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, 2024

OR

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

For the transition period from to

Commission File Number: 001-40378

HONEST

The Honest Company, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

(888) 862-8818

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 par value per share	HNST	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of November 8, 2024, the registrant had 100,961,365 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, 2023 (the “Annual Report”), filed with the Securities and Exchange Commission (“SEC”) on March 8, 2024. 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 our expectations regarding our future results of operations and financial condition, including our ability to achieve or sustain profitability; our ability to continue to launch new products; momentum in our business; our ability to attract and retain customers; our ability to execute on and to continue driving benefits from our Transformation Pillars of Brand Maximization, Margin Enhancement, and Operating Discipline; our marketing strategies; our continued focus on research, development and innovation; our expectations regarding consumer demand and the timing and amount of orders from key customers; the effect of macroeconomic factors, including supply chain disruptions and inflationary pressures; anticipated trends, growth rates, and challenges in our business and in the markets in which we operate; and our ability to execute on other business strategies, plans and objectives of management for future operations.

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, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 53,441	$ 32,827
Accounts receivable, net	36,176	43,084
Inventories	74,720	73,490
Prepaid expenses and other current assets	8,965	8,371
Total current assets	173,302	157,772
Operating lease right-of-use asset	18,868	23,683
Property and equipment, net	11,781	13,486
Goodwill	2,230	2,230
Intangible assets, net	253	309
Other assets	2,769	4,141
Total assets	$ 209,203	$ 201,621
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 24,353	$ 22,289
Accrued expenses	33,972	32,209
Deferred revenue	1,650	2,212
Total current liabilities	59,975	56,710
Long term liabilities		
Operating lease liabilities, net of current portion	15,360	21,738
Other long-term liabilities	—	34
Total liabilities	75,335	78,482
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, $0.0001 par value, 20,000,000 shares authorized at September 30, 2024 and December 31, 2023, none issued or outstanding as of September 30, 2024 and December 31, 2023	—	—
Common stock, $0.0001 par value, 1,000,000,000 shares authorized at September 30, 2024 and December 31, 2023; 101,203,839 and 95,868,421 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	10	9
Additional paid-in capital	618,241	602,198
Accumulated deficit	(484,383)	(479,068)
Total stockholders' equity	133,868	123,139
Total liabilities and stockholders' equity	$ 209,203	$ 201,621

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
Revenue	$ 99,237	$ 86,169	$ 278,503	$ 254,101
Cost of revenue	60,841	58,964	172,613	183,796
Gross profit	38,396	27,205	105,890	70,305
Operating expenses				
Selling, general and administrative	23,427	24,146	72,277	74,995
Marketing	13,170	9,110	33,778	28,605
Restructuring	—	357	—	2,104
Research and development	1,742	1,584	5,137	4,638
Total operating expenses	38,339	35,197	111,192	110,342
Operating income (loss)	57	(7,992)	(5,302)	(40,037)
Interest and other income (expense), net	127	(71)	44	(269)
Income (loss) before provision for income taxes	184	(8,063)	(5,258)	(40,306)
Income tax provision	19	35	56	75
Net income (loss)	$ 165	$ (8,098)	$ (5,314)	$ (40,381)
Net income (loss) per share attributable to common stockholders:				
Basic	$ 0.00	$ (0.09)	$ (0.05)	$ (0.43)
Diluted	$ 0.00	$ (0.09)	$ (0.05)	$ (0.43)
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:				
Basic	100,690,486	95,179,604	98,688,196	94,137,244
Diluted	104,588,417	95,179,604	98,688,196	94,137,244
Other comprehensive income (loss)				
Unrealized gain (loss) on short-term investments, net of taxes	—	—	—	33
Comprehensive income (loss)	$ 165	$ (8,098)	$ (5,314)	$ (40,348)

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, 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 units	—	—	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 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, 2023	—	$ —	95,868,421	$ 9	$ 602,198	$ (479,068)	$ —	$ 123,139
Net loss	—	—	—	—	—	(1,403)	—	(1,403)
Stock options exercised	—	—	126,000	—	508	—	—	508
Stock-based compensation	—	—	—	—	2,523	—	—	2,523
Vested restricted stock units	—	—	1,174,282	—	—	—	—	—
Balances at March 31, 2024	—	$ —	97,168,703	$ 9	$ 605,229	$ (480,471)	$ —	$ 124,767
Net loss	—	—	—	—	—	(4,077)	—	(4,077)
Stock-based compensation	—	—	—	—	8,905	—	—	8,905
Vested restricted stock units	—	—	2,924,878	—	—	—	—	—
Shares issued under employee stock purchase plan	—	—	63,393	—	86	—	—	86
Balances at June 30, 2024	—	$ —	100,156,974	$ 9	$ 614,220	$ (484,548)	$ —	$ 129,681
Net income	—	—	—	—	—	165	—	165
Stock options exercised	—	—	460,000	—	1,856	—	—	1,856
Stock-based compensation	—	—	—	—	2,166	—	—	2,166
Vested restricted stock	—	—	586,865	1	(1)	—	—	—
Balance at September 30, 2024	—	$ —	101,203,839	$ 10	$ 618,241	$ (484,383)	$ —	$ 133,868

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,	
	2024	2023
Cash flows from operating activities		
Net loss	$ (5,314)	$ (40,381)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,132	2,021
Stock-based compensation	13,593	13,892
Other	6,395	4,680
Changes in assets and liabilities:		
Accounts receivable, net	6,908	4,132
Inventories	(1,229)	36,158
Prepaid expenses and other assets	(1,143)	7,498
Accounts payable, accrued expenses and other long-term liabilities	3,637	(13,875)
Deferred revenue	(561)	1,046
Operating lease liabilities	(6,052)	(5,740)
Net cash provided by operating activities	18,366	9,431
Cash flows from investing activities		
Proceeds from maturities of short-term investments	—	5,683
Purchases of property and equipment	(184)	(1,588)
Net cash (used in) provided by investing activities	(184)	4,095
Cash flows from financing activities		
Proceeds from exercise of stock options	2,364	4
Proceeds from 2021 ESPP	86	102
Payments on finance lease liabilities	(18)	(46)
Net cash provided by financing activities	2,432	60
Net increase in cash and cash equivalents	20,614	13,586
Cash and cash equivalents		
Beginning of the period	32,827	9,517
End of the period	$ 53,441	$ 23,103
Supplemental disclosures of noncash activities		
Capital expenditures included in accounts payable and accrued expenses	$ 72	$ 25

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 personal care company dedicated to creating cleanly-formulated and sustainably-designed products.

