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 September 30, 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

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 November 3, 2023, the registrant had 95,469,322 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 and a growing revenue base;
- our ability to implement our strategy to deliver sustained long-term growth and profitability, including as part of the Transformation Initiative;
- 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 and gross margin improvement;
- 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)

	September 30, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 23,103	$ 9,517
Short-term investments	—	5,650
Accounts receivable, net	38,203	42,334
Inventories	79,507	115,664
Prepaid expenses and other current assets	8,770	15,982
Total current assets	149,583	189,147
Operating lease right-of-use asset	25,266	29,947
Property and equipment, net	13,883	14,327
Goodwill	2,230	2,230
Intangible assets, net	327	370
Other assets	4,249	4,578
Total assets	$ 195,538	$ 240,599
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 18,491	$ 24,755
Accrued expenses	31,164	38,010
Deferred revenue	1,861	815
Total current liabilities	51,516	63,580
Long term liabilities		
Operating lease liabilities, net of current portion	23,791	29,842
Other long-term liabilities	222	817
Total liabilities	75,529	94,239
Commitments and contingencies (Note 8)		
Stockholders' equity		
Preferred stock, $0.0001 par value, 20,000,000 shares authorized at September 30, 2023 and December 31, 2022, none issued or outstanding as of September 30, 2023 and December 31, 2022	—	—
Common stock, $0.0001 par value, 1,000,000,000 and 150,000,000 shares authorized at September 30, 2023 and December 31, 2022, respectively; 95,562,477 and 92,907,351 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	9	9
Additional paid-in capital	600,211	586,213
Accumulated deficit	(480,211)	(439,830)
Accumulated other comprehensive loss	—	(32)
Total stockholders' equity	120,009	146,360
Total liabilities and stockholders' equity	$ 195,538	$ 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 September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Revenue	$ 86,169	$ 84,580	$ 254,101	$ 231,792
Cost of revenue	58,964	58,963	183,796	161,984
Gross profit	27,205	25,617	70,305	69,808
Operating expenses				
Selling, general and administrative	24,146	23,491	74,995	63,068
Marketing	9,110	12,140	28,605	38,121
Restructuring	357	—	2,104	—
Research and development	1,584	1,725	4,638	5,643
Total operating expenses	35,197	37,356	110,342	106,832
Operating loss	(7,992)	(11,739)	(40,037)	(37,024)
Interest and other income (expense), net	(71)	(29)	(269)	657
Loss before provision for income taxes	(8,063)	(11,768)	(40,306)	(36,367)
Income tax provision	35	20	75	60
Net loss	$ (8,098)	$ (11,788)	$ (40,381)	$ (36,427)
Net loss per share attributable to common stockholders:				
Basic and diluted	$ (0.09)	$ (0.13)	$ (0.43)	$ (0.40)
Weighted-average shares used in computing net loss per share attributable to common stockholders:				
Basic and diluted	95,179,604	92,460,987	94,137,244	92,020,423
Other comprehensive income (loss)				
Unrealized gain (loss) on short-term investments, net of taxes	—	37	33	(42)
Comprehensive loss	$ (8,098)	$ (11,751)	$ (40,348)	$ (36,469)

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
Net loss	—	—	—	—	—	(10,012)	—	(10,012)
Other comprehensive loss	—	—	—	—	—	—	(2)	(2)
Stock options exercised	—	—	22,000	—	9	—	—	9
Stock-based compensation	—	—	—	—	3,912	—	—	3,912
Vested restricted stock	—	—	761,394	—	—	—	—	—
Shares issued under employee stock purchase plan	—	—	58,111	—	157	—	—	157
Common stock withheld for tax obligation and net settlement	—	—	(4,439)	—	(17)	—	—	(17)
Balances at June 30, 2022	—	$ —	92,409,276	$ 9	$ 578,496	$ (415,449)	$ (120)	$ 162,936
Net loss	—	—	—	—	—	(11,788)	—	(11,788)
Other comprehensive income (loss)	—	—	—	—	—	—	37	37
Stock-based compensation	—	—	—	—	3,900	—	—	3,900
Vested restricted stock	—	—	180,951	—	—	—	—	—
Balance at September 30, 2022	—	$ —	92,590,227	$ 9	$ 582,396	$ (427,237)	$ (83)	$ 155,085

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, 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
Net loss	—	—	—	—	—	(13,416)	—	(13,416)
Other comprehensive loss	—	—	—	—	—	—	13	13
Stock options exercised	—	—	2,300	—	4	—	—	4
Stock-based compensation	—	—	—	—	6,413	—	—	6,413
Vested restricted stock	—	—	1,532,507	—	—	—	—	—
Shares issued under employee stock purchase plan	—	—	68,884	—	102	—	—	102
Balances at June 30, 2023	—	$ —	95,060,526	$ 9	$ 596,504	$ (472,113)	$ —	$ 124,400
Net loss	—	—	—	—	—	(8,098)	—	(8,098)
Stock-based compensation	—	—	—	—	3,707	—	—	3,707
Vested restricted stock	—	—	501,951	—	—	—	—	—
Balance at September 30, 2023	—	$ —	95,562,477	$ 9	$ 600,211	$ (480,211)	$ —	$ 120,009

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 nine months ended September 30,	
	2023	**2022**
Cash flows from operating activities		
Net loss	$ (40,381)	$ (36,427)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,021	2,025
Stock-based compensation	13,892	11,360
Other	4,680	4,805
Changes in assets and liabilities:		
Accounts receivable, net	4,132	(7,087)
Inventories	36,158	(24,609)
Prepaid expenses and other assets	7,498	(3,228)
Accounts payable, accrued expenses and other long-term liabilities	(13,875)	7,604
Deferred revenue	1,046	49
Operating lease liabilities	(5,740)	(5,161)
Net cash provided by (used in) operating activities	9,431	(50,669)
Cash flows from investing activities		
Purchases of short-term investments	—	(12,782)
Proceeds from maturities of short-term investments	5,683	38,219
Purchases of property and equipment	(1,588)	(1,433)
Net cash provided by investing activities	4,095	24,004
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	—	(37)
Proceeds from exercise of stock options	4	122
Proceeds from 2021 ESPP	102	157
Payments on finance lease liabilities	(46)	(281)
Net cash provided by (used in) financing activities	60	(39)
Net increase (decrease) in cash and cash equivalents	13,586	(26,704)
Cash and cash equivalents		
Beginning of the period	9,517	50,791
End of the period	$ 23,103	$ 24,087
Supplemental disclosures of noncash activities		
Capital expenditures included in accounts payable and accrued expenses	$ 25	$ 92

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.

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, non-cash asset charges, including asset impairments, 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. 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.

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 September 30, 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 as 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 on our customer's ability to pay. The allowance for credit losses was $0.9 million and $0.5 million as of September 30, 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. Effective January 1, 2023, the Company adopted this standard, which 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 September 30,		For the nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
(In thousands)				
Digital	$ 40,103	$ 33,782	$ 123,648	$ 105,913
Retail	46,066	50,798	130,453	125,879
Total revenue	$ 86,169	$ 84,580	$ 254,101	$ 231,792

Revenue by product category:	For the three months ended September 30,		For the nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
(In thousands)				
Diapers and Wipes	$ 52,584	$ 55,222	$ 160,917	$ 150,411
Skin and Personal Care	21,221	21,992	66,748	66,534
Household and Wellness	12,364	7,366	26,436	14,847
Total revenue	$ 86,169	$ 84,580	$ 254,101	$ 231,792

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 upon delivery of goods, 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 nine months ended September 30, 2023, the Company did not enter into any new trade agreements.

For the three and nine months ended September 30, 2023, the Company did not recognize any revenue or associated cost of revenue related to these marketing and transportation credits. For the three and nine months ended September 30, 2022, the Company recognized $1.6 million and $2.9 million, respectively, of revenue and $0.8 million and $1.6 million, respectively, of associated cost of revenue based on the timing of delivery of goods, related to these marketing and transportation credits. 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 nine months ended September 30, 2023, the Company recorded no impairment losses related to these credits and used an aggregate of $0.2 million of credits.

4. Investments

As of September 30, 2023, the Company did not hold any investments in debt securities. As of December 31, 2022, all investments in debt securities were classified as available-for-sale investments. All investments were reported within current assets because the securities represent investments of cash available for current operations. As of December 31, 2022, the Company held $5.7 million of investments with contractual maturities of less than one year. As of 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 December 31, 2022			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value
(In thousands)				
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 and nine months ended September 30, 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:

	September 30, 2023			
	Level 1	Level 2	Level 3	Total
(In thousands)				
Cash equivalents				
Money market funds	$ 5,517	$ —	$ —	$ 5,517
Total cash equivalents	$ 5,517	$ —	$ —	$ 5,517

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
(In thousands)				
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 and nine months ended September 30, 2023, the commitment fee incurred was immaterial. As of September 30, 2023, there were $3.9 million outstanding letters of credit and $19.2 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 September 30, 2023, the Company is in compliance with all covenants under the 2023 Credit Facility.

