introduction of new products have been, and continue to be, integral to our growth. We have made significant investments in our product development capabilities and plan to continue to do so in the future. We believe our rigorous approach to product innovation has helped redefine and grow the clean and natural product categories in which we operate. Our continued focus on research and development will be central to attracting and retaining consumers in the future. Our ability to successfully develop, market and sell new products will depend on a variety of factors, including our continued investment in innovation, integrated business planning processes and capabilities.

We use connectivity to our community of consumers to provide valuable insights that power innovation across categories. We use innovation to support our growth objectives across our product portfolio, as highlighted in the three core pillars of our Innovation Framework: that we bring product innovation that 1) feeds and nurtures our core values, 2) expands within our existing product categories, and 3) grows into new potential product categories adjacent to existing categories that fit with our value proposition to the consumer.

We continue to innovate in each of our product categories in areas such as breakthrough new product formulations, innovative packaging, costovation (defined below) and marketing strategy, with a focus on driving “big bets” across potential product adjacencies where we have: 1) ability to build on our premium positioning, 2) ability to lead and win in a category, and 3) the opportunity to expand into more places within an existing Honest home while positioning ourselves as a premium brand. We are also focused on building a portfolio of products in complementary categories through our Innovation Strategy and the investment in our Digital Strategy. We are building an Honest community with the goal of creating a more holistic clean, conscious home for consumers and customers alike. We strive for continuous improvement in our existing products’ safety, sustainability, efficacy and design profile while achieving better performance often at lower cost, which we refer to as costovation.

Continued Product Category Growth

Our product mix is a driver of our financial performance given our focus on accretive product launches and innovation to increase product margins. Even though our growth strategy aims to boost sales across all product categories, we intend to prioritize growth in Skin and Personal Care given its attractive margin characteristics and leverage our brand equity and consumer insights to extend into new adjacent product categories. Since we launched our Innovation Strategy, we have enhanced our product portfolio by strategically discontinuing certain products and making calculated extensions within our three product categories. These product changes have contributed to new revenue and brought higher margin products into our portfolio.

Continued Execution of Omnichannel Strategy

The continued execution of our omnichannel strategy impacts our financial performance. We intend to continue leveraging our marketing strategy to drive increased consumer traffic to our flagship digital platform, Honest.com, as it is a valuable tool for creating direct connections with our consumers, influencing brand experience and understanding consumer preference and behavior. Our partnerships with leading third-party retail platforms and national retailers have broadened our consumer reach, raised our brand awareness and enhanced our margins through operating leverage. We will continue to pursue partnerships with a wide variety of retailers, including mass retailers, online retailers, club retailers, grocery stores, drugstores and specialty retailers. Our ability to execute this strategy will depend on a number of factors, such as competitive dynamics and retailers’ satisfaction with the sales and profitability of our products, channel shifts of their customers, and their own supply chain, order timing, and inventory needs, which may fluctuate from period to period.

Operational and Marketing Efficiency

To grow our business, we intend to continue to improve our operational and marketing efficiency, which includes attracting new consumers, increasing community engagement and improving fulfillment and distribution operations. We invest significant resources in marketing and content generation, use a variety of brand and performance marketing channels and work continuously to improve brand exposure at our retail customers to acquire new consumers. It is important to maintain reasonable costs for these marketing efforts relative to the revenue we expect to derive from our consumers. We leverage our proprietary data and systems to generate valuable consumer insights that guide our omnichannel strategy and inform our marketing spend optimization. Our future success depends in part on our ability to effectively attract consumers on a cost-efficient basis and achieve efficiencies in our operations. In addition, we expect that we will be able to achieve some operational efficiency as part of cost savings in connection with our Transformation Initiative.

Our paid advertising includes search engine marketing, display, paid social media and product placement and traditional advertising, such as direct mail, television, radio and magazine advertising. We drive a significant amount of traffic to our website via search engines and, therefore, rely heavily on search engines. Paid advertising costs significantly increased industry-wide during the past few years, which negatively impacted our ability to cost-effectively drive traffic to Honest.com. If paid advertising costs increase further industry-wide, as they have in the past, this may impact marketing efficiencies, costs and revenue in our Digital channel, particularly with respect to cost-effectively driving traffic to Honest.com.

Overall Macro Trends

We have strategically positioned ourselves to benefit from several macro trends related to changes in consumer behavior. We believe consumers' increasing interest in purpose-designed products has contributed to higher demand for certain of our products. At the same time, changes in macro-level consumer spending trends, including as a result of the COVID-19 pandemic or broader macroeconomic conditions, such as inflation, have resulted and could in the future result in fluctuations in our operating results.

Business Operations

Global economic and political uncertainty have increased due to the impact of continued inflationary pressures, adverse impact on confidence in financial markets and geopolitical events, including the conflict in Ukraine. Additionally, the extent of COVID-19 or other macroeconomic trends impact on the Company's operational and financial performance in the future will depend on future developments, including the duration and extent of the pandemic in different countries, the emergence of COVID-19 variants and the effectiveness of vaccines against these variants. Prolonged unfavorable economic conditions, including as a result of COVID-19 or similar outbreaks, and any resulting recession or slowed economic growth, have had and may continue to have an adverse effect on our sales and profitability. All of these factors are difficult to predict considering the rapidly evolving landscape as the Company continues to expect a variable operating environment going forward.

Supply Chain Disruptions

We have experienced impacts on our inventory availability and delivery capacity since the COVID-19 outbreak due to global supply chain delays, including a delay in receiving shipments from overseas. In addition, there has been and continues to be an adverse impact on global economic conditions and consumer confidence and spending, which has adversely affected our supply chain as well as the demand for our products and has impacted our revenue and ability to service our customer orders. We have taken measures to bolster key aspects of our supply chain, such as ensuring sufficient inventory to support our continued growth, new distribution and longer lead times. In addition, as a result of the supply chain impacts, other macroeconomic trends and high inventory levels, we have experienced increased fulfillment costs. One of our fulfillment partners passed on increased service and inflation related costs to us, including warehouse labor cost, which negatively impacted our cost of revenue. If we are not successful in negotiating future renewals, our business, financial condition, results of operations and prospects could be adversely affected.

We continue to work with our existing manufacturing, logistics and other supply chain partners to ensure our ability to service our consumers and retail and third-party ecommerce customers. We have experienced and anticipate continued increases in commodity prices, labor costs, input costs and transportation costs, which has and could continue to hamper our ability to drive margin expansion. In 2022, we negotiated and agreed to higher purchase prices with two of our third-party manufacturers which has negatively impacted our cost of revenue in the past and will continue to have a negative impact on our results of operations. Due to continued elevated input costs, we anticipate further escalation of purchase costs and cost of revenue in the future. We implemented price increases that took effect in 2022 and in the first quarter of 2023 and plan to implement additional pricing increases in 2023 and in the future as needed to offset current and future input cost inflation and to pursue productivity initiatives to offset inflation. However, we may not be able to increase our prices or productivity sufficiently enough to offset these costs. Customer demand for our products may change based on price increases.

Consumer Preferences

We believe that the onset of COVID-19 drove a demand shift towards our Digital channel as consumers shifted to online shopping amid the pandemic. Given our digitally-native brand and strong digital penetration, we believe we benefited from this trend. Additionally, during the onset of COVID-19 we benefited from increasing consumer and customer demand for sanitization and disinfecting products, which drove revenue growth in our Household and Wellness product category. During the past few years, we saw a significant decline in consumer demand for sanitization and disinfecting products as consumers returned to pre-COVID routines.

In 2021, we began to see increased consumer willingness to return to in-store shopping as the economy reopened and more of the population became vaccinated, driving revenue growth within our Retail channel, specifically within our Diapers and Wipes and Skin and Personal Care product categories. During the three months ended March 31, 2023, the Retail and Digital channel revenue was more balanced with 50% and 50% of our revenue from our Digital and Retail channels, respectively.

Inventory

Inventory is reflected at net realizable value which includes a reserve for excess inventory. We estimate reserve requirements based on current and forecasted demand, including the ability to liquidate excess inventory and estimated liquidation value. Depending on future consumer behavior in relation to changes in the COVID-19 pandemic, the macroeconomic environment or otherwise and related aging of inventory, among other factors, we may incur inventory write-downs, customer returns or incur donation expense or disposal costs as we reduce excess inventory. The decline in demand for our sanitization and disinfecting products included in the Household and Wellness product category has led to our plan to exit low-margin household products as part of the Transformation Initiative. Additionally, we implemented an inventory, or SKU rationalization program, as part of the Transformation Initiative. As of March 31, 2023, we recorded an inventory write-down, inclusive of overhead costs and tariffs, of $2.7 million mainly related to international product exits and SKU rationalization. Additionally, we earmarked donations of $2.4 million mainly related to the liquidation of low-margin household products during the three months ended March 31, 2023, which is included in selling, general and administrative expense on the condensed consolidated statements of comprehensive loss.

