

REFINITIV

DELTA REPORT

10-Q

ARHAUS, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

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TOTAL DELTAS 902

 CHANGES 201

 DELETIONS 355

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**
FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2023** **March 31, 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: 001-41009

Arhaus, Inc.

(Exact name of registrant as specified in its charter)

Delaware

87-1729256

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer
Identification No.)

51 E. Hines Hill Road, Boston Heights, Ohio
(Address of Principal Executive Offices)

44236

(Zip Code)

(440) 439-7700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, \$0.001 par value per share	ARHS	The Nasdaq Global Select Market

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

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

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

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

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

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

As of **October 27, 2023** **April 30, 2024** the registrant had **53,167,306** **53,241,316** shares of Class A common stock and 87,115,600 shares of Class B common stock outstanding.

Table of Contents

	Page
Part I - Financial Information	2
Item 1. Financial Statements of Arhaus, Inc. and Subsidiaries	2
Condensed Consolidated Balance Sheets (unaudited)	2
Condensed Consolidated Statements of Comprehensive Income (unaudited)	3
Condensed Consolidated Statements of Changes in Stockholders' Equity (unaudited)	4
Condensed Consolidated Statements of Cash Flows (unaudited)	65
Notes to Condensed Consolidated Financial Statements (unaudited)	86
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	1924
Item 3. Quantitative and Qualitative Disclosures About Market Risk	2731
Item 4. Controls and Procedures	2832
Part II. Other Information	3135
Item 1. Legal Proceedings	3135
Item 1A. Risk Factors	3135
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	3135
Item 3. Defaults Upon Senior Securities	3135
Item 4. Mine Safety Disclosures	3135
Item 5. Other Information	3135
Item 6. Exhibits	3237
Signatures	3338

Part I - Financial Information

Item 1. Financial Statements of Arhaus, Inc. and Subsidiaries

Arhaus, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited, amounts in thousands, except share and per share data)

	September 30, 2024	December 31, 2022		March 31, 2024	December 31, 2023
Assets	Assets				
Current assets	Current assets				
Current assets					
Current assets					
Cash and cash equivalents					
Cash and cash equivalents	\$ 236,930	\$ 145,181			
Restricted cash equivalents	3,465	7,346			
Cash and cash equivalents					

Cash and cash equivalents			
Restricted cash			
Accounts receivable, net	Accounts receivable, net	1,962	1,734
Merchandise inventory, net	Merchandise inventory, net	268,960	286,419
Prepaid and other current assets	Prepaid and other current assets	63,140	37,371
	Total current assets	574,457	478,051
Operating right-of-use assets	Operating right-of-use assets	314,378	252,055
Financing right-of-use assets	Financing right-of-use assets	39,480	38,522
Property, furniture and equipment, net	Property, furniture and equipment, net	156,632	135,066
Deferred tax asset		16,585	16,841
Deferred tax assets			
Goodwill	Goodwill	10,961	10,961
Other noncurrent assets	Other noncurrent assets	3,081	296
	Total assets	\$1,115,574	\$ 931,792
Liabilities and Stockholders' Equity			
Liabilities and Stockholders' Equity			
Current liabilities			
Current liabilities			
Current liabilities	Current liabilities		
Accounts payable	Accounts payable	\$ 58,138	\$ 62,636
Accounts payable			
Dividends payable			
Accrued taxes	Accrued taxes	13,134	12,256
Accrued wages	Accrued wages	12,015	20,860
Accrued other expenses	Accrued other expenses	47,073	35,169
Client deposits	Client deposits	212,406	202,587

	Current portion of operating lease liabilities	42,472	39,744
Current portion of financing lease liabilities	Current portion of financing lease liabilities	925	531
Total current liabilities	Total current liabilities	386,163	373,783
Operating lease liabilities, long-term	Operating lease liabilities, long-term	360,708	289,871
Financing lease liabilities, long-term	Financing lease liabilities, long-term	54,010	51,835
Deferred rent and lease incentives	Deferred rent and lease incentives	2,032	2,272
Other long-term liabilities	Other long-term liabilities	4,173	4,336
Total liabilities	Total liabilities	\$ 807,086	\$ 722,097
Commitments and contingencies (Note 9)	Commitments and contingencies (Note 9)		Commitments and contingencies (Note 9)
Stockholders' equity			
Class A shares, par value \$0.001 per share (600,000,000 shares authorized, 52,749,450 issued and 52,666,334 outstanding and 51,437,348 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively)	52	51	
Class B shares, par value \$0.001 per share (100,000,000 shares authorized, 87,115,600 shares issued and outstanding as of September 30, 2023 and December 31, 2022)	87	87	
Retained Earnings	114,076	20,053	
Additional Paid-in Capital	194,273	189,504	
Total Arhaus, Inc. stockholders' equity	308,488	209,695	
Total liabilities and stockholders' equity	\$1,115,574	\$ 931,792	
Stockholders' equity			

Class A shares, par value
\$0.001 per share (600,000,000
shares authorized, 53,361,983
shares issued and 53,241,316
outstanding as of March 31,
2024; 53,254,088 shares issued
and 53,169,711 outstanding as
of December 31, 2023)
Class A shares, par value
\$0.001 per share (600,000,000
shares authorized, 53,361,983
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outstanding as of March 31,
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shares issued and 53,241,316
outstanding as of March 31,
2024; 53,254,088 shares issued
and 53,169,711 outstanding as
of December 31, 2023)

Class B shares,
par value \$0.001
per share
(100,000,000
shares
authorized,
87,115,600
shares issued
and outstanding
as of March 31,
2024;
87,115,600
shares issued
and outstanding
as of December
31, 2023)

Retained
earnings

Additional paid-in
capital

Total Arhaus,
Inc.
stockholders'
equity

Total
liabilities and
stockholders'
equity

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

2

Arhaus, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited, amounts in thousands, except share and per share data)

Three months ended
March 31,

	2024	2023
Net revenue	\$ 295,162	\$ 304,568
Cost of goods sold	180,108	176,330
Gross margin	115,054	128,238
Selling, general and administrative expenses	96,693	82,782
Income from operations	\$ 18,361	\$ 45,456
Interest expense (income), net	(1,432)	(173)
Other income	(122)	(572)
Income before taxes	19,915	46,201
Income tax expense	4,816	12,102
Net and comprehensive income	\$ 15,099	\$ 34,099
Net and comprehensive income per share, basic		
Weighted-average number of common shares outstanding, basic		139,816,792
Net and comprehensive income per share, basic	\$ 0.11	\$ 0.25
Net and comprehensive income per share, diluted		
Weighted-average number of common shares outstanding, diluted		140,556,031
Net and comprehensive income per share, diluted	\$ 0.11	\$ 0.24

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

3

	Nine months ended September 30,		Three months ended September 30,	
	2023		2022	
	\$	943,696	\$	872,595
Net revenue	\$	943,696	\$	872,595
Cost of goods sold	544,481		505,561	
Gross margin	399,215		367,034	
Selling, general and administrative expenses	275,890		246,767	
Income from operations	\$	123,325	\$	120,267
Interest expense (income), net	(1,731)		3,367	
Other income	(738)		(584)	
Income before taxes	125,794		117,484	
Income tax expense	31,771		27,851	
Net and comprehensive income	\$	94,023	\$	89,633
Net and comprehensive income per share, basic				
Weighted-average number of common shares outstanding, basic		139,365,870		137,939,577
Net and comprehensive income per share, basic	\$ 0.67	\$ 0.65	\$ 0.14	\$ 0.27
Net and comprehensive income per share, diluted				
Weighted-average number of common shares outstanding, diluted		140,021,670		139,545,802
Net and comprehensive income per share, diluted	\$ 0.67	\$ 0.64	\$ 0.14	\$ 0.26

Arhaus, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Uncaudited, amounts in thousands)

Three Months Ended

	Total Stockholders' Equity									
	Common Stock				Treasury Stock			Equity		
	Class A		Class B		Class A					
	Shares	Amount	Shares	Amount	Shares	Amount	Retained Earnings	Additional Paid-in Capital	Total Stockholders' Equity	
Balances as of December 31, 2023	52,669	\$ 52	87,116	\$ 87	84	\$ —	\$ 145,292	\$ 194,807	\$ 340,238	
Net income	—	—	—	—	—	—	15,099	—	15,099	
Shareholder capital contribution	—	—	—	—	—	—	—	11	11	
Equity based compensation	129	1	—	—	—	—	—	2,023	2,024	
Shares withheld to cover employees' withholding taxes for equity based compensation	(37)	—	—	—	37	—	—	(540)	(540)	
Dividends declared	—	—	—	—	—	—	(71,185)	—	(71,185)	
March 31, 2024	52,761	\$ 53	87,116	\$ 87	121	\$ —	\$ 89,206	\$ 196,301	\$ 285,647	
Three Months Ended										
	Total Stockholders' Equity									
	Common Stock				Treasury Stock			Equity		
	Class A		Class B		Class A					
	Shares	Amount	Shares	Amount	Shares	Amount	Retained Earnings	Additional Paid-in Capital	Total Stockholders' Equity	
Balances as of December 31, 2022	51,437	\$ 51	87,116	\$ 87	—	\$ —	\$ 20,053	\$ 189,504	\$ 209,695	
Net income	—	—	—	—	—	—	34,099	—	34,099	
Shareholder capital contribution	—	—	—	—	—	—	—	17	17	
Equity based compensation	804	1	—	—	—	—	—	1,629	1,630	
Shares withheld to cover employees' withholding taxes for equity based compensation	(25)	—	—	—	25	—	—	(347)	(347)	
March 31, 2023	52,216	\$ 52	87,116	\$ 87	25	\$ —	\$ 54,152	\$ 190,803	\$ 245,094	

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

4

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

3

Arhaus, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Stockholders' Equity

(Unaudited, amounts in thousands)

	Nine Months Ended									
	Common Stock				Treasury Stock			Total Stockholders' Equity		
	Class A		Class B		Class A					
	Shares	Amount	Shares	Amount	Shares	Amount	Retained Earnings	Additional Paid-in Capital	Total Stockholders' Equity	

	Total Stockholders' Equity									
	Shares	Amount	Shares	Amount	Shares	Amount	Retained Earnings	Paid-in Capital		
Balances as of December 31, 2022	51,437	\$ 51	87,116	\$ 87	—	\$ —	\$ 20,053	\$ 189,504	\$ 209,695	
Net income	—	—	—	—	—	—	94,023	—	—	94,023
Shareholder capital contribution	—	—	—	—	—	—	—	42	42	42
Equity based compensation	1,312	1	—	—	—	—	—	5,751	5,752	5,752
Shares withheld to cover employees' withholding taxes for equity based compensation	(83)	—	—	—	83	—	—	(1,024)	(1,024)	(1,024)
September 30, 2023	52,666	\$ 52	87,116	\$ 87	83	\$ —	\$ 114,076	\$ 194,273	\$ 308,488	
Nine Months Ended										
	Total Stockholders' Equity									
	Common Stock			Treasury Stock			Equity			
	Class A		Class B		Class A		Retained Earnings		Total	
	Shares	Amount	Shares	Amount	Shares	Amount	(Accumulated Deficit)	Paid-in Capital	Additional	Stockholders' Equity
Balances as of December 31, 2021	50,428	\$ 50	86,519	\$ 87	—	\$ —	\$ (116,581)	\$ 186,209	\$ 69,765	
Net income	—	—	—	—	—	—	89,633	—	—	89,633
Adjustment to deferred tax asset impact of Reorganization from partnership to a corporation	—	—	—	—	—	—	—	—	(1,278)	(1,278)
Shareholder capital contribution	—	—	—	—	—	—	—	62	62	62
Equity based compensation	1,009	1	597	—	—	—	—	2,612	2,613	2,613
September 30, 2022	51,437	\$ 51	87,116	\$ 87	—	\$ —	\$ (26,948)	\$ 187,605	\$ 160,795	

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

4

Arhaus, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity (continued)
(Unaudited, amounts in thousands)

	Three Months Ended									
	Common Stock			Treasury Stock			Total Stockholders' Equity			
	Class A		Class B		Class A		Retained Earnings		Additional	
	Shares	Amount	Shares	Amount	Shares	Amount	(Accumulated Deficit)	Paid-in Capital	Additional	Stockholders' Equity
Balances as of June 30, 2023	52,345	\$ 52	87,116	\$ 87	25	\$ —	\$ 94,335	\$ 193,090	\$ 287,564	
Net income	—	—	—	—	—	—	19,741	—	—	19,741
Shareholder capital contribution	—	—	—	—	—	—	—	12	12	12
Equity based compensation	379	—	—	—	—	—	—	1,848	1,848	1,848
Shares withheld to cover employees' withholding taxes for equity based compensation	(58)	\$ —	\$ —	\$ —	58	\$ —	\$ —	\$ (677)	\$ (677)	\$ (677)
September 30, 2023	52,666	\$ 52	87,116	\$ 87	83	\$ —	\$ 114,076	\$ 194,273	\$ 308,488	
Three Months Ended										

	Total Stockholders' Equity									
	Common Stock				Treasury Stock			Total Stockholders' Equity		
	Class A		Class B		Class A		Retained Earnings (Accumulated Deficit)		Additional Paid-in Capital	
	Shares	Amount	Shares	Amount	Shares	Amount	\$	(63,884)	\$	Total Stockholders' Equity
Balances as of June 30, 2022	51,360	\$ 51	87,116	\$ 87	—	—	\$	(63,884)	\$ 187,640	\$ 123,894
Net income	—	—	—	—	—	—	\$	36,936	—	36,936
Adjustment to deferred tax asset impact of Reorganization from partnership to a corporation	—	—	—	—	—	—	\$	—	(1,278)	(1,278)
Shareholder capital contribution	—	—	—	—	—	—	\$	—	19	19
Equity based compensation	77	—	—	—	—	—	\$	—	1,224	1,224
Balances as of September 30, 2022	51,437	\$ 51	87,116	\$ 87	—	—	\$	(26,948)	\$ 187,605	\$ 160,795

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

5

Arhaus, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited, amounts in thousands)

	Three months ended March 31,	
	2024	
	2023	2023
Cash flows from operating activities		
Net income	\$ 15,099	\$ 34,099
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	8,603	6,740
Amortization of operating lease right-of-use asset	8,738	7,559
Amortization of deferred financing fees, interest on finance lease in excess of principal paid and interest on operating leases	6,233	4,640
Equity based compensation	2,024	1,630
Deferred tax assets	174	4,599
Amortization of cloud computing arrangements	310	—
Amortization and write-off of lease incentives	(80)	(80)
Insurance proceeds	—	47
Changes in operating assets and liabilities		
Accounts receivable	589	(173)
Merchandise inventory	(14,118)	(5,750)
Prepaid and other assets	(5,758)	(1,286)
Other noncurrent liabilities	18	93
Accounts payable	(4,819)	(12,625)
Accrued expenses	(5,092)	(13,346)
Operating lease liabilities	(4,207)	(10,628)
Client deposits	29,114	(4,654)
Net cash provided by operating activities	36,828	10,865
Cash flows from investing activities		
Purchases of property, furniture and equipment	(25,932)	(11,693)
Insurance proceeds	—	333

