

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

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

For the fiscal year ended July 28, 2018

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: 001-38291**

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**STITCH FIX, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of incorporation or organization)

**27-5026540**

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

**1 Montgomery Street, Suite 1500**

**San Francisco, California 94104**

(Address of principal executive offices and zip code)

**Registrant's telephone number, including area code: (415) 882-7765**

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

Title of Each Class

Name of Each Exchange on Which Registered

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Class A common stock, par value \$0.00002 per share

Nasdaq Stock Market LLC (Nasdaq Global Select Market)

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

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES  NO

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$199.1 million as of January 27, 2018, the last day of the registrant’s most recently completed second fiscal quarter, based upon the closing sale price of the registrant’s Class A common stock on the Nasdaq Global Select Market reported for January 26, 2018. Excludes an aggregate of 62,907,730 shares of the registrant’s common stock held by officers, directors and affiliated stockholders as of January 27, 2018. For purposes of determining whether a stockholder was an affiliate of the registrant at January 27, 2018, the registrant assumed that a stockholder was an affiliate of the registrant if such stockholder (i) beneficially owned 10% or more of the registrant’s capital stock, as determined based on public filings, and/or (ii) was an executive officer or director, or was affiliated with an executive officer or director, of the registrant at January 27, 2018. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of September 27, 2018, the number of outstanding shares of the registrant’s Class A common stock, par value \$0.00002 per share, was 38,513,396, and the number of outstanding shares of the registrant’s Class B common stock, par value \$0.00002 per share, was 60,619,532.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant’s definitive Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the U.S. Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

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Unless the context suggests otherwise, references in this Annual Report on Form 10-K (the "Annual Report") to "Stitch Fix," the "Company," "we," "us" and "our" refer to Stitch Fix, Inc. and, where appropriate, its subsidiaries.

## PART I

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Annual Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "project," "seek," "should," "target," "will," "would" and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management, which are in turn based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors" included under Part I, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

#### Item 1. Business.

##### Overview

*Stitch Fix is transforming the way people find what they love, one client at a time and one Fix at a time.*

Stitch Fix was inspired by the vision of a client-first, client-centric new way of retail. What people buy and wear matters. When we serve our clients well, we help them discover and define their styles, we find jeans that fit and flatter their bodies, we reduce their anxiety and stress when getting ready in the morning, we give them confidence in job interviews and on first dates and we give them time back in their lives to invest in themselves or spend with their families. Most of all, we are fortunate to play a small part in our clients looking, feeling and ultimately being their best selves.

We are reinventing the shopping experience by delivering one-to-one personalization to our clients through the combination of data science and human judgment. This combination drives a better client experience and a more powerful business model than either element could deliver independently.

Since our founding in 2011, we have helped millions of clients discover and buy what they love through personalized shipments of apparel, shoes and accessories, hand selected by Stitch Fix stylists and delivered to our clients' homes. We call each of these shipments a Fix. Clients can choose to schedule automatic shipments or order a Fix on demand after they fill out a style profile on our website or mobile app. For each Fix, we charge clients a styling fee that is credited toward items they purchase. Alternatively, select clients may purchase an annual Style Pass, which offers unlimited styling for the year for a \$49 fee that is also credited towards items they purchase. After receiving a Fix, our clients purchase the items they want to keep and return the other items, if any, at no additional charge. In addition, our Extras feature allows clients to select items such as socks, bras, underwear and other intimates that are then added to the five items their stylist selects for their Fix.

Stitch Fix was founded with a focus on Women's apparel. In our first few years, we were able to gain a deep understanding of our clients and merchandise and build the capability to listen to our clients, respond to feedback and deliver the experience of personalization. More recently, we have extended those capabilities into Petite, Maternity, Men's, Plus and Kids apparel, as well as shoes and accessories. Our stylists leverage our data science and apply their own judgment to hand select apparel, shoes and accessories for our clients from a broad range of merchandise.

We are successful when we are able to help clients find what they love again and again, creating long-term, trusted relationships. Our clients share personal information with us, including detailed style, size, fit and price preferences, as well as unique inputs, such as how often they dress for certain occasions or which parts of their bodies they like to flaunt or cover up. Our clients are motivated to share these personal details with us and provide us with ongoing feedback because they recognize that doing so will result in more personalized and successful experiences. This feedback also creates a valuable network effect by helping us to better serve other clients. As of July 28, 2018, we had 2,742,000 active clients. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics" for information on how we define and calculate active clients.

The very human experience that we deliver is powered by data science. Our data science capabilities consist of our rich data set and our proprietary algorithms, which fuel our business by enhancing the