7. Accrued Expenses

Accrued expenses consisted of the following:

	September 30, 2023	December 31, 2022
(In thousands)		
Payroll and payroll related expenses[1]	$ 6,245	$ 6,790
Accrued inventory purchases	7,545	17,050
Accrued returns	273	318
Accrued rent[2]	7,999	7,688
Accrued restructuring[3]	384	—
Other accrued expenses	8,718	6,164
Total accrued expenses	$ 31,164	$ 38,010

(1) Includes $1.7 million and $4.3 million of executive transition related expense as of September 30, 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 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. 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. On August 14, 2023 the Lead Plaintiff filed an amended consolidated class action complaint naming as additional defendants Catterton Management Company L.L.C., L Catterton VIII, L.P., L. Catterton VIII Offshore, L.P., THC Shared Abacus, LP, Catterton Managing Partner VIII, L.L.C., and C8 Management, L.L.C. On October 16, 2023 those additional defendants filed a motion to dismiss the Second Amended Complaint with respect to the claims against them, and that motion is scheduled for a hearing on December 18, 2023. 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. 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's motion to stay pending the Ninth Circuit Court of Appeals' review of the Central District of California's decision in *Whiteside v. Kimberly-Clark Corp.*, No. 5:22-cv-1988 JGB (SPx), 2023 WL 4328175 (C.D. Cal. June 1, 2023) was denied on September 5, 2023. 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 September 30, 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 been involved in litigation in connection with these indemnification arrangements. As of September 30, 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	(2,300)	$ 1.70
Forfeited/Cancelled	(1,550,149)	$ 5.16
Outstanding at September 30, 2023	13,335,558	$ 5.25

During the three months ended September 30, 2023, the Company extended the post-termination exercise period for each outstanding stock option held by certain former executives such that the post-termination exercise period will end on the earlier of (i) the original expiration date of the stock option, or (ii) the date that is the 3-year anniversary of certain former executives no longer providing services to the Company. There were no changes to the exercise price or other terms of these stock options, and these stock options were already fully vested prior to the modification. As a result of this modification, we recognized incremental stock-based compensation expense of $0.5 million for the three and nine months ended September 30, 2023.

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	882,862	6,295,701	$ 1.74	$ 1.82
Vested[2]	(1,358,421)	(1,225,521)	$ 5.89	$ 6.35
Forfeited	(388,147)	(1,430,377)	$ 10.51	$ 5.62
Unvested RSUs at September 30, 2023	736,811	6,657,640	$ 1.85	$ 2.85

(1) Relates to former Chief Executive Officer ("CEO") RSUs that were reclassified to non-employee director shares for disclosure purposes. The former CEO was not re-nominated for election by the Board in connection with the annual stockholder meeting in May 2023.
(2) Includes accelerated vesting of certain former executives' outstanding RSUs, including the former CEO and CFO. As such, the Company recognized the related stock-based compensation expense during the three and nine months ended September 30, 2023.

As of September 30, 2023, there was $16.7 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 and nine months ended September 30, 2023, 68,962 shares were purchased under the 2021 ESPP. As of September 30, 2023, the Company had 2,814,479 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 nine months ended September 30, 2023
Expected life of options (in years)	0.50
Expected stock price volatility	86.19%
Risk free interest rate	5.36%
Expected dividend yield	—%
Weighted average grant-date fair value per share	$0.67

2023 Inducement Plan

In March 2023, the Company's Compensation Committee adopted the 2023 Inducement Plan (the "Inducement Plan"). The Inducement Plan reserved 4,000,000 shares of the Company's common stock for issuance under the Inducement Plan to individuals who satisfy the standards for inducement grants under the relevant Nasdaq Stock Market rules.

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 September 30,		**For the nine months ended September 30,**	
	2023	**2022**	**2023**	**2022**
(In thousands)				
Selling, general and administrative[1]	$ 3,608	$ 3,852	$ 13,648	$ 10,929
Research and development	99	48	244	431
Total stock-based compensation expense	$ 3,707	$ 3,900	$ 13,892	$ 11,360

(1) The Company extended the post-termination stock option exercise period for certain former executives, resulting in stock-based compensation expense of $0.5 million during the three months ended September 30, 2023. Additionally, the Company modified certain former executives' RSUs to accelerate vesting, including $0.5 million and $3.1 million during the three and nine months ended September 30, 2023.

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 September 30,		For the nine months ended September 30,	
(In thousands, except for share and per share values)	**2023**	**2022**	**2023**	**2022**
Numerator:				
Net loss	$ (8,098)	$ (11,788)	$ (40,381)	$ (36,427)
Net loss attributable to common stockholders - basic and diluted	$ (8,098)	$ (11,788)	$ (40,381)	$ (36,427)
Denominator:				
Weighted average shares of common stock outstanding - basic	95,179,604	92,460,987	94,137,244	92,020,423
Weighted average shares of common stock outstanding - diluted	95,179,604	92,460,987	94,137,244	92,020,423
Net loss per share, attributable to common shareholders:				
Basic and diluted	$ (0.09)	$ (0.13)	$ (0.43)	$ (0.40)

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 September 30,		For the nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Stock options to purchase common stock	13,335,558	15,015,298	13,335,558	15,015,298
Unvested restricted stock units	7,394,451	4,835,801	7,394,451	4,835,801
Employee stock purchase plan	68,962	68,497	68,962	68,497
Total	20,798,971	19,919,596	20,798,971	19,919,596

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 and nine months ended September 30, 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 and nine months ended September 30, 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 and nine months ended September 30, 2023 and 2022, 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.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Finance lease expense:				
Amortization	$ 12	$ 62	$ 42	$ 241
Interest on lease liabilities	—	1	—	7
Operating lease expense:				
Operating lease expense[1]	1,792	1,795	5,376	5,362
Sublease income	(501)	(501)	(1,503)	(1,504)
Total lease expense, net	$ 1,303	$ 1,357	$ 3,915	$ 4,106

(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 Right-of-Use ("ROU") asset, 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**	**September 30, 2023**
Finance lease assets	Property and equipment, net	$ 28
Operating lease assets	Operating lease right-of-use asset	25,266
Total lease assets		$ 25,294
Liabilities		
Current		
Finance lease liabilities	Accrued expenses	$ 32
Operating lease liabilities	Accrued expenses	7,999
Non-current		
Finance lease liabilities	Other long-term liabilities	3
Operating lease liabilities	Operating lease liabilities, net of current portion	23,791
Total lease liabilities		$ 31,825

Supplemental information related to the Company's leases for the nine months ended September 30, 2023 was as follows:

Weighted-average remaining lease term (in years)		
Finance leases		0.9
Operating leases		3.8
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	$	1
Operating cash flows used in operating leases	$	5,740
Finance cash flows used in finance leases	$	46

The Company did not have any non-cash ROU assets obtained in exchange for lease liabilities during the nine months ended September 30, 2023 for either finance or operating leases.

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, as well as asset impairments related to technology taken out of service.
- 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 Costs – The Company incurred other 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 related to inventory reserves, including tariffs, and
  - Consulting and other professional services.

Costs associated with the Transformation Initiative for the three and nine months ended September 30, 2023 were as follows (in thousands):

	For the three months ended September 30, 2023		For the nine months ended September 30, 2023	
Net Revenue[1]	$	(117)	$	339
Cost of Revenue		586		3,873
Restructuring Costs[2]		357		2,104
Other Costs[3]		1,365		4,207
Total	$	2,191	$	10,523

(1) Relates to estimated product markdowns and true-up of prior quarter estimates.
(2) Refer to the table below for further details of operating expenses included in restructuring costs.
(3) Refer to description above for types of operating expenses included in Other Costs.

	Restructuring Costs							
	Employee-Related Costs		Asset-Related Costs		Contract Terminations		Total	
Three months ended September 30, 2023	$	285	$	72	$	—	$	357
Cumulative through September 30, 2023	$	1,041	$	193	$	870	$	2,104

Changes in accrued expenses as of September 30, 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)		1,041		—		479		5,198		6,718
Cash payments		(661)		—		(116)		—		(777)
Non-cash asset write-offs		—		—		—		(1,788)		(1,788)
Balance at September 30, 2023	$	380	$	—	$	363	$	3,410	$	4,153

(1) Included in accrued expenses as of September 30, 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 and contract terminations as of September 30, 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 61%, 25%, and 14%, respectively, of our revenue for the three months ended September 30, 2023, compared to 65%, 26%, and 9%, respectively, of our revenue for the three months ended September 30, 2022, and 63%, 27%, and 10%, respectively, of our revenue for the nine months ended September 30, 2023, compared to 65%, 29%, and 6%, respectively, of our revenue for the nine months ended September 30, 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 September 30, 2023, we generated 47% and 53% of our revenue from our Digital and Retail channels, respectively, compared to 40% and 60%, respectively, for the three months ended September 30, 2022. For the nine months ended September 30, 2023, we generated 49% and 51% of our revenue from our Digital and Retail channels, respectively, compared to 46% and 54%, respectively, for the nine months ended September 30, 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 September 30, 2023, our products can be found in approximately 51,000 retail locations across the United States, Canada and Europe. In the first quarter of 2023, as part of the Transformation Initiative 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, including retail locations in 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 $11.0 million to $13.0 million for the full year 2023, with $2.2 million and $10.5 million, respectively, recognized during the three and nine months ended September 30, 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 $0.4 million and

$2.1 million, respectively, in the three and nine months ended September 30, 2023 and were reflected in restructuring on the condensed consolidated statements of comprehensive loss.
- The Transformation Initiative is expected to result in annualized benefits to adjusted EBITDA[1] in the range of $15.0 million to $20.0 million, and we are starting to see 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 $5.0 million for the full year 2023, with $1.0 million and $1.8 million, respectively, recognized during the three and nine months ended September 30, 2023 and the remainder in the fourth quarter of 2023.
- We expect the restructuring element of the Transformation Initiative to be substantially completed by December 31, 2023.

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(1) We do not provide guidance for the most directly comparable GAAP measure, net loss, and similarly cannot provide a reconciliation between our adjusted EBITDA outlook and net loss without unreasonable effort due to the unavailability of reliable estimates for certain components of net loss, including interest and other (income) expense, net, and the respective reconciliations. These items are not within our control and may vary greatly between periods and could significantly impact our financial results calculated in accordance with GAAP.

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 three quarters 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) Operating 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. As part of the Transformation Initiative, we are improving the return on marketing by reducing marketing spend on low-return campaigns and emphasizing best-selling items, focusing on the most profitable areas of our business. 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 awareness and leverage our flagship digital platform, Honest.com, to create direct connections with our consumers, influence brand experience and understand 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 and marketing 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. As a result, we have decreased and shifted marketing spend into support for retail and other digital customers that has allowed us to increase marketing efficiency, while maintaining revenue growth.