Net cash used in investing activities		(25,932)	(11,360)
Cash flows from financing activities			
Principal payments under finance leases		(221)	(65)
Repurchase of shares for payment of withholding taxes for equity based compensation		(540)	(347)
Net cash used in financing activities		(761)	(412)
Net increase (decrease) in cash, cash equivalents and restricted cash		10,135	(907)
Cash, cash equivalents and restricted cash			
Beginning of period		226,305	152,527
End of period	\$	236,440	\$ 151,620
Supplemental disclosure of cash flow information			
Interest paid in cash	\$	840	\$ 1,305
Interest received in cash		2,871	1,507
Income taxes paid in cash		991	1,246
Noncash investing activities:			
Purchase of property, furniture and equipment in current liabilities		15,250	8,025
Noncash financing activities:			
Capital contributions		11	17

	Nine months ended September 30,	
	2023	2022
Cash flows from operating activities		
Net income	\$ 94,023	\$ 89,633
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	21,439	18,319
Amortization of operating lease right-of-use asset	24,733	21,976
Amortization of deferred financing fees, interest on finance lease in excess of principal paid and interest on operating leases	16,037	8,731
Equity based compensation	5,752	2,613
Deferred tax assets	256	5,458
Amortization of cloud computing arrangements	386	—
Amortization and write-off of lease incentives	(241)	(224)
Insurance proceeds	60	—
Changes in operating assets and liabilities		
Accounts receivable	(228)	(1,550)
Merchandise inventory	17,399	(84,228)
Prepaid and other assets	(28,952)	(11,249)
Other noncurrent liabilities	273	456
Accounts payable	(4,093)	10,334
Accrued expenses	3,502	23,682
Operating lease liabilities	(28,797)	(22,586)
Client deposits	9,819	(3,128)
Net cash provided by operating activities	131,368	58,237
Cash flows from investing activities		
Purchases of property, furniture and equipment	(42,306)	(36,950)
Insurance proceeds	333	—
Net cash used in investing activities	(41,973)	(36,950)
Cash flows from financing activities		
Principal payments under finance leases	(503)	(113)

Repurchase of shares for payment of withholding taxes for equity based compensation		(1,024)	—
Net cash used in financing activities		(1,527)	(113)
Net increase (decrease) in cash, cash equivalents and restricted cash equivalents		87,868	21,174
Cash, cash equivalents and restricted cash equivalents			
Beginning of period		152,527	130,908
End of period	\$ 240,395	\$ 152,082	

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

6

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

5

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Arhaus, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (continued)
(Unaudited, amounts in thousands)

	Nine months ended September 30,	
	2023	2022
Supplemental disclosure of cash flow information		
Interest paid in cash	\$ 3,962	\$ 3,858
Interest received in cash	5,395	316
Income taxes paid in cash	28,856	20,579
Noncash operating activities:		
Lease incentives	7,313	7,532
Noncash investing activities:		
Purchase of property, furniture and equipment in accounts payable	2,756	2,661
Noncash financing activities:		
Adjustment to deferred tax asset impact of Reorganization from partnership to a corporation	—	(1,278)
Derecognition of build-to-suit assets as a result of ASC 842 adoption	—	(31,017)
Capital contributions	42	62

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

7

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Nature of Business and Basis of Presentation

Nature of Business

Arhaus, Inc. (the "Company," "we" or "Arhaus") is a Delaware corporation and is a premium retailer in the home furnishings market, specializing in livable luxury supported by heirloom quality merchandise. We offer merchandise in a number of categories, including furniture, outdoor, lighting, textiles and décor. Our curated assortments are presented across our sales channels in sophisticated, family friendly and unique lifestyle settings. We position our retail locations as Showrooms for our brand, while our website acts as a virtual extension of our Showrooms. The Company operated 86 Showrooms at September 30, 2023 as of March 31, 2024.

Basis of Presentation

The condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accompanying condensed consolidated financial statements include our accounts and those of our wholly owned subsidiaries. Accordingly, all intercompany balances and transactions have been eliminated through the consolidation process.

The accompanying condensed consolidated balance sheets at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the condensed consolidated statements of comprehensive income, and changes in stockholders' equity for the nine and three months ended September 30, 2023 and 2022, the condensed consolidated statements of cash flows for the nine three months ended September 30, 2023 March 31, 2024 and 2022 March 31, 2023 and the related interim condensed consolidated disclosures are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

In management's opinion, the accompanying condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the Company's financial position at September 30, 2023 March 31, 2024, the results of operations, and changes in stockholders' equity for the nine and three months ended September 30, 2023 and 2022 and the condensed consolidated statements of cash flows for the nine three months ended September 30, 2023 March 31, 2024 and 2022 March 31, 2023. The condensed consolidated balance sheet as of December 31, 2022 December 31, 2023 included herein was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

The results for the nine and three months ended September 30, 2023 March 31, 2024 and 2022 March 31, 2023 are not necessarily indicative of the operating results to be expected for the full fiscal year or any future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

Use of Estimates

The preparation of our condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and 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 accounting estimates and other matters included within our condensed consolidated financial statements and notes to the condensed consolidated financial statements we have assessed include, but were not limited to, revenue recognition, including a reserve for merchandise returns, inventory reserves, goodwill impairment of long-lived assets and fair value of financial instruments which include, but are not limited to, accounts receivable, payables and lease obligations.

Client Deposits

Client deposits represent payments made by clients on orders. At the time of purchase, order, the Company collects deposits for all orders equivalent to at least 50 percent of the clients' purchase price. Orders are recognized as revenue when the merchandise is delivered to the client and at the time of delivery the client deposit is no longer recorded as a liability. The

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Company expects substantially all client deposits as of **September 30, 2023** **March 31, 2024** will be recognized as net revenue within the next 12 months as the performance obligations are satisfied.

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Gift Cards

The Company sells gift cards to clients in our Showrooms and through our website. Such gift cards do not have expiration dates. We defer revenue when payments are received in advance of performance for unsatisfied obligations related to our gift cards. The liability related to unredeemed gift cards at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** of \$0.4 million and **\$1.0 million** **\$0.5 million**, respectively, is recorded in the accrued other expenses line item of the condensed consolidated balance sheets. The Company recognizes income associated with breakage proportional to actual gift card redemptions. For the **nine and three months ended September 30, 2023** **March 31, 2024** and **March 31, 2023**, breakage income was **\$0.8 million** and **\$0.1 million**, respectively. For the **nine and three months ended September 30, 2022**, breakage was minimal.

Fair Values of Financial Instruments

The Company's primary financial instruments are cash and cash equivalent investments, accounts receivable, payables, lease obligations and equity based compensation instruments. Due to the short-term maturities of cash and cash equivalent investments, accounts receivable and payables, the Company believes the fair values of these instruments approximate their respective carrying values at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**. See Note 5 — *Leases* for discussion of our lease obligations and Note 6 — *Equity Based Compensation* for discussion of our equity based compensation instruments.

The Company has established a hierarchy to measure our financial instruments at fair value, which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect the Company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. The hierarchy defines three levels of inputs that may be used to measure fair value:

- Level 1 Unadjusted quoted prices in active markets for identical, unrestricted assets and liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.
- Level 3 Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in the pricing of the asset or liability and are consequently not based on market activity but rather through particular valuation techniques.

From time to time, the Company invests in **money market funds and other** **Level 1 cash and cash equivalent investments**, **investments such as money market funds and interest-bearing checking accounts**. For the **nine and three months ended September 30, 2023** **March 31, 2024**, the Company earned **\$5.8 million** and **\$2.8 million**, respectively, in interest income. For the **nine and three months ended September 30, 2022** **March 31, 2023**, interest income was **\$0.6 million** and **\$0.1 million**, respectively. Interest income is included within interest expense (income), net on our condensed consolidated statements of comprehensive income.

Revision to Previously Issued Consolidated Financial Statements and Interim Unaudited Condensed Consolidated Financial Statements

As previously disclosed, in preparation of the December 31, 2023 consolidated financial statements, the Company identified an error within the unaudited condensed consolidated balance sheets related to certain leasehold and landlord improvements prior to showroom completion being incorrectly included in prepaid and other current assets rather than property, furniture and equipment, net. The error resulted in inaccurate cash flows ascribed to operating and investing activities in the unaudited condensed consolidated statement of cash flows and the Company concluded to revise the consolidated financial statements and interim unaudited condensed consolidated financial statements as presented below in Adjustment No.1.

In preparation of the March 31, 2024 unaudited condensed consolidated financial statements, the Company identified an additional error within the unaudited condensed consolidated balance sheets related to certain cash receipts from landlord reimbursements prior to showroom completion being incorrectly included in property, furniture and equipment, net. The error resulted in inaccurate cash flows ascribed to operating and investing activities in the unaudited condensed consolidated statement of cash flows as presented below in Adjustment No. 2.

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Prepaid The Company has evaluated the errors both quantitatively and **Other Current Assets** qualitatively and concluded they were not material, individually or in the aggregate, to the prior period consolidated financial statements and interim unaudited condensed consolidated financial statements. The Company concluded to further revise: the unaudited condensed consolidated balance sheets and unaudited condensed consolidated statements of cash flows as of and for the three months ended March 31, 2023 and 2022, and as of and for the six months ended June 30, 2023 and 2022; the unaudited condensed consolidated balance sheet as of September 30, 2022; the consolidated balance sheets as of December 31, 2023 and 2022; and the consolidated statements of cash flows for the years ended December 31, 2023, 2022 and 2021.

Prepaid and other current assets include cash paid by In connection with the revisions, the Company determined it is appropriate to correct for leasehold improvements at new (or existing, in some cases) Showroom locations. These amounts represent capital costs associated with opening new Showroom locations, a substantial portion of which is subject to recovery from certain other immaterial errors. The Company will effect the lesser upon completion. Prepaid and other current assets consist revisions of the consolidated financial statements for 2023 and 2022 within our Annual Report on Form 10-K for the fiscal year ended December 31, 2024. The Company will effect the revision of the unaudited interim condensed consolidated financial statements for the second quarter of 2023 within our Quarterly Report on Form 10-Q for the fiscal period ended June 30, 2024.

The Company has also revised impacted amounts within the accompanying notes to the unaudited condensed consolidated financial statements, as applicable.

The following tables summarize the impact of these corrections for the periods presented (amounts in thousands):

Consolidated Balance Sheet	December 31, 2023		
	As Reported	Adjustment No. 2	As Revised
Prepaid and other current assets	\$ 45,260	\$ (18,956)	\$ 26,304
Total current assets	\$ 528,251	\$ (18,956)	\$ 509,295
Property, furniture and equipment, net	\$ 210,238	\$ 10,010	\$ 220,248
Total assets	\$ 1,114,094	\$ (8,946)	\$ 1,105,148
Accrued other expenses	\$ 42,502	\$ 3,560	\$ 46,062
Current portion of operating lease liabilities	\$ 45,557	\$ (12,506)	\$ 33,051
Total current liabilities	\$ 351,293	\$ (8,946)	\$ 342,347
Total liabilities	\$ 773,856	\$ (8,946)	\$ 764,910
Total liabilities and stockholders' equity	\$ 1,114,094	\$ (8,946)	\$ 1,105,148

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Consolidated Statement of Cash Flows	Year ended		
	December 31, 2023		
	As Reported	Adjustment No. 2	As Revised
Cash flows from operating activities			
Changes in prepaid and other assets	\$ (20,721)	\$ 9,612	\$ (11,109)
Changes in operating lease liabilities	\$ (25,794)	\$ (13,226)	\$ (39,020)
Net cash provided by operating activities	\$ 172,299	\$ (3,614)	\$ 168,685

Cash flows from investing activities						
Purchases of property, furniture and equipment	\$	(97,055)	\$	3,614	\$	(93,441)
Net cash used in investing activities	\$	(96,722)	\$	3,614	\$	(93,108)
Supplemental disclosure of cash flow information						
Noncash investing activities:						
Purchase of property, furniture and equipment in current liabilities	\$	6,726	\$	3,560	\$	10,286

June 30, 2023						
Condensed Consolidated Balance Sheet	As Originally Reported		As Previously Disclosed		As Revised	
			Adjustment No. 1		Adjustment No. 2	
Prepaid and other current assets	\$	43,084	\$	(13,274)	\$	29,810
Total current assets	\$	521,047	\$	(13,274)	\$	507,773
Operating right-of-use assets	\$	309,211	\$	(7,350)	\$	301,861
Property, furniture and equipment, net		149,515		13,274		162,789
Total assets	\$	1,045,279	\$	(7,350)	\$	1,037,929
Accrued other expenses	\$	33,857	\$	—	\$	33,857
Current portion of operating lease liabilities		41,483		—		41,483
Total current liabilities	\$	344,627	\$	—	\$	344,627
Operating lease liabilities, long-term	\$	352,898	\$	(7,350)	\$	345,548
Total liabilities	\$	757,715	\$	(7,350)	\$	750,365
Total liabilities and stockholders' equity	\$	1,045,279	\$	(7,350)	\$	1,037,929

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Six months ended						
June 30, 2023						
Condensed Consolidated Statement of Cash Flows	As Originally Reported		As Previously Disclosed		As Revised	
	Adjustment No. 1		Adjustment No. 2			
Cash flows from operating activities						
Changes in prepaid and other assets	\$	(6,808)	\$	5,391	\$	(1,417)
Changes in accounts payable		(4,849)		(5,676)		(10,525)
Changes in operating lease liabilities		(17,903)		—		(17,903)
Net cash provided by operating activities	\$	61,795	\$	(285)	\$	61,510
Cash flows from investing activities						
Purchases of property, furniture and equipment	\$	(32,815)	\$	285	\$	(32,530)
Net cash used in investing activities	\$	(32,482)	\$	285	\$	(32,197)
Supplemental disclosure of cash flow information						
Noncash operating activities						
Lease incentives	\$	4,945	\$	(4,945)	\$	—

Noncash investing activities:

Purchase of property, furniture and equipment in current liabilities	\$ 456	\$ 5,676	\$ 6,132	\$ 2,410	\$ 8,542
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Condensed Consolidated Balance Sheet	March 31, 2023				
	As Originally Reported	Adjustment No. 1	As Previously Disclosed	Adjustment No. 2	As Revised
Prepaid and other current assets	\$ 44,122	\$ (10,221)	\$ 33,901	\$ (12,469)	\$ 21,432
Total current assets	\$ 489,771	\$ (10,221)	\$ 479,550	\$ (12,469)	\$ 467,081
Property, furniture and equipment, net	\$ 136,156	\$ 7,908	\$ 144,064	\$ 16,636	\$ 160,700
Other noncurrent assets	277	2,313	2,590	—	2,590
Total assets	\$ 965,886	\$ —	\$ 965,886	\$ 4,167	\$ 970,053
Accrued other expenses	\$ 33,174	\$ —	\$ 33,174	\$ 1,804	\$ 34,978
Current portion of operating lease liabilities	40,233	—	40,233	2,363	42,596
Total current liabilities	\$ 346,816	\$ —	\$ 346,816	\$ 4,167	\$ 350,983
Total liabilities	\$ 720,792	\$ —	\$ 720,792	\$ 4,167	\$ 724,959
Total liabilities and stockholders' equity	\$ 965,886	\$ —	\$ 965,886	\$ 4,167	\$ 970,053