Due to increasing supply chain lead times, new retail distribution, and expectation of supplier price increases that took effect in early 2023, we increased our inventory levels in 2022 to ensure in-stock position to service customers and consumers. In addition, inflation in input costs, including higher product costs, inbound shipping and warehouse labor, has resulted in a higher dollar value of inventory. We have reduced our inventory levels during the three months ended March 31, 2023 and expect future reduction of inventory in 2023.

Inflation Reduction Act of 2022

On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022 (the "Act"), which contains provisions that became effective on January 1, 2023, including a 15% corporate minimum tax and a 1% excise tax on stock buybacks. While we are still evaluating the impact of the Act, we do not currently expect any material changes on our consolidated financial position, results of operations and cash flows.

Components of Results of Operations

Revenue

We generate revenue through the sale of our products through Digital and Retail channels in the following product categories: Diapers and Wipes, Skin and Personal Care, and Household and Wellness. The Digital channel includes direct sales to the consumer through our website and sales to third-party ecommerce customers, who resell our products through their own online platforms. The Retail channel includes sales to traditional brick and mortar retailers and their respective websites, who may also resell our products through their own online platforms. Our revenue is recognized net of allowances for returns, discounts, credits and any taxes collected from consumers.

Cost of Revenue

Cost of revenue includes the purchase price of merchandise sold to customers, inbound and outbound shipping and handling costs, freight and duties, shipping and packaging supplies, credit card processing fees and warehouse fulfillment costs incurred in operating and staffing warehouses, including rent. Cost of revenue also includes depreciation and amortization for warehouse fulfillment facilities and equipment, allocated overhead and direct and indirect labor for warehouse personnel, inventory reserves and destruction costs.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of revenue. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin may in the future fluctuate from period to period based on a number of factors, including commodity costs, manufacturing costs, warehousing and transportation rates, the promotional environment in the marketplace, the mix of products we sell, the channel through which we sell our products, and innovation initiatives we undertake in each product category, among other factors.

Operating Expenses

Our operating expenses consist of selling, general and administrative, marketing and research and development expenses.

Selling, General and Administrative

Selling, general and administrative expenses consist primarily of personnel costs, principally for our selling and administrative functions. These include personnel-related expenses, including salaries, bonuses, benefits and stock-based compensation expenses. Selling, general and administrative expenses also include technology expenses; professional fees including audit and legal expenses; donation expenses including tariffs; facility costs, including insurance, utilities and rent relating to our headquarters; third-party service fees related to Honest Baby Clothing®; and depreciation and amortization expense. We expect our general and administrative expenses to increase in absolute dollars as we continue to grow our business and organizational capabilities. Since our IPO, we have also incurred additional costs for employees and third-party professional fees related to operating as a public company and costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations, and increased expenses for insurance, investor relations and professional services.

Marketing

Marketing expenses include costs related to our branding initiatives, retail customer marketing activities, point of purchase displays, targeted online advertising through sponsored search, display advertising, email and influencer marketing campaigns, market research, content production and other public relations and promotional initiatives. Given higher costs in digital marketing and increased retail distribution, we have shifted the focus of our marketing spend towards supporting retail marketing programs and top of funnel marketing activities. We will continue to invest in marketing initiatives in our product categories and hero products with key retailers, as well as expand brand awareness, introduce new product innovation across multiple product categories and implement new marketing strategies in the United States. As we launch new products, we expect to make marketing investments to build brand awareness, drive trial and set the foundation for future revenue growth.

Research and Development

Research and development expenses consist primarily of personnel-related expenses for our research and development team. Research and development expenses also include costs incurred for the development of new products, improvement in the quality of existing products and the development and implementation of new technologies to enhance the quality and value of products. This includes the expense related to claims and clinical trials as well as formulation and packaging testing. Research and development expenses also include allocated depreciation and amortization and overhead costs. We expect research and development expenses to increase in absolute dollars as we invest in the enhancement of our product offerings through innovation and the introduction of new adjacent product categories.

Interest and Other Income (Expense), Net

Interest income consists primarily of interest income earned on our short-term investments and our cash and cash equivalents balances. Prior to the adoption of Financial Accounting Standards Board Accounting Standard Update No 2016-02, *Leases (ASC 842)* on January 1, 2022, interest expense consisted primarily of the portion of rent payments recognized as imputed interest expense under build-to-suit accounting associated with our leasing arrangements. Interest expense includes fees incurred under our 2023 Credit Facility, including commitment fees and debt issuance costs.

Other income (expense), net consists of our foreign currency exchange gains, losses relating to transactions denominated in currencies other than the U.S. dollar and contingent gains. We expect our foreign currency gains and losses to continue to fluctuate in the future due to changes in both the volume of foreign currency transactions and foreign currency exchange rates.

Income Tax Provision

We are subject to federal and state income taxes in the United States. Our annual estimated tax rate differed from the U.S. federal statutory rate of 21% primarily as a result of a valuation allowance against deferred tax assets, stock-based compensation, state taxes, nondeductible executive compensation and other permanent differences. We maintain a full valuation allowance for our federal and state deferred tax assets, including net operating loss carryforwards, as we have concluded that it is not more likely than not that the deferred tax assets will be realized.

Results of Operations

The following table sets forth our condensed consolidated statements of operations data for each of the periods indicated:

	For the three months ended March 31,	
	2023	**2022**
(In thousands)		
Revenue	$ 83,388	$ 68,719
Cost of revenue	63,186	48,092
Gross profit	20,202	20,627
Operating expenses		
Selling, general and administrative[(1)]	25,817	19,611
Marketing	10,234	13,465
Restructuring	1,350	—
Research and development[(1)]	1,459	2,096
Total operating expenses	38,860	35,172
Operating loss	(18,658)	(14,545)
Interest and other income (expense), net	(189)	(61)
Loss before provision for income taxes	(18,847)	(14,606)
Income tax provision	20	20
Net loss	$ (18,867)	$ (14,626)

(1) Includes stock-based compensation expense as follows:

	For the three months ended March 31,	
	2023	**2022**
(In thousands)		
Selling, general and administrative	$ 3,713	$ 3,370
Research and development	59	178
Total	$ 3,772	$ 3,548

The following table sets forth our condensed consolidated statements of operations data expressed as a percentage of revenue*:

	For the three months ended March 31,	
	2023	2022
	(as a percentage of revenue)	
Revenue	100.0 %	100.0 %
Cost of revenue	75.8	70.0
Gross profit	24.2	30.0
Operating expenses		
Selling, general and administrative	31.0	28.5
Marketing	12.3	19.6
Restructuring	1.6	—
Research and development	1.7	3.1
Total operating expenses	46.6	51.2
Operating loss	(22.4)	(21.2)
Interest and other income (expense), net	(0.2)	(0.1)
Loss before provision for income taxes	(22.6)	(21.3)
Income tax provision	—	—
Net loss	(22.6) %	(21.3) %

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* Amounts may not sum due to rounding.

Comparison of the Three Months Ended March 31, 2023 and 2022

Revenue

	For the three months ended March 31,			
	2023	2022	$ change	% change
(In thousands, except percentages)				
By Product Category				
Diapers and Wipes	$ 53,077	$ 43,289	$ 9,788	22.6 %
Skin and Personal Care	22,792	21,266	1,526	7.2
Household and Wellness	7,519	4,164	3,355	80.6
Total Revenue	$ 83,388	$ 68,719	$ 14,669	21.3 %

	For the three months ended March 31,			
	2023	2022	$ change	% change
(In thousands, except percentages)				
By Channel				
Digital	$ 41,814	$ 34,260	$ 7,554	22.0 %
Retail	41,574	34,459	7,115	20.6
Total Revenue	$ 83,388	$ 68,719	$ 14,669	21.3 %

Revenue was $83.4 million for the three months ended March 31, 2023, as compared to $68.7 million for the three months ended March 31, 2022. The increase of $14.7 million, or 21.3%, reflects an increase of $9.8 million, $3.4 million and $1.5 million in Diapers and Wipes, Household and Wellness, and Skin and Personal Care product categories, respectively. The revenue increase in Diapers and Wipes was primarily driven by an increase in consumption, and new and expanded distribution. The Skin and Personal Care revenue increase was primarily driven by a $0.9 million increase in revenue in baby personal care and a $0.9 million increase in beauty product revenue due to new and expanded distribution, offset by $0.5 million decline in product liquidation revenue versus prior year. The revenue increase in Household and Wellness was primarily driven by $4.8 million in revenue from Honest Baby Clothing as a result of our transition from a license agreement to a supplier services agreement with Butterblu, offset by $0.7 million decline in disinfecting wipes revenue.