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, 2023. 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, 2023 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.

Segment Reporting and Geographic Information

The Company’s Chief Executive Officer (“CEO”), as the chief operating decision maker (“CODM”), 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, goodwill impairment, incremental borrowing rates associated with leases, valuation allowances with respect to deferred tax assets, accruals and contingencies, recoverability of non-cash marketing credits, 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, 2024 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.

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 are presented as net of allowance for credit losses. The Company does not accrue interest on its trade receivables. The Company evaluates accounts receivable estimated to be uncollectible by considering the lifetime expected credit losses of the Company's accounts receivable at time of inception, and records an allowance for credit losses, as necessary, with the balance of the Company's accounts receivable presented at the net realizable value. The Company considers factors in its allowance for credit losses such as historical analysis, credit quality of customers, the age of the accounts receivable balances and macroeconomic conditions that may impact the Company's customers' ability to pay. The allowance for credit losses was $0.4 million and $0.4 million as of September 30, 2024 and December 31, 2023, 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 Issued Accounting Pronouncements – Not Yet Adopted

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which expands reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in the ASU require that a public entity discloses, on an annual and interim basis, significant segment expenses that are regularly provided to an entity's CODM, a description of other segment items by reportable segment, and any additional measures of a segment's profit or loss used by the CODM when deciding how to allocate resources. The amendments in this ASU are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Retrospective application is required for all prior periods presented, and early adoption is permitted. The Company does not expect the adoption of ASU No. 2023-07 to have a material impact on the Company’s consolidated financial statements or disclosures.

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes: Improvements to Income Tax Disclosures. This guidance requires consistent categories and greater disaggregation of information in the rate reconciliation and disclosures of income taxes paid by jurisdiction. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2024. The Company does not expect the adoption of ASU No. 2023-09 to have a material impact on the Company’s consolidated financial statements or disclosures.

3. Revenue

The Company previously presented its revenue by sales channel of Digital and Retail and by product category of Diapers and Wipes, Skin and Personal Care and Household and Wellness. In determining the appropriate categories to use to disaggregate revenue in accordance with the requirements of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers,* the Company had considered the information regularly reviewed by its CODM for evaluating its financial performance and making resource allocation decisions and the guidance to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. In 2023, the Company executed a broad-based Transformation Initiative with Brand Maximization as one of the Pillars designed to leverage the strength of the Honest brand. As part of its strategy to build the Honest brand, the Company’s CODM is evaluating the Company’s financial performance and making resource allocation decisions across the Company’s products as one brand of a portfolio of multiple products. As a result, in the first quarter of 2024, the Company removed the disaggregation of revenue by product category to align with changes made to the Company’s long-term strategy and began disaggregating revenue by (i) direct-to-consumer and (ii) retail and third-party ecommerce customers. The change had no effect on the Company's results of operations or timing of revenue recognition. Presentation of disaggregated revenue by direct-to-consumer and retail and third-party ecommerce customers in prior periods have been modified to conform to the current period presentation.

Direct-to-Consumer

For direct sales to the consumer through the Company's website, Honest.com, the Company's performance obligation consists of the sale of finished goods to the consumer. Consumers may purchase products at any time or enter into subscription arrangements. Consumers place orders online in accordance with the Company's standard terms and conditions and authorize payment when the order is placed. Credit cards are charged at the time of shipment and payments are typically processed within two to three business days. For subscription arrangements, consumers sign up to receive products on a periodic basis. Subscriptions are cancellable at any time without penalty, and no amounts are collected from the consumer until products are shipped. Revenue is recognized when transfer of control to the consumer takes place, which is when the product is delivered to the carrier. Sales taxes collected from consumers are accounted for on a net basis and are excluded from revenue. Revenue generated from Honest.com was 12% and 18%, respectively, of the Company's total revenue during the three months ended September 30, 2024 and 2023, and 13% and 18%, respectively, of the Company's total revenue during the nine months ended September 30, 2024 and 2023.

Retail and Third-Party Ecommerce

For retail and third-party ecommerce sales, the Company's performance obligation consists of the sale of finished goods to retailers and third-party ecommerce customers. Revenue is recognized when control of the promised goods is transferred to those customers at time of shipment or delivery, depending on the contract terms. After the completion of the performance obligation, the Company has the right to consideration as outlined in the contract. Payment terms vary among the retail and third-party ecommerce customers although terms generally include a requirement of payment within 30 to 45 days of product shipment.

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. For the nine months ended September 30, 2024, the Company did not enter into any new trade agreements.

For the three and nine months ended September 30, 2024 and 2023, the Company did not recognize any revenue or associated cost of revenue 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 marketing expense in the condensed consolidated statements of comprehensive income (loss) as they become determinable. For the nine months ended September 30, 2024 and 2023, the Company recorded no impairment losses related to these credits and used an aggregate of $1.6 million and $0.2 million of credits, respectively.

4. Fair Value Measurements

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

(In thousands)	September 30, 2024 Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	$ 5,811	$ —	$ —	$ 5,811
Total cash equivalents	$ 5,811	$ —	$ —	$ 5,811

(In thousands)	December 31, 2023 Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	$ 5,589	$ —	$ —	$ 5,589
Total cash equivalents	$ 5,589	$ —	$ —	$ 5,589

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

5. 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 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. The Company recognizes the commitment fee as incurred in interest and other income (expense), net in the condensed consolidated statements of comprehensive income (loss). For the three and nine months ended September 30, 2024 and 2023, the commitment fee incurred was immaterial. As of September 30, 2024, there were $2.7 million outstanding letters of credit and $30.4 million available to be drawn upon. As of September 30, 2024, there was no outstanding balance under the 2023 Credit Facility.

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, 2024, the Company is in compliance with all covenants under the 2023 Credit Facility.

6. Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	September 30, 2024	December 31, 2023
Payroll and payroll related expenses[1]	$ 6,802	$ 8,007
Accrued inventory purchases	8,536	9,368
Accrued returns	371	269
Accrued rent[2]	8,431	8,105
Accrued restructuring[3]	68	356
Other accrued expenses	9,764	6,104
Total accrued expenses	$ 33,972	$ 32,209

(1) Includes $0.7 million and $1.2 million of executive transition related expenses as of September 30, 2024 and December 31, 2023, respectively.
(2) Represents short-term operating lease liabilities. Refer to Note 11, "Leases" included in these condensed consolidated financial statements for more information on leases.
(3) Refer to Note 12, "Restructuring" included in these condensed consolidated financial statements for more information on the Company's restructuring.

7. 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. On April 30, 2024, the Company filed its motion for summary judgment. The Company's motion for summary judgment is pending. 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 initial public offering (“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, alleging claims and seeking relief under Sections 11 and 15 of the Securities Act of 1933 relating to the Company’s IPO. 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. On January 31, 2024, that motion to dismiss was granted by the court to the extent those additional defendants challenged the claims as untimely. The court granted Lead Plaintiff leave to amend within fourteen days of that order. On February 14, 2024, the Lead Plaintiff filed a further amended Second Amended Complaint against the additional defendants. The additional defendants filed a motion to dismiss the further amended Second Amended Complaint, which was denied by the court on April 22, 2024. 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. 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. 10 Cal. June 1, 2023) was denied on September 5, 2023. On February 20, 2024, the parties filed a Notice of Settlement to notify the court that the parties have agreed to settle the matter on an individual, non-class basis. The Court granted the plaintiffs' Stipulation of Dismissal on July 2, 2024.

As of September 30, 2024 and December 31, 2023, 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, 2024 and December 31, 2023, 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.

8. Stock-Based Compensation

Stock Options

The following table summarizes the stock option activity:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2023	13,315,796	$ 5.25
Granted	—	$ —
Exercised	(586,000)	$ 4.03
Forfeited/Cancelled	(320,911)	$ 4.55
Outstanding at September 30, 2024	12,408,885	$ 5.33

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, 2024, 3,825,379 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, 2023	957,199	7,299,254	$ 2.19	$ 2.38
Granted	545,178	4,791,818	$ 2.81	$ 3.54
Vested	(647,739)	(4,038,286)	$ 2.07	$ 3.03
Forfeited	—	(684,143)	$ —	$ 3.02
Unvested RSUs at September 30, 2024	854,638	7,368,643	$ 2.68	$ 2.72

As of September 30, 2024, there was $19.4 million of unrecognized stock-based compensation expense related to unvested RSUs, which is expected to be recognized over a weighted-average period of 2.8 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, 2024, 956,344 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, 2024, 63,393 shares were purchased under the 2021 ESPP. As of September 30, 2024, the Company had 3,649,345 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, 2024		
Expected life of options (in years)		0.50	
Expected stock price volatility	69.20 %	—	79.27%
Risk free interest rate		5.43%	
Expected dividend yield		—%	
Weighted average grant-date fair value per share	$0.56	—	$1.05

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. As of September 30, 2024, there were 275,083 shares available for future grant under the Inducement Plan.

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,	
	2024	2023	2024	2023
(In thousands)				
Selling, general and administrative[(1)]	$ 2,012	$ 3,608	$ 13,164	$ 13,648
Research and development	154	99	429	244
Total stock-based compensation expense	$ 2,166	$ 3,707	$ 13,593	$ 13,892

(1) Includes $0 and $0.5 million, respectively, of stock-based compensation expense during the three months ended September 30, 2024 and 2023 and $6.7 million and $3.1 million, respectively, of stock-based compensation expense during the nine months ended September 30, 2024 and 2023 related to the acceleration of RSUs held by certain former executives.

9. 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.

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 income (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)	2024	2023	2024	2023
Numerator:				
Net income (loss)	$ 165	$ (8,098)	$ (5,314)	$ (40,381)
Net income (loss) attributable to common stockholders — basic	$ 165	$ (8,098)	$ (5,314)	$ (40,381)
Net income (loss) attributable to common stockholders - diluted	$ 165	$ (8,098)	$ (5,314)	$ (40,381)
Denominator:				
Weighted average shares of common stock outstanding — basic	100,690,486	95,179,604	98,688,196	94,137,244
Add: effect of dilutive RSUs	3,888,112	—	—	—
Add: effect of dilutive stock options	9,819	—	—	—
Weighted average shares of common stock outstanding - diluted	104,588,417	95,179,604	98,688,196	94,137,244
Net income (loss) per share, attributable to common shareholders:				
Basic	$ —	$ (0.09)	$ (0.05)	$ (0.43)
Diluted	$ —	$ (0.09)	$ (0.05)	$ (0.43)

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,	
	2024	2023	2024	2023
Stock options to purchase common stock	13,131,408	13,335,558	12,408,885	13,335,558
Unvested restricted stock units	1,143,065	7,394,451	8,223,281	7,394,451
Employee stock purchase plan	—	68,962	44,245	68,962
Total	14,274,473	20,798,971	20,676,411	20,798,971

10. 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.

During the three and nine months ended September 30, 2024 and 2023, the Company has not recorded any uncertain tax positions and has not recognized interest or penalties in the condensed consolidated statements of comprehensive income (loss).

11. 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 three 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,	
	2024	2023	2024	2023
Finance lease expense:				
Amortization	$ —	$ 12	$ 8	$ 42
Short-term lease expense	—	—	—	—
Operating lease expense:				
Operating lease expense[(1)]	1,792	1,792	5,376	5,376
Sublease income	(501)	(501)	(1,504)	(1,503)
Total lease expense, net	$ 1,291	$ 1,303	$ 3,880	$ 3,915

(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") assets, amortization of finance leases and amortization of operating ROU assets, operating lease expense and other lease expense are recorded within either cost of revenue or selling, general and administrative expenses and interest on finance lease liabilities is recorded within interest and other expense, net in the condensed consolidated statements of comprehensive income (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, 2024
Finance lease assets	Property and equipment, net	$ —
Operating lease assets	Operating lease right-of-use asset	18,868
Total lease assets		$ 18,868
Liabilities		
Current		
Finance lease liabilities	Accrued expenses	$ —
Operating lease liabilities	Accrued expenses	8,431
Non-current		
Operating lease liabilities	Operating lease liabilities, net of current portion	15,360
Total lease liabilities		$ 23,791

Supplemental information related to the Company's leases for the nine months ended September 30, 2024 was as follows:

Weighted-average remaining lease term (in years)		
Finance leases		—
Operating leases		2.8
Weighted-average discount rate		
Finance leases		— %
Operating leases		2.29 %
Cash paid for amounts included in the measurement of lease liabilities (in thousands)		
Operating cash flows for operating leases	$	6,052
Financing cash flows for finance leases	$	18

The Company did not have any non-cash ROU assets obtained in exchange for lease liabilities during the nine months ended September 30, 2024 for either finance or operating leases.