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidated Statement of Cash Flows	Three months ended March 31, 2023				
	As Originally Reported	Adjustment No. 1	As Previously Disclosed	Adjustment No. 2	As Revised
Cash flows from operating activities					
Changes in prepaid and other assets	\$ (7,513)	\$ 3,102	\$ (4,411)	\$ 3,125	\$ (1,286)
Changes in accounts payable	(7,943)	(4,682)	(12,625)	—	(12,625)
Changes in operating lease liabilities	(12,271)	—	(12,271)	1,643	(10,628)
Net cash provided by operating activities	\$ 7,677	\$ (1,580)	\$ 6,097	\$ 4,768	\$ 10,865
Cash flows from investing activities					
Purchases of property, furniture and equipment	\$ (8,505)	\$ 1,580	\$ (6,925)	\$ (4,768)	\$ (11,693)
Net cash used in investing activities	\$ (8,172)	\$ 1,580	\$ (6,592)	\$ (4,768)	\$ (11,360)
Supplemental disclosure of cash flow information					
Noncash operating activities					
Lease incentives	\$ 741	\$ (741)	\$ —	\$ —	\$ —
Noncash investing activities:					
Purchase of property, furniture and equipment in current liabilities	\$ 1,539	\$ 4,682	\$ 6,221	\$ 1,804	\$ 8,025
December 31, 2022					

Consolidated Balance Sheet	As Originally Reported		As Previously Reported		As Revised	
		Adjustment No. 1		Adjustment No. 2		
Prepaid and other current assets	\$ 37,371	\$ (7,503)	\$ 29,868	\$ (9,344)	\$ 20,524	
Total current assets	\$ 478,051	\$ (7,503)	\$ 470,548	\$ (9,344)	\$ 461,204	
Operating right-of-use assets	\$ 252,055	\$ 5,292	\$ 257,347	\$ —	\$ 257,347	
Property, furniture and equipment, net	135,066	5,547	140,613	11,655	152,268	
Other noncurrent assets	296	1,956	2,252	—	2,252	
Total assets	\$ 931,792	\$ 5,292	\$ 937,084	\$ 2,311	\$ 939,395	
Accrued other expenses	\$ 35,169	\$ —	\$ 35,169	\$ 1,591	\$ 36,760	
Current portion of operating lease liabilities	39,744	(494)	39,250	720	39,970	
Total current liabilities	\$ 373,783	\$ (494)	\$ 373,289	\$ 2,311	\$ 375,600	
Operating lease liabilities, long-term	\$ 289,871	\$ 5,786	\$ 295,657	\$ —	\$ 295,657	
Total liabilities	\$ 722,097	\$ 5,292	\$ 727,389	\$ 2,311	\$ 729,700	
Total liabilities and stockholders' equity	\$ 931,792	\$ 5,292	\$ 937,084	\$ 2,311	\$ 939,395	

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Consolidated Statement of Cash Flows	Year ended December 31, 2022					
	As Originally Reported		As Previously Reported		As Revised	
	Adjustment No. 1	Adjustment No. 2				
Cash flows from operating activities						
Changes in prepaid and other assets	\$ (9,329)	\$ 2,442	\$ (6,887)	\$ (267)	\$ (7,154)	
Changes in accounts payable	14,014	(3,718)	10,296	—	10,296	
Changes in operating lease liabilities	(33,682)	—	(33,682)	4,551	(29,131)	
Net cash provided by operating activities	\$ 74,454	\$ (1,276)	\$ 73,178	\$ 4,284	\$ 77,462	
Cash flows from investing activities						
Purchases of property, furniture and equipment	\$ (52,658)	\$ 1,276	\$ (51,382)	\$ (4,284)	\$ (55,666)	
Net cash used in investing activities	\$ (52,658)	\$ 1,276	\$ (51,382)	\$ (4,284)	\$ (55,666)	
Supplemental disclosure of cash flow information						
Noncash operating activities						
Lease incentives	\$ 4,312	\$ (4,312)	\$ —	\$ —	\$ —	\$ —
Noncash investing activities:						
Purchase of property, furniture and equipment in current liabilities	\$ 3,160	\$ 3,718	\$ 6,878	\$ 1,591	\$ 8,469	

Prepaid advertising	3,760	816
Prepaid cloud computing arrangements, net ⁽¹⁾	2,845	—
Other current assets	5,288	4,488
Total prepaid and other current assets	\$ 63,140	\$ 37,371

Condensed Consolidated Balance Sheet	September 30, 2022				
	As Originally Reported	Adjustment No. 1	As Previously Disclosed	Adjustment No. 2	As Revised
Prepaid and other current assets	\$ 35,867	\$ (5,772)	\$ 30,095	\$ (11,298)	\$ 18,797
Total current assets	\$ 482,298	\$ (5,772)	\$ 476,526	\$ (11,298)	\$ 465,228
Operating right-of-use assets	\$ 224,921	\$ 7,092	\$ 232,013	\$ —	\$ 232,013
Property, furniture and equipment, net	\$ 128,783	\$ 4,249	\$ 133,032	\$ 7,246	\$ 140,278
Other noncurrent assets	\$ 235	\$ 1,523	\$ 1,758	\$ —	\$ 1,758
Total assets	\$ 907,208	\$ 7,092	\$ 914,300	\$ (4,052)	\$ 910,248
Accrued other expenses	\$ 33,756	\$ —	\$ 33,756	\$ 1,044	\$ 34,800
Current portion of operating lease liabilities	\$ 39,248	\$ 680	\$ 39,928	\$ (5,096)	\$ 34,832
Total current liabilities	\$ 423,986	\$ 680	\$ 424,666	\$ (4,052)	\$ 420,614
Operating lease liabilities, long-term	\$ 263,753	\$ 6,412	\$ 270,165	\$ —	\$ 270,165
Total liabilities	\$ 746,413	\$ 7,092	\$ 753,505	\$ (4,052)	\$ 749,453
Total liabilities and stockholders' equity	\$ 907,208	\$ 7,092	\$ 914,300	\$ (4,052)	\$ 910,248

⁽¹⁾Presented net

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidated Balance Sheet	June 30, 2022				
	As Originally Reported	Adjustment No. 1	As Previously Disclosed	Adjustment No. 2	As Revised
Prepaid and other current assets	\$ 29,509	\$ (5,264)	\$ 24,245	\$ (10,390)	\$ 13,855
Total current assets	\$ 455,100	\$ (5,264)	\$ 449,836	\$ (10,390)	\$ 439,446
Property, furniture and equipment, net	\$ 116,620	\$ 4,105	\$ 120,725	\$ 5,891	\$ 126,616
Other noncurrent assets	\$ 249	\$ 1,159	\$ 1,408	\$ —	\$ 1,408
Total assets	\$ 877,032	\$ —	\$ 877,032	\$ (4,499)	\$ 872,533
Accrued other expenses	\$ 26,718	\$ —	\$ 26,718	\$ 777	\$ 27,495
Current portion of operating lease liabilities	\$ 37,624	\$ —	\$ 37,624	\$ (5,276)	\$ 32,348
Total current liabilities	\$ 426,659	\$ —	\$ 426,659	\$ (4,499)	\$ 422,160
Total liabilities	\$ 753,138	\$ —	\$ 753,138	\$ (4,499)	\$ 748,639
Total liabilities and stockholders' equity	\$ 877,032	\$ —	\$ 877,032	\$ (4,499)	\$ 872,533

Condensed Consolidated Statement of Cash Flows	Six months ended June 30, 2022					
	As Originally Reported		As Previously Disclosed		As Revised	
	Adjustment No. 1	Adjustment No. 2				
Cash flows from operating activities						
Changes in prepaid and other assets	\$ (5,095)	\$ 4,520	\$ (575)	\$ 779	\$ 204	
Changes in accounts payable	15,197	(321)	14,876	—	14,876	
Changes in operating lease liabilities	(15,401)	—	(15,401)	(1,445)	(16,846)	
Net cash provided by operating activities	\$ 41,110	\$ 4,199	\$ 45,309	\$ (666)	\$ 44,643	
Cash flows from investing activities						
Purchases of property, furniture and equipment	\$ (20,355)	\$ (4,199)	\$ (24,554)	\$ 666	\$ (23,888)	
Net cash used in investing activities	\$ (20,355)	\$ (4,199)	\$ (24,554)	\$ 666	\$ (23,888)	
Supplemental disclosure of cash flow information						
Noncash operating activities						
Lease incentives	\$ 4,494	\$ (4,494)	\$ —	\$ —	\$ —	
Noncash investing activities:						
Purchase of property, furniture and equipment in current liabilities	\$ 1,673	\$ 321	\$ 1,994	\$ 777	\$ 2,771	

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidated Balance Sheet	March 31, 2022					
	As Originally Reported		As Previously Disclosed		As Revised	
	Adjustment No. 1	Adjustment No. 2				
Prepaid and other current assets	\$ 31,013	\$ (5,060)	\$ 25,953	\$ (9,015)	\$ 16,938	
Total current assets	\$ 435,116	\$ (5,060)	\$ 430,056	\$ (9,015)	\$ 421,041	
Operating right-of-use assets	\$ 196,896	\$ 3,071	\$ 199,967	\$ —	\$ 199,967	
Property, furniture and equipment, net	107,581	4,083	111,664	8,823	120,487	
Other noncurrent assets	264	977	1,241	—	1,241	
Total assets	\$ 814,189	\$ 3,071	\$ 817,260	\$ (192)	\$ 817,068	
Accrued other expenses	\$ 20,946	\$ —	\$ 20,946	\$ 717	\$ 21,663	
Current portion of operating lease liabilities	37,957	(138)	37,819	(909)	36,910	
Total current liabilities	\$ 444,885	\$ (138)	\$ 444,747	\$ (192)	\$ 444,555	
Operating lease liabilities, long-term	\$ 227,191	\$ 3,209	\$ 230,400	\$ —	\$ 230,400	
Total liabilities	\$ 727,645	\$ 3,071	\$ 730,716	\$ (192)	\$ 730,524	
Total liabilities and stockholders' equity	\$ 814,189	\$ 3,071	\$ 817,260	\$ (192)	\$ 817,068	
Three months ended March 31, 2022						

Condensed Consolidated Statement of Cash Flows	As Originally Reported	Adjustment No. 1	As Previously Disclosed	Adjustment No. 2	As Revised
Cash flows from operating activities					
Changes in prepaid and other assets	\$ (3,016)	\$ 1,628	\$ (1,388)	\$ (596)	\$ (1,984)
Changes in accounts payable	8,680	(2,247)	6,433	—	6,433
Changes in operating lease liabilities	(11,485)	—	(11,485)	2,922	(8,563)
Net cash provided by operating activities	\$ 35,219	\$ (619)	\$ 34,600	\$ 2,326	\$ 36,926
Cash flows from investing activities					
Purchases of property, furniture and equipment	\$ (10,151)	\$ 619	\$ (9,532)	\$ (2,326)	\$ (11,858)
Net cash used in investing activities	\$ (10,151)	\$ 619	\$ (9,532)	\$ (2,326)	\$ (11,858)
Supplemental disclosure of cash flow information					
Noncash investing activities:					
Purchase of property, furniture and equipment in current liabilities	\$ 108	\$ 2,247	\$ 2,355	\$ 717	\$ 3,072

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Consolidated Statement of Cash Flows	Year ended December 31, 2021				
	As Originally Reported	Adjustment No. 1	As Previously Reported	Adjustment No. 2	As Revised
Cash flows from operating activities					
Changes in prepaid and other assets	\$ (3,621)	\$ (8,673)	\$ (12,294)	\$ 3,590	\$ (8,704)
Changes in accounts payable	17,595	(3,088)	14,507	—	14,507
Changes in deferred rent and lease incentives	4,518	5,352	9,870	(2,074)	7,796
Net cash provided by operating activities	\$ 146,243	\$ (6,409)	\$ 139,834	\$ 1,516	\$ 141,350
Cash flows from investing activities					
Purchases of property, furniture and equipment	\$ (47,870)	\$ 6,409	\$ (41,461)	\$ (1,516)	\$ (42,977)
Net cash used in investing activities	\$ (47,870)	\$ 6,409	\$ (41,461)	\$ (1,516)	\$ (42,977)
Supplemental disclosure of cash flow information					
Noncash operating activities					
Lease incentives	\$ 5,352	\$ (5,352)	\$ —	\$ —	\$ —
Noncash investing activities:					
Purchase of property, furniture and equipment in current liabilities	\$ 5,968	\$ 3,088	\$ 9,056	\$ 363	\$ 9,419

As previously disclosed, these errors also resulted in the restatement of amortization expense the unaudited condensed consolidated balance sheet and statement of \$1.2 million cash flows as of and for the nine months ended September 30, 2023 and the revision of the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2022.

2. Recently Issued Accounting Standards

New Accounting Standards Adopted in Fiscal 2023/2024

We did not adopt any. The Company adopted Accounting Standards Updates ("ASU") 2023-01 — Leases (Topic 842): Common Control Arrangements in the **nine** three months ended **September 30, 2023** that had **March 31, 2024**. We believe the adoption of ASU 2023-01 did not have a material impact on our accounting policies or our condensed consolidated financial statements, statements and related disclosures.

Accounting Standards Not Yet Adopted

The following table summarizes accounting pronouncements which we have not yet adopted but will be adopted in the upcoming fiscal year. ASU 2023-01 2023-07 is effective for annual periods beginning after December 15, 2023. We believe the adoption will not have a material impact on our accounting policies, financial position or results of operations but could require additional disclosures. ASU 2023-09 is effective for annual periods beginning after December 15, 2024. We believe the adoption will not have a material impact on our consolidated accounting policies, financial statements and related position or results of operations but could require additional disclosures.

ASU	Description	Adoption Date
ASU 2023-01 2023-07	Segment Reporting (Topic 280): Improvements Income Taxes (Topic 842) 740: Common Control Arrangements Improvements to Income Tax	Leases Fiscal Year 2024
ASU 2023-09	Disclosures	January 1, 2024 Fiscal Year 2025

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

3. Merchandise Warranties

The Company warrants certain merchandise to be free of defects in both construction materials and workmanship from the date the performance obligation was fulfilled to the client for three to ten years depending on the merchandise category. The Company accounts for merchandise warranties by accruing an estimated liability when we recognize revenue on the sale of warranted merchandise. We estimate future warranty claims based on claim experience which includes materials and labor costs to perform the repairs or replace products. We use judgment in making our estimates. We record differences between our estimated and actual costs when the differences are known.

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

A reconciliation of the changes in our limited merchandise warranty liability is as follows (amounts in thousands):

	Nine months ended		Three months ended		
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	
Three months ended					Three months ended
	March 31, 2024			March 31, 2024	March 31, 2023
Balance as of beginning of period	Balance as of beginning of period				
	\$6,375	\$4,724	\$6,578	\$5,412	

Accruals	Accruals				
during the period	during the period	10,292	8,285	3,543	3,181
Settlements	Settlements				
during the period	during the period	(9,854)	(7,152)	(3,308)	(2,736)
Balance as of end of the period ⁽¹⁾	Balance as of end of the period ⁽¹⁾	\$6,813	\$5,857	\$6,813	\$5,857

⁽¹⁾ \$3.9 million and \$3.7 million were recorded in accrued other expenses at September 30, 2023 March 31, 2024 and December 31, 2022 March 31, 2023, respectively. The remainder is recorded in other long-term liabilities on our condensed consolidated balance sheets.