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 global pandemics or other 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 and the Israel-Hamas war. Additionally, the extent of the impact of macroeconomic trends on the Company's operational and financial performance in the future will depend on future developments. Prolonged unfavorable economic conditions, including as a result of global pandemics, rising inflation and interest rates 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

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 experienced and anticipate continued increases in labor costs, product costs and transportation costs, which has and could continue to hamper our ability to drive margin expansion. 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 in 2022, we have experienced increased fulfillment costs in 2022 but have seen lower fulfillment costs in the three and nine months ended September 30, 2023, as we reduced inventory levels. 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 for the nine months ended September 30, 2023. If we are not successful in negotiating future renewals such that these renewals are at increased costs to us, our business, financial condition, results of operations and prospects could be adversely affected. 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. We could face 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 three quarters of 2023 and plan to implement additional pricing increases before the end of 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

Our revenue is relatively balanced between our Digital and Retail channels which demonstrates the power of our omni-channel distribution model. We believe consumers value the flexibility in terms of where and when they choose to purchase Honest products. We also believe that consumers recognize the quality of Honest products, knowing that there are over 3,500 chemicals and materials that we choose not to formulate with.

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 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 the implementation of 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. For the nine months ended September 30, 2023, we recorded an inventory write-down, inclusive of overhead costs and tariffs, of $3.4 million mainly related to international product exits and SKU rationalization, which is included in cost of revenue on the condensed consolidated statements of comprehensive loss. Additionally, we earmarked donations of $3.1 million, mainly related to the liquidation of low-margin household products during the nine months ended September 30, 2023, which is included in selling, general and administrative expense on the condensed consolidated statements of comprehensive loss.

Due to increased 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 as of September 30, 2023. We have reduced our inventory levels during the three and nine months ended September 30, 2023 and expect future reduction of inventory for the remainder of 2023, as part of our disciplined inventory management.

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 best selling 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. 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 be immaterial but 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 September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
(In thousands)				
Revenue	$ 86,169	$ 84,580	$ 254,101	$ 231,792
Cost of revenue	58,964	58,963	183,796	161,984
Gross profit	27,205	25,617	70,305	69,808
Operating expenses				
Selling, general and administrative[1]	24,146	23,491	74,995	63,068
Marketing	9,110	12,140	28,605	38,121
Restructuring	357	—	2,104	—
Research and development[1]	1,584	1,725	4,638	5,643
Total operating expenses	35,197	37,356	110,342	106,832
Operating loss	(7,992)	(11,739)	(40,037)	(37,024)
Interest and other income (expense), net	(71)	(29)	(269)	657
Loss before provision for income taxes	(8,063)	(11,768)	(40,306)	(36,367)
Income tax provision	35	20	75	60
Net loss	$ (8,098)	$ (11,788)	$ (40,381)	$ (36,427)

[1] Includes stock-based compensation expense as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
(In thousands)				
Selling, general and administrative	$ 3,608	$ 3,852	$ 13,648	$ 10,929
Research and development	99	48	244	431
Total	$ 3,707	$ 3,900	$ 13,892	$ 11,360

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
	(as a percentage of revenue)			
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	68.4	69.7	72.3	69.9
Gross profit	31.6	30.3	27.7	30.1
Operating expenses				
Selling, general and administrative	28.0	27.8	29.5	27.2
Marketing	10.6	14.4	11.3	16.4
Restructuring	0.4	—	0.8	—
Research and development	1.8	2.0	1.8	2.4
Total operating expenses	40.8	44.2	43.4	46.1
Operating loss	(9.3)	(13.9)	(15.8)	(16.0)
Interest and other income (expense), net	(0.1)	—	(0.1)	0.3
Loss before provision for income taxes	(9.4)	(13.9)	(15.9)	(15.7)
Income tax provision	—	—	—	—
Net loss	(9.4) %	(13.9) %	(15.9) %	(15.7) %

* Amounts may not sum due to rounding.

Comparison of the Three and Nine Months Ended September 30, 2023 and 2022

Revenue

	For the three months ended September 30,				For the nine months ended September 30,			
	2023	2022	$ change	% change	2023	2022	$ change	% change
(In thousands, except percentages)								
By Product Category								
Diapers and Wipes	$ 52,584	$ 55,222	$ (2,638)	(4.8) %	$ 160,917	$ 150,411	$ 10,506	7.0 %
Skin and Personal Care	21,221	21,992	(771)	(3.5)	66,748	66,534	214	0.3
Household and Wellness	12,364	7,366	4,998	67.9	26,436	14,847	11,589	78.1
Total Revenue	$ 86,169	$ 84,580	$ 1,589	1.9 %	$ 254,101	$ 231,792	$ 22,309	9.6 %

	For the three months ended September 30,				For the nine months ended September 30,			
	2023	2022	$ change	% change	2023	2022	$ change	% change
(In thousands, except percentages)								
By Channel								
Digital	$ 40,103	$ 33,782	$ 6,321	18.7 %	$ 123,648	$ 105,913	$ 17,735	16.7 %
Retail	46,066	50,798	(4,732)	(9.3)	130,453	125,879	4,574	3.6
Total Revenue	$ 86,169	$ 84,580	$ 1,589	1.9 %	$ 254,101	$ 231,792	$ 22,309	9.6 %

Revenue was $86.2 million for the three months ended September 30, 2023, as compared to $84.6 million for the three months ended September 30, 2022. The increase of $1.6 million, or 1.9%, reflects an increase of $5.0 million in Household and Wellness product category, offset by a decrease of $2.6 million in Diapers and Wipes and a decrease of $0.8 million in Skin and Personal Care product categories, respectively. The revenue increase in Household and Wellness was primarily driven by $6.0 million in revenue from Honest Baby Clothing due to a Retail channel launch and strong consumption with our key digital customer. The revenue decrease in Diapers and Wipes was primarily driven by a $4.1 million decline in diaper revenue due to decline in Retail channel sales compared to expanded distribution during the three months ended September 30, 2022, offset by an increase of $2.0 million in wipes revenue with our key digital customer due to increased wipes consumption. The Skin and Personal Care revenue decrease was primarily driven by a decrease of $1.1 million in baby personal care products as we scaled back low-margin baby personal care products in the club channel, offset by strong baby personal care products consumption with our key digital customer.

We estimate that pricing increases taken in 2022 and the first three quarters of 2023 contributed $3.0 million to revenue for the three months ended September 30, 2023.

Revenue was $254.1 million for the nine months ended September 30, 2023, as compared to $231.8 million for the nine months ended September 30, 2022. The increase of $22.3 million, or 9.6%, reflects an increase of $11.6 million, $10.5 million and $0.2 million in Household and Wellness, Diapers and Wipes, and Skin and Personal Care products categories, respectively. The revenue increase in Household and Wellness was primarily driven by $14.6 million in revenue from Honest Baby Clothing due to a Retail channel launch and strong consumption with our key digital customer. The revenue increase in Diapers and Wipes was primarily driven by an increase in wipes consumption due to $5.6 million in revenue growth in the Retail channel, as well as a slight increase in diaper revenue in our Retail channel, and $13.3 million in revenue growth with a key digital partner in both diapers and wipes, offset by a decline in diaper sales on Honest.com. The Skin and Personal Care revenue increase was primarily driven by an increase in baby personal care products revenue due to strong consumption in the Digital channel, a $2.4 million increase in beauty revenue, as well as new distribution, offset by a decrease of $3.5 million in baby personal care products in our Retail channel, primarily due to lower club channel sales.

We estimate that pricing increases taken in 2022 and the first three quarters of 2023 contributed $7.5 million to revenue for the nine months ended September 30, 2023.

The decrease in revenue in our Retail channel for the three months ended September 30, 2023, compared to the three months ended September 30, 2022, was primarily driven by a decline of $4.4 million in revenue due to timing of shipments at a key retail customer, loss of revenue of $3.0 million due to a customer bankruptcy, and a decline of $1.1 million in revenue due to lower club channel sales, offset by new distribution, price increases and strong consumption. The increase in revenue in our Digital channel for the three months ended September 30, 2023, compared to the three months ended September 30, 2022, was primarily driven by an $8.9 million increase in revenue by our key digital customer driven by strong consumption, offset by a decrease in revenue at Honest.com due to lower digital marketing spend which resulted in lower traffic to Honest.com.

The increase in revenue in our Retail channel for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022, was primarily driven by new distribution of $10.3 million, slight growth of $2.3 million at one of our key retailers and price increases, offset by a decline of $5.0 million in revenue due to lower club channel sales and loss of revenue of $4.0 million due to a customer bankruptcy. The increase in revenue in our Digital channel for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022, was primarily driven by an increase in revenue of $27.1 million by our key digital customer driven by strong consumption, offset by a 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 September 30,				For the nine months ended September 30,			
	2023	2022	$ change	% change	2023	2022	$ change	% change
(In thousands, except percentages)								
Cost of revenue	$ 58,964	$ 58,963	$ 1	0.0 %	$ 183,796	$ 161,984	$ 21,812	13.5 %
Gross profit	$ 27,205	$ 25,617	$ 1,588	6.2 %	$ 70,305	$ 69,808	$ 497	0.7 %

Cost of revenue was $59.0 million for the three months ended September 30, 2023, as compared to $59.0 million for the three months ended September 30, 2022. The increase was primarily driven by a 1.9% increase in revenue, $1.1 million of higher product costs and $1.5 million increase in transportation costs, partially offset by $0.8 million of lower fulfillment costs and other cost savings. Cost of revenue as a percentage of revenue decreased by 128 basis points due to lower fulfillment costs, price increases and other cost savings.

Gross profit was $27.2 million for the three months ended September 30, 2023, as compared to $25.6 million for the three months ended September 30, 2022. The increase was mainly related to price increases of $2.1 million, reduced trade spending of $1.5 million and other cost savings, offset by the higher transportation and product costs described above.