We estimate that pricing increases taken in 2022 contributed $2.0 million to revenue for the three months ended March 31, 2023.

The increase in revenue in our Retail channel for the three months ended March 31, 2023, compared to the three months ended March 31, 2022, was primarily driven by new and expanded distribution and strong consumption. The increase in revenue in our Digital channel for the three months ended March 31, 2023, compared to the three months ended March 31, 2022, was primarily driven by an $11.0 million increase in revenue by our key digital customer due to inventory restocking compared to the same key digital customer inventory destocking in the three months ended March 31, 2022 and $4.8 million in Honest Baby Clothing revenue, offset by a $3.8 million decrease in revenue at Honest.com due to lower digital marketing spend which resulted in lower traffic to Honest.com.

Cost of Revenue and Gross Profit

	For the three months ended March 31,			
	2023	**2022**	**$ change**	**% change**
(In thousands, except percentages)				
Cost of revenue	$ 63,186	$ 48,092	$ 15,094	31.4 %
Gross profit	$ 20,202	$ 20,627	$ (425)	(2.1) %

Cost of revenue was $63.2 million for the three months ended March 31, 2023, as compared to $48.1 million for the three months ended March 31, 2022. The increase of $15.1 million, or 31.4%, was primarily driven by a 21.3% increase in revenue, $2.7 million in inventory reserves related to the Transformation Initiative and higher fulfillment costs, especially in transportation, in-bound freight, storage and warehouse labor costs. Cost of revenue as a percentage of revenue increased by 579 basis points primarily due to actions taken in connection with the Transformation Initiatives and higher input costs.

Gross profit was $20.2 million for the three months ended March 31, 2023, as compared to $20.6 million for the three months ended March 31, 2022. The decrease was mainly related to costs related to the Transformation Initiative, including inventory reserves related to product exits and SKU rationalization, partially offset by price increases and more efficient trade spending.

Operating Expenses

Selling, General and Administrative Expenses

	For the three months ended March 31,			
	2023	**2022**	**$ change**	**% change**
(In thousands, except percentages)				
Selling, general and administrative	$ 25,817	$ 19,611	$ 6,206	31.6 %

Selling, general and administrative expenses were $25.8 million for the three months ended March 31, 2023, as compared to $19.6 million for the three months ended March 31, 2022. The increase of $6.2 million, or 31.6%, was primarily due to $2.4 million increase in donation expenses related to the Transformation Initiative, $1.3 million in CEO transition expenses, $1.0 million increase in service fees related to Honest Baby Clothing, $0.7 million increase in legal expenses, $0.6 million in retailer violation charges, $0.5 million increase in employee-related expenses and $0.3 million increase in stock-based compensation expense.

Marketing Expenses

	For the three months ended March 31,			
	2023	**2022**	**$ change**	**% change**
(In thousands, except percentages)				
Marketing	$ 10,234	$ 13,465	$ (3,231)	(24.0) %

Marketing expenses were $10.2 million for the three months ended March 31, 2023, as compared to $13.5 million for the three months ended March 31, 2022. The decrease of $3.2 million, or 24.0%, was primarily due to a $3.7 million reduction in digital advertising, offset by a $0.4 million increase in retail marketing to support new distribution.

Restructuring Expenses

	For the three months ended March 31,			
	2023	2022	$ change	% change
(In thousands, except percentages)				
Restructuring	$ 1,350	$ —	$ 1,350	100.0 %

Restructuring expenses were $1.4 million for the three months ended March 31, 2023. Restructuring costs are one of the elements of the Transformation Initiative and include employee-related costs of $0.5 million, contract termination costs of $0.8 million, and asset-related costs of $0.1 million. For further details on the Transformation Initiative, refer to Note 14, "Restructuring" included in these condensed consolidated financial statements.

Research and Development Expenses

	For the three months ended March 31,			
	2023	2022	$ change	% change
(In thousands, except percentages)				
Research and development	$ 1,459	$ 2,096	$ (637)	(30.4) %

Research and development expenses were $1.5 million for the three months ended March 31, 2023, as compared to $2.1 million for the three months ended March 31, 2022. The decrease of $0.6 million, or 30.4%, was primarily related to a decrease in research and development spend and a $0.1 million decrease in stock-based compensation expense.

Interest and Other Income (Expense), Net

	For the three months ended March 31,		
	2023	2022	$ change
(In thousands, except percentages)			
Interest income (expense), net	$ (187)	$ 22	$ (209)
Other income (expense), net	(2)	(83)	81
Interest and other income (expense), net	$ (189)	$ (61)	(128)

Interest and other income (expense), net was net expense of $189 thousand for the three months ended March 31, 2023, as compared to net expense of $61 thousand for the three months ended March 31, 2022. The increase of $128 thousand was primarily due to the write-off of unamortized debt issuance costs as we entered into the new 2023 Credit Facility.

Liquidity and Capital Resources

We have incurred net losses and net cash outflows from operating activities since our inception. As of March 31, 2023, we had $9.2 million of cash and cash equivalents and $2.7 million of short-term investments. Although we are dependent on our ability to generate sufficient cash flow from operations or raise capital to achieve our business objectives, we believe our existing cash, cash equivalents, and short-term investments will be sufficient to meet our short-term projected operations for the next 12 months from the date of issuance of our unaudited consolidated financial statements and long-term working capital and capital expenditure needs, given our plan to generate positive cash flow from reducing our inventory, managing our working capital and achieving our Transformation Initiative. We also have availability under our 2023 Credit Facility which was not drawn as of March 31, 2023. Future capital requirements will depend on many factors, including our rate of revenue growth, gross margin and the level of expenditures in all areas of the Company. To the extent that existing capital resources and sales growth are not sufficient to fund future activities, we will need to raise capital through additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all. Failure to raise additional capital, if and when needed, could have a material adverse effect on our financial position, results of operations, and cash flows.

2023 Credit Facility

In January 2023, we entered into a first lien credit agreement (the “2023 Credit Facility”), with JPMorgan Chase Bank, N.A., as administrative agent and lender, and the other lenders party thereto, which provides for a $35.0 million revolving credit facility that matures on April 30, 2026. The 2023 Credit Facility includes a subfacility that provides for the issuance of letters of credit in an amount of up to $15.0 million at any time outstanding. Availability of the 2023 Credit Facility is based upon a borrowing base formula and periodic borrowing base certifications valuing certain of our accounts receivable and inventory as reduced by an availability block and certain reserves. The 2023 Credit Facility includes an uncommitted accordion feature that allows for increases in the revolving commitment to as much as an additional $35.0 million, for up to $70.0 million in potential revolving commitment. The 2023 Credit Facility is subject to customary fees for loan facilities of this type, including a commitment fee based on the average daily undrawn portion of the 2023 Credit Facility. We recognize the commitment fee as incurred in interest and other income (expense), net in the condensed consolidated statements of comprehensive loss. For the three months ended March 31, 2023, the commitment fee incurred was immaterial. As of March 31, 2023, there were $4.8 million of outstanding letters of credit and $18.3 million available to be drawn upon.

The interest rate applicable to the 2023 Credit Facility is, at our option, either (a) the Adjusted Term SOFR rate (subject to a 0.00% floor), plus a margin ranging from 1.50% to 2.25% or (b) the CB floating rate, (i) plus a margin of 0.25% or (ii) minus a margin ranging from 0.25% to 0.50%. The margin is based upon our fixed charge coverage ratio. The CB floating rate is the higher of (a) the Wall Street Journal prime rate and (b) 2.50%.

The 2023 Credit Facility will terminate and borrowings thereunder, if any, would be due in full on April 30, 2026. Debt under the 2023 Credit Facility is guaranteed by substantially all of our material domestic subsidiaries and is secured by substantially all of our and such subsidiaries' assets.

The 2023 Credit Facility contains covenants that restrict, among other things, our ability to sell assets, make investments and acquisitions, grant liens, change our lines of business, pay dividends and make certain other restricted payments. We are subject to certain affirmative and negative covenants including the requirement that we maintain a minimum total fixed charge coverage ratio during the periods set forth in the 2023 Credit Facility. Failure to do so, unless waived by the lenders under the 2023 Credit Facility pursuant to its terms, as amended, would result in an event of default under the 2023 Credit Facility. As of March 31, 2023, we are in compliance with all covenants under the 2023 Credit Facility.