12. Restructuring

Transformation Initiative

In 2023, the Company executed 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 the Company's business, deliver greater impact from brand-building investments, and improve executional excellence across the enterprise. The restructuring element of the Transformation Initiative was substantially completed by December 31, 2023.

For the three and nine months ended September 30, 2024, the Company did not incur any restructuring costs related to the Transformation Initiative.

Changes in accrued restructuring expenses as of September 30, 2024 relating to the Transformation Initiative were:

	Restructuring Costs				
	Employee-Related Costs[1]	Asset-Related Costs	Contract Terminations	Inventory Reserves	Total
Balance at December 31, 2023	$ 356	$ —	$ —	$ 2,581	$ 2,937
Charges (adjustments)	—	—	—	—	—
Cash payments	(288)	—	—	—	(288)
Non-cash asset write-offs	—	—	—	(2,546)	(2,546)
Balance at September 30, 2024	$ 68	$ —	$ —	$ 35	$ 103

(1) Included in accrued expenses as of September 30, 2024. Refer to Note 6, "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 $0.1 million related to severance costs as of September 30, 2024 are expected to result in cash expenditures funded from cash provided by operations in future periods and are 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, 2023 (the "Annual Report"), filed with the Securities and Exchange Commission ("SEC") on March 8, 2024. 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 personal care company dedicated to creating cleanly-formulated and sustainably-designed products. 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 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. We believe this drives loyalty, increases our consumer wallet share and generates 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 ("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, including the launch of strategic partnerships with Target, Amazon and Walmart in 2014, 2017 and 2022, respectively. 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 third-party pureplay ecommerce sites, Honest.com and leading retailers and their websites. 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 2023, we executed 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 restructuring element of the Transformation Initiative was substantially completed by December 31, 2023. The Company expects to continue driving benefits from its three Transformation Pillars of Brand Maximization, Margin Enhancement, and Operating Discipline:

1) Brand Maximization

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

2) Margin Enhancement

- Focusing our resources on North America, which includes the exit of our low-margin business in Europe and Asia.
- Exiting low-margin elements of the cleaning and sanitization business in 2023.
- Executing an inventory, or stock-keeping unit (“SKU”), rationalization program in 2023.
- 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 restructuring element of the Transformation Initiative, refer to Note 12, “Restructuring” included in our unaudited 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 titled “Risk Factors” in this Quarterly Report on Form 10-Q and in our Annual Report.

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. As part of the Transformation Pillars, we have been focused on Brand Maximization, including 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 continue to launch new products, 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 is top of mind. 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.

Continued Product 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 products by increasing total distribution, we intend to prioritize growth in products with attractive margin characteristics, including personal care, and leverage our brand equity and consumer insights to extend into new products. We are also committed to bringing our Honest Standard to new products where we believe there is a need for a higher standard for clean personal care.

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 believe we have been able to achieve some operational and marketing efficiency as part of cost savings in connection with our Brand Maximization Transformation Pillar.

Our marketing model is inclusive of a best-in-class modern approach across paid, owned, and earned marketing channels. Additionally, we have optimized our spend in an omnichannel distribution model, which has led to spending less on media driving directly to Honest.com and investing more in driving to our retailer and other digital partners.

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 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, specifically inflationary pressures, which has adversely affected our supply chain in regards to cost of goods sold. We have experienced and anticipate continued increases in product costs and labor costs due to inflationary pressures and higher transportation costs from ocean container delivery, which has in the past 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, minimizing lead times for raw materials, and implementing a robust cost-savings program, as part of our Operating Discipline Transformation Pillar. We expect to continue to receive fulfillment costs savings due to warehouse and labor operational efficiencies gained with our Las Vegas, Nevada fulfillment center partner. If we are not successful in negotiating future renewals with our other fulfillment partner such that these renewals are at increased costs to us, our business, financial condition, results of operations and prospects could be adversely affected. In January 2024, we negotiated better purchase price terms with one of our third-party manufacturers, Ontex. However, we have experienced purchase price increases from our third-party manufacturers in the past and could face escalation of purchase costs and cost of revenue in the future.

We implemented price increases that took effect in 2022 and 2023 and we may implement additional price increases in the future as needed to offset current and future input cost inflation and to pursue productivity initiatives to offset inflation. However, we may not be able to increase our prices or productivity sufficiently enough to offset these costs. Customer demand for our products may change based on price increases.

Consumer Preferences

We believe in the power of our omnichannel 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 research their personal care ingredients and 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. As a part of the Transformation Initiative, we exited certain low-margin household products and implemented an inventory, or SKU rationalization, program in 2023, which resulted in our recording an inventory write-down and earmarking donations primarily related to the liquidation of low-margin household products. In addition, in connection with the termination of the Likeness Agreement with Jessica Warren, as part of Ms. Warren's departure from her Chief Creative Officer position, after April 4, 2025 we are prohibited from selling existing inventory that uses certain specified licensed intellectual property on its packaging, which we anticipate will result in inventory write-offs. We continue to incur inventory write-downs each quarter, as necessary. Depending on future consumer behavior in relation to the macroeconomic environment or otherwise and related aging of inventory, among other factors, we have and expect to incur in the future additional inventory write-downs, customer returns or incur donation expense or disposal costs as we reduce excess inventory.