We recorded accruals during the periods presented in the table above, primarily to reflect charges that relate to limited merchandise warranties issued during the respective periods.

4. Long-Term Debt

On November 8, 2021, the Company entered into a revolving credit facility (the "2021 Credit Facility"). The 2021 Credit Facility provides for, among other things, (1) a revolving credit facility in an aggregate amount not to exceed at any time outstanding the amount of such lender's commitment, (2) a letter of credit commitment in an amount equal to the lesser of (a) \$10.0 million, and (b) the amount of the revolving credit facility as of such date, and (3) a swingline loan in an amount equal to the lesser of (a) \$5.0 million, and (b) the amount of the revolving credit facility as of such date. The aggregate amount of all commitments of all lenders under the 2021 Credit Facility was initially \$50.0 million. The 2021 Credit Facility contains restrictive covenants and has certain financial covenants, including a minimum rent-adjusted total leverage ratio and a minimum fixed charge ratio. The 2021 Credit Facility bears variable interest rates at the prevailing Bloomberg Short-Term Bank Yield index rate plus the applicable margin (1.50% (1.50% at September 30, 2023 March 31, 2024 and 2022), 1.50% at March 31, 2023), whereas the applicable margin is adjusted quarterly based on the Company's consolidated rent-adjusted total leverage ratio.

On December 9, 2022, the Company amended the 2021 Credit Facility to increase the revolving credit commitment thereunder by \$25.0 million. After giving effect to such increase, the aggregate amount of all commitments under the 2021 Credit Facility is \$75.0 million. The 2021 Credit Facility expires on November 8, 2026.

At September 30, 2023 March 31, 2024 and December 31, 2022 2023, we had no borrowings on the 2021 Credit Facility. Deferred financing costs related to the 2021 Credit Facility of \$0.4 million \$0.4 million and \$0.4 million as of March 31, 2024 and December 31, 2023, respectively, are recorded in other noncurrent assets on the condensed consolidated balance sheets and will be amortized over the term of the 2021 Credit Facility on a straight-line basis. Accumulated amortization related to deferred financing costs for the 2021 Credit Facility was \$0.1 \$0.2 million as of September 30, 2023 March 31, 2024 and December 31, 2022 \$0.1 million as of December 31, 2023.

The Company was in compliance with all applicable debt covenants at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, and expects to remain in compliance over the next 12 months.

5. Leases

The Company leases real estate and equipment under operating and finance leases, some of which are from related parties as discussed in Note 10 — *Related Party Transactions*. The most significant obligations under these lease agreements

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

require the payments of periodic rentals, real estate taxes, insurance and maintenance costs. Depending on particular Showroom leases, the Company can also owe a percentage rent payment if particular Showrooms meet certain sales figures.

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The following table summarizes the amounts recognized in our condensed consolidated balance sheets related to leases as of September 30, 2023 and December 31, 2022, respectively (amounts in thousands):

		Condensed Consolidated Balance Sheet Classification		September 30, 2023	December 31, 2022	Condensed Consolidated Balance Sheet Classification			March 31, 2024	December 31, 2023
Assets	Assets									
Operating lease assets										
Operating lease assets										
Operating lease assets	Operating lease assets	Operating right-of-use assets		\$ 314,378	\$ 252,055					
Finance lease assets	Finance lease assets	Financing right-of-use assets		39,480	38,522					
Total leased assets	Total leased assets			\$ 353,858	\$ 290,577					
Liabilities		Liabilities								
Liabilities										
Current operating leases										
Current operating leases										
Current operating leases	Current operating leases	Current portion of operating lease liabilities		\$ 42,472	\$ 39,744					
Non-current operating leases	Non-current operating leases	Operating lease liabilities, long-term		360,708	289,871					
Total operating lease liabilities	Total operating lease liabilities			403,180	329,615					
Current finance leases	Current finance leases	Current portion of financing lease liabilities		925	531					
Current finance leases										
Current finance leases										

Non-current finance leases	Non-current finance leases	Financing lease liabilities, long-term	54,010	51,835
Total finance lease liabilities	Total finance lease liabilities		54,935	52,366
Total lease liabilities	Total lease liabilities		<u>\$ 458,115</u>	<u>\$ 381,981</u>

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The components of lease cost recognized within our condensed consolidated statements of comprehensive income for the nine and three months ended September 30, 2023 and 2022, respectively are as follows (amounts in thousands):

Condensed Consolidated Income Statement Classification	Nine months ended September 30,		Three months ended September 30,		Three months ended March 31,
	2023	2022	2023	2022	
	Condensed Consolidated Statements of Comprehensive Income Classification				
Lease costs:					
Operating lease costs	Operating lease costs	Cost of goods sold	\$35,691	\$25,798	
Operating lease costs	Operating lease costs	Selling, general and administrative expenses	7,375	4,743	
Operating lease costs			2,518	1,955	
Finance lease costs	Finance lease costs				Condensed Consolidated Statements of Comprehensive Income Classification
					2024 2023
Amortization of right-of-use assets					
Amortization of right-of-use assets					

Amortization of right-of-use assets	Amortization of right-of-use assets	Selling, general and administrative expenses	1,838	1,516	758	540
Interest expense on lease liabilities	Interest expense on lease liabilities	Interest expense (income), net	3,852	3,758	1,316	1,270
Variable lease costs ⁽¹⁾	Variable lease costs ⁽¹⁾	Cost of goods sold	28,474	26,764	9,327	9,961
Short term lease costs	Short term lease costs	Selling, general and administrative expenses	165	507	29	170
Total lease costs	Total lease costs		\$77,395	\$63,086	\$29,263	\$22,612

⁽¹⁾ Includes \$0.4 million for the three months ended March 31, 2024. For the three months ended March 31, 2023, there were no month-to-month lease costs. For the three months ended March 31, 2023, total lease costs includes \$0.3 million of month-to-month lease costs for the nine months ended September 30, 2023. The Company did not have month-to-month lease costs for the nine and three months ended September 30, 2022 or the three months ended September 30, 2023.

We often have options to renew lease terms for Showrooms and other assets. The exercise of lease renewal options is generally at our sole discretion. In addition, certain lease agreements may be terminated prior to their original expiration date at our discretion. We evaluate each renewal and termination options option at the lease commencement date to determine if we are reasonably certain to exercise the option on the basis of economic factors. The table below summarizes the weighted average remaining lease terms are as of September 30, 2023 and 2022, respectively, follows:

Three months ended March 31,				Three months ended March 31,			
Weighted Average	Weighted Average	Remaining Lease Term (In Years)	Weighted Average Remaining Lease Term (In Years)	2024	2023		
Operating leases	Operating leases	September 30, 2023	9.36	8.59	Operating leases	9.24	9.32
Finance leases	Finance leases	September 30, 2022	21.02	22.66	Finance leases	20.66	22.26

The When readily available, we use the discount rate implicit within our finance leases was the lease as determined at the time of lease commencement. However, the discount rate implicit within many of our operating leases is generally not determinable at the time of lease commencement and therefore the Company determines the discount rate based on its incremental borrowing rate. For all operating leases in which the discount rate was not explicit, the Company utilized a market-based approach to estimate the incremental borrowing rate ("IBR"), IBR, which required significant judgment. The Company estimated the base IBR based on an analysis of (i) yields on the Company's 2021 Credit Facility, as well as comparable companies and (ii) unsecured yields and discount rates. The Company applied adjustments to the base IBRs to account for full collateralization and lease term. The table below summarizes the weighted average discount rate rates used to measure our lease liabilities are as of September 30, 2023 and 2022, respectively, follows:

Three months ended March 31,				Three months ended March 31,			
Weighted Average	Weighted Average	Discount Rate	Discount Rate	2024	2023		
Operating leases	Operating leases	September 30, 2023	5.95 %	4.39 %	Operating leases	6.04 %	5.80 %
Finance leases	Finance leases	September 30, 2022	9.63 %	9.72 %	Finance leases	9.64 %	9.72 %

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Future lease liabilities at **September 30, 2023** **March 31, 2024** are as follows (amounts in thousands):

Year Ending December 31,	Year Ending December 31,	Operating Lease Liabilities			Year Ending December 31,	Operating Lease Liabilities ⁽¹⁾	Finance Lease Liabilities	Total Lease Liabilities
		Lease Liabilities	Finance Lease Liabilities	Total Lease Liabilities				
Remainder of 2023		\$ 15,087	\$ 1,533	\$ 16,620				
2024		65,235	5,789	71,024				
Remainder of 2024								
2025	2025	61,351	5,789	67,140				
2026	2026	57,135	6,249	63,384				
2027	2027	53,341	6,060	59,401				
2028	2028	48,173	5,610	53,783				
2029								
Thereafter	Thereafter	237,142	109,943	347,085				
Total lease payments	Total lease payments	537,464	140,973	678,437				
Less: Amounts representing interest	Less: Amounts representing interest	(134,284)	(86,038)	(220,322)				
Total	Total	\$403,180	\$ 54,935	\$458,115				

⁽¹⁾ Includes leases with related parties. See Note 10 — *Related Party Transactions* for amounts leased from related parties.

At **September 30, 2023** **March 31, 2024**, the Company has entered into leases for Showrooms and equipment which have not yet commenced with expected lease terms ranging from 3 to **17** **13** years. The aggregate minimum rental payments over the term of the leases of approximately **\$148.3 million** **\$151.4 million** are not included in the above table.

Supplemental cash flow information related to leases for the nine months ended September 30, 2023 and 2022, respectively is as follows (amounts in thousands):

		Nine months ended September 30,			
		2023	2022		
		Three months ended		Three months ended	
		March 31,		March 31,	
		2024	2024	2023	
Cash paid for amounts included in the measurement of lease liabilities:	Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows for operating leases					
Operating cash flows for operating leases					
Operating cash flows for operating leases					
Operating cash flows for operating leases					
		\$ 41,759	\$ 35,587		

Operating cash flows for finance leases	Operating cash flows for finance leases	3,642	3,758
Financing cash flows for finance leases	Financing cash flows for finance leases	503	113
Right-of-use assets obtained in exchange for lease obligations:	Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	Operating leases	\$ 86,459	\$43,474
Operating leases	Operating leases		
Finance leases	Finance leases	2,813	2,018

6. Equity Based Compensation

The following tables summarize the activity/Activity of the Company's Restricted Stock for the nine months ended September 30, 2023 and the related equity based compensation expense for are summarized in the nine following tables (amounts in thousands, except share and three months ended September 30, 2023 and 2022, respectively (dollars in thousands) per share data):

Restricted Stock - Class A		Restricted Stock - Class A			
		Weighted	Average	Grant	Date Fair
		Amount	Value		
Unvested at					
December 31, 2022	1,510,269	\$ 6.94			
Restricted Stock - Class A		Restricted Stock - Class A			
	Amount	Weighted Average Grant Date Fair Value			
Unvested at					
December 31, 2023					
Granted	Granted	—	—		
Forfeited	Forfeited	—	—		
Vested	Vested	(1,009,965)	2.71		
Unvested at					
September 30, 2023	500,304	\$ 15.47			
Unvested at March 31, 2024					

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

	Nine months ended September 30,		Three months ended September 30,	
	2023	2022	2023	2022
Equity based compensation expense - Restricted Stock ⁽¹⁾	\$ 2,028	\$ 2,073	\$ 668	\$ 684
Three months ended				
			March 31,	
			2024	2023
Equity based compensation expense - Restricted Stock ⁽¹⁾	\$ 660	\$ 698		

⁽¹⁾ Total unrecognized equity based compensation to be recognized in future periods is \$6.8 \$5.5 million at **September 30, 2023** **March 31, 2024**, and will be recognized over a weighted average period of 2.65 2.16 years. Equity based compensation expense is recorded within selling, general and administrative expenses on our condensed consolidated statements of comprehensive income.

The Arhaus, Inc. 2021 Equity Incentive Plan (the "2021 Plan") was adopted on November 8, 2021. The 2021 Plan authorizes the Company the ability to grant stock options (either incentive or non-qualified), stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), performance shares, performance share units ("PSUs") and other stock-based awards with respect to our Class A common stock to our employees, officers, consultants, advisors and directors. The maximum number of Class A common stock that may be granted under the 2021 Plan is 11,205,100 shares.

As of September 30, 2023, Per the Company has granted RSUs 2021 Equity Plan, each RSU and PSUs to certain named executive officers and other key employees ("Award Recipient"). The Company has also issued RSU awards to certain members of the Board of Directors.

Each RSU PSU represents a contingent right to receive one share of the Company's Class A common stock upon vesting. The RSUs granted to Award Recipient award recipients vest in one-third increments on each of the first, second and third anniversary of the date of grant, provided that the Award Recipient award recipient continues to serve the Company through the applicable vesting date ("Continuous Service"). If the Award Recipient's award recipient's Continuous Service terminates for any reason other than death, disability or in connection with a change in control (as such terms are defined in the 2021 Plan), unless the Compensation Committee of the Board of Directors determines otherwise, all RSUs that are unvested at the time of such termination shall be forfeited and canceled immediately without consideration. RSU and PSU awards contain forfeitable rights to dividend equivalents. Dividend equivalents for outstanding awards are accrued when dividends are declared on the Company's common stock but are not paid until the awards vest, and dividend equivalents accrued for awards that ultimately do not vest are forfeited. The RSUs issued to certain members of the Board of Directors will vest on the one-year anniversary of the grant date. The Company accounts for forfeitures as they occur.

Each PSU represents a contingent right to receive one share of the Company's Class A common stock upon vesting. The number of PSUs earned will be based on the Company's financial performance as measured against pre-established target goals for cumulative demand revenue and cumulative adjusted EBITDA (the "Performance Goals") over the applicable performance period. PSUs will vest as of the end of the performance period subject to the Award Recipient's award recipient's Continuous Service, but will not settle and payout until the number of PSUs earned is determined by the Compensation Committee. The Award Recipient award recipient may earn between 0% and 200% of the PSU target award based on the Company's achievement of the Performance Goals. The Company accounts for forfeitures as they occur.