Refer to Note 6 "Credit Facilities" included in these condensed consolidated financial statements for more information on the 2023 Credit Facility.

Cash Flows

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

	For the three months ended March 31,	
(In thousands)	**2023**	**2022**
Net cash used in operating activities	$ (2,761)	$ (14,702)
Net cash provided by investing activities	$ 2,480	$ 8,609
Net cash (used in) provided by financing activities	$ (15)	$ 45

Operating Activities

Our largest source of operating cash is from the sales of our products through Digital and Retail channels to our consumers and customers. Our primary uses of cash from operating activities are for cost of revenue expenses, selling, general and administrative expenses, marketing expenses and research and development expenses. We have generated negative cash flows from operating activities and have supplemented working capital requirements through net proceeds from the sale and maturity of short-term investments.

Net cash used in operating activities of $2.8 million for the three months ended March 31, 2023 was primarily due to net loss of $18.9 million, non-cash adjustments of $6.0 million and a net increase in cash related to changes in operating assets and liabilities of $10.1 million. Non-cash adjustments primarily consisted of stock-based compensation of $3.8 million, amortization of operating Right-of-Use ("ROU") assets of $1.5 million and depreciation and amortization of $0.7 million. Changes in cash flows related to operating assets and liabilities primarily consisted of cash provided by a $17.2 million decrease in inventory and a $7.9 million decrease in prepaid expenses and other assets, offset by uses of cash including a $2.9 million increase in accounts receivable due to increased revenue and $10.8 million lower accounts payable and accrued expenses driven by lower inventory purchases in the three months ended March 31, 2023.

Net cash used in operating activities of $14.7 million for the three months ended March 31, 2022 was primarily due to net loss of $14.6 million, non-cash adjustments of $5.9 million and a net decrease in cash related to changes in operating assets and liabilities of $6.0 million. Non-cash adjustments primarily consisted of stock-based compensation of $3.5 million, amortization of operating ROU assets of $1.6 million and depreciation and amortization of $0.7 million. Changes in cash flows related to operating assets and liabilities primarily consisted of a $7.7 million increase in inventory due to timing of inventory purchases, a $1.6 million use of cash due to the timing of payments associated with our accounts payable and a $1.5 million use of cash due to operating leasing obligations, offset by a $3.0 million decrease in prepaid expenses and other assets due to timing of payments and a $1.8 million decrease in accounts receivable due to lower revenue in the three months ended March 31, 2022.

Investing Activities

Our primary source of investing cash is the sale and maturity of short-term investments and our primary use of investing cash is the purchase of short-term investments and property and equipment.

Net cash provided by investing activities of $2.5 million for the three months ended March 31, 2023 was primarily due to proceeds from maturities of short-term investments of $3.0 million, offset by purchases of property and equipment of $0.5 million.

Net cash used in investing activities of $8.6 million for the three months ended March 31, 2022 was primarily due to maturities of short-term investments of $8.8 million.

Financing Activities

Our financing activities primarily consisted of proceeds from sales of securities, proceeds from stock option award exercises and principal payments of financing lease obligations.

Net cash used in financing activities of $15 thousand for the three months ended March 31, 2023 consisted of principal payments of financing lease obligations.

Net cash provided by financing activities of $45 thousand for the three months ended March 31, 2022 primarily consisted of proceeds from stock option exercises, partially offset by principal payments of financing lease obligations and taxes paid related to net share settlement of equity awards.

Dividends

We do not anticipate declaring or paying any cash dividends in the foreseeable future. Any future determination regarding the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions (including any restrictions in our then-existing debt arrangements), capital requirements, business prospects and other factors our board of directors may deem relevant. The 2023 Credit Facility contains restrictions on our ability to pay dividends.

Non-GAAP Financial Measure

We prepare and present our condensed consolidated financial statements in accordance with GAAP. However, management believes that adjusted EBITDA, a non-GAAP financial measure, provides investors with additional useful information in evaluating our performance.

We calculate adjusted EBITDA as net income (loss), adjusted to exclude: (1) interest and other (income) expense, net; (2) income tax provision; (3) depreciation and amortization; (4) stock-based compensation expense, including payroll tax; (5) litigation and settlement fees associated with certain non-ordinary course securities litigation claims; (6) CEO transition expenses and (7) restructuring expenses in connection with Transformation Initiative.

Adjusted EBITDA is a financial measure that is not required by, or presented in accordance with GAAP. We believe that adjusted EBITDA, when taken together with our financial results presented in accordance with GAAP, provides meaningful supplemental information regarding our operating performance and facilitates internal comparisons of our historical operating performance on a more consistent basis by excluding certain items that may not be indicative of our business, results of operations or outlook. In particular, we believe that the use of adjusted EBITDA is helpful to our investors as it is a measure used by management in assessing the health of our business, determining incentive compensation and evaluating our operating performance, as well as for internal planning and forecasting purposes.

Adjusted EBITDA is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. Some of the limitations of adjusted EBITDA include that (1) it does not reflect capital commitments to be paid in the future; (2) although depreciation and amortization are non-cash charges, the underlying assets may need to be replaced and adjusted EBITDA does not reflect these capital expenditures; (3) it does not consider the impact of stock-based compensation expense; (4) it does not reflect other non-operating expenses, including interest expense; (5) it does not reflect tax payments that may represent a reduction in cash available to us; and (6) does not include certain non-ordinary cash expenses that we do not believe are representative of our business on a steady-state basis, such as CEO transition expenses and restructuring expenses in connection with Transformation Initiative. In addition, our use of adjusted EBITDA may not be comparable to similarly titled measures of other companies because they may not calculate adjusted EBITDA in the same manner, limiting its usefulness as a comparative measure. Because of these limitations, when evaluating our performance, you should consider adjusted EBITDA alongside other financial measures, including our net income (loss), revenue and other results stated in accordance with GAAP.

The following table presents a reconciliation of net income (loss), the most directly comparable financial measure stated in accordance with GAAP, to adjusted EBITDA, for each of the periods presented:

	For the three months ended March 31,	
(In thousands)	**2023**	**2022**
Reconciliation of Net Loss to Adjusted EBITDA		
Net loss	$ (18,867)	$ (14,626)
Interest and other (income) expense, net	189	61
Income tax provision	20	20
Depreciation and amortization	668	720
Stock-based compensation	3,772	3,548
Securities litigation expense	1,178	—
CEO transition expense[(1)]	1,277	—
Restructuring costs[(2)]	1,350	—
Payroll tax expense related to stock-based compensation	79	13
Adjusted EBITDA	$ (10,334)	$ (10,264)

(1) Includes sign-on bonus, relocation costs and severance costs.
(2) See Note 14 "Restructuring" in our unaudited condensed consolidated financial statements for items included in restructuring expense.

Material Cash Requirements

As of March 31, 2023, there were no changes to our material cash requirements from those described under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report, apart from the material cash outlay of $4.0 million to $7.0 million expected in 2023 as part of our Transformation Initiative.

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 estimates are described under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Annual Report and the notes to the audited consolidated financial statements appearing in our Annual Report. During the three months ended March 31, 2023, there were no material changes to our critical accounting estimates from those discussed in our Annual Report. Refer to Note 2,
"Summary of Significant Accounting Policies" to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a discussion of the adoption of Accounting Standard Codification 326 and related policy changes.

Recent Accounting Pronouncements

Refer to Note 2, "Summary of Significant Accounting Policies" to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a discussion of recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted, as applicable.

Emerging Growth Company Status

In April 2012, the JOBS Act was enacted. Section 107(b) of the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the extended transition period to comply with new or revised accounting standards and to adopt certain of the reduced disclosure requirements available to emerging growth companies. As a result of the accounting standards election, we are not subject to the same implementation timing for new or revised accounting standards as other public companies that are not emerging growth companies which may make comparison of our financials to those of other public companies more difficult.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Under SEC rules and regulations, as a smaller reporting company, we are not required to provide the information required by this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive officer and principal financial officer, evaluated, as of the period ended March 31, 2023, 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 principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2023 that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

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. Our management, including our principal executive officer and principal financial officer, believe that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The information contained under the heading “Litigation” in Note 8 to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q is incorporated by reference into this Item.

Item 1A. Risk Factors.