Furthermore, we are currently in discussions with Butterblu regarding our respective obligations under the supplier services agreement pursuant to which Butterblu provides certain design, manufacturing, sales and marketing services to us. As part of the supplier services agreement, we have agreed to purchase and own inventory for the term of the supplier service agreement, which is until December 31, 2026, unless terminated sooner. Butterblu continues to operate and maintain our baby apparel offerings independently through the honestbabyclothing.com website under our supplier services agreement and Honest Baby Clothing sales are reflected as revenue in our consolidated statements of operations. These discussions could result in termination of the supplier services agreement prior to its termination date, potential disputes over the terms of termination, and costs to us related to the inventory we agreed to purchase and own for the term of the agreement. In addition, any loss of the relationship with Butterblu may negatively impact sales of our baby apparel, which will adversely affect our results of operations.

Components of Results of Operations

Revenue

We generate revenue through sales of our products directly to consumers through our website, sales to traditional brick and mortar retailers and their respective websites, and sales to third-party ecommerce customers, and such retailers or third-party ecommerce customers may also resell our products through their own respective online platforms. Our revenue is recognized net of allowances for returns, discounts, credits and any taxes collected from consumers.

Disaggregation of Revenue

We had previously presented our revenue by sales channel of Digital and Retail and by product category of Diapers and Wipes, Skin and Personal Care and Household and Wellness. In determining the appropriate categories to use to disaggregate revenue in accordance with the requirements of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers,* we had considered the information regularly reviewed by our chief operating decision maker (“CODM”) for evaluating our financial performance and making resource allocation decisions and the guidance to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. In 2023, we executed a broad-based Transformation Initiative with Brand Maximization as one of the Pillars designed to leverage the strength of the Honest brand. As part of our strategy to build the Honest brand, our CODM evaluates our financial performance and makes resource allocation decisions across our products as one brand of a portfolio of multiple products. As a result, in the first quarter of 2024, we removed the disaggregation of revenue by product category to align with changes made to our long-term strategy and we began disaggregating revenue by (i) direct-to-consumer and (ii) retail and third-party ecommerce customers. The change had no effect on our results of operations or timing of revenue recognition.

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 our supplier services agreement for Honest Baby Clothing, our baby apparel business; and, depreciation and amortization expenses. We expect our general and administrative expenses to decrease as a percentage of revenue as we continue to grow our business and organizational capabilities and efficiencies. We expect in the future to incur additional third-party professional fees related to compliance obligations as a public company.

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 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. 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 in future periods but continue to fluctuate 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 comprehensive income (loss) data for each of the periods indicated:

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
(In thousands)				
Revenue	$ 99,237	$ 86,169	$ 278,503	$ 254,101
Cost of revenue	60,841	58,964	172,613	183,796
Gross profit	38,396	27,205	105,890	70,305
Operating expenses				
Selling, general and administrative[(1)]	23,427	24,146	72,277	74,995
Marketing	13,170	9,110	33,778	28,605
Restructuring	—	357	—	2,104
Research and development[(1)]	1,742	1,584	5,137	4,638
Total operating expenses	38,339	35,197	111,192	110,342
Operating income (loss)	57	(7,992)	(5,302)	(40,037)
Interest and other income (expense), net	127	(71)	44	(269)
Income (loss) before provision for income taxes	184	(8,063)	(5,258)	(40,306)
Income tax provision	19	35	56	75
Net income (loss)	$ 165	$ (8,098)	$ (5,314)	$ (40,381)

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
(In thousands)				
Selling, general and administrative	$ 2,012	$ 3,608	$ 13,164	$ 13,648
Research and development	154	99	429	244
Total	$ 2,166	$ 3,707	$ 13,593	$ 13,892

The following table sets forth our condensed consolidated statements of comprehensive income (loss) data expressed as a percentage of revenue*:

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
	(as a percentage of revenue)			
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	61.3	68.4	62.0	72.3
Gross profit	38.7	31.6	38.0	27.7
Operating expenses				
Selling, general and administrative	23.6	28.0	26.0	29.5
Marketing	13.3	10.6	12.1	11.3
Restructuring	—	0.4	—	0.8
Research and development	1.8	1.8	1.8	1.8
Total operating expenses	38.6	40.8	39.9	43.4
Operating income (loss)	0.1	(9.3)	(1.9)	(15.8)
Interest and other income (expense), net	0.1	(0.1)	—	(0.1)
Income (loss) before provision for income taxes	0.2	(9.4)	(1.9)	(15.9)
Income tax provision	—	—	—	—
Net income (loss)	0.2 %	(9.4) %	(1.9) %	(15.9) %

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* Amounts may not sum due to rounding.

Comparison of the Three and Nine Months Ended September 30, 2024 and 2023

Revenue

	For the three months ended September 30,				For the nine months ended September 30,			
	2024	2023	$ change	% change	2024	2023	$ change	% change
(In thousands, except percentages)								
Revenue	$ 99,237	$ 86,169	$13,068	15.2 %	$ 278,503	$ 254,101	$ 24,402	9.6 %

Revenue was $99.2 million for the three months ended September 30, 2024, as compared to $86.2 million for the three months ended September 30, 2023. The increase of $13.1 million, or 15.2%, was primarily due to an increase in wipes revenue of $9.9 million, an increase in baby personal care revenue of $2.3 million, an increase in diaper revenue of $1.8 million and an increase in baby apparel revenue of $1.5 million, partially offset by a decline in skincare and color cosmetics revenue of $2.7 million.

Revenue was $278.5 million for the nine months ended September 30, 2024, as compared to $254.1 million for the nine months ended September 30, 2023. The increase of $24.4 million, or 9.6%, was primarily due to an increase in wipes revenue of $14.3 million, an increase in baby apparel revenue of $11.3 million and an increase in baby personal care revenue of $5.4 million, as well as lower trade spend compared to the nine months ended September 30, 2023, partially offset by a decline in skincare and color cosmetics of $6.6 million. We estimate that pricing increases taken in 2023 contributed $3.2 million, excluding price pack architecture, to revenue for the nine months ended September 30, 2024.