The following table summarizes the activity Activity of the Company's PSU and RSU awards for the nine months ended September 30, 2023, and their related equity based compensation expense for are summarized in the nine following tables (amounts in thousands, except share and three months ended September 30, 2023 and 2022, respectively (dollars in thousands) per share data):

	PSU Awards		RSU Awards	
	Weighted		Weighted	
	Average		Average	
	Grant		Grant	
	Date Fair		Date Fair	
	Amount	Value	Amount	Value
Unvested at				
December 31, 2022	513,125	\$ 5.95	731,661	\$ 5.84
PSU Awards				
Amount		PSU Awards		RSU Awards
Unvested			Amount	Weighted Average Grant Date Fair Value
at				
December				
31, 2023				
Granted	Granted	281,163	9.47	468,483
Forfeited	Forfeited	(89,336)	7.20	(82,368)
			7.18	7.18

Vested	Vested	—	—	(302,137)	5.75
Unvested at September 30, 2023		704,952	\$ 7.20	815,639	\$ 7.58
Unvested at March 31, 2024					

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

		Nine months ended September 30,	Three months ended September 30,	Nine months ended September 30,	Three months ended September 30,
		2023	2022	2023	2022
Three months ended					
March 31,					
	2024		2024		2023
Equity based compensation expense - PSUs ⁽¹⁾	Equity based compensation expense - PSUs ⁽¹⁾	\$1,662	\$238	\$417	\$238
Equity based compensation expense - RSUs ⁽²⁾	Equity based compensation expense - RSUs ⁽²⁾	\$2,062	\$302	\$763	\$302

(a) Total unrecognized equity based compensation for the PSUs to be recognized in future periods is \$4.2 \$2.6 million at September 30, 2023 March 31, 2024, and will be recognized over a weighted average period of 1.74 1.31 years. Equity based compensation expense is recorded within selling, general and administrative expenses on our condensed consolidated statements of comprehensive income.

(b) Total unrecognized equity based compensation for the RSUs to be recognized in future periods is \$5.1 \$6.7 million at September 30, 2023 March 31, 2024, and will be recognized over a weighted average period of 2.07 2.16 years. Equity based compensation expense is recorded within selling, general and administrative expenses on our condensed consolidated statements of comprehensive income.

7. Segment Reporting

Our chief operating decision maker is our Chief Executive Officer ("CEO"), who reviews financial information presented on a consolidated basis for purposes of making decisions, assessing financial performance and allocating resources. We operate our business as one operating segment and therefore we have one reportable segment that offers an assortment of merchandise across a number of categories, including furniture, outdoor, lighting, textiles, and décor. The assortment of merchandise can be purchased through our retail Retail and eCommerce merchandise sales channels.

The majority of our net revenue is generated through sales to clients in the United States. Sales to clients outside of the United States are not significant. Further, no single client represents more than ten percent or more of our net revenue.

The following table shows net Net revenue by merchandise sales channel is as follows (amounts in thousands):

	Three months ended	
	March 31,	
	2024	2023
Retail	\$ 243,255	\$ 250,102
eCommerce	51,907	54,466
Total net revenue	\$ 295,162	\$ 304,568

8. Net and Comprehensive Income per Share

Basic and diluted net and comprehensive income per share for the nine and three months ended September 30, 2023 March 31, 2024 and March 31, 2023, was calculated by dividing net and comprehensive income by the number of basic and diluted weighted-average common shares outstanding. The Company has elected to not adjust net and 2022, respectively (amounts in thousands) comprehensive income for forfeitable dividend equivalents, when declared, related to unvested equity awards. The Company will recognize dividends paid on common shares when the dividend equivalents are no longer forfeitable, such as if the contingency is met or the share-based payment awards vest into common shares.

	Nine months ended September 30,		Three months ended September 30,	
	2023		2022	
	Retail	\$ 768,624	\$ 727,953	\$ 261,786
eCommerce		175,072	144,642	64,443
Total net revenue		\$ 943,696	\$ 872,595	\$ 326,229
				\$ 320,030

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

8. Net and Comprehensive Income per Share

Basic and diluted net and comprehensive income per share for the nine and three months ended September 30, 2023 and 2022, was calculated by dividing net and comprehensive income by the number of basic and diluted weighted average common shares outstanding.

Basic and diluted net and comprehensive income per share for the nine and three months ended September 30, 2023 and 2022, is as follows (amounts in thousands, except share and per share data):

	Nine months ended		Three months ended			
	September 30,		September 30,			
	2023	2022	2023	2022		
Three months ended		Three months ended		March 31,		
March 31,		2024		2024		
Numerator	Numerator				2023	
Net and comprehensive income						
Net and comprehensive income						
Net and comprehensive income	\$ 94,023	\$ 89,633	\$ 19,741	\$ 36,936		
Denominator—Weighted						
Average Shares Outstanding						
Average Shares Outstanding						
Denominator—Weighted						
Average Shares Outstanding						
Denominator—Weighted						
Average Shares Outstanding						

Weighted-average number of common shares outstanding, basic	Weighted-average number of common shares outstanding, basic	139,365,870	137,939,577	139,628,776	138,484,495
Effect of dilutive restricted stock ⁽¹⁾	655,800	1,606,225	512,123	1,360,838	
Weighted-average number of common shares outstanding, basic					
Weighted-average number of common shares outstanding, basic					
Effect of dilutive restricted stock					
^{(1) (2)}					
Weighted-average number of common shares outstanding, diluted	Weighted-average number of common shares outstanding, diluted	140,021,670	139,545,802	140,140,899	139,845,333
Net and Comprehensive Income Per Share	Net and Comprehensive Income Per Share				
Net and comprehensive income per share, basic					
Net and comprehensive income per share, basic					
Net and comprehensive income per share, basic	Net and comprehensive income per share, basic	\$ 0.67	\$ 0.65	\$ 0.14	\$ 0.27
Net and comprehensive income per share, diluted	Net and comprehensive income per share, diluted	\$ 0.67	\$ 0.64	\$ 0.14	\$ 0.26

⁽¹⁾ During the nine and three months ended **September 30, 2023** **March 31, 2024**, **736,173** and **416,123** **412,487** shares of unvested restricted stock and RSUs were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive, respectively, anti-dilutive. During the nine and three months ended **September 30, 2022** **March 31, 2023**, **594,312** and **546,164** **547,370** shares of unvested restricted stock and RSUs were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive, respectively, anti-dilutive.

⁽²⁾ Excluded from the calculation of the effect of dilutive restricted stock as of three months ended **March 31, 2024** and **March 31, 2023**, were **540,335** and **768,013** PSUs, respectively, because they did not meet the required performance criteria.

9. Commitments and Contingencies

The Company is involved in litigation and claims that are incidental to its business. Although the outcome of these matters cannot be determined at the present time, management of the Company believes that the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

From time to time, the Company has received inquiries from a number of state and local taxing agencies with respect to the remittance of sales, use, telecommunications, excise, and income taxes. Several jurisdictions are currently conducting tax audits of the Company's records. The Company collects, or has accrued for, taxes that it believes are required to be remitted. The amounts that have been remitted have historically been within the accruals established by the Company. The Company adjusts its accrual when facts relating to specific exposures warrant such adjustment. As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, we recorded liabilities of **\$0.3 million** **\$0.2 million** and **\$0.4 million** **\$0.2 million**, respectively, in accrued taxes other expenses on the condensed consolidated balance sheets for non-income tax matters that were probable and reasonably estimable.

In August 2023, the Company committed to make a \$10.0 million donation to The Nature Conservancy. For the nine and three months ended September 30, 2023, the Company recorded expense of \$10.0 million and \$10.0 million, respectively, within selling, general and administrative expenses on our condensed consolidated statements of comprehensive income. As of September 30, 2023 March 31, 2024, we recorded have a liability remaining commitment of \$10.0 million \$5.0 million in accrued other expense on our condensed consolidated balance sheets.

On February 29, 2024, the Board of Directors of the Company declared a special cash dividend on the Company's Class A and Class B common stock of \$0.50 per share, payable April 4, 2024, to shareholders of record at the close of business on March 21, 2024 (the "Record Date"). As of March 31, 2024, we recorded \$70.6 million in current liabilities and \$0.6 million in other long-term liabilities on our condensed consolidated balance sheet.

The Company paid out the aforementioned special cash dividend in April 2024 on its Class A and Class B common stock in the amount of \$69.9 million. The remaining dividends payable balance recorded in current liabilities on our condensed consolidated balance sheet relates to dividend equivalents on outstanding equity awards under the Company's equity incentive plans that were unvested as of the Record Date and are expected to vest within the next 12 months.

Arhaus, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

10. Related Party Transactions

Leasing transactions

In November 2000, the Company entered into a lease agreement with Pagoda Partners, LLC, a company of which John Reed, our CEO, indirectly owns 50%, for our warehouse in Walton Hills, Ohio. The base lease term was 17 years with a 5-year renewal option. In August 2020, the Company amended the lease agreement to extend the lease term to April 2024. The monthly rental payments are \$0.1 million. In July 2023, the Company amended the lease agreement to extend the lease term to April 2034 with one additional 5-year renewal option. The monthly rental payments range from \$0.1 million to \$0.2 million. Rent expense was \$1.1 million and \$1.0 million for the nine months ended September 30, 2023 and 2022, respectively. Rent expense was \$0.4 million \$0.4 million and \$0.3 million for the three months ended September 30, 2023 March 31, 2024 and 2022, March 31, 2023, respectively.

In July 2010, the Company entered into a lease agreement with Brooklyn Arhaus, a company of which our CEO and Mr. Beargie, a Director of the Company, own 85% and 15%, respectively, for our Outlet in Brooklyn, Ohio. The base lease term is 15 years with no lease renewal options. The monthly rental payments are \$20 thousand. Rent expense was \$0.2 million and \$0.2 million for the nine months ended September 30, 2023 and 2022, respectively. Rent expense was \$0.1 million and \$0.1 million for the three months ended September 30, 2023 March 31, 2024 and 2022, March 31, 2023, respectively.

In March 2021, the Company entered into a lease agreement with Premier Conover, LLC, a company of which our CEO indirectly owns 40%, for a distribution center and manufacturing building, for which construction was completed in the fourth quarter of 2021. The base lease term is for 12 years, with a 10-year renewal option and two additional 5-year renewal options at the higher of the minimum base rent or the fair market rent at the time of renewal execution. The monthly rental payments range from \$0.2 million to \$0.3 million during the 12-year base lease term and from \$0.4 million to \$0.5 million during the 10-year renewal period. Rent expense was \$3.0 million and \$2.8 million for the nine months ended September 30, 2023 and 2022, respectively. Rent expense was \$1.0 million and \$1.0 million for the three months ended September 30, 2023 March 31, 2024 and 2022, March 31, 2023, respectively.

Other transactions

The accounts payable due to related parties for state and federal income tax refunds were \$2.4 million \$0.2 million and \$1.8 million \$2.3 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively, and are included within accounts payable on the condensed consolidated balance sheets.

11. Income Taxes

Income tax expenses were \$31.8 million \$4.8 million and \$27.9 million in the nine months ended September 30, 2023 and 2022, respectively. Income tax expenses were \$5.3 million and \$9.6 million \$12.1 million in the three months ended September 30, 2023 March 31, 2024 and 2022, March 31, 2023, respectively. The effective tax rate was 25.3% 24.2% and 23.7% for the nine months ended September 30, 2023 and 2022, respectively. The effective tax rate was 21.2% and 20.6% 26.2% for the three months ended September 30, 2023 March 31, 2024 and 2022, March 31, 2023, respectively.

As of September 30, 2023 March 31, 2024, no unrecognized tax benefits have been recognized. The Company files income tax returns in the U.S. and various state and local jurisdictions. The tax years after 2018 2019 remain open to examination by the state taxing jurisdictions in which the Company is subject to tax. As of September 30, 2023 March 31, 2024, the Company was not under examination by the Internal Revenue Service or any state tax jurisdiction.

[Table of Contents](#)

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 the related notes included elsewhere in this Form 10-Q and our Annual Report on Form 10-K for the year ended **December 31, 2022** December 31, 2023. This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or are proven incorrect, could cause our business and results of operations to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements can generally be identified by the use of forward-looking terminology, including, but not limited to, "may," "could," "seek," "guidance," "predict," "potential," "likely," "believe," "will," "expect," "anticipate," "estimate," "plan," "intend," "believe," "forecast," or variations of these terms and similar expressions, or the negative of these terms or similar expressions. Past performance is not a guarantee of future results or returns and no representation or warranty is made regarding future performance. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results, performance or achievements to be materially different from the expected results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following:

- Our ability to manage and maintain the growth rate of our business;
- Our ability to obtain quality merchandise in sufficient quantities;
- Disruption in our receiving and distribution system, including delays in the integration of our new distribution centers and the possibility that we may not realize the anticipated benefits of multiple distribution centers;
- The possibility of cyberattacks and our ability to maintain adequate cybersecurity systems and procedures;
- Loss, corruption and misappropriation of data and information relating to clients and employees;
- Changes in and compliance with applicable data privacy rules and regulations;
- Risks as a result of constraints in our supply chain;
- A failure of our vendors to meet our quality standards;
- Declines in general economic conditions that affect consumer confidence and consumer spending that could adversely affect our revenue;
- Our ability to anticipate changes in consumer preferences;
- Risks related to maintaining and increasing Showroom traffic and sales;
- Our ability to compete in our market;
- Our ability to adequately protect our intellectual property;
- Compliance with applicable governmental regulations;
- Effectively managing our eCommerce business and digital marketing efforts;
- Our reliance on third-party transportation carriers and risks associated with freight and transportation costs;
- The COVID-19 pandemic and its effect on our business; and
- Compliance with SEC rules and regulations as a public reporting company.

The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements include, but are not limited to, those discussed under Item 1A. Risk Factors, Item 7. Management's Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in our Annual Report on Form 10-K for the year ended **December 31, 2022** December 31, 2023. All forward-looking statements included in this document are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements. These statements are based on information available to us as of the date of this Form 10-Q. While we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The following discussion contains references to the nine and three months ended **September 30, 2023** March 31, 2024 and **2022** March 31, 2023, which represents the condensed consolidated financial results of Arhaus, Inc. and subsidiaries for the nine and three months ended **September 30, 2023** March 31, 2024 and **2022** March 31, 2023, respectively.

Revision of Previously Issued Condensed Consolidated Financial Statements

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" has been revised to give effect to the revision of our condensed consolidated balance sheets and condensed consolidated statements of cash flows, as more fully described in Note 1 - *Nature of Business and Basis of Presentation* to the Notes to Condensed Consolidated Financial Statements.

Overview

Arhaus is a rapidly growing lifestyle brand and premium retailer in the U.S. home furnishings market, specializing in livable luxury supported by globally-sourced, heirloom-quality merchandise. We offer a differentiated direct-to-consumer approach to furniture and décor. Our curated assortments are presented across our sales channels in sophisticated, family friendly and unique lifestyle settings. We offer merchandise assortments across a number of categories, including furniture,

Table of Contents

outdoor, lighting, textiles, décor, and outdoor décor. Our products, designed to be used and enjoyed throughout the home, are sourced directly from factories and vendors with no wholesale or dealer markup, allowing us to offer an exclusive assortment at an attractive value. Our direct sourcing network consists of more than 400 vendors, some of whom we

have had relationships with since our founding. Our product development teams work alongside our direct sourcing partners to bring to market proprietary merchandise that is a great value to clients, while delivering attractive margins.

We believe in providing a dynamic and welcoming experience in our Showrooms and online with the conviction that retail is theater. Our national omni-channel business positions our retail locations as Showrooms for our brand, while our website acts as a virtual extension of our Showrooms. Our theater-like Showrooms are highly inspirational and function as an invaluable brand awareness vehicle. Our seasoned sales associates and in-home designers provide expert advice and assistance to our client base that drives significant client engagement. Our omni-channel model allows clients to begin or end their shopping journey online, while also experiencing our theater-like Showrooms throughout the shopping journey.