RISK FACTOR SUMMARY

Our business is subject to numerous risks. The following summary highlights some of the risks you should consider with respect to our business and prospects. You should carefully consider the risks and uncertainties described in our Annual Report, together with all of the other information 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. The risks and uncertainties described in our Annual Report and in this Quarterly Report on Form 10-Q are not the only ones we face. Additional risk and uncertainties that we are unaware of or that we deem immaterial may also become important factors that adversely affect our business. The realization of any of these risks and uncertainties could have a material adverse effect on our reputation, business, financial condition, results of operations, growth and future prospects as well as our ability to accomplish our strategic objectives. In that event, the market price of our common stock could decline and you could lose part or all of your investment.

Investing in our common stock involves substantial risks. Some of the more significant risks include the following:

- We have incurred net losses each year since our inception and we may not be able to achieve or maintain profitability in the future.
- Our growth may not be indicative of our future growth and we may not be able to effectively manage our growth or evaluate our future prospects. If we fail to effectively manage our future growth or evaluate our future prospects, our business could be adversely affected.
- Our quarterly operating results may fluctuate, which could cause our stock price to decline.
- Economic conditions, including a potential recession and inflationary pressures such as price increases in commodity prices, labor costs, input costs and transportation costs and their impact on consumer spending and our operating results.
- Our strategic initiatives to reduce our costs could have long-term adverse effects on our business, financial condition, results of operations and prospects, could result in total costs and expenses that are greater than expected, and we may not realize the anticipated operational or financial benefits from such actions.
- Consolidation of retail customers, the loss of a significant retail or third-party ecommerce customer or a significant change in such customers' historical purchasing patterns could negatively impact our sales and ability to achieve or maintain profitability.
- Our business, including our costs and supply chain, is subject to risks associated with sourcing, manufacturing, warehousing and logistics, and the loss of any of our key suppliers or logistical service providers could negatively impact our business.
- We may not be able to compete successfully in our highly competitive market.
- Our cash, cash equivalents and short-term investments may not meet our liquidity needs.
- If we fail to cost-effectively acquire new consumers or retain our existing consumers, our business could be adversely affected. Our sales and profit are dependent upon our ability to expand our existing consumer relationships and acquire new consumers.
- We must expend resources to maintain consumer awareness of our brand, build brand loyalty and generate interest in our products. Our marketing strategies and channels will evolve and our efforts may or may not be successful.
- Increasing scrutiny and evolving expectations from stakeholders with respect to our environmental, social and governance (ESG) practices, performance and disclosures.
- Our brand and reputation may be diminished due to real or perceived quality, safety, efficacy or environmental impact issues with our products, which could have an adverse effect on our business, financial condition, results of operations and prospects.
- Our ability to maintain our competitive position is largely dependent on the services of our senior management and other key personnel, including our founder and Chief Creative Officer, Jessica Warren and our Chief Executive Officer, Carla Vernón.
- A disruption in our operations could have an adverse effect on our business.
- Pandemics or disease outbreaks, such as the continuing effects of the COVID-19 pandemic and overall macroeconomic trends have had and may continue to have an adverse effect on our business, financial condition, results of operations and prospects.
- Adverse developments affecting the financial services industry, such as actual events or concerns involving liquidity, defaults or non-performance by financial institutions could adversely affect our current financial condition and projected business operations.
- We rely on third-party suppliers, manufacturers, retail and ecommerce customers and other vendors, and they may not continue to produce products or provide services that are consistent with our standards or applicable regulatory requirements, which could harm our brand, cause consumer dissatisfaction, and require us to find alternative suppliers of our products or services.

- Health and safety incidents or advertising inaccuracies or product mislabeling may have an adverse effect on our business by exposing us to lawsuits, product recalls or regulatory enforcement actions, increasing our operating costs and reducing demand for our product offerings.
- International trade disputes and the U.S. government's trade policy could adversely affect our business.
- Our business may be adversely affected if we are unable to provide our consumers with a technology platform that is able to respond and adapt to rapid changes in technology.

RISK FACTORS

Other than the risk factors set forth below, there have been no material changes to the risk factors set forth in the section titled "*Risk Factors*" *included in our Annual Report.*

Our strategic initiatives to reduce our costs could have long-term adverse effects on our business, financial condition, results of operations and prospects, could result in total costs and expenses that are greater than expected, and we may not realize the operational or financial benefits from such actions.

In the first quarter of 2023, we began executing a broad-based Transformation Initiative designed to build the Honest brand and drive growth in higher-margin areas of the portfolio, strengthen our cost structure, drive focus on the most productive areas of our business, deliver greater impact from brand-building investments, and improve executional excellence across the enterprise. This Transformation Initiative and the timing and success of such efforts are subject to many risks and uncertainties, including, without limitation, our ability to reduce costs and achieve positive gross margins; meet certain revenue and operating expense targets; and monetize inventory and manage working capital. We may not be successful in implementing these initiatives or realizing our anticipated savings and efficiencies, including as a result of factors beyond our control. In addition, any changes we make to reduce our cost structure, including changes to our products, formulations, or packaging, may result in reduced consumer demand for our products and increased carrying costs. Our future financial performance will depend, in part, on our ability to effectively manage any future growth or restructuring, as applicable. We may not realize, in full or in part, the anticipated benefits, savings and improvements in our cost structure from the Transformation Initiative due to unforeseen difficulties, delays or unexpected costs. If we are unable to realize the anticipated savings and efficiencies of our strategic initiatives, or if they result in unintended consequences, then our operating and financial results would be adversely affected and could differ materially from our expectations.

Additionally, the Transformation Initiative has resulted in the loss of institutional knowledge and expertise, as well as the reallocation and combination of certain roles and responsibilities across the Company, all of which could adversely affect our operations. These effects could have a material adverse effect on our ability to execute on our updated business model. There can be no assurance that we will be successful in implementing the Transformation Initiative. The Transformation Initiative may also be disruptive to our operations. For example, our headcount reductions could yield unanticipated consequences, such as increased difficulties in implementing our business strategy, including retention of our remaining employees, adverse effects on employee morale, diversion of management attention, and adverse effects on our reputation as an employer. Future growth would impose significant added responsibilities on members of management, including the need to identify, recruit, maintain and integrate additional employees. Due to our limited resources, we may not be able to effectively manage our operations or recruit and retain qualified personnel, which may result in weaknesses in our infrastructure and operations, risks that we may not be able to comply with legal and regulatory requirements, and loss of employees and reduced productivity among remaining employees.

We have a history of net losses and we may not be able to achieve or maintain profitability in the future.

We have incurred net losses each year since our inception and we may not be able to achieve or maintain profitability in the future. Our expenses will likely increase as a result of implementing the Transformation Initiative. Even as we try to manage our expenses and implement the Transformation Initiative, these efforts may be more costly than we expect and may not result in increased revenue or growth or margin improvements in our business. Any failure to increase our revenue sufficiently to keep pace with our investments and other expenses could prevent us from achieving or maintaining profitability or positive cash flow on a consistent basis or at all. If we are unable to successfully address these risks and challenges as we encounter them, our business, financial condition, results of operations and prospects could be adversely affected. If we are unable to generate adequate revenue growth and manage our expenses, we are likely to continue to incur significant losses and may not be able to achieve or maintain profitability.

If we cannot successfully execute changes in our international strategy, we may not be successful in managing our operations outside the United States.

We currently sell products through retailers in Canada, Asia, the United Kingdom and certain countries in the European Union. We announced that we plan to focus on our North American customers and are actively reducing the portfolio of products we will offer for sale in certain regions such as Europe and Asia. If we cannot successfully execute this change in our international strategy, this strategy may negatively impact our operations internationally, including our relationships with international customers and brand resonance with international consumers, which could have a material adverse effect on our reputation, business, financial condition, results of operations, growth and future prospects as well as our ability to accomplish our strategic objectives.

We may be unable to accurately forecast revenue, gross margin or operating expenses and appropriately plan our expenses in the future.

Revenue and results of operations are difficult to forecast because they generally depend on the volume, timing and type of orders we receive across our various channels, all of which are uncertain. Forecasts have been and may continue to be particularly challenging in the current macroeconomic environment, in particular as we implement margin-enhancing and cost-cutting programs. We base our expense levels and investment plans on our estimates of revenue and gross margin. We cannot be sure prior growth rates and trends are meaningful predictors of future growth. For example, in the third quarter of 2022, some of our digital and retail customers began to reduce inventory on hand and have changed fulfillment schedules, which has negatively impacted our fulfillment operations and our revenue and is expected to continue to do so in the future. If our assumptions prove to be wrong, we may generate lower revenue or gross margin than anticipated or may spend more than we anticipate acquiring and retaining consumers either of which could have an adverse effect on our business, financial condition, results of operations and prospects.