Cost of Revenue and Gross Profit

	For the three months ended September 30,				For the nine months ended September 30,			
	2024	2023	$ change	% change	2024	2023	$ change	% change
(In thousands, except percentages)								
Cost of revenue	$ 60,841	$ 58,964	$ 1,877	3.2 %	$ 172,613	$ 183,796	$ (11,183)	(6.1) %
Gross profit	$ 38,396	$ 27,205	$ 11,191	41.1 %	$ 105,890	$ 70,305	$ 35,585	50.6 %

Cost of revenue was $60.8 million for the three months ended September 30, 2024, as compared to $59.0 million for the three months ended September 30, 2023. The increase of $1.9 million, or 3.2%, was primarily driven by an increase in product costs related to higher sales volume, partially offset by savings in fulfillment costs mainly due to the decline in Honest.com revenue. Cost of revenue as a percentage of revenue decreased by 712 basis points primarily due to cost savings across most of the cost structure, including supply chain and product costs compared to the three months ended September 30, 2023.

Cost of revenue was $172.6 million for the nine months ended September 30, 2024, as compared to $183.8 million for the nine months ended September 30, 2023. The decrease of $11.2 million, or 6.1%, was primarily driven by lower transportation and fulfillment costs as we focus on operating discipline, as well as a one-time reduction of $3.0 million in costs as a result of the Transformation Initiative recognized during the nine months ended September 30, 2023, partially offset by an increase in product costs related to higher sales volume. Cost of revenue as a percentage of revenue decreased by 1,035 basis points primarily due to cost savings across most of the cost structure, including supply chain and product costs, price increases and lower trade promotion levels as compared to the nine months ended September 30, 2023.

Gross profit was $38.4 million for the three months ended September 30, 2024, as compared to $27.2 million for the three months ended September 30, 2023. The increase of $11.2 million, or 41.1%, was primarily related to cost savings, including reduced transportation, product and fulfillment costs, and sales volume growth.

Gross profit was $105.9 million for the nine months ended September 30, 2024, as compared to $70.3 million for the nine months ended September 30, 2023. The increase of $35.6 million, or 50.6%, was primarily related to cost savings, including reduced transportation, product and fulfillment costs, price increases, sales volume growth and efficient trade spend.

Operating Expenses

Selling, General and Administrative Expenses

	For the three months ended September 30,				For the nine months ended September 30,			
	2024	2023	$ change	% change	2024	2023	$ change	% change
(In thousands, except percentages)								
Selling, general and administrative	$ 23,427	$ 24,146	$ (719)	(3.0) %	$ 72,277	$ 74,995	$ (2,718)	(3.6) %

Selling, general and administrative expenses were $23.4 million for the three months ended September 30, 2024, as compared to $24.1 million for the three months ended September 30, 2023. The decrease of $0.7 million, or 3.0%, was primarily due to a $1.6 million decrease in stock-based compensation expense, a $0.6 million decrease in donations expense primarily related to our SKU rationalization program under the Transformation Initiative and a $0.5 million decrease in general administrative expenses, partially offset by a $2.7 million increase in legal expenses. Selling, general and administrative expenses as a percentage of revenue decreased 4.4% as compared to the three months ended September 30, 2023.

Selling, general and administrative expenses were $72.3 million for the nine months ended September 30, 2024, as compared to $75.0 million for the nine months ended September 30, 2023. The decrease of $2.7 million, or 3.6%, was primarily due to a $3.2 million decrease in donations expense primarily related to our SKU rationalization program under the Transformation Initiative, a $2.1 million decrease in general administrative expenses and a $0.5 million decrease in stock-based compensation expense, partially offset by a $2.2 million increase in service fees related to baby apparel and a $2.1 million increase in legal expenses. Selling, general and administrative expenses as a percentage of revenue decreased 3.6% as compared to the nine months ended September 30, 2023.

Marketing Expenses

	For the three months ended September 30,				For the nine months ended September 30,			
	2024	2023	$ change	% change	2024	2023	$ change	% change
(In thousands, except percentages)								
Marketing	$ 13,170	$ 9,110	$ 4,060	44.6 %	$ 33,778	$ 28,605	$ 5,173	18.1 %

Marketing expenses were $13.2 million for the three months ended September 30, 2024, as compared to $9.1 million for the three months ended September 30, 2023. The increase of $4.1 million, or 44.6%, was primarily due to a $3.3 million increase in retail marketing. Marketing expenses as a percentage of revenue increased 2.7% as compared to the three months ended September 30, 2023.

Marketing expenses were $33.8 million for the nine months ended September 30, 2024, as compared to $28.6 million for the nine months ended September 30, 2023. The increase of $5.2 million, or 18.1%, was primarily due to a $3.2 million increase in retail marketing and a $1.0 million increase in marketing agency fees. Marketing expenses as a percentage of revenue increased 0.9% as compared to the nine months ended September 30, 2023.

Research and Development Expenses

	For the three months ended September 30,				For the nine months ended September 30,			
	2024	2023	$ change	% change	2024	2023	$ change	% change
(In thousands, except percentages)								
Research and development	$ 1,742	$ 1,584	$ 158	10.0 %	$ 5,137	$ 4,638	$ 499	10.8 %

Research and development expenses were $1.7 million for the three months ended September 30, 2024, as compared to $1.6 million for the three months ended September 30, 2023. The increase of $0.2 million, or 10.0%, was primarily related to an increase in research and development spend in safety testing and related-employee expenses, consistent with our focus on continued innovation. Research and development expenses as a percentage of revenue decreased 0.08% as compared to the three months ended September 30, 2023.

Research and development expenses were $5.1 million for the nine months ended September 30, 2024, as compared to $4.6 million for the nine months ended September 30, 2023. The increase of $0.5 million, or 10.8%, was primarily related to an increase in research and development spend in safety testing, pilot trials, and related-employee expenses, consistent with our focus on continued innovation. Research and development expenses as a percentage of revenue increased 0.02% as compared to the nine months ended September 30, 2023.

Interest and Other Income (Expense), Net

	For the three months ended September 30,			For the nine months ended September 30,		
	2024	2023	$ change	2024	2023	$ change
(In thousands, except percentages)						
Interest income (expense), net	$ 94	$ (27)	$ 121	$ 75	$ (253)	$ 328
Other income (expense), net	33	(44)	77	(31)	(16)	(15)
Interest and other income (expense), net	$ 127	$ (71)	$ 198	$ 44	$ (269)	$ 313

Interest and other income (expense), net was net income of $127 thousand for the three months ended September 30, 2024, as compared to net expense of $71 thousand for the three months ended September 30, 2023.

Interest and other income (expense), net was net income of $44 thousand for the nine months ended September 30, 2024, as compared to net expense of $269 thousand for the nine months ended September 30, 2023.