We have one reportable segment as of September 30, 2023. At September 30, 2023 March 31, 2024, we operated 86 92 Showrooms, 71 80 with in-home interior designers. At December 31, 2022 December 31, 2023, we operated 81 92 Showrooms, 65 78 with in-home interior designers.

		September 30, 2023	December 31, 2022			
		March 31, 2024		March 31, 2024		December 31, 2023
Traditional showrooms		74	72			
Traditional Showrooms						
Design Studios	Design Studios	8	6	80		80
Outlets	Outlets	4	3	4		4
Total Showroom locations	Total Showroom locations	86	81			
Total square footage (in thousands)	Total square footage (in thousands)	1,371	1,308			

For the nine three months ended September 30, 2023 March 31, 2024, we generated \$943.7 million \$295.2 million of net revenue, \$399.2 115.1 million of gross margin and \$94.0 million of net and comprehensive income. For the three months ended September 30, 2023, we generated \$326.2 million of net revenue, \$130.9 million of gross margin and \$19.7 million \$15.1 million of net and comprehensive income.

How We Assess the Performance of Our Business

In addition to U.S. GAAP results, this Form 10-Q contains references to the non-GAAP financial measures below. We use these non-GAAP measures to help assess the performance of our business, identify trends affecting our business, formulate business plans and make strategic decisions. In addition to our results determined in accordance with U.S. GAAP, we believe that providing these non-GAAP financial measures are is useful to our investors as they present an informative supplemental view of our results from period to period by removing the effect of non-recurring items.

The non-GAAP financial measures presented herein are specific to us and may not be comparable to similar measures disclosed by other companies because of differing methods used by other companies in calculating them. These measures are also not intended to be measures of free cash flow for management's discretionary use, as they do not reflect tax payments, debt service requirements and certain other cash costs that may recur in the future, including, among other things, cash requirements for working capital needs. Management compensates for these limitations by relying on our U.S. GAAP results in addition to using these non-GAAP financial measures. The non-GAAP financial measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. We consider the following financial and operating measures that affect our results of operations:

Net Revenue and Demand. Net revenue is recognized when a client obtains control of the merchandise. We also track demand in our business which is a key performance indicator linked to the level of client orders placed. Demand is an operating metric that we use to measure the dollar value of orders (based on purchase price) at the time the order is placed, net of the dollar value of cancellations and returns (based on unpaid purchase price and amount credited to client). These orders are recognized as net revenue when a client obtains control of the merchandise. Because demand is measured net of cancellations, all demand will eventually become net revenue, with appropriate reserves, when delivered to the client.

Comparable Growth. Comparable growth is the year-over-year percentage change of the dollar value of orders delivered (based on purchase price), net of the dollar value of returns (based on amount credited to client), from comparable Showrooms and eCommerce, including through our catalogs and other mailings. This metric is a key performance indicator used by management to evaluate Showroom performance for locations that have been opened for at least 15 consecutive months, which enables management to view the performance of those Showrooms without the dollar value of orders delivered for new Showrooms being included. Comparable Showrooms are defined as permanent Showrooms open for at least 15 consecutive months.

Table of Contents

least 15 consecutive months, including relocations in the same market. Showrooms record demand immediately upon opening, while orders delivered take additional time because product must be delivered to the client. The dollar value of orders delivered for Outlet comparable locations is included.

Demand Comparable Growth. Demand comparable growth is the year-over-year percentage change of demand from our comparable Showrooms and eCommerce, including through our catalogs and other mailings. This metric is a key performance indicator used by management to evaluate Showroom demand performance for locations that have been opened for at least 13 consecutive months, which enables management to view the performance of those Showrooms without new Showroom demand included. For demand purposes, comparable Showrooms are defined as permanent Showrooms open for at least 13 consecutive months, including relocations in the same market. Outlet comparable location demand is included.

Demand comparable growth provides insight into business levels in a particular period by comparing the dollar value of orders (based on purchase price) placed in that period to the prior comparable period. Although these orders do not result in net revenue until the order is delivered at a later point in time, management utilizes this metric to evaluate core performance.

Comparable growth is an additional measure that management utilizes to compare the dollar value of orders delivered (based on purchase price) in a period compared to the prior comparable period. Since delivery generally coincides with recognition of net revenue, with appropriate reserves, comparable growth trends will more closely track trends in reported net revenue than demand comparable growth trends. While increases or decreases in demand comparable growth will translate into increases or decreases in comparable growth over time, the trends do not necessarily correlate in any particular period. This is partially due to the general lag in time between when an order is placed and when an order is delivered. When the time gap from order to delivery increases, due to supply chain challenges for example, it may take longer for comparable growth to reflect demand comparable growth. Notwithstanding these limitations, management considers it useful to assess both measures together to get a more complete picture of overall performance trends, and believes these measures can be useful to investors for the same purpose, when viewed together with our reported results and other metrics.

Gross Margin. Gross margin is equal to our net revenue less cost of goods sold. Cost of goods sold includes the direct cost of purchased merchandise, inventory shrinkage, reserves, inbound freight, all freight costs to get merchandise to our Showrooms, credit card fees, design, buying and allocation costs, our supply chain, such as product development and sourcing, occupancy costs related to Showroom operations, such as rent and common area maintenance for our leases, depreciation and amortization of leasehold improvements, equipment and other assets in our Showrooms. In addition, cost of goods sold includes all logistics costs associated with shipping product to our clients, partially offset by delivery fees collected from clients (recorded in net revenue on the condensed consolidated statements of comprehensive income).

Selling, General and Administrative Expenses. Selling, general and administrative or ("SG&A, &A") expenses include all operating costs not included in cost of goods sold. These expenses include payroll and payroll related expenses, Showroom expenses other than occupancy and expenses related to many of our operations at our distribution centers and corporate headquarters, including marketing, information technology, legal, human resources, utilities and depreciation and amortization expense. Payroll includes both fixed compensation and variable compensation. Variable compensation includes Showroom commissions and Showroom bonus compensation related to demand, likely before the client obtains control of the merchandise. Variable compensation is not significant in our eCommerce channel. All new Showroom opening expenses, other than occupancy, are included in SG&A expenses and are expensed as incurred. We expect certain of these expenses to continue to increase as we open new Showrooms, develop new product categories and otherwise pursue our current business initiatives. SG&A expenses as a percentage of net revenue are usually higher in lower-volume quarters and lower in higher-volume quarters because a significant portion of the costs are relatively fixed.

EBITDA. We define EBITDA as consolidated net income before depreciation and amortization, interest expense (income), net and income tax expense.

Adjusted EBITDA. We believe that adjusted EBITDA is a useful measure of operating performance as the adjustments eliminate items that we believe are not reflective of underlying operating performance in a particular period. Adjusted

EBITDA facilitates a comparison of our operating performance on a consistent basis from period-to-period and provides for a more complete understanding of factors and trends affecting our business.

Because adjusted EBITDA omits certain non-cash items and items that we believe are not reflective of underlying operating performance in a particular period, we feel that it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and can be more reflective of our operating performance in a

[Table of Contents](#)

particular period. We also use adjusted EBITDA as a method for planning and forecasting overall expected performance and for evaluating, on a quarterly and annual basis, actual results against such expectations.

The following is a reconciliation of our net and comprehensive income to EBITDA and adjusted EBITDA for the periods presented: presented (in thousands):

(In thousands)	Three months			
	Nine months ended		ended September	
	September 30,	30,	2023	2022
Net income	\$ 94,023	\$ 89,633	\$ 19,741	\$ 36,936

		Three months ended March 31, 2024		Three months ended March 31, 2023	
Net and comprehensive income					
Interest expense	Interest expense				
(income), net	(income), net	(1,731)	3,367	(1,080)	751
Income tax expense	Income tax expense	31,771	27,851	5,297	9,568
Depreciation and amortization	Depreciation and amortization	21,439	18,319	7,299	6,324
EBITDA	EBITDA	145,502	139,170	31,257	53,579
Equity based compensation	Equity based compensation	5,752	2,613	1,848	1,224
Other expenses ⁽¹⁾	Other expenses ⁽¹⁾	992	6,567	555	1,909
Other expenses ⁽¹⁾	Other expenses ⁽¹⁾				
Adjusted EBITDA	Adjusted EBITDA	\$ 152,246	\$148,350	\$33,660	\$56,712

⁽¹⁾Other expenses represent costs and investments not indicative of ongoing business performance, such as public offering costs, third-party consulting costs, one-time project start-up costs, severance, signing bonuses and recruiting and project-based strategic initiatives costs. For the nine and three months ended September 30, 2023, these expenses largely consisted of \$0.7 million and \$0.6 million of public offering costs, respectively. For the nine and three months ended September 30, 2022 March 31, 2023, these expenses consisted largely of \$4.6 million \$0.3 million of severance, signing bonuses and \$1.6 million recruiting costs and \$0.1 million of costs related to the opening and set-up of our Dallas distribution center, respectively, public offering costs.

Factors Affecting the Comparability of our Results of Operations

Our results over the past two years have been affected by the following events, which must be understood in order to assess the comparability of our period-to-period financial performance and condition.

Showroom Openings and Closings

New Showrooms contribute incremental expense, new Showroom opening expense and net revenue to the Company. In the nine months ended September 30, 2023, we opened seven Showrooms and closed two Showrooms. The two Showroom closures Our recent showroom growth from January 1, 2023 to March 31, 2024 is summarized in the nine months ended September 30, 2023, were related to relocations. During following table:

	March 31, 2024	December 31, 2023
Showrooms open at beginning of period	92	81
Showrooms opened ⁽¹⁾	2	14
Showrooms closed for relocations	(2)	(3)
Showrooms closed permanently	—	—
Showrooms open at end of period	92	92

⁽¹⁾Showrooms opened during the year ended December 31, 2022, we opened four Showrooms respective periods includes both new and closed two relocated Showrooms. Of the two Showroom closures in 2022, one was related to relocation in 2022.

Results of Operations

The following tables summarize key components of our results of operations for the periods indicated. The following discussion should be read in conjunction with our condensed consolidated financial statements and related notes.

Statement of

Condensed Consolidated Statements of Comprehensive Income Data: Data (in thousands):

(In thousands)	Nine months ended September 30,		Three months ended September 30,	
	2023	2022	2023	2022
Net revenue	\$ 943,696	\$ 872,595	\$ 326,229	\$ 320,030
Cost of goods sold	544,481	505,561	195,372	183,739
Gross margin	399,215	367,034	130,857	136,291
Selling, general and administrative expenses	275,890	246,767	106,977	89,145
Income from operations	123,325	120,267	23,880	47,146
Interest expense (income), net	(1,731)	3,367	(1,080)	751
Other income	(738)	(584)	(78)	(109)
Income before taxes	125,794	117,484	25,038	46,504
Income tax expense	31,771	27,851	5,297	9,568
Net and comprehensive income	\$ 94,023	\$ 89,633	\$ 19,741	\$ 36,936

[Table of Contents](#)

	Three months ended	
	March 31,	
	2024	2023
Net revenue	\$ 295,162	\$ 304,568
Cost of goods sold	180,108	176,330
Gross margin	115,054	128,238
Selling, general and administrative expenses	96,693	82,782
Income from operations	18,361	45,456
Interest expense (income), net	(1,432)	(173)
Other income	(122)	(572)
Income before taxes	19,915	46,201
Income tax expense	4,816	12,102
Net and comprehensive income	\$ 15,099	\$ 34,099

Other Operational Data: Data (dollars in thousands):

(Dollars in thousands)	Nine months ended		Three months ended		Three months ended March 31,	
	September 30,	2023	September 30,	2022		
Three months ended						
	March 31,					
	2024					
Net revenue	Net revenue	\$ 943,696	\$ 872,595	\$ 326,229	\$ 295,162	\$ 304,568
Comparable growth	Comparable growth	4.8	% 53.5	% (2.1)	% 54.3	% Comparable growth
Demand comparable growth	Demand comparable growth	9.6	% 15.1	% 11.7	% 15.8	% Demand comparable growth
Gross margin as a % of net revenue	Gross margin as a % of net revenue	42.3	% 42.1	% 40.1	% 42.6	% Gross margin as a % of net revenue
Selling, general and administrative expenses as a % of net revenue	Selling, general and administrative expenses as a % of net revenue	29.2	% 28.3	% 32.8	% 27.9	Selling, general and administrative expenses % as a % of net revenue

Income from operations as a % of net revenue	Income from operations as a % of net revenue	13.1	% 13.8	% 7.3	% 14.7	Income from operations as a % of net revenue	6.2	%	14.9	%
Net and comprehensive income	Net and comprehensive income	\$ 94,023	\$ 89,633	\$ 19,741	\$ 36,936	Net and comprehensive income	\$ 15,099	\$	34,099	
Net and comprehensive income as a % of net revenue	Net and comprehensive income as a % of net revenue	10.0	% 10.3	% 6.1	% 11.5	Net and comprehensive income as a % of net revenue	5.1	%	11.2	%
Adjusted EBITDA ⁽¹⁾	Adjusted EBITDA ⁽¹⁾	\$ 152,246	\$ 148,350	\$ 33,660	\$ 56,712	Adjusted EBITDA ⁽¹⁾	\$ 29,110	\$	54,835	
Adjusted EBITDA as a % of net revenue	Adjusted EBITDA as a % of net revenue	16.1	% 17.0	% 10.3	% 17.7	Adjusted EBITDA as a % of net revenue	9.9	%	18.0	%
Total Showrooms at end of period	Total Showrooms at end of period	86	80	86	80	Total Showrooms at end of period	92		82	

⁽¹⁾ See "How We Assess the Performance of Our Business," for a definition of adjusted EBITDA and a reconciliation of adjusted EBITDA to net and comprehensive income.

Comparison of the nine three months ended September 30, 2023 March 31, 2024 and 2022 March 31, 2023

Net Revenue

Net revenue increased \$71.1 million decreased \$9.4 million, or 8.1% 3.1%, to \$943.7 million \$295.2 million in the nine three months ended September 30, 2023 March 31, 2024 compared to \$872.6 million \$304.6 million in the nine three months ended September 30, 2022 March 31, 2023. The increase decrease was driven primarily by increased the non-recurrence of prior year abnormal backlog deliveries and a weather-related impact on deliveries in January, partially offset by favorable demand for our products in both Showrooms and eCommerce, versus prior year.

Comparable growth was 4.8% in the nine months ended September 30, 2023 compared to 53.5% in the nine months ended September 30, 2022. Demand comparable growth was 9.6% in the nine months ended September 30, 2023 compared to 15.1% in the nine months ended September 30, 2022.

Gross Margin

Gross margin increased \$32.2 million decreased \$13.2 million, or 8.8% 10.3%, to \$399.2 million \$115.1 million in the nine three months ended September 30, 2023 March 31, 2024 compared to \$367.0 million \$128.2 million in the nine three months ended September 30, 2022 March 31, 2023. Gross Lower gross margin improvement was primarily driven by the increase decrease in net revenue partially offset by and increased variable expense related to the higher revenue, including \$16.1 million of increased product costs, \$8.6 million of increased delivery and transportation costs, \$8.4 million of increased fixed Showroom costs and \$3.2 million of increased credit card fees related to demand. \$4.0 million.