Our ability to maintain our competitive position is largely dependent on the services of our senior management and other key personnel, including our founder and Chief Creative Officer, Jessica Warren, and our Chief Executive Officer, Carla Vernón.

Our ability to maintain our competitive position is largely dependent on the services of our senior management and other key personnel, including our founder and Chief Creative Officer, Jessica Warren, and our Chief Executive Officer, Carla Vernón. The loss of the services of either of these persons could have an adverse effect on our business, financial condition, results of operations and prospects.

Jessica Warren is a globally recognized Latina business leader, entrepreneur, advocate, actress, and New York Times bestselling author. We believe that the success of our brand depends in part on our ongoing affiliation with Jessica Warren. We have an agreement with Jessica Warren, or the Likeness Agreement, which, among other things, includes a license for her likeness and imposes various obligations on us. Ms. Warren has the right to terminate the Likeness Agreement at any time upon prior written notice, and the Likeness Agreement will immediately terminate in the event we become insolvent. Upon termination of the Likeness Agreement, we could, among other things, be required to pay damages to Ms. Warren, lose our ability to associate the brand with Ms. Warren, including the ability to sell existing inventory using the licensed intellectual property, and sustain reputational damage. We are currently renegotiating the Likeness Agreement with Ms. Warren. The termination of the Likeness Agreement or other new terms negotiated upon renegotiation of the Likeness Agreement could result in a reduction of our operating margins and cash flow from operations or otherwise adversely affect our business. Additionally, the loss of our ability to use Ms. Warren’s likeness could result in marketplace confusion, loss of goodwill and/or similar negative consequences. We depend on Ms. Warren’s social media reach and influence to connect with consumers and provide insight on current trends. If Ms. Warren objects to a proposed use of the licensed property, we may be prevented from implementing our business plan in a timely manner, or at all, outside of previously approved usages or usages consistent with certain pre-approved product guidelines. The loss of the services of Ms. Warren, or the loss of our ability to use Ms. Warren’s likeness, could have an adverse effect on our business, financial condition, results of operations and prospects.

Our brand may also depend on the positive image and public popularity of Ms. Warren to maintain and increase brand recognition. Ms. Warren’s social media presence and approximately 48 million followers as of May 2023 across all of her social media channels combined represent a large social following and potential audience for our social media reach. Consumers may be drawn to our products because of her involvement with us. If Ms. Warren’s image, reputation or popularity is materially and adversely affected, this could negatively affect the marketability and sales of our products and could have an adverse effect on our business, financial condition, results of operations and prospects.

In addition, our future success depends on our continued ability to attract, develop, motivate and retain highly qualified and skilled employees, including Carla Vernón, who became our new Chief Executive Officer effective January 9, 2023. The market for such positions is competitive. Qualified individuals, like Ms. Vernón with her extensive experience in CPG and with founder-built businesses, are in high demand and we may incur significant costs to attract them. In addition, the loss of any of our senior management or other key employees or our inability to recruit and develop mid-level managers could adversely affect our ability to execute our business plan and we may be unable to find adequate replacements. All of our employees are at-will employees, meaning that they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. If we fail to retain talented senior management and other key personnel, or if we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business, financial condition, results of operations and prospects could be adversely affected.

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.

None.

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Amended and Restated Articles of Incorporation, as currently in effect (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-40378), filed with the SEC on May 11, 2021).
3.2	Amended and Restated Bylaws, as currently in effect (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K (File No. 001-40378), filed with the SEC on March 16, 2023).
10.1	Employment Agreement, dated April 13, 2023, by and between the Company and Katherine Barton.
10.2	Credit Agreement dated January 25, 2023, by and among the Company, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-40378), filed with the SEC on January 27, 2023).
10.3	2023 Inducement Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-40378), filed with the SEC on March 16, 2023).
10.4	Form of Global RSU Award Grant Notice and Global RSU Award Agreement under the 2023 Inducement Plan (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-40378), filed with the SEC on March 16, 2023).
10.5	Separation Agreement and Release of Claims, dated January 10, 2023, by and between the Company and Nikolas Vlahos (incorporated herein by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K (File No. 001-40378), filed with the SEC on March 16, 2023).
10.6	Employment Agreement, dated January 9, 2023, by and between the Company and Carla Vernón (incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K (File No. 001-40378), filed with the SEC on March 16, 2023).
10.7	Amendment Twenty-Four to the Logistics Services Agreement, dated as of February 28, 2023 by and between the Company and Geodis Logistics, LLC (incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K (File No. 001-40378), filed with the SEC on March 16, 2023).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Exchange Act, and shall not be deemed to be incorporated by reference into any filing under the Securities Act, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	The Honest Company, Inc.
Date: May 9, 2023	By: /s/ Carla Vernón
	Carla Vernón **Chief Executive Officer and Director** *(Principal Executive Officer)*
Date: May 9, 2023	By: /s/ Kelly J. Kennedy
	Kelly J. Kennedy **Executive Vice President, Chief Financial Officer** *(Principal Financial Officer and Accounting Officer)*

April 13, 2023

Katherine Barton
Waco, TX

Re: Employment Agreement

Dear Kate:

The Honest Company, Inc. (the "**Company**") is pleased to offer you at-will employment in the position of SVP, Chief Growth Officer on the terms and conditions set forth in this letter agreement (the "**Agreement**").

1. Employment by the Company. This Agreement and your employment under the terms hereunder shall take effect on May 8, 2023 (the "**Effective Date**"). This is an exempt position, and during your employment with the Company, you will devote substantially all of your business time and attention to the business of the Company, except for approved vacation periods and reasonable periods of illness or other incapacities permitted by the Company's general employment policies. You shall perform such duties, consistent with your position, as are required by the Company's Chief Executive Officer ("CEO"), to whom you will report. Your primary work location, at which the Company expects you to work on a regular basis, shall be the Company's office located in Los Angeles, California. The Company reserves the right to reasonably require you to perform your duties at places other than your primary office location from time to time, and to require reasonable business travel.

2. Compensation.

11.1. Base Salary. For services to be rendered hereunder, you shall receive a base salary at the rate of $ **350,000** per year (the "**Base Salary**"), subject to standard payroll deductions and withholdings and payable in accordance with the Company's regular payroll schedule.

11.2. Annual Bonus. You will be eligible for an annual discretionary bonus with a target amount of **55**% of your then current annual Base Salary (the **"Annual Bonus"**). Whether you receive an Annual Bonus for any given year, and the amount of any such Annual Bonus, will be determined by the Board of Directors of the Company and/or its Compensation Committee (the "**Board**") in its discretion based upon the achievement of corporate and/or individual objectives and milestones that are determined in the sole discretion of the Board and other criteria to be determined by the Board. You must continue to be employed through the date the Annual Bonus is paid in order to earn such bonus. If your employment terminates for any reason prior to the payment date, you will not have earned, and will not be paid, any pro-rated bonus. The Annual Bonus, if earned, shall be paid to you in a lump sum no later than March 15th of the calendar year that follows the performance year, subject to applicable payroll deductions and withholdings.

11.3. Sign on Bonus. You will be paid a cash bonus of **$75,000** (the "Sign on Bonus")**.** The sign on bonus will be paid to you within ninety (90) days of the Effective Date. The sign on bonus is subject to repayment to the Company of the after-tax portion of such bonus if you resign without Good Reason within 12 months of the Effective Date.

11.4. Equity. Subject to the approval of the Board and you remaining employed by the Company through the grant date, the Company will grant you restricted stock units ("RSUs") having a grant date value approximately equal to $1,500,000 as soon as administratively practicable following the Effective Date, with the number of RSUs to be calculated by dividing the grant value by the 30-day trailing average closing price of a share of the Company's common stock on the date of grant. The RSUs will be granted under and governed by the Company's 2021 Equity Incentive Plan (the "**Plan**"), the Company's standard restricted stock unit award agreement and grant notice approved by the Board for use under the Plan, and subject to compliance with Section 409A of the Internal Revenue Code and any other applicable law. Twenty-five percent (25%) of the RSUs will vest on the Company quarterly vesting date next following the one-year anniversary of the Effective Date, and one-twelfth (1/12th) of the remaining RSUs will vest on each of the next twelve (12) Company quarterly vesting dates thereafter, subject to your Continuous Service (as defined in the Plan) on each vesting date. The RSUs will be granted pursuant to the Company's form award agreement. For clarity, the Board will determine the Company quarterly vesting dates at the time of grant in its sole and absolute discretion. You will be eligible for future equity awards as determined by the Board in its sole discretion. RSU awards are generally subject to income and employment tax withholding upon settlement.