Cost of revenue was $183.8 million for the nine months ended September 30, 2023, as compared to $162.0 million for the nine months ended September 30, 2022. The increase of $21.8 million, or 13.5%, was primarily driven by a 9.6% increase in revenue, $7.6 million of higher product costs and $6.6 million of higher transportation costs. Cost of revenue as a percentage of revenue increased by 245 basis points primarily due to costs from actions taken in connection with the Transformation Initiatives and higher input costs.

Gross profit was $70.3 million for the nine months ended September 30, 2023, as compared to $69.8 million for the nine months ended September 30, 2022. The increase was mainly related to price increases of $7.2 million and reduced trade spending of $5.8 million, offset by costs related to the Transformation Initiative, including inventory reserves related to product exits and SKU rationalization and higher product and transportation costs.

Operating Expenses

Selling, General and Administrative Expenses

	For the three months ended September 30,				For the nine months ended September 30,			
	2023	2022	$ change	% change	2023	2022	$ change	% change
(In thousands, except percentages)								
Selling, general and administrative	$ 24,146	$ 23,491	$ 655	2.8 %	$ 74,995	$ 63,068	$ 11,927	18.9 %

Selling, general and administrative expenses were $24.1 million for the three months ended September 30, 2023, as compared to $23.5 million for the three months ended September 30, 2022. The increase of $0.7 million, or 2.8%, was primarily due to a $1.5 million increase in service fees related to Honest Baby Clothing and $0.8 million in CFO transition expenses, offset by a decrease in donation expense of $0.6 million, a decrease of $0.4 million related to employee expenses, and a decrease in vendor violation charges of $0.6 million related to the implementation of a new order management system.

Selling, general and administrative expenses were $75.0 million for the nine months ended September 30, 2023, as compared to $63.1 million for the nine months ended September 30, 2022. The increase of $11.9 million, or 18.9%, was primarily due to a $3.5 million increase in service fees related to Honest Baby Clothing, $2.7 million increase in stock-based compensation expense mainly related to the acceleration of the former CEO's and CFO's RSUs, $2.1 million in CEO and CFO transition expenses, $1.7 million increase in donation expense, $1.7 million increase in legal expenses primarily related to securities litigation, and $0.8 million increase in employee-related expenses, offset by a $1.2 million decrease in consulting fees. Refer to Note 9, “Stock-Based Compensation,” included in our condensed consolidated financial statements in Part I, Item 1 for more information on the prior CEO's and CFO's RSUs.

Marketing Expenses

	For the three months ended September 30,				For the nine months ended September 30,			
	2023	2022	$ change	% change	2023	2022	$ change	% change
(In thousands, except percentages)								
Marketing	$ 9,110	$ 12,140	$ (3,030)	(25.0) %	$ 28,605	$ 38,121	$ (9,516)	(25.0) %

Marketing expenses were $9.1 million for the three months ended September 30, 2023, as compared to $12.1 million for the three months ended September 30, 2022. The decrease of $3.0 million, or 25.0%, was primarily due to a $1.6 million reduction in retail marketing, decrease of $0.9 million in public relations activities, and a decrease of $0.3 million in photo and video production expenses.

Marketing expenses were $28.6 million for the nine months ended September 30, 2023, as compared to $38.1 million for the nine months ended September 30, 2022. The decrease of $9.5 million, or 25.0%, was primarily due to a $4.2 million shift and reduction in digital advertising, a decrease of $2.5 million in public relations activities, and a $1.9 million reduction in retail marketing.

Restructuring Expenses

	For the three months ended September 30,				For the nine months ended September 30,			
	2023	**2022**	**$ change**	**% change**	**2023**	**2022**	**$ change**	**% change**
(In thousands, except percentages)								
Restructuring	$ 357	$ —	$ 357	100.0 %	$ 2,104	$ —	$ 2,104	100.0 %

Restructuring expenses were $0.4 million and $2.1 million, respectively, for the three and nine months ended September 30, 2023. Restructuring costs are one of the elements of the Transformation Initiative. For the three months ended September 30, 2023, restructuring costs included employee-related costs of $0.3 million. For the nine months ended September 30, 2023, restructuring costs included employee-related costs of $1.0 million, contract termination costs of $0.9 million, and asset-related costs of $0.2 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 September 30,				For the nine months ended September 30,			
	2023	**2022**	**$ change**	**% change**	**2023**	**2022**	**$ change**	**% change**
(In thousands, except percentages)								
Research and development	$ 1,584	$ 1,725	$ (141)	(8.2) %	$ 4,638	$ 5,643	$ (1,005)	(17.8) %

Research and development expenses were $1.6 million for the three months ended September 30, 2023, as compared to $1.7 million for the three months ended September 30, 2022.

Research and development expenses were $4.6 million for the nine months ended September 30, 2023, as compared to $5.6 million for the nine months ended September 30, 2022. The decrease of $1.0 million, or 17.8%, was primarily related to a decrease in research and development spend, as we realign resources to reflect the prioritization of higher-margin opportunities as part of our Transformation Initiative.

Interest and Other Income (Expense), Net

	For the three months ended September 30,			For the nine months ended September 30,		
	2023	**2022**	**$ change**	**2023**	**2022**	**$ change**
(In thousands, except percentages)						
Interest income (expense), net	$ (27)	$ 140	$ (167)	$ (253)	$ 322	$ (575)
Other income (expense), net	(44)	(169)	125	(16)	335	(351)
Interest and other income (expense), net	$ (71)	$ (29)	$ (42)	$ (269)	$ 657	$ (926)

Interest and other income (expense), net was net expense of $71 thousand for the three months ended September 30, 2023, as compared to net expense of $29 thousand for the three months ended September 30, 2022.

Interest and other income (expense), net was net expense of $0.3 million for the nine months ended September 30, 2023, as compared to net income of $0.7 million for the nine months ended September 30, 2022. The decrease of $0.9 million was primarily due to $0.7 million of other income related to the recognition of taxes and interest to be refunded from the Nevada Department of Taxation legal settlement during the nine months ended September 30, 2022 and 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 September 30, 2023, we had $23.1 million of cash and cash equivalents. 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 operating activities 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 September 30, 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 and nine months ended September 30, 2023, the commitment fee incurred was immaterial. As of September 30, 2023, there were $3.9 million outstanding letters of credit and $19.2 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 September 30, 2023, we are in compliance with all covenants under the 2023 Credit Facility.

Refer to Note 6 "Credit Facilities" included in our condensed consolidated financial statements in Part I, Item 1 for more information on the 2023 Credit Facility.

Cash Flows

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

	For the nine months ended September 30,	
(In thousands)	**2023**	**2022**
Net cash provided by (used in) operating activities	$ 9,431	$ (50,669)
Net cash provided by investing activities	$ 4,095	$ 24,004
Net cash provided by (used in) financing activities	$ 60	$ (39)

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 in the past.

Net cash provided by operating activities of $9.4 million for the nine months ended September 30, 2023 was primarily due to net loss of $40.4 million, non-cash adjustments of $20.6 million and a net increase in cash related to changes in operating assets and liabilities of $29.2 million. Non-cash adjustments primarily consisted of stock-based compensation of $13.9 million, amortization of operating Right-of-Use ("ROU") assets of $4.7 million and depreciation and amortization of $2.0 million. Changes in cash flows related to operating assets and liabilities primarily consisted of cash provided by a $36.2 million decrease in inventory, a $7.5 million decrease in prepaid expenses and other assets and a $4.1 million decrease in accounts receivable due to improved collection efforts, offset by $13.9 million lower accounts payable and accrued expenses driven by lower inventory purchases due to our disciplined inventory management and a $5.7 million use of cash due to operating lease obligations in the nine months ended September 30, 2023.

Net cash used in operating activities of $50.7 million for the nine months ended September 30, 2022 was primarily due to net loss of $36.4 million, non-cash adjustments of $18.2 million and a net decrease in cash related to changes in operating assets and liabilities of $32.4 million. Non-cash adjustments primarily consisted of stock-based compensation of $11.4 million, amortization of operating ROU assets of $4.6 million and depreciation and amortization of $2.0 million. Changes in cash flows related to operating assets and liabilities primarily consisted of a $24.6 million increase in inventory reflecting cost inflation, the purchase of $5.5 million of Honest Baby Clothing inventory from Butterblu and an increase in weeks of supply due to longer lead times and in advance of new distribution, a $7.1 million increase in accounts receivable due to growth in Retail channel revenue, a $5.2 million use of cash due to operating lease obligations and a $3.2 million increase in prepaid expenses and other assets, offset by a $7.6 million increase in accounts payable due to higher inventory purchases and cost inflation in the nine months ended September 30, 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 $4.1 million for the nine months ended September 30, 2023 was primarily due to proceeds from maturities of short-term investments of $5.7 million, offset by purchases of property and equipment of $1.6 million.

Net cash provided by investing activities of $24.0 million for the nine months ended September 30, 2022 was primarily due to proceeds from maturities of short-term investments of $38.2 million, offset by purchases of short-term investments of $12.8 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 provided by financing activities of $60 thousand for the nine months ended September 30, 2023 consisted of proceeds from the 2021 Employee Stock Purchase Plan (“2021 ESPP”), partially offset by principal payments of financing lease obligations.

Net cash used in financing activities of $39 thousand for the nine months ended September 30, 2022 primarily consisted of principal payments of financing lease obligations, partially offset by proceeds from stock option exercises and purchases under the 2021 ESPP.