As a percentage of net revenue, gross margin increased 20 decreased 310 basis points to 42.3% 39.0% of net revenue in the nine three months ended September 30, 2023 March 31, 2024 compared to 42.1% of net revenue in the nine three months ended September 30, 2022 March 31, 2023. The gross margin increase decrease as a percentage of net revenue was primarily the result of favorable product higher Showroom costs, contributing 100 which increased 160 basis points, to the gross margin improvement. This was partially offset by deleverage on fixed expenses of 50 basis points and higher fixed Showroom, delivery and transportation costs, and credit card fees, which together increased 80 40 basis points as a percentage of net revenue. points.

Selling, General and Administrative Expenses

SG&A expenses increased \$29.1 million \$13.9 million, or 11.8% 16.8%, to \$275.9 million \$96.7 million in the nine three months ended September 30, 2023 March 31, 2024 compared to \$246.8 million \$82.8 million in the nine three months ended September 30, 2022 March 31, 2023. The increase in SG&A expenses was primarily driven by a \$15.0 million increase in corporate expenses to support the growth of the business, an \$11.7 million \$6.6 million increase in selling expenses related to new Showrooms and higher demand strength, a \$5.6 million increase in corporate expenses due to strategic investments, including supply chain and a \$10.0 million donation technology improvements, and increased warehouse expense of \$1.4 million as our Dallas location continues to The Nature Conservancy, partially offset by a \$5.8 million decrease in warehouse expenses.increase productivity.

As a percentage of net revenue, SG&A expenses increased 90 560 basis points to 29.2% 32.8% of net revenue in the nine three months ended September 30, 2023 March 31, 2024 compared to 28.3% 27.2% of net revenue in the nine three months ended September 30, 2022 March 31, 2023.

Table of Contents

Interest expense (income) Expense (Income), net

Interest expense (income), net decreased increased \$5.1 million for the nine months ended September 30, 2023 March 31, 2024 compared to the nine months ended September 30, 2022 March 31, 2023, primarily due to an increase in interest income earned on money market fund investments of \$5.2 million, interest-bearing checking accounts.

Income Taxes

Income tax expense was \$31.8 million in the nine months ended September 30, 2023 compared to \$27.9 million in the nine months ended September 30, 2022. Our effective tax rate was 25.3% and 23.7% for the nine months ended September 30, 2023 and 2022, respectively.

Net and Comprehensive Income

Net and comprehensive income increased \$4.4 million to \$94.0 million in the nine months ended September 30, 2023 compared to \$89.6 million in the nine months ended September 30, 2022. The increase was driven by the factors described above.

Comparison of the three months ended September 30, 2023 and 2022

Net Revenue

Net revenue increased \$6.2 million, or 1.9%, to \$326.2 million was \$4.8 million in the three months ended September 30, 2023 March 31, 2024 compared to \$320.0 million \$12.1 million in the three months ended September 30, 2022.

Comparable growth was (2.1)% in the three months ended September 30, 2023 compared to 54.3% in the three months ended September 30, 2022. Demand comparable growth was 11.7% in the three months ended September 30, 2023 compared to 15.8% in the three months ended September 30, 2022.

Gross Margin

Gross margin decreased \$5.4 million, or 4.0%, to \$130.9 million in the three months ended September 30, 2023 compared to \$136.3 million in the three months ended September 30, 2022 March 31, 2023. The change in gross margin decrease was primarily due to product cost increases of lower income before taxes. Our effective tax rate was \$4.5 million primarily driven by the sale of price-actioned products that were receipted with high container costs, higher fixed Showroom costs of \$4.0 million and \$2.6 million of increased delivery and transportation costs.

As a percentage of net revenue, gross margin decreased 250 basis points to 40.1% of net revenue in the three months ended September 30, 2023 compared to 42.6% of net revenue in the three months ended September 30, 2022. The gross margin decrease as a percentage of net revenue was primarily the result of higher fixed Showroom costs which increased 110 basis points and higher product, delivery and transportation costs, which together increased 130 basis points as a percentage of net revenue.

Selling, General and Administrative Expenses

SG&A expenses increased \$17.8 million, or 20.0%, to \$107.0 million in the three months ended September 30, 2023 compared to \$89.1 million in the three months ended September 30, 2022.

The increase in SG&A expenses was primarily driven by a 24.2% \$10.0 million donation to The Nature Conservancy, \$5.7 million of increased selling expenses primarily related to new Showrooms and higher demand and a \$3.1 million increase in corporate expenses to support the growth of the business.

As a percentage of net revenue, SG&A expenses increased 490 basis points to 32.8% of net revenue in the three months ended September 30, 2023 compared to 27.9% of net revenue in the three months ended September 30, 2022.

Interest expense (income), net

Interest expense (income), net decreased \$1.8 million 26.2% for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, primarily due to an increase in interest income earned on money market fund investments of \$1.9 million.

Table of Contents

Income taxes

Income taxes were \$5.3 million in the three months ended September 30, 2023 compared to \$9.6 million in the three months ended September 30, 2022. Our effective tax rate was 21.2% March 31, 2024 and 20.6% for the three months ended September 30, 2023 and 2022, 2023, respectively.

Net and Comprehensive Income

Net and comprehensive income decreased \$17.2 million \$19.0 million to \$19.7 million \$15.1 million in the three months ended September 30, 2023 March 31, 2024 compared to \$36.9 million \$34.1 million in the three months ended September 30, 2022 March 31, 2023. The decrease was driven by the factors described above.

Liquidity and Capital Resources

Liquidity Outlook

Our primary cash needs have historically been for merchandise inventories, payroll, marketing catalogs, Showroom rent, capital expenditures associated with opening new Showrooms and updating existing Showrooms, as well as the development of our infrastructure and information technology. We seek out and evaluate opportunities for effectively

managing and deploying capital in ways that improve working capital and support and enhance our business initiatives and strategies. As of **September 30, 2023** **March 31, 2024**, we had cash and cash equivalents of **\$236.9 million** **\$233.2 million**.

In November 2021, the Company entered into a revolving credit facility (the "2021 Credit Facility"). The 2021 Credit Facility provides for, among other things, (1) a revolving credit facility in an aggregate amount not to exceed at any time outstanding the amount of such lender's commitment, (2) a letter of credit commitment in an amount equal to the lesser of (a) \$10.0 million, and (b) the amount of the revolving credit facility as of such date, and (3) a swingline loan in an amount equal to the lesser of (a) \$5.0 million, and (b) the amount of the revolving credit facility as of such date. The aggregate amount of all commitments of all lenders under the 2021 Credit Facility was initially \$50.0 million. The 2021 Credit Facility contains restrictive covenants and has certain financial covenants, including a minimum rent-adjusted total leverage ratio and a minimum fixed charge ratio. The 2021 Credit Facility bears variable interest rates at the prevailing Bloomberg Short-Term Bank Yield index rate plus the applicable margin (1.50% at September 30, 2023 and 2022), whereas the applicable margin is adjusted quarterly based on the Company's consolidated rent-adjusted total leverage ratio.

On December 9, 2022, the Company amended the 2021 Credit Facility to increase the revolving credit commitment thereunder by \$25.0 million. After giving effect to such increase, the aggregate amount of all commitments under the 2021 Credit Facility is \$75.0 million. The 2021 Credit Facility expires on November 8, 2026. At September 30, 2023, we had no borrowings on the 2021 Credit Facility.

For the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, our principal sources of liquidity were cash flows from operations. We believe our operating cash flows will be sufficient to meet working capital requirements and fulfill other capital needs for at least the next 12 months, although we may enter into borrowing arrangements in the future.

While we do not require debt to fund our operations, our goal continues to be to position the Company to take advantage of the many opportunities that we may identify in connection with our business and operations. We have pursued in the past, and may pursue in the future, additional strategies to generate capital to pursue opportunities and investments, including new debt financing arrangements. In addition to funding the normal operations of our business, we have used our liquidity to fund investments and strategies such as **growth initiatives, including supply chain expansion and growth initiatives, technology improvements**. In addition, our needs and uses of capital may change in the future due to changes in our business or new opportunities that we choose to pursue.

Capital expenditures

Historically, As of March 31, 2024, we have invested significant capital expenditures no material off-balance sheet arrangements.

On February 29, 2024, the Board of Directors of the Company declared a special cash dividend on the Company's Class A and Class B common stock of \$0.50 per share, payable April 4, 2024, to shareholders of record at the close of business on March 21, 2024.

Credit Facility

In November 2021, the Company entered into a revolving credit facility (the "2021 Credit Facility"). The 2021 Credit Facility provides for, among other things, (1) a revolving credit facility in opening new Showrooms an aggregate amount not to exceed at any time outstanding the amount of such lender's commitment, (2) a letter of credit commitment in an amount equal to the lesser of (a) \$10.0 million, and expanding our distribution center footprint. While our capital expenditures vary year (b) the amount of the revolving credit facility as of such date, and (3) a swingline loan in an amount equal to year, they have increased in the past lesser of (a) \$5.0 million, and may continue (b) the amount of the revolving credit facility as of such date. The aggregate amount of all commitments of all lenders under the 2021 Credit Facility was initially \$50.0 million. The 2021 Credit Facility contains restrictive covenants and has certain financial covenants, including a minimum rent-adjusted total leverage ratio and a minimum fixed charge ratio. The 2021 Credit Facility bears variable interest rates at the prevailing Bloomberg Short-Term Bank Yield index rate plus the applicable margin (1.50% at March 31, 2024 and 1.50% at March 31, 2023), whereas the applicable margin is adjusted quarterly based on the Company's consolidated rent-adjusted total leverage ratio.

On December 9, 2022, the Company amended the 2021 Credit Facility to increase in future periods as our distribution centers become fully operational and the revolving credit commitment thereunder by \$25.0 million. After giving effect to such increase, the aggregate amount of all commitments under the 2021 Credit Facility is \$75.0 million. The 2021 Credit Facility expires on November 8, 2026. At March 31, 2024, we open additional Showrooms. Our capital expenditures include expenditures related to investing activities and outflows of capital related to construction activities to design and build landlord-owned leased assets, net of tenant allowances received. Certain lease arrangements require had no borrowings on the landlord to fund a portion of the construction related costs through payments directly to us. New Showrooms may require different levels of capital investment on our part in the future.

[Table of Contents](#)

2021 Credit Facilities

Facility. Refer to Note 4 — **Long-Term Debt** to our condensed consolidated financial statements for further information on our 2021 Credit Facility.

Cash Flow Analysis

The following table provides a summary of our cash provided by operating, investing and financing **activities: activities** (amounts in thousands):

(In thousands)	Nine months ended September 30,		Three months ended March 31, 2024	Three months ended March 31, 2023
	2023	2022		

Net cash provided by operating activities	Net cash provided by operating activities	\$ 131,368	\$ 58,237
Net cash used in investing activities	Net cash used in investing activities	(41,973)	(36,950)
Net cash used in financing activities	Net cash used in financing activities	(1,527)	(113)
Net increase (decrease) in cash, cash equivalents and restricted cash equivalents		\$ 87,868	\$ 21,174
Net increase (decrease) in cash, cash equivalents and restricted cash			

Net cash provided by operating activities

Comparison of the **nine three** months ended **September 30, 2023** **March 31, 2024** and **2022** **March 31, 2023**

Operating activities consist primarily of net income adjusted for non-cash items including depreciation and amortization, operating lease amortization, deferred income taxes, equity based compensation and the effect of changes in working capital and other activities.

For the **nine three** months ended **September 30, 2023** **March 31, 2024**, net cash provided by operating activities was **\$131.4 million** **\$36.8 million** and consisted of net income of **\$94.0 million** **\$15.1 million** and an increase of non-cash items of **\$68.4 million** **\$26.0 million**, which were partially offset by a change in working capital and other activities of **\$31.1 million** **\$4.3 million**. The use of cash from working capital was primarily driven by an increase in prepaid and other current assets of **\$29.0 million**, a decrease in operating lease liabilities of **\$28.8 million** primarily due to payments made under the related lease agreements, a decrease in accounts payable of **\$4.1 million**, which was partially offset by a decrease of merchandise inventory of **\$17.4 million**, an increase in client deposits of **\$9.8 million** and an increase in accrued expenses of **\$3.5 million**, in the **nine months ended September 30, 2023**.

For the **nine months ended September 30, 2022**, net cash provided by operating activities was **\$58.2 million** and consisted of net income of **\$89.6 million** and increases of non-cash items of **\$56.9 million**, which was partially offset by a change in working capital and other activities of **\$88.3 million**. The use of cash from working capital was primarily driven by an increase in merchandise inventory of **\$84.2 million** **\$14.1 million**, an increase in prepaid and other assets of **\$5.8 million**, a decrease in accrued expenses of **\$5.1 million**, a decrease in accounts payable of **\$4.8 million**, and a decrease in operating lease liabilities of **\$4.2 million** primarily due to payments made under the related lease agreements which was partially offset by an increase in client deposits of **\$29.1 million** in the **three months ended March 31, 2024**.

For the **three months ended March 31, 2023**, net cash provided by operating activities was **\$10.9 million** and consisted of net income of **\$34.1 million** and increases of non-cash items of **\$25.1 million**, which was partially offset by a change in working capital and other activities of **\$48.4 million**. The use of cash from working capital was primarily driven by a decrease in accrued expenses of **\$13.3 million**, a decrease in accounts payable of **\$12.6 million**, a decrease in operating lease liabilities of **\$22.6 million** **\$10.6 million** primarily due to payments made under the related lease agreements, an increase in **prepaid and other current assets** **merchandise inventory** of **\$11.2 million** **\$5.8 million**, a decrease in client deposits of **\$3.1 million**, which was partially offset by an increase in accrued expenses **\$4.7 million** primarily due to improved delivery of **\$23.7 million** **our backlog orders** and lower demand comparable growth and an increase in **accounts payable** **prepaid and other assets** of **\$10.3 million** **\$1.3 million** in the **nine three months ended September 30, 2022** **March 31, 2023**.

Net cash used in investing activities

Investing activities consist primarily of capital expenditures related to investments in retail Showrooms, information technology and systems infrastructure, as well as supply chain investments.

Comparison of the **nine three** months ended **September 30, 2023** **March 31, 2024** and **2022** **March 31, 2023**

For the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, net cash used in investing activities was **\$42.0 million** **\$25.9 million** primarily due to investments in Showrooms, supply chain expansion and information technology and systems **infrastructure**. **infrastructure** and strategic investments in our supply chain.

For the **nine** **three** months ended **September 30, 2022** **March 31, 2023**, net cash used in investing activities was **\$37.0 million** **\$11.4 million** primarily due to investments in Showrooms, supply chain expansion and information technology and systems **infrastructure**.

Capital Expenditures

Table **Historically, we have invested significant capital expenditures in opening new Showrooms. These capital expenditures have increased in the past and may continue to increase in future periods as we open additional Showrooms. Our capital expenditures include expenditures related to investing activities and outflows of Contents** capital related to construction activities to design and build leasehold improvement assets. Certain lease arrangements require the landlord to fund a portion of the construction related costs through tenant improvement allowance payments directly to us. New Showrooms may require different levels of company-funded capital investment in the future.