11.5. Relocation. For the purposes of relocation to the Southern California area or travel to Southern California, you will be entitled to a lump sum of $50,000, less any applicable withholdings, to be paid on the first payroll cycle following the Effective Date.

3. Business Expenses. You will be eligible for reimbursement of all reasonable, necessary and documented out-of-pocket business, entertainment, and travel expenses, excluding travel expenses to and from your current residence and Southern California, incurred by you in connection with the performance of your duties hereunder in accordance with the Company's expense reimbursement policies and procedures.

4. Company Policies; Standard Company Benefits. The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control. You shall remain eligible to participate in all employee benefit programs for which you are eligible under the terms and conditions of the benefit plans that may be in effect from time to time. The Company reserves the right to cancel or change the benefit plans or programs it offers to its employees, including senior management, at any time.

5. At-Will Employment. Your employment relationship is at-will. Either you or the Company may terminate the employment relationship at any time, with or without cause or advance notice. Subject to the "Good Reason" provision set forth in Section 7 and Section 8.3, the Company may, in its sole discretion, adjust salaries, incentive compensation, stock plans, benefits, job titles, locations, duties, responsibilities, and reporting relationships. Upon termination of your employment for any reason, you shall resign from all positions and terminate any relationships as an employee, advisor, officer or director with the Company and any of its affiliates, each effective on the date of termination.

6. Outside Activities During Employment. Except with the prior written consent of the Board, you will not during the term of your employment with the Company undertake or engage in any other employment, occupation, or business enterprise, other than ones in which you are a passive investor. You may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of your duties hereunder. You agree not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise.

7. Termination; Severance.

11.1. Involuntary Termination. If you are subject to an Involuntary Termination and provided that you remain in compliance with the terms of this Agreement (including the conditions described in Section 7.3 below), the Company shall provide you with the following **Severance Benefits**:

(a) Cash Severance. The Company shall pay you, as severance, the equivalent of 6 months (the "**Severance Period**") of your Base Salary in effect as of the date of your employment termination, subject to standard payroll deductions and withholdings plus an amount equal to 6 months of health insurance under COBRA on an after-tax basis (the "**Severance**"). The Severance will be paid as a continuation on the Company's regular payroll, beginning no later than the first regularly-scheduled payroll date following the sixtieth (60^{th}) day after your Separation from Service, provided the Release (as discussed in Section 7.3) has become effective.

(b) Payment of Continued Group Health Plan Benefits. If you are eligible for and timely elect continued group health plan coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 or any state law of similar effect ("***COBRA***") following your Involuntary Termination, the Company will pay your COBRA group health insurance premiums for you and your eligible dependents directly to the insurer until the earliest of (A) the end of the period immediately following your Involuntary Termination that is equal to the Severance Period (the "***COBRA Payment Period***"), (B) the expiration of your eligibility for continuation coverage under COBRA, or (C) the date when you become eligible for substantially equivalent health insurance coverage in connection with new employment or self-employment. For purposes of this Section, references to COBRA premiums shall not include any amounts payable by you under a Section 125 health care reimbursement plan under the Code. Notwithstanding the foregoing, if at any time the Company determines, in its sole discretion, that it cannot pay the COBRA premiums without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), then regardless of whether you elect continued health coverage under COBRA, and in lieu of providing the COBRA premiums, the Company will instead pay you on the last day of each remaining month of the COBRA Payment Period, a fully taxable cash payment equal to the COBRA premiums for that month, subject to applicable tax withholdings (such amount, the "***Special Severance Payment***"), which payments shall continue until the earlier of expiration of the COBRA Payment Period or the date when you become eligible for substantially equivalent health insurance coverage in connection with new employment or self-employment. On the first payroll date following the effectiveness of the Release, the Company will make the first payment to the insurer under this clause (and, in the case of the Special Severance Payment, such payment will be to you, in a lump sum) equal to the aggregate amount of payments that the Company would have paid through such date had such payments instead commenced on the date of your Involuntary Termination, with the balance of the payments paid thereafter on the schedule described above. If you become eligible for coverage under another employer's group health plan, you must immediately notify the Company of such event, and all payments and obligations under this subsection shall cease.

11.2. Termination for Cause; Resignation Without Good Reason; Death or Disability. If you resign without Good Reason, or the Company terminates your employment for Cause, or upon your death or disability, then all payments of compensation by the Company to you hereunder will terminate immediately (except as to amounts already earned), and you will not be entitled to any Severance Benefits.

11.3. Conditions to Receipt of Severance Benefits. The receipt of the Severance Benefits will be subject to you signing and not revoking a separation agreement and release of claims in a form reasonably satisfactory to the Company (the "**Release**") by no later than the sixtieth (60th) day after your employment termination ("**Release Deadline**"). No Severance Benefits will be paid or provided until the Release becomes effective. You shall also resign from all positions and terminate any relationships as an employee, advisor, officer or director with the Company and any of its affiliates, each effective on the date of termination.

8. Definitions.

11.1. Cause. For purposes of this Agreement, "**Cause**" means any one of the following: (a) willful material breach by you of any material Company policy (including, but not limited to, the Company's policies on nondiscrimination, anti-harassment, and confidential information) or your duties or obligations hereunder; (b) your willful engagement in conduct materially injurious to the Company, monetarily or otherwise; (c) acts of fraud, theft or other willful illegal acts calling into question your personal integrity, or conviction on a felony charge, whether or not related to your employment hereunder; or (d) your willful refusal to follow lawful instructions of the Board that are consistent with your position. In order to terminate your employment for Cause pursuant to (a) or (d), but only to the extent the Board determines in its reasonable discretion that such breach is amenable to cure, the Board must provide you written notice within thirty (30) days after the first occurrence of the event giving rise to Cause setting forth the basis for the existence of Cause, allow you thirty (30) days from receipt of such written notice to cure such event, and if such event is not reasonably cured within such period, the Company must terminate your employment not later than thirty (30) days after the expiration of the cure period.

11.2. Code. For purposes of this Agreement, **"Code"** means the U.S. Internal Revenue Code of 1986 (as it has been and may be amended from time to time) and any regulations and guidance that has been promulgated or may be promulgated from time to time thereunder and any state law of similar effect.

11.3. Good Reason. For purposes of this Agreement, "Good Reason" means any one of the following without your consent: (a) an assignment of duties or responsibilities (including reporting responsibilities) materially inconsistent with, or which materially reduce, your duties, authority, responsibilities, and status with the Company; (b) an adverse change in your title; (c) any material reduction in your Base Salary, other than a reduction, generally applicable to other executives, by not more than 25%; (d) the relocation of your principal place of employment to a location that is more than twenty-five (25) miles away from its current location; or (e) the uncured breach of any material provision of this Agreement (or any other agreement with you) by the Company. In order to resign for Good Reason, you must provide written notice to the Company's Board within thirty (30) days after the first occurrence of the event giving rise to Good Reason setting forth the basis for your resignation, allow the Company thirty (30) days from receipt of such written notice to cure such event, and if such event is not reasonably cured within such period, you must resign from all positions you then hold with the Company not later than thirty (30) days after the expiration of the cure period.

11.4. Involuntary Termination. For purposes of this Agreement, "**Involuntary Termination**" means a termination of your employment with the Company pursuant to either (i) a termination initiated by the Company without Cause, or (ii) your resignation for Good Reason, and provided in either case such termination constitutes a Separation from Service. An Involuntary Termination does not include any other termination of your employment, including a termination due to your death or disability.

11.5. Separation from Service. For purposes of this Agreement, "Separation from Service" means a "separation from service", as defined under Treasury Regulation Section 1.409A-1(h).

9. Proprietary Information Obligations. As a condition of your continued employment, you shall execute and abide by the Company's standard form of Employee Confidential Information and Invention Assignment Agreement, attached as **Exhibit A**. In your work for the Company, you will be expected not to use or disclose any confidential information, including trade secrets, of any former employer or other person to whom you have an obligation of confidentiality. Rather, you will be expected to use only that information which is generally known and used by persons with training and experience comparable to your own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company. You acknowledge that you have not brought onto Company premises any unpublished documents or property belonging to any former employer or other person to whom you have an obligation of confidentiality and have disclosed to the Company any contract you have signed that may restrict your activities on behalf of the Company.