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 and CFO transition expenses and (7) restructuring expenses in connection with the 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 and CFO transition expenses and restructuring expenses in connection with the 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 September 30,		For the nine months ended September 30,	
(In thousands)	2023	2022	2023	2022
Reconciliation of Net Loss to Adjusted EBITDA				
Net loss	$ (8,098)	$ (11,788)	$ (40,381)	$ (36,427)
Interest and other (income) expense, net	71	29	269	(657)
Income tax provision	35	20	75	60
Depreciation and amortization	681	639	2,021	2,025
Stock-based compensation[(1)]	3,707	3,900	13,892	11,360
Securities litigation expense	1,374	1,612	4,325	2,607
CEO and CFO transition expense[(2)]	808	—	2,085	—
Restructuring costs[(3)]	357	—	2,104	—
Payroll tax expense related to stock-based compensation	9	14	122	81
Adjusted EBITDA	$ (1,056)	$ (5,574)	$ (15,488)	$ (20,951)

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(1) Includes accelerated equity awards related to prior separation agreements of $0.5 million and $3.1 million with our former CEO and CFO during the three and nine months ended September 30, 2023, respectively. Additionally, includes extension of post-termination stock option exercise periods for certain former executives, resulting in stock-based compensation expense of $0.5 million during the three months ended September 30, 2023.
(2) Includes sign-on bonus, relocation, legal, recruiting and separation costs.
(3) See Note 14 “Restructuring” in our unaudited condensed consolidated financial statements for items included in restructuring expense.

Material Cash Requirements

As of September 30, 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 $5.0 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 and nine months ended September 30, 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, (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 September 30, 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 a 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 September 30, 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, commitments and disclosures may impact our reputation, increase our costs and impact our access to capital.
- 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, 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.

- SEC regulations governing cybersecurity disclosure about risk management, strategy and governance and requirements for reporting of cybersecurity incidents may increase our compliance costs.
- 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 technological 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. 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.

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 50 million followers as of October 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 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.

If we are unable to maintain listing of our securities on the Nasdaq Capital Market or another reputable stock exchange, it may be more difficult for our stockholders to sell their securities.

Nasdaq requires listing issuers to comply with certain standards in order to remain listed on its exchange. If we fail to satisfy the continued listing requirements of Nasdaq, such as the minimum closing bid price requirement, Nasdaq may take steps to delist our common stock.

For example, if at any time the bid price of our common stock closes at below $1.00 per share for more than 30 consecutive trading days, we may be subject to delisting from the Nasdaq Capital Market. If we receive a delisting notice, we would have 180 calendar days to regain compliance (subject to any additional 180-day compliance period which may be available to us), which would mean having a bid price above the minimum of $1.00 for at least 10 consecutive days in the 180-day period. During this 180-day period, we would anticipate reviewing our options to regain compliance with the minimum bid requirements, including conducting a reverse stock split. To the extent that we are unable to resolve any listing deficiency, there is a risk that our common stock may be delisted from Nasdaq, which would adversely impact liquidity of our common stock and potentially result in even lower bid prices for our common stock. On October 27, 2023, the closing price of our common stock was $1.11 per share.

If, for any reason, Nasdaq should delist our securities from trading on its exchange and we are unable to obtain listing on another reputable national securities exchange, such a delisting would likely have a negative effect on the price of our common stock and would impair your ability to sell or purchase our common stock when you wish to do so. In the event of a delisting, we can provide no assurance that any action taken by us to restore compliance with listing requirements would allow our common stock to become listed again, stabilize the market price or improve the liquidity of our common stock, prevent our common stock from dropping below the Nasdaq minimum bid price requirement or prevent future non-compliance with the listing requirements of Nasdaq, each of which could materially adversely affect our stockholders.

Increasing scrutiny and evolving expectations from stakeholders with respect to our ESG practices, performance, commitments and disclosures may impact our reputation, increase our costs and impact our access to capital.

Stakeholder scrutiny related to our ESG practices, commitments, performance and disclosures continues to increase. We have adopted certain policies and programs, including with respect to responsible ingredients and sustainability, safety and health, human capital management, social performance and community relations, diversity and inclusion and supply chain code of conduct. Our stakeholders might not be satisfied with our ESG practices, commitments, performance and/or disclosures, or the speed of their adoption, implementation and measurable success. Investor advocacy groups, certain institutional investors, investment funds, creditors and other influential investors are increasingly focused on our ESG practices and in recent years have placed increasing importance on the ESG implications of their investments and lending decisions. If we do not meet our stakeholders' evolving expectations, our reputation, access to and cost of capital, and stock price could be negatively impacted.

Organizations that provide information to investors and financial institutions on ESG performance and related matters have developed quantitative and qualitative data collection processes and ratings processes for evaluating companies on their approach to ESG matters. Such ratings are used by some investors to inform their investment and voting decisions. In addition, many investors have created their own proprietary ratings that inform their investment and voting decisions. Unfavorable ratings or assessment of our ESG practices, including our compliance with certain disclosure standards and frameworks, may lead to negative investor sentiment toward us, which could have a negative impact on our stock price and our access to and cost of capital.

As we continue to focus on our ESG practices, commitments, performance and disclosures, and as ESG-related regulations and disclosure standards and frameworks continue to evolve, we have expanded our public disclosures in these areas. Such disclosures may reflect goals, aspirations, commitments, cost estimates and other expectations and assumptions, including over long timeframes, which are necessarily uncertain and may not be realized.

New government regulations could also result in new or more stringent forms of ESG oversight and expanded disclosure. The SEC proposed climate-change related disclosure rules that, if adopted, would require significant disclosure regarding GHG emissions and would require significant time and expense to collect and prepare the information which may need to be gathered to satisfy such new disclosure requirements and any regulatory requirements for independent attestation as to such disclosures. In addition, the Company may become subject to climate or other ESG reporting regulations in jurisdictions such as California or the European Union, or may be subject to pressure from customers, investors, and other stakeholders to provide ESG-related data or adopt certain ESG policies, which may impose additional financial and administrative burdens. In addition, our climate or other ESG claims or goals could result in additional disclosure obligations under regulations in California or other jurisdictions, or expose the Company to regulatory, customer, or other stakeholder scrutiny. Further, the voluntary disclosure standards or frameworks we choose to align with are evolving and may change over time and our interpretation of such disclosure standards and frameworks may differ from those of others, either of which may result in a lack of consistent or meaningful comparative data from period to period and/or significant revisions to our goals and aspirations or reported progress in achieving such goals and aspirations.

Ensuring that there are adequate systems and processes in place to comply with the various ESG tracking and disclosure obligations will require management's time and expense. If we do not adapt to or comply with government regulations, investor or stakeholder expectations, including with respect to evolving disclosure standards and frameworks, or if we are perceived to have not responded appropriately, regardless of whether there is a legal requirement to do so, we may suffer from reputational damage and our business, financial condition, cost of capital and/or stock price could be adversely affected.

Further, being associated with activities by suppliers, contractors or other affiliates that have or are perceived to have individual or cumulative adverse impacts on the environment, climate, biodiversity and land management, water access and management, human rights or cultural heritage could negatively affect our reputation and impose additional costs.

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 August 31, 2023, by and between the Company and Dave Loretta.
10.2	Separation Agreement and Release of Claims, dated September 29, 2023, by and between the Company and Kelly Kennedy.
10.3	Amendment Twenty-Six to the Logistics Services Agreement, dated as of August 31, 2023 by and between the Company and Geodis Logistics, LLC
10.4	Amendment Twenty-Seven to the Logistics Services Agreement, dated as of October 26, 2023 by and between the Company and Geodis Logistics, LLC
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: November 8, 2023	By: /s/ Carla Vernón
	Carla Vernón **Chief Executive Officer and Director** *(Principal Executive Officer)*
Date: November 8, 2023	By: /s/ David Loretta
	David Loretta **Executive Vice President, Chief Financial Officer** *(Principal Financial Officer and Accounting Officer)*

Exhibit 10.1

August 31, 2023

Dave Loretta Verona, WI

Re: Employment Agreement

Dear Dave:

The Honest Company, Inc. (the “Company”) is pleased to offer you at-will employment in the position of EVP, Chief Financial 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 September 25, 2023 (the “Effective Date”). This is an exempt position, and during your employment with the Company, you will devote your best efforts and 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 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.

2.1. Base Salary. For services to be rendered hereunder, you shall receive a base salary at the rate of $475,000 per year (the “Base Salary”), subject to standard payroll deductions and withholdings and payable in accordance with the Company’s regular payroll schedule.

2.2. Annual Bonus. You will be eligible for an annual discretionary bonus with a target amount of 70% 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. You are eligible for a pro-rated Annual Bonus for FY2023. Your Annual Bonus will be subject to any recoupment policy adopted by the Company or as required by law.

1.1. Sign on Bonus. You will be paid a cash retention award of $150,000, subject to applicable withholdings. The first installment of 50% of the retention award will be paid out within six months of the Effective Date, and the remaining 50% will be paid out by twelve months of the Effective Date. Each payment is subject to repayment to the Company if you resign without Good Reason or are terminated for Cause within 12 months of the payment. This retention award will be subject to any recoupment policy adopted by the Company or as required by law.

1.2. Relocation. For the purposes of relocation to the Southern California area within the next 12 months, you will be entitled to a lump sum of $100,000, less any applicable withholdings, to be paid in the first payroll cycle following the Effective Date. This lump sum is subject to repayment if you do not relocate to the Southern California area within 12 months of the Effective Date.

1.3. 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 $1,000,000 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 2023 Inducement Plan (the "2023 Plan"), the Company's standard restricted stock unit award agreement and grant notice approved by the Board for use under the 2023 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 closest to 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 2023 Plan) on each vesting date. For clarity, the Board will determine the Company quarterly vesting dates at the time of grant in its sole and absolute discretion.

Subject to the approval of the Board and you remaining employed by the Company through the grant date, the Company will grant you RSUs having a grant date value approximately equal to $735,000 in Q1 2024 or at the same time as 2024 annual grants are made to other of the Company's executives, 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 "2021 Plan"), the Company's standard restricted stock unit award agreement and grant notice approved by the Board for use under the 2021 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 following the one-year anniversary of the grant 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 2021 Plan) on each vesting date. 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.

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 our headquarters in 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.