Liquidity and Capital Resources

As of September 30, 2024, we had $53.4 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 and cash equivalents together with cash generated from operations will be sufficient to meet our short-term projected operations for the next 12 months from the date of issuance of our unaudited condensed consolidated financial statements. We will need to generate sufficient cash from operations or raise additional capital to meet our long-term working capital and capital expenditure needs. We also have availability under our 2023 Credit Facility, which was not drawn as of September 30, 2024.

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 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 our accounts receivable and inventory as reduced by 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 income (loss). For the three and nine months ended September 30, 2024, the commitment fee incurred was immaterial. As of September 30, 2024, there were $2.7 million of outstanding letters of credit and $30.4 million available to be drawn upon. As of September 30, 2024, there was no outstanding balance under the 2023 Credit Facility.

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, 2024, we are in compliance with all covenants under the 2023 Credit Facility.

Refer to Note 5 "Credit Facilities" included in the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q 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)	**2024**	**2023**
Net cash provided by operating activities	$ 18,366	$ 9,431
Net cash (used in) provided by investing activities	$ (184)	$ 4,095
Net cash provided by financing activities	$ 2,432	$ 60

Operating Activities

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

Net cash provided by operating activities of $18.4 million for the nine months ended September 30, 2024 was primarily due to non-cash adjustments of $22.1 million and a net increase in cash related to changes in operating assets and liabilities of $1.6 million, partially offset by a net loss of $5.3 million. Non-cash adjustments primarily consisted of stock-based compensation of $13.6 million, amortization of operating Right-of-Use ("ROU") assets of $4.8 million, utilization of marketing credits of $1.6 million and depreciation and amortization of $2.1 million. Changes in cash flows related to operating assets and liabilities primarily consisted of $6.9 million increase in accounts receivable and a $1.2 million decrease in inventory, partially offset by a $6.1 million use of cash due to operating lease obligations and a $3.6 million increase in accounts payable and accrued expenses driven by timing of payments to vendors.

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 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, partially offset by a decrease of $13.9 million in 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.

Investing Activities

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

Net cash used in investing activities of $0.2 million for the nine months ended September 30, 2024 was due to purchases of 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.

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 $2.4 million for the nine months ended September 30, 2024 consisted primarily of $2.4 million of proceeds from stock option award exercises.

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.

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) Chief Executive Officer (“CEO”) and founder and former Chief Creative Officer (“CCO”) 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 founder/CCO 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 revenue, net income (loss) 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)	**2024**	**2023**	**2024**	**2023**
Reconciliation of Net Income (Loss) to Adjusted EBITDA				
Net income (loss)	$ 165	$ (8,098)	$ (5,314)	$ (40,381)
Interest and other (income) expense, net	(127)	71	(44)	269
Income tax provision	19	35	56	75
Depreciation and amortization	706	681	2,132	2,021
Stock-based compensation	2,166	3,707	13,593	13,892
Securities litigation expense	4,089	1,374	5,759	4,325
CEO and founder/CCO transition expense(1)	—	808	858	2,085
Restructuring costs(2)	—	357	—	2,104
Payroll tax expense related to stock-based compensation	61	9	277	122
Adjusted EBITDA	$ 7,079	$ (1,056)	$ 17,317	$ (15,488)

(1) Includes sign-on bonus and relocation costs related to the appointment of our CEO and separation costs related to the termination of our former founder and CCO.
(2) See Note 12 “Restructuring” in our unaudited condensed consolidated financial statements for items included in restructuring expense.

Material Cash Requirements

As of September 30, 2024, 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.

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, 2024, there were no material changes to our critical accounting estimates from those discussed in our Annual Report.

Recent Accounting Pronouncements

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

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, 2024, 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, 2024 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 7 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:

- Our past growth may not be indicative of our future growth and we may not be able to effectively manage our future 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.
- Our future success depends, in part, on our ability to achieve our long-term strategy.
- 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 has in the past and could in the future negatively impact our sales and ability to achieve or maintain profitability.
- We may not be able to compete successfully in our highly competitive market.
- 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 are increasingly dependent on information technology and our ability to process data in order to operate and sell our products, and if we (or our third parties) are unable to protect against software and hardware vulnerabilities, service interruptions, data corruption, cyber-based attacks, ransomware or security breaches, or if we fail to comply with our commitments and assurances regarding the privacy and security of such data, we could experience adverse consequences, including but not limited to regulatory investigations or actions; litigation; fines and penalties; disruptions to our business operations; interruptions in our ability to provide our goods and services exposure to liability; reputational harm; loss of revenue or profits; loss of customers or sales; and other adverse consequences.
- 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.
- Our strategic initiatives, including as part of the Transformation Pillars, 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.
- 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 shifts in our marketing strategies and efforts may or may not be successful.
- 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.
- We have a history of net losses and we may not be able to achieve or maintain profitability in the future.
- Our business may be adversely affected if we are unable to provide our consumers with a technology platform that is able to respond and adapt to rapid changes in technology.

- A disruption in our operations could have an adverse effect on our business.
- Our business, including our costs and supply chain, is subject to risks associated with sourcing, manufacturing, warehousing, distribution and logistics, and the loss of any of our key suppliers or logistical service providers could negatively impact our business.
- 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.
- 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.
- International trade disputes and the U.S. government's trade policy could adversely affect our business.

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 ability to maintain our competitive position is largely dependent on the services of our senior management and other key personnel.

Our ability to maintain our competitive position is largely dependent on the services of our senior management and other key personnel, and the loss of their services could have an adverse effect on our business, financial condition and results of operations.

Jessica Warren departed as our Chief Creative Officer on April 9, 2024. 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 has historically been based in part on our affiliation with Jessica Warren. We had an agreement with Jessica Warren, or the Likeness Agreement, which, among other things, included a license for her likeness and imposed various obligations on us. The Likeness Agreement was terminated as part of Ms. Warren's departure from her Chief Creative Officer position. Resulting from the termination of the Likeness Agreement, we are required to remove certain licensed property from our website, digital assets, social media and Company-owned or -controlled assets, digital assets and sell existing inventory that use the licensed intellectual property on its packaging. Our obligations from the termination 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 have also historically depended on Ms. Warren's social media reach and influence to connect with consumers and provide insight on current trends. The loss of the services of Ms. Warren and the loss of our ability to use Ms. Warren's likeness, could have an adverse effect on our business, financial condition and results of operations.