Historical capital expenditures are summarized as follows: follows (amounts in thousands):

		Three months ended March 31,		Three months ended March 31,	
		Nine months ended September 30,			
		2024	2023		
(In thousands)		2023	2022		
Net cash used in investing activities	Net cash used in investing activities	\$41,973	\$36,950		
Less: Landlord contributions	Less: Landlord contributions	10,917	11,373		
Total capital expenditures, net of landlord contributions	Total capital expenditures, net of landlord contributions	\$31,056	\$25,577		

Total capital expenditures, net of landlord contributions increased by **\$5.5 million** **\$4.6 million** in the **nine** **three** months ended **September 30, 2023** **March 31, 2024** compared to the **nine** **three** months ended **September 30, 2022** **March 31, 2023**.

We anticipate our total company funded capital expenditures to be between **\$60** **\$80** million and **\$70** **\$100** million in fiscal year **2023** **2024**, primarily related to the opening of new Showrooms.

Net cash used in financing activities

Comparison of the **nine** **three** **months ended September 30, 2023** **March 31, 2024** **and 2022** **March 31, 2023**

For the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, net cash used in financing activities was **\$1.5 million** **\$0.8 million** primarily due to the repurchase of shares for payment of withholding taxes for equity based compensation.

For the **nine** **three** months ended **September 30, 2022** **March 31, 2023**, net cash used in financing activities was **\$0.1 million** **\$0.4 million** primarily due to principal payments on finance leases. the repurchase of shares for payment of withholding taxes for equity based compensation.

Off-Balance Sheet Transactions

As of September 30, 2023, we have no material off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Accounting policies and estimates are considered critical when they require management to make subjective and complex judgments, estimates and assumptions about matters that have a material impact on the presentation of our financial statements and accompanying notes. For a description of our critical accounting policies and estimates, see Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**.

Recent Accounting Pronouncements

See Note 2 — *Recently Issued Accounting Standards* to our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, which include significant deterioration of the U.S. and foreign markets, changes in U.S. interest rates, foreign currency exchange rate fluctuations and the effects of economic uncertainty, which may affect the prices we pay our vendors in the foreign countries in which we do business. We do not engage in financial transactions for trading or speculative purposes.

Foreign Currency Exchange Risk

We believe foreign currency exchange rate fluctuations do not contain significant market risk to us due to the nature of our relationships with our vendors outside of the United States. We purchase the majority of our inventory from vendors outside of the United States in transactions that are primarily denominated in U.S. dollars and, as such, any foreign currency impact related to these international purchase transactions was not significant to us for the ~~nine and three months ended September 30, 2023~~ March 31, 2024 and ~~2022, March 31, 2023~~, respectively. However, since we pay for the majority of our international purchases in U.S. dollars, a decline in the U.S. dollar relative to other foreign currencies would subject us to risks associated with increased purchasing costs from our vendors. We cannot predict with certainty the effect these increased costs may have on our financial statements or results of operations. We currently do not use derivative instruments to manage this risk.

Interest Rate Risk

We are primarily exposed to interest rate risk with respect to borrowing under our 2021 Credit Facility and as of ~~September 30, 2023~~ March 31, 2024, we have not drawn upon the 2021 Credit Facility. Based on the interest rate in the 2021 Credit Facility and to the extent borrowings were outstanding, we do not believe a 100 basis point change in interest rates would have a material impact on our financial condition or results of operations for the periods presented. We currently do not use derivative instruments to manage this risk.

Impact of Inflation

Inflation generally affects us by increasing our cost of labor, material, transportation, and our general costs. We have historically been able to recover these cost increases through price increases. However, we cannot reasonably estimate our ability to successfully recover any impact of inflation through price increases in the future. We currently do not use derivative instruments to manage this risk.

Emerging Growth Company Status

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our CEO and Chief Financial Officer ("CFO"), management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) 1934 ("Exchange Act") as of ~~September 30, 2023~~ March 31, 2024. Based on their evaluation as of ~~September 30, 2023~~ March 31, 2024, the CEO and CFO have concluded that our disclosure controls and procedures were not effective at the reasonable assurance level because of the material weaknesses in our internal control over financial reporting described below.

Based upon that evaluation, our CEO and CFO identified four material weaknesses in our internal control over financial reporting.

Material Weaknesses in Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. We identified four material weaknesses in our internal control over financial reporting.

- We did not design and maintain an effective control environment commensurate with our financial reporting requirements. Specifically, we lacked a sufficient complement of professionals with an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters timely and accurately. Additionally, the lack of a sufficient number of professionals resulted in an inability to consistently establish appropriate authorities and responsibilities in pursuit of our financial reporting objectives, as demonstrated by, amongst other things, insufficient segregation of duties in our finance and accounting functions. This material weakness contributed to the following additional material weaknesses.
- We did not design and maintain accounting policies, procedures and controls, or maintain documentary evidence of existing control activities over significant accounts and disclosures to achieve complete, accurate and timely financial accounting, reporting and disclosures, including adequate controls over the period-end financial reporting process, the preparation and review of account reconciliations and journal entries, including segregation of duties and assessing the reliability of reports and spreadsheets used in controls.
- We did not design and maintain effective controls to address the identification of and accounting for certain non-routine or complex transactions, including the proper application of U.S. GAAP of such transactions. Specifically, we did not design and maintain controls to timely or appropriately account for our incentive unit plan.

These material weaknesses resulted in a restatement of our previously issued annual consolidated financial statements as of and for the years ended December 31, 2020 and 2019 principally related to selling, general and administrative expenses and other long-term liabilities, and misclassifications in the balance sheets and statements of comprehensive income. These material weaknesses also resulted in immaterial adjustments recorded prior to the issuance of the consolidated financial statements as of and for the year ended December 31, 2021 principally related to property, furniture and equipment, net; selling, general and administrative expenses; and misclassifications in the balance sheet and statement of cash flows.

In preparation of the December 31, 2023 consolidated financial statements and in preparation of the March 31, 2024 condensed consolidated financial statements, these material weaknesses resulted in restatements as of and for the interim period ended September 30, 2023 and revisions as of and for the annual periods ended December 31, 2023, 2022 and 2021, and as of and for the interim periods ended March 31, 2022, June 30, 2022, September 30, 2022, March 31, 2023 and June 30, 2023, principally related to prepaid and other current assets, property, furniture and equipment, net and operating lease liabilities, which resulted in misclassifications in the balance sheets and statements of cash flows and the timely recording of liabilities, operating right-of-use assets and operating lease liabilities. There were also immaterial misstatements. Additionally, each of the material weaknesses could result in misstatements to substantially all of our accounts or disclosures, that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

- Lastly, we did not design and maintain effective controls over information technology ("IT"), general controls for information systems that are relevant to the preparation of our financial statements. Specifically, we did not design and maintain: (i) program change management controls for financial systems to ensure that information technology program and data changes affecting financial applications and underlying accounting records are identified, tested, authorized and implemented appropriately; (ii) user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs, and data to appropriate Company personnel; (iii) computer operations controls to ensure that critical batch jobs are monitored and data backups are authorized and monitored; and (iv) testing and approval controls for program development to ensure that new software development is aligned with business and IT requirements.

These IT deficiencies did not result in material adjustments to our consolidated financial statements, however, the deficiencies, when aggregated, could impact maintaining effective segregation of duties, as well as the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all financial statement accounts and disclosures that would not be prevented or detected. Accordingly, management has determined these IT deficiencies in the aggregate constitute a material weakness.

Remediation Activities

With the oversight of senior management and our Audit Committee, we have designed and begun to implement a remediation plan which includes:

- Updating our policies and procedures to establish and maintain effective segregation of duties for our finance and accounting staff in relation to journal entries, reconciliations and other applicable processes.
- Designing and implementing internal financial reporting procedures and controls to improve the completeness, accuracy and timely preparation of financial reporting and disclosures inclusive of establishing an ongoing program to provide sufficient training to our finance and accounting staff.
- Enhancing the design and operation of user access control activities and procedures to ensure that access to IT applications and data is adequately restricted to appropriate personnel.
- Hiring additional competent and qualified technical accounting and financial reporting personnel with appropriate knowledge and experience of U.S. GAAP and SEC financial reporting requirements, including non-routine and complex transactions, to design, execute and/or provide appropriate oversight of activities related to internal control over financial reporting, or ICFR.
- Implementing additional program change management policies and procedures, control activities, and tools to ensure changes affecting key financial systems related to IT applications and underlying accounting records are identified, authorized, tested, and implemented appropriately.

- Designing and implementing a formal systems development lifecycle methodology and related program development controls to ensure significant IT change events are appropriately tested and approved.
- Enhancing the design and operation of control activities and procedures within the computer operations domain to ensure key batch jobs are monitored, processing failures are adequately resolved, and recovery capability is tested.
- Identifying and evaluating key IT dependencies including key reports, automated application controls, interfaces, and end user computer facilities.
- Enhancing the control activity design related to the review of our consolidated balance sheet and statement of cash flows to ensure the classification of operating and investing activities is appropriately presented in the statement of cash flows.

While the material weaknesses are not considered remediated until the related internal controls are designed, implemented, tested and deemed to be operating effectively, we have made progress under our remediation plan, including:

- Commenced the design and implementation of formal processes, policies, and procedures supporting our financial close process, including formalizing procedures over the review of financial statements.
- Commenced the design and implementation of policies and procedures to establish and maintain segregation of duties for our accounting staff in relation to journal entries and account reconciliations.
- Continue to hire additional competent and qualified technical accounting and financial reporting personnel with appropriate knowledge and experience of U.S. GAAP and SEC financial reporting requirements.

Although we have developed and begun to implement **our** plan to remediate the material weaknesses and believe, based on our evaluation to date, that the material weaknesses will be remediated in a timely fashion, we cannot project a specific timeline on when the plan will be fully implemented. The material weaknesses will not be remediated until the necessary internal controls have been designed, implemented, tested and determined to be operating effectively. In addition, we may need to take additional measures to address the material weaknesses or modify the planned remediation steps, and we cannot be certain that the measures we have taken, and expect to take, to improve our internal controls will be sufficient to address the issues identified, to ensure that our internal controls are effective or to ensure that the identified material weaknesses will not result in a material misstatement of our consolidated financial statements. Moreover, we cannot provide assurance that we will not identify additional material weaknesses in our ICFR in the future. Until we remediate the material weaknesses, our ability to record, process and report financial information accurately, and to prepare our consolidated financial statements within the time periods specified by the rules and forms of the SEC, could be adversely affected.

Changes in Internal Control over Financial Reporting

Other than as described above with respect to ongoing remediation efforts, there **There** were no changes in our internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) during the quarter ended **September 30, 2023** **March 31, 2024** that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

From time to time, we have and we may become involved in legal proceedings arising in the ordinary course of business, including claims related to our employment practices, claims of intellectual property infringement and claims related to personal injuries and product liability for the products that we sell and in the Showrooms we operate. Any claims could result in litigation against us and could result in regulatory proceedings being brought against us by various federal and state agencies that regulate our business. Defending such litigation is costly and can impose significant burdens on management and employees. Further, we could receive unfavorable preliminary or interim rulings in the course of litigation, and there can be no assurance that favorable final outcomes will be obtained.

We are currently not a party to any legal proceedings, the outcome of which, if determined adversely to us, would individually or in the aggregate have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**.

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

The following table contains information with respect to repurchases of shares made by the Company during the three months ended **September 30, 2023** **March 31, 2024**. The table reflects shares delivered to the Company by employees to satisfy tax withholding obligations due upon the vesting of restricted stock. **stock units**. These shares were not repurchased in connection with any publicly announced share repurchase programs.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans	Approximate dollar value of shares that may yet be purchased under publicly announced plans
July 2023	—	\$ —	—	\$ —
August 2023	58,609	11.56	—	—
September 2023	—	—	—	—
Total	58,609	\$ 11.56	—	\$ —

Period	Total number of shares purchased	Weighted average price paid per share	Total number of shares purchased as part of publicly announced plans	Approximate dollar value of shares that may yet be purchased under publicly announced plans
January 2024	—	\$ —	—	\$ —
February 2024	—	—	—	—
March 2024	36,290	14.88	—	—
Total	36,290	\$ 14.88	—	\$ —

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None. During the three months ended March 31, 2024, none of our directors or executive officers adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement" as defined in Item 408(c) of Regulation S-K, except as follows:

On March 11, 2024, Dawn Sparks, Chief Logistics Officer, adopted a Rule 10b5-1 trading arrangement that is intended to satisfy the affirmative defense of Rule 10b5-1(c) for the sale of up to 120,000 shares of the Company's Class A common stock beginning June 10, 2024. The arrangement's expiration date is December 10, 2024.

On March 12, 2024, Dawn Phillipson, Chief Financial Officer, adopted a Rule 10b5-1 trading arrangement that is intended to satisfy the affirmative defense of Rule 10b5-1(c) for the sale of up to 150,000 shares of the Company's Class A common stock beginning June 10, 2024. The arrangement's expiration date is March 6, 2025.

On March 14, 2024, Venkat Nachiappan, Chief Information Officer, adopted a Rule 10b5-1 trading arrangement that is intended to satisfy the affirmative defense of Rule 10b5-1(c) for the sale of up to 20,093 shares of the Company's Class A common stock beginning June 14, 2024. The arrangement's expiration date is December 31, 2024.

Item 6. Exhibits

Exhibit No.	Description	Filings Referenced for Incorporation by Reference
3.1	Amended and Restated Certificate of Incorporation of Arhaus, Inc.	November 10, 2021 Form 8-K, Exhibit 3.1
3.2	Amended and Restated Bylaws of Arhaus, Inc.	November 10, 2021 Form 8-K, Exhibit 3.2
10.1#	Employment Letter (John Moran)	Filed herewith
31.1	Certificate of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certificate of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101.INS	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)	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
104	Cover Page with Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)	Filed herewith

Indicates management contract

* The certifications furnished in Exhibit 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates them by reference.

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 on this **2nd** **10th** day of **November, 2023****May, 2024**.

ARHAUS, INC.

By: /s/ Dawn Phillipson
Name: Dawn Phillipson
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

33 38

slide1

Exhibit 10.1

slide2

slide3

Exhibit 10.1

slide4

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, John Reed, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arhaus, 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 2, 2023** **May 10, 2024**

/s/ John Reed

John Reed
 Chief Executive Officer
 (Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF
 THE SARBANES-OXLEY ACT OF 2002**

I, Dawn Phillipson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arhaus, 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 2, 2023** **May 10, 2024**

/s/ Dawn Phillipson

Dawn Phillipson
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of Arhaus, Inc. (the "Company") on Form 10-Q for the quarter ended **September 30, 2023** **March 31, 2024** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Reed, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

/s/ John Reed

John Reed
Chief Executive Officer
(Principal Executive Officer)

Date: **November 2, 2023** **May 10, 2024**

A signed original of this written statement required by Section 906 has been provided to, and will be retained by, Arhaus, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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 of Arhaus, Inc. (the "Company") on Form 10-Q for the quarter ended **September 30, 2023** **March 31, 2024** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dawn Phillipson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

/s/ Dawn Phillipson

Dawn Phillipson
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: **November 2, 2023** **May 10, 2024**

A signed original of this written statement required by Section 906 has been provided to, and will be retained by, Arhaus, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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