7.1. 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 12 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 and will pay, as described in Section 7.1(b), an amount equal to 12 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 Separation Agreement (as discussed in Section 7.3) has become effective. The Company shall also pay you, as severance, your Annual Bonus, less standard payroll deductions and withholdings, pro-rated for the employment period you worked during year in which your termination occurs, and subject to the achievement of applicable corporate and/or individual objectives and milestones (as determined in the sole discretion of the Board of Directors of the Company and/or its Compensation Committee) for the year in which your termination occurs. Your pro-rated Annual Bonus severance payment will be paid in the year following your termination at the same time as the Company pays bonuses to the Company's other executives.

(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.

7.2. 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.

7.3. 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 "**Separation Agreement**") by no later than the sixtieth (60th) day after your employment termination ("**Release Deadline**"). No Severance Benefits will be paid or provided until the Separation Agreement 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.

8.1. 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 which result in a 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. 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.

8.2. 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.

8.3. 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 of the Company, 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.

8.4. 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.

8.5. 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.**

1.4. 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.

1.5. 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.

1.6. 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 in excess of the amount of court fees that would be required of you if the dispute were decided in a court of law.

1.7. 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.

1.8. 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. 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 Start Date and shall terminate upon your termination of employment with the Company. The obligations as forth under Sections 7, 8, 9, 10, 11, and 12 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/ Dave Loretta

Dave Loretta

Date: 9/1/2023

<u>Exhibit A</u>

Employee Confidential Information and Invention Assignment Agreement

11.

SEPARATION AGREEMENT
AND GENERAL RELEASE OF CLAIMS

THIS SEPARATION AGREEMENT AND GENERAL RELEASE OF CLAIMS ("Agreement") is entered into by and between The Honest Company, Inc. (the "Company"), and Kelly Kennedy ("Employee," "you," or "your") (together the "Parties" or individually a "Party"), in consideration for and as a condition to the Company's agreement to provide you with certain Separation Benefits (defined below) to which you are not otherwise entitled.

1. Separation From Employment and Final Pay. Your voluntary separation from the Company will be effective on September 29, 2023 ("Separation Date"). Your employment will end on the Separation Date regardless of whether you sign this Agreement or agree to the following terms and conditions. On the Separation Date (or by no later than the timeframe permitted by applicable law), and independent of this Agreement, the Company will provide you with a final paycheck that will fully compensate you for all earned wages and compensation, including your customary wages, benefits, bonuses, and vacation earned/payable to you through the Separation Date, less applicable taxes and withholdings. The Separation Benefits described in Section 4 below are separate from and in addition to your final pay. You understand that, except as otherwise provided in this Agreement, you are not entitled to anything further from the Company, including reinstatement by the Company, or any compensation or benefits of any kind, for any reason, after the Separation Date.

2. Benefits Termination. Your eligibility for employee benefits as an employee of the Company will terminate on September 30, 2023. You will be separately notified of your right to continue your healthcare coverage under COBRA.

3. Post-Separation Consulting. Provided that you execute and do not revoke this Agreement, the Parties have agreed that you will provide certain consulting services to the Company through December 31, 2023 ("Consulting Period"), except as otherwise provided herein. You acknowledge and agree that prior to entering into this Agreement, the Company is under no legal obligation to retain your services as a consultant after the Separation Date, and therefore this Consulting Period constitutes consideration for your obligations as specified herein.

a. *Services*. During the Consulting Period, you will use your best efforts to provide consulting services as may be requested by the Company from time to time in the areas of your experience and expertise, which shall include (without limitation) providing assistance and support and transitioning your work duties and responsibilities (the "Consulting Services"). For the avoidance of doubt, you will not be required to perform Consulting Services in the absence of a request for such services from the Company's Chief Financial Officer. You agree to exercise the highest degree of professionalism and utilize your expertise and creative talents in performing the Consulting Services. You will not be required to report to the Company's offices during the Consulting Period, except as specifically requested by the Company. When providing Consulting Services, you shall abide by the Company's policies and procedures.

b. *Fees*. Your Consulting Services during the Consulting Period will be compensated at an hourly rate to be agreed-upon by the Parties. You will be required to submit a monthly invoice reflecting your Consulting Services rendered that month to the Legal Department (legal@thehonestcompany.com), and payment will be issued by the Company within 30 calendar days of receipt of such invoice. The Company agrees to pay for any and all such travel and/or expenses incurred by you to provide the Consulting Services, with such travel and/or expenses to be pre-approved by the Company before they are incurred. The Company will also reimburse or pay the legal fees you incurred in entering into your January 2021 employment agreement.

c. *Non-Disclosure of Confidential Information.* You acknowledge and reaffirm your continuing obligations, both during the Consulting Period and thereafter (as applicable), under the Confidential Information and Invention Assignment Agreement you previously entered into with the Company and which is incorporated herein by reference.

d. *Relationship between the Parties*. Your relationship with the Company as a consultant will be that of an independent contractor only, and nothing herein is intended to, or should be construed to, create a partnership, agency, joint venture or employment relationship between the Company and you. As an independent contractor, you will not be entitled to any of the benefits that the Company may make available to its employees generally, including but not limited to group health or life insurance, profit-sharing or retirement benefits. During the Consulting Period, you will have no responsibilities or authority as a consultant to the Company other than as provided in this Section 3. You will have no authority to bind the Company to any contractual obligations, whether written, oral, or implied, except with the prior written authorization of an officer of the Company. You agree not to represent or purport to represent the Company in any manner whatsoever to any third party unless authorized in advance by the Company, in writing, to do so. Throughout the Consulting Period, you shall have the right to engage in employment, consulting, or other work relationships in addition to your work for the Company, provided that such activities do not unreasonably interfere with your obligations under this Agreement, and in any event, unless otherwise waived in writing by the Company, do not compete or otherwise conflict with, directly or indirectly, the business, operations, and interests of the Company.

e. *Termination.* The Consulting Period shall end on the earlier of (i) December 31, 2023; and (ii) the Company's written notice to you that you have materially breached any of your obligations hereunder or have materially breached any of your obligations under your Confidential Information and Inventions Assignment Agreement.

4. Separation Benefits. In consideration for entering into this Agreement, and provided that you: (i) remained in compliance with all Company policies; your Employment Agreement dated April 24, 2021 ("Employment Agreement"); and your Confidential Information and Invention Assignment Agreement ("CIIAA"), all through the Separation Date (and after, if applicable), (ii) delivered to the Company all Company property, pursuant to Section 11, by no later than thirty (30) days following the termination of the Consulting Period, (iii) signed and returned the executed copy of this Agreement to the Company on or before the expiration of the Consideration Period, (iv) fully comply with the terms of this Agreement, and (v) do not revoke this Agreement pursuant to Section 7 below, the Company will pay or extend to you, as applicable, the following (collectively referred to as the "Separation Benefits"):

a. the equivalent of six (6) months (the "Severance Period") of your base salary in effect as of the Separation Date ($34,583.33 per month), subject to standard payroll deductions and withholdings, payable in monthly installments as a continuation on the Company's regular payroll, beginning no later than the first regularly-scheduled payroll date following the sixtieth (60th) day after your Separation Date, provided this Agreement has become effective;

b. an amount equal to up to twelve (12) months of your health insurance premium under COBRA on an after-tax basis, which will terminate upon the earliest of (i) the date which is twelve (12) months after your Separation Date, (ii) the expiration of your eligibility for continuation coverage under COBRA, or (iii) the date when you enroll in substantially equivalent health insurance coverage in connection with new employment or self-employment (the occurrence of which you agree to promptly bring to the Company's attention by email to the Legal Department (legal@thehonestcompany.com)), payable either directly to the insurer or in monthly installments beginning no later than the first regularly-scheduled payroll date following the sixtieth (60th) day after your Separation Date, provided this Agreement has become effective (except that the Company may elect to provide you with a lump-sum payment in lieu of all or part of the above-referenced payments);

c. an annual bonus for the 2023 calendar year (notwithstanding your termination of employment prior to the payment date of the bonus), prorated based on the number of days you were employed by the Company in the 2023 calendar year and determined by the Board and/or the Committee in its discretion based on the achievement of the applicable performance goals for the 2023 calendar year, to be paid at the same time that annual bonuses for the 2023 calendar year are paid to other Company executives (but in any event no later than March 15, 2024); and

d. accelerated vesting of outstanding restricted stock units ("RSUs") issued under the Company's Amended and Restated 2011 Stock Incentive Plan and the Company's 2021 Equity Incentive Plan ("the Equity Plans") that are held by you as of immediately prior to the Separation Date, such that a number of unvested shares subject to each award of RSUs that would vest if you continued to be a Service Provider or provide Continuous Service (as those terms are defined in the Equity Plans) from the Separation Date through and inclusive of March 4, 2024 will become vested (it being understood by the Parties that forfeiture of any RSUs held by you due to your termination of employment will be tolled to the extent necessary to implement the foregoing vesting acceleration).

You acknowledge that the Company has no duty or obligation (including pursuant to the Employment Agreement) to provide you the Separation Benefits absent this Agreement.

5. Equity Interests. Except as otherwise provided in Section 4(d), your entitlement to outstanding equity awards, if any, shall be governed by the terms of the stock plan governing such options and the documents by which such options were granted to you, along with any amendments thereto.

6. General Release.

a. In consideration of the Separation Benefits set forth in Section 4 above, you on behalf of yourself, your heirs, any spouse, executor, assigns, administrators, representatives, and agents , hereby release and forever discharge the Company and each of its respective past, present and future employees, officers, directors, members, agents, trustees, administrators, representatives, owners, shareholders, partners, insurers, fiduciaries, attorneys, subsidiaries, parent companies, affiliates, related entities, assigns, predecessors and successors in interest, as well as each of their past, present and future employees, officers, directors, members, agents, trustees, administrators, representatives, owners, shareholders, partners, insurers, fiduciaries, attorneys, subsidiaries, parent companies, affiliates, related entities, assigns, predecessors and successors in interest, jointly and severally, (referred to collectively hereafter as the "Releasees"), from any and all liabilities, claims, causes of action, charges, complaints, obligations, costs, losses, damages, injuries, penalties, interest, attorneys' fees, and other legal responsibilities, of any form whatsoever, whether known or unknown, unforeseen, unanticipated, unsuspected or latent (referred to collectively hereafter as "Claim" or "Claims"), of whatever kind and nature, whether now known or unknown, which you have at any time owned or held up to and including the date you sign this Agreement including, and without limiting the generality of the foregoing, any and all Claims arising out of, connected with, or relating to: (a) your employment or termination of employment with the Company; (b) any act or omission by or on the part of any of the Releasees occurring from the beginning of time up through and including your execution of this Agreement; (c) any Claim for violation of any federal, state or local law or regulation prohibiting discrimination, failure to prevent discrimination, harassment or retaliation of any kind; (d) Title VII of the Civil Rights Act of 1964, as amended; the Civil Rights Act of

1991; the Americans with Disabilities Act of 1990, as amended; the Genetic Information and Discrimination Act; the Rehabilitation Act of 1973, as amended; the Age Discrimination in Employment Act of 1967 (“ADEA”), as amended by the Older Workers’ Benefit Protection Act of 1990 (“OWBPA”); the Rehabilitation Act of 1973, as amended; the National Labor Relations Act, as amended; the Labor-Management Relations Act, as amended; the Family and Medical Leave Act; the Employee Retirement Income Security Act; the Lily Ledbetter Fair Pay Act; the Pregnancy Discrimination Act; the Occupational Safety and Health Act; the Federal Worker Adjustment and Retraining Notification Act; the Fair Labor Standards Act (including the Equal Pay Act) or the Consolidated Omnibus Budget Reconciliation Act (COBRA), as amended; the Sarbanes-Oxley Act of 2002; the California Worker Adjustment and Retraining Notification Act; the California Business & Professions Code; the California Family Rights Act; the California Labor Code; the California Industrial Welfare Commission Wage Orders; the California Fair Employment and Housing Act; the California and United States Constitutions; the Washington Industrial Welfare Act; the Washington Law Against Discrimination; any Washington leave laws; the Washington Minimum Wage Requirements and Labor Standards Act; Title 49 of the Revised Code of Washington; the Washington Equal Pay Opportunity Act; the Washington Fair Chance Act; and any local ordinance or federal or state statute, regulation or constitution; and (e) any Claim for attorneys' fees, penalties, interest, costs or expenses. If any claim is not subject to release, to the extent permitted by law, you waive any right or ability to be a class or collective action representative or to otherwise participate or recover any damages, injunctive, declaratory, monetary, or other relief, in any putative or certified class, collective or multi-party action or proceeding based on such a claim in which the Company or any of the other Released Parties is a party. You represent that you are not an “aggrieved employee” for any purpose including under the California Private Attorneys’ General Act (“PAGA”), and therefore the Company is not liable for any penalties pursuant to PAGA for any conduct arising during or out of your employment with the Company.

b. The General Release in Section 6(a) of this Agreement is intended to be a full and final release covering all suspected, unknown, undisclosed and unanticipated Claims which may have arisen, or may arise, from any act or omission prior to the date that you sign this Agreement, and which arise out of or are related, directly or indirectly, to the dealings between the Parties to this Agreement, or any matters described above. If you later discover facts different from or in addition to those facts you currently know or believe to be true, this Agreement, the waivers and releases will nevertheless remain effective in all respects. You and on behalf of anyone or any entity claiming through you, waive any and all rights or benefits which you may now have, or in the future may have, under the terms of Cal. Civ. Code § 1542 which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

Notwithstanding the provisions of § 1542, and for the purpose of implementing a full and complete release and discharge, you expressly acknowledge that (i) this Agreement is intended to and does include in its effect, without limitation, all Claims you do not know or suspect to exist in your favor against any of the Releasees, up to and including the date you sign this Agreement, and (ii) this Agreement expressly contemplates the extinguishment of such Claims.

7. <u>Older Workers’ Benefit Protection Act Disclosures and Consideration/ Revocation Periods.</u> This Agreement constitutes a knowing and voluntary waiver of any and all rights or Claims that you have or may have under the Federal Age Discrimination in

Employment Act, as amended by the OWBPA. This Section and this Agreement are written in a manner to be understood by you. You are hereby advised in writing to consult with an attorney of your choosing before signing this Agreement. You may take up to twenty-one (21) days to review and consider this Agreement ("Consideration Period"), after which time this Agreement to provide you the Separation Benefits will expire. The Parties agree that modification of this Agreement, whether material or immaterial, shall not restart the running of the Consideration Period. If you decide not to use the full Consideration Period, you knowingly and voluntarily waive any claims that you were not given or did not use the full Consideration Period before signing this Agreement and acknowledge that you have signed this Agreement knowingly and voluntarily. You may revoke this Agreement at any time within the 7-day period following the date you sign this Agreement ("Revocation Period") by providing written notice of revocation via email to the Legal Department (legal@thehonestcompany.com), so that such written notice is received before the Revocation Period expires. Subject also to Section 4 of this Agreement, the Company's obligation to provide any payment under this Agreement does not become final and binding until after the expiration of the Revocation Period and only if you have not revoked this Agreement during such time period. If you exercise your right to revoke the Agreement during the Revocation Period, the Company reserves the right to treat the Agreement as void, in whole or in part, at its sole discretion.

8. Your Protected Rights; Non-Interference. Notwithstanding the above, the matters released in Section 6 do not include: (i) any rights to receive the Separation Benefits; (ii) any claim for vested and accrued benefits under any benefit plan governed by the Employment Retirement income Security Act of 1974, as amended; (iii) any claim for unemployment or state disability insurance benefits or worker compensation benefits; (iv) any claim of breach of the terms of this Agreement; or (v) any other claims that cannot lawfully be released as a matter of law or public policy. Additionally, nothing in this Agreement restricts or prevents you from disclosing or discussing allegations of discrimination, harassment, retaliation, wage and hour violations, or sexual assault, or conduct that is recognized as against a clear mandate of public policy or disclosing or discussing the settlement of such a claim or waives your right to file a charge, cooperate or participate in an investigation or proceeding conducted by an administrative or regulatory agency, such as the Equal Employment Opportunity Commission ("EEOC"); to bring a suit to challenge the validity of this Agreement as it applies to the claims seeking to enforce the ADEA; to file an unfair labor practice charge under the National Labor Relations Act; to make disclosures that are required by law; or to testify truthfully, when required or requested to attend the proceeding pursuant to a court order, subpoena, or written request from an administrative agency or the legislature. However, to the maximum extent permitted by applicable law, the consideration provided to you in this Agreement shall be the sole relief provided to you by the Releasees for the matters released in Section 6 and you agree to waive any monetary or other personal relief against the Releasees in connection with any such claim, charge, or proceeding. Nothing in this Agreement shall be interpreted to prohibit or prevent you from receiving a bounty or similar award for providing information to a government agency (such as the U.S. Securities and Exchange Commission) or filing or participating in any whistleblower complaint filed with the U.S. Securities and Exchange Commission.

9. Covenant Not to Sue; Representations. You acknowledge and agree that you have not and will not directly or indirectly institute or assist in any legal action against the Releasees based upon, arising out of, or related to any Claims released herein. You further acknowledge and agree that (a) you have not sustained any workplace injury of any kind during your employment with the Company, and accordingly, you do not intend to file any claim for or seek any workers' compensation benefits; (b) you are aware of no facts or evidence that would give rise to any governmental action against any of the Releasees; and (c) you have not made any claims or allegations to the Company related to discrimination, harassment, retaliation, wage and hour violations, or sexual assault, and that none of the payments set forth in this Agreement are related to alleged discrimination, harassment, retaliation, wage and hour violations, or sexual

assault. You agree that except for the Separation Benefits, you have been paid all wages and other compensation that you have earned or become entitled to during your employment with the Company, including but not limited to, all wages, salary, bonuses and commissions, vacation and paid time off, and reimbursable expenses.

10. Confidentiality and Non-Disparagement.

a. You agree that the terms and conditions of this Agreement are confidential, including, but not limited to, the amounts paid to you under this Agreement. You will not disclose or publicize the existence of this Agreement or any of its terms to any person, or in any manner, except to your spouse, legal counsel, or accounting advisors and then only after securing the agreement of each such individual to maintain the confidentiality of this Agreement. Notwithstanding, this Agreement does not prohibit or restrict you from initiating communications directly with, or responding to any inquiry from, or providing testimony before, any self-regulatory organization or state or federal regulatory authority, regarding this Agreement or its underlying facts or circumstances.

b. You further acknowledge that, during the term of your employment by the Company, you have had access to and possession of Confidential Information (defined below), and that following the Separation Date, you must continue to comply with the terms of the CIIAA. For the purposes of this Agreement, "Confidential Information" shall have the meaning ascribed to such term in the CIIAA.

c. In addition, you and the Company agree that, at all times following the Separation Date each will not make any voluntary statements, written or oral, or cause or encourage others to make any such statements that defame, disparage or in any way criticize the personal and/or business reputations, practices or conduct of the other, including the Releasees.

d. Notwithstanding any of the foregoing, nothing in this Agreement prevents you from (i) disclosing either (x) the underlying facts or circumstances regarding conduct that you reasonably believe to be illegal discrimination, harassment, retaliation, a wage and hour violation, or sexual assault, or that is recognized as against a clear mandate of public policy or (y) the existence of a settlement involving such conduct; (ii) testifying truthfully in any legal proceeding, including, but not limited to, responding to any inquiries made by the EEOC or any government agency; or (iii) engaging in activity protected by the National Labor Relations Act, including the right to discuss terms and conditions of employment with current or former co-workers.

11. Surrender and Return of Company Property. You represent and warrant that proprietary items will be returned to an authorized officer of the Company, including but not limited to, any computer hardware or software, credit cards, key cards, cellular phones, any books or manuals issued by the Company and any other Confidential Information (including, without limitation, all copies or reproductions of such documents or materials, computer disks, backup copies, and other forms of electronic storage media) within thirty (30) days of the end of the Consulting Period, and that you will not retain any copies thereof.

12. Cooperation Agreement. Separate and apart from the post-separation consulting arrangement described in Section 3, you agree to cooperate fully with the Company in connection with any and all pending or future litigation or administrative claims, investigations, or proceedings involving the Company, including without limitation your meeting with the Company's counsel and/or advisors at reasonable times, upon their request, and providing written statements or live testimony (in court or at depositions) that is truthful, and complete in accordance with information known to you. To the extent any obligations under this Section require you to travel and/or incur expenses, the Company agrees to pay for any and all such

travel and/or expenses, with such travel and/or expenses to be pre-approved by the Company before they are incurred.

13. Tax Matters. This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), including the exceptions thereto, and shall be construed and administered in accordance with such intent. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service, as a short-term deferral, or as a settlement payment pursuant to a bona fide legal dispute shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, any installment payments provided under this Agreement shall each be treated as a separate payment. To the extent required under Section 409A, any payments to be made under this Agreement in connection with a termination of employment shall only be made if such termination constitutes a "separation from service" under Section 409A. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest, or other expenses that may be incurred by you on account of non-compliance with Section 409A. You acknowledge that any and all federal, state, or local tax liability that may be due or become due because of the Separation Benefits are your sole responsibility, and you further agree to hold the Company harmless and indemnify it for any and all liabilities, penalties, interest, costs, attorneys' fees and expenses relating to any tax or contribution that may be incurred or demanded as a result of your receipt of the Separation Benefits.

14. Severability. If any provision of this Agreement is held to be void, null or unenforceable, the remaining portions will remain in full force and effect. To the extent any provision of the general release of claims is deemed to be invalid or unenforceable, the Parties agree to enter into a full and general release of all claims by you that is not invalid.

15. Governing Law; Dispute Resolution. This Agreement shall be deemed to have been executed and delivered within the State of Washington, and the rights and obligations of the parties hereunder shall be construed and enforced in accordance with, and governed by, the laws of the State of Washington, without regard to principles of conflict of laws. Any and all disputes arising out of or in connection with this Agreement, or the breach thereof, shall be construed, arbitrated and finally resolved by and in accordance with Section 11 of the Employment Agreement.

16. No Admission. Neither this Agreement nor the furnishing of the consideration for this Agreement will be deemed or construed as an admission of liability or wrongdoing on the part of the Releasees, nor will it be admissible as evidence in any proceeding other than for the enforcement of this Agreement.

17. Execution; Counterparts. You shall not execute this Agreement before the Separation Date, and the Company has no obligation to countersign this Agreement you execute this Agreement before the Separation Date. This Agreement may be executed in counterparts, and each counterpart, when executed, shall have the efficacy of a signed original. Photographic or facsimile copies of such signed counterparts may be used in lieu of the originals for any purpose.

18. Acknowledgment. You acknowledge that you have read this Agreement, fully understand the contents of this Agreement, freely, voluntarily and without coercion enter into this Agreement, and are signing it with full knowledge that it is intended, to the maximum extent

permitted by law, as a complete release and waiver of any and all claims you may have against the Company.

19. Entire Agreement. This Agreement contains all of the terms, conditions, promises, representations and understandings between the Parties, and supersedes any previous written or oral agreements between the Parties, except that any provisions of the CIIAA, your previous indemnification agreement with the Company, and the Employment Agreement that survive the termination of your employment will remain in full force and effect. This Agreement cannot be modified except by a writing signed by you and an authorized officer of the Company. The Company's failure to insist upon your strict adherence to any term or obligation of this Agreement shall neither be considered a waiver nor deprive the Company of the right to thereafter expect or insist upon strict adherence to that term or obligation, or any other term or obligation, of this Agreement.

20. Effective Date. This Agreement shall not become effective or enforceable until 12:01 a.m. on the 8th day after you sign and date this Agreement (referred to hereafter as the "Effective Date").

YOU ACKNOWLEDGE AND UNDERSTAND THAT THIS AGREEMENT INCLUDES A RELEASE OF ALL CLAIMS. YOU ACKNOWLEDGE THAT YOU HAVE READ THIS AGREEMENT CAREFULLY, UNDERSTAND ALL OF ITS TERMS AND AGREE TO THOSE TERMS KNOWINGLY, VOLUNTARILY, AND WITHOUT DURESS. YOU ARE ADVISED TO CONSULT WITH COUNSEL ABOUT THE TERMS AND LEGAL EFFECT OF THIS AGREEMENT.

EMPLOYEE

Dated: 10/17/2023 /s/ Kelly Kennedy
Kelly Kennedy

THE HONEST COMPANY, INC.

Dated: 10/17/2023 By: /s/ Brendan Sheehey

Title: General Counsel & Corporate Secretary

AMENDMENT TWENTY–SIX
TO THE LOGISTICS SERVICES AGREEMENT

This **AMENDMENT TWENTY–SIX TO THE LOGISTICS SERVICES AGREEMENT** (the “**Amendment**”) is entered into as of August 31, 2023 (the “**Amendment Date**”), by and between The Honest Company, Inc. (“**CLIENT**”) and GEODIS Logistics LLC (“**GEODIS**,” collectively referred to as the “**Parties**,” and each a “**Party**”).

RECITALS:

A. The Parties entered into that certain Logistics Services Agreement dated January 27, 2014, as amended from time-to-time (the “**Agreement**”);

B. Pursuant to the Agreement, GEODIS provides logistics and warehousing services for CLIENT at the facility located at 5550 Donovan Way, Las Vegas, NV 89081(the “**Las Vegas Facility**”) and the facility located at 651 Boulder Drive, Breinigsville, PA 18031 in approximately 350,000 square feet of space (the “**PA Facility**”);

C. The Parties are currently using good faith efforts to negotiate and enter into a mutually acceptable Master Logistic Services Agreement (the “**MSA**”) which shall, at minimum, extend the term of the PA Facility services for a term up through and including December 31, 2027 (the **“Extended PA Term”**);

D. The Parties will endeavor to complete the MSA on or before November 1, 2023 (the “**Negotiation Period**”), which may be extended upon mutual agreement by the Parties (email being acceptable); and,

E. The Parties desire to amend Agreement as set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree to amend the Agreement as follows:

1. The Las Vegas Term and the PA Term shall both be extended until October 31, 2023.

2. Should the Parties fail to enter into the MSA by the end of the Negotiation Period (or any mutual extension thereof, not to be unreasonably withheld), then in addition to CLIENT’s current PA Facility Warehouse Costs (as defined in Paragraph 1 of Amendment 25) (the “**PA Warehouse Costs**”), GEODIS shall retroactively and going forward charge, and CLIENT shall pay, a Management Margin of 6% and G&A Margin of 5% on the PA Warehouse Costs for the timeframe beginning September 1, 2023, thru the end of the PA Term.

3. Any capitalized terms not defined herein shall have the meanings set forth in the Agreement, as amended. Except as provided herein, the Agreement shall remain unchanged and in full force and effect in accordance with its terms. It is specifically understood and agreed that the foregoing shall not be deemed to be a waiver or amendment of any other provision of the Agreement or either Party’s rights or remedies under the Agreement.

[Signature Page to Follow]

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed by their duly authorized representatives as of the Amendment Date set forth above.

THE HONEST COMPANY, INC.
By: /s/ Kelly Kennedy
Name: Kelly Kennedy
Title: Chief Financial Officer
Date: 8/31/2023

GEODIS LOGISTICS LLC
By: /s/ Anthony Jordan
Name: Anthony Jordan
Title: Chief Operating Officer
Date: 8/31/2023

AMENDMENT TWENTY–SEVEN
TO THE LOGISTICS SERVICES AGREEMENT

This **AMENDMENT TWENTY–SEVEN TO THE LOGISTICS SERVICES AGREEMENT** (the “**Amendment**”) is entered into as of October 26, 2023 (the “**Amendment Date**”), by and between The Honest Company, Inc. (“**CLIENT**”) and GEODIS Logistics LLC (“**GEODIS**,” collectively referred to as the “**Parties**,” and each a “**Party**”).

RECITALS:

A. The Parties entered into that certain Logistics Services Agreement dated January 27, 2014, as amended from time-to-time (the “**Agreement**”); and

B. The Parties desire to amend Agreement as set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree to amend the Agreement as follows:

1. The Las Vegas Term shall be extended until November 13, 2023, and the PA Term shall be extended until November 30, 2023.

2. The Negotiation Period as set forth in the Amendment 26 to the Logistics Services Agreement, dated August 31, 2023, shall be extended until November 30, 2023.

3. Any capitalized terms not defined herein shall have the meanings set forth in the Agreement, as amended. Except as provided herein, the Agreement shall remain unchanged and in full force and effect in accordance with its terms. It is specifically understood and agreed that the foregoing shall not be deemed to be a waiver or amendment of any other provision of the Agreement or either Party’s rights or remedies under the Agreement.

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed by their duly authorized representatives as of the Amendment Date set forth above.

THE HONEST COMPANY, INC.
By: /s/ Dave Loretta
Name: Dave Loretta
Title: EVP & Chief Financial Officer
Date: 10/26/2023

GEODIS LOGISTICS LLC
By: /s/ Anthony Jordan
Name: Anthony Jordan
Title: Chief Operating Officer
Date: 10/26/2023

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: November 8, 2023

By: /s/ Carla Vernón

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

Exhibit 31.2

CERTIFICATION

I, David Loretta, 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: November 8, 2023

By: /s/ David Loretta

David Loretta
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 September 30, 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: November 8, 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 September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Loretta, 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: November 8, 2023

By: /s/ David Loretta

David Loretta
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.