10. Section 409A. It is intended that all of the severance benefits and other payments payable under this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A provided under Treasury Regulations Sections 1.409A 1(b)(4), 1.409A 1(b)(5) and 1.409A 1(b)(9), and this Agreement will be construed to the greatest extent possible as consistent with those provisions, and to the extent not so exempt, this Agreement (and any definitions hereunder) will be construed in a manner that complies with Section 409A. For all purposes of Code Section 409A (including, without limitation, for purposes of Treasury Regulations Sections 1.409A 2(b)(2)(i) and (iii)), your right to receive any installment payments under this Agreement (whether severance payments, reimbursements or otherwise) shall be treated as a right to receive a series of separate payments and, accordingly, each installment payment hereunder shall at all times be considered a separate and distinct payment. Notwithstanding any provision to the contrary in this Agreement, if you are deemed by the Company at the time of your Separation from Service to be a "specified employee" for purposes of Code Section 409A(a)(2)(B)(i), and if any of the payments upon Separation from Service set forth herein and/or under any other agreement with the Company are deemed to be "deferred compensation," then to the extent delayed commencement of any portion of such payments is required in order to avoid a prohibited distribution under Code Section 409A(a)(2)(B)(i) and the related adverse taxation under Section 409A, such payments shall not be provided to you prior to the earliest of (i) the first date following expiration of the six-month period following the date of your Separation from Service with the Company, (ii) the date of your death or (iii) such earlier date as permitted under Section 409A without the imposition of adverse taxation. Upon the first business day following the expiration of such applicable Code Section 409A(a)(2)(B)(i) period, all payments deferred pursuant to this Paragraph shall be paid in a lump sum to you, and any remaining payments due shall be paid as otherwise provided herein or in the applicable agreement. No interest shall be due on any amounts so deferred. If the severance benefits are not covered by one or more exemptions from the application of Section 409A and the Release Deadline occurs in the calendar year following the calendar year of your Separation from Service, the Release will not be deemed effective any earlier than the Release Deadline for purposes of determining the timing of provision of any severance benefits.

11. Arbitration of All Disputes.

11.1. Agreement to Arbitrate. To ensure the timely and economical resolution of disputes that may arise between you and the Company, both you and the Company mutually agree that pursuant to the Federal Arbitration Act, 9 U.S.C. §1-16, and to the fullest extent permitted by applicable law, you and the Company will submit solely to final, binding and confidential arbitration any and all disputes, claims, or causes of action arising from or relating to: **(i)** the negotiation, execution, interpretation, performance, breach or enforcement of this Agreement; or **(ii)** your application, hiring, and employment with the Company (including but not limited to all statutory claims); or **(iii)** the termination of your employment with the Company (including but not limited to all statutory claims). **BY AGREEING TO THIS ARBITRATION PROCEDURE, BOTH YOU AND THE COMPANY WAIVE THE RIGHT TO RESOLVE ANY SUCH DISPUTES THROUGH A TRIAL BY JURY OR JUDGE OR THROUGH AN ADMINISTRATIVE PROCEEDING.**

11.2. Arbitrator Authority. The arbitrator shall have the sole and exclusive authority to determine whether a dispute, claim or cause of action is subject to arbitration under this Section and to determine any procedural questions which grow out of such disputes, claims or causes of action and bear on their final disposition.

11.3. Individual Capacity Only. All claims, disputes, or causes of action under this Section, whether by you or the Company, must be brought solely in an individual capacity, and shall not be brought as a plaintiff (or claimant) or class member in any purported class or representative proceeding, nor joined or consolidated with the claims of any other person or entity. The arbitrator may not consolidate the claims of more than one person or entity, and may not preside over any form of representative or class proceeding. To the extent that the preceding sentences in this Section are found to violate applicable law or are otherwise found unenforceable, any claim(s) alleged or brought on behalf of a class shall proceed in a court of law rather than by arbitration.

11.4. Arbitration Process. Any arbitration proceeding under this Section shall be presided over by a single arbitrator and conducted by Judicial Arbitration and Mediation Services, Inc. ("**JAMS**") in Los Angeles County, California, or as otherwise agreed to by you and the Company, under the then applicable JAMS rules for the resolution of employment disputes (available upon request and also currently available at http://www.jamsadr.com/rules-employment-arbitration/). You and the Company both have the right to be represented by legal counsel at any arbitration proceeding, at each party's own expense. The Arbitrator shall: **(i)** have the authority to compel adequate discovery for the resolution of the dispute; **(ii)** issue a written arbitration decision, to include the arbitrator's essential findings and conclusions and a statement of the award; and **(iii)** be authorized to award any or all remedies that you or the Company would be entitled to seek in a court of law. The Company shall pay all JAMS arbitration fees.

11.5. Excluded Claims. This Arbitration section shall not apply to any action or claim that cannot be subject to mandatory arbitration as a matter of law, including, without limitation, claims brought pursuant to the California Private Attorneys General Act of 2004, as amended, to the extent such claims are not permitted by applicable law to be submitted to mandatory arbitration and such applicable law is not preempted by the Federal Arbitration Act or otherwise invalid (collectively, the "**Excluded Claims**"). In the event you intend to bring multiple claims, including any Excluded Claims, the Excluded Claims may be filed with a court, while any other claims will remain subject to mandatory arbitration.

11.6. Injunctive Relief and Final Orders. Nothing in this Section is intended to prevent either you or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration. Any final award in any arbitration proceeding hereunder may be entered as a judgment in the federal and state courts of any competent jurisdiction and enforced accordingly.

12. Indemnification. The Company shall indemnify and hold you harmless, to the full extent permitted under the Company's charter, bylaws, and applicable law (including advances of legal expenses subject to an undertaking to refund in the event that a final determination is entered that you are not eligible for indemnification) relating to or arising out of your employment. You shall at all relevant times be covered as an insured under the Company's director and officer liability insurance.

13. Legal Fees. The Company shall promptly pay or reimburse the legal fees incurred by you in negotiation and reviewing this Agreement and related documents, up to a maximum of $10,000.

14. General Provisions. This Agreement, together with the Confidential Information and Inventions Assignment Agreement, constitutes the entire agreement between you and the Company with regard to this subject matter and is the complete, final, and exclusive embodiment of the parties' agreement with regard to this subject matter. This Agreement is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations (the "**Prior Agreements**"). You agree and acknowledge that you are not eligible for, and will not receive, any compensation, benefits, or severance pursuant to the Prior Agreements. You also agree and acknowledge that there are no circumstances as of the date of this Agreement that constitute, and nothing contemplated in this Agreement or otherwise shall be deemed for any purpose to be or to create, an involuntary termination without Cause or a Good Reason resignation right, including for purposes of the Prior Agreements, or any other severance or change in control plan, agreement or policy maintained by the Company or its affiliates. This Agreement cannot be modified or amended except in a writing signed by you and a duly authorized officer of the Company. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the parties. Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement. This Agreement is intended to bind and inure to the benefit of and be enforceable by you and the Company, and their respective successors, assigns, heirs, executors and administrators. The Company may freely assign this Agreement, without your prior written consent. You may not assign any of your duties hereunder and you may not assign any of your rights hereunder without the written consent of the Company. This Agreement shall become effective as of the Effective Date and shall terminate upon your termination of employment with the Company. The obligations as forth under Sections 7, 8, 9, 10, 11, 12, 13 and 14 will survive the termination of this Agreement. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the laws of the State of California.

Accepted and agreed:

Best regards,

The Honest Company, Inc.

/s/ Carla Vernón
Carla Vernón
Chief Executive Officer

Accepted and agreed:

/s/ Katherine Barton
Katherine Barton

Date: 4/21/2023

<u>**Exhibit A**</u>

Employee Confidential Information and Invention Assignment Agreement

Exhibit 31.1

CERTIFICATION

I, Carla Vernón, certify that:

1. I have reviewed this Form 10-Q of The Honest Company, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; 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: May 9, 2023

By: /s/ Carla Vernón

Carla Vernón
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Kelly J. Kennedy, certify that:

1. I have reviewed this Form 10-Q of The Honest Company, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; 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: May 9, 2023

By: /s/ Kelly J. Kennedy

Kelly J. Kennedy
Executive Vice President, Chief Financial Officer
(Principal Financial Officer 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 The Honest Company, Inc. (the “Company”) for the period ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Carla Vernón, Chief Executive Officer of the Company, certify, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; 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: May 9, 2023

By: /s/ Carla Vernón
Carla Vernón
Chief Executive Officer and Director
(Principal Executive Officer)

This certification shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

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 The Honest Company, Inc. (the “Company”) for the period ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kelly J. Kennedy, Chief Financial Officer of the Company, certify, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; 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: May 9, 2023

By: /s/ Kelly J. Kennedy

Kelly J. Kennedy
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Accounting Officer)

This certification shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.