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 CEO 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 and results of operations could be adversely affected.

If we fail to comply with our obligations under our existing license agreements or cannot license rights to use technologies on reasonable terms or at all, we may be unable to license rights that are critical to our business.

We license or have the right to use certain intellectual property which is critical to our business, including in connection with the Mutual Separation Agreement with Jessica Warren. If we fail to comply with any of the obligations under our license agreements or the Mutual Separation Agreement with Jessica Warren, including not selling licensed products after the agreed timeframe, we may be required to pay damages, dispose of licensed products, increase our reserves for licensed products that cannot be sold, and the licensor may have the right to terminate the license, which could adversely impact our business, financial condition and result of operations. Termination by the licensor would cause us to lose valuable rights, and could inhibit our ability to commercialize our products. If any contract interpretation disagreement were to arise, the resolution could narrow what we believe to be the scope of our rights to the relevant intellectual property or increase what we believe to be our financial or other obligations under the relevant agreement. Any of the foregoing could adversely impact our business, financial condition and results of operations.

In addition, in the future we may identify additional third-party intellectual property we may need to license in order to engage in our business, including to develop or commercialize new products. However, such licenses may not be available on acceptable terms or at all. The licensing or acquisition of third-party intellectual property rights is a competitive area, and companies with greater size and capital resources than us may pursue strategies to license or acquire third-party intellectual property rights that we may consider attractive or necessary. In addition, companies that perceive us to be a competitor may be unwilling to assign or license rights to us. Even if such licenses are available, we may be required to pay the licensor substantial royalties or other fees. If we are unable to enter into the necessary licenses on acceptable terms or at all, it could have an adverse effect on our business, financial condition, results of operations and prospects.

We may seek to grow our business through acquisitions of, or investments in, new or complementary businesses, facilities, technologies or products, or through strategic alliances, and the failure to successfully manage or execute these acquisitions, investments or alliances, or to integrate them with our existing business, could have an adverse effect on us.

From time to time we may consider opportunities to acquire or make investments in new or complementary businesses, facilities, technologies, offerings or products, or enter into strategic alliances, that may enhance our capabilities, expand our outsourcing and supplier network, complement our current products or expand the breadth of our markets.

Acquisitions, investments and other strategic alliances, including our supplier services agreement with Butterblu, involve numerous risks, including:

- problems integrating the acquired business, facilities, technologies or products, including issues maintaining uniform standards, procedures, controls and policies;
- risks associated with quality control and brand reputation;
- unanticipated costs associated with acquisitions, investments or strategic alliances;
- diversion of management's attention from our existing business;
- adverse effects on existing business relationships with suppliers, outsourced private brand manufacturing partners and retail and ecommerce partners;
- risks associated with any dispute that may arise with respect to such strategic alliance;
- risks associated with entering new markets in which we may have limited or no experience;
- potential loss of key employees of acquired businesses; and
- increased legal and accounting compliance costs.

We are currently in discussions with Butterblu regarding our respective obligations under the supplier services agreement pursuant to which Butterblu provides certain design, manufacturing, sales and marketing services to us. As part of the supplier services agreement, we have agreed to purchase and own inventory for the term of the supplier service agreement, which is until December 31, 2026, unless terminated sooner. Butterblu continues to operate and maintain our baby apparel offerings independently through the honestbabyclothing.com website under our supplier services agreement and Honest Baby Clothing sales are reflected as revenue in our consolidated statements of operations. These discussions could result in termination of the supplier services agreement prior to its termination date, potential disputes over the terms of termination, and costs to us related to the inventory we agreed to purchase and own for the term of the agreement. In addition, any loss of the relationship with Butterblu may negatively impact sales of our baby apparel, which will adversely affect our results of operations. Revenue generated from baby apparel was 11% and 11%, respectively, of our total revenue during the three months ended September 30, 2024 and 2023, and 11% and 7%, respectively, of our total revenue during the nine months ended September 30, 2024 and 2023.

Our ability to successfully grow through strategic transactions depends upon our ability to identify, negotiate, complete and integrate suitable target businesses, facilities, technologies and products and to obtain any necessary financing. These efforts could be expensive and time-consuming and may disrupt our ongoing business and prevent management from focusing on our operations. If we are unable to identify suitable acquisitions or strategic relationships, or if we are unable to integrate any acquired businesses, facilities, technologies and products effectively, our business, financial condition, results of operations and prospects could be adversely affected. Also, while we employ several different methodologies to assess potential business opportunities, the new businesses may not meet or exceed our expectations.

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 of our officers or directors entered into a 10b5-1 trading plan during the quarter ended September 30, 2024. However, during the quarter ended September 30, 2024 our officers (as defined in Rule 16a-1(f) under the Exchange Act) entered into sell-to-cover arrangements adopted pursuant to Rule 10b5-1 authorizing the pre-arranged sale of shares to satisfy tax withholding obligations of the Company arising exclusively from the vesting of time-vesting or performance-vesting restricted stock units and the related issuance of shares of Common Stock. The amount of shares of Common Stock to be sold to satisfy the Company's tax withholding obligations under these arrangements is dependent on future events which cannot be known at this time, including the future trading price of Company shares. The expiration date relating to these arrangements is dependent on future events which cannot be known at this time, including the final vest date of the applicable time-vesting or performance-vesting restricted stock units and the officer's termination of service.

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).
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 101.SCH	Inline XBRL Instance Document —the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. Inline XBRL Taxonomy Extension Schema Document
104	Cover page 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 12, 2024	By: /s/ Carla Vernón
	Carla Vernón **Chief Executive Officer and Director** *(Principal Executive Officer)*
Date: November 12, 2024	By: /s/ David Loretta
	David Loretta **Executive Vice President, Chief Financial Officer** *(Principal Financial Officer and Accounting Officer)*

Exhibit 31.1

CERTIFICATION

I, Carla Vernón, certify that:

1. I have reviewed this quarterly report on 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 12, 2024

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 quarterly report on 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 12, 2024

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, 2024 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 12, 2024

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, 2024 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 12, 2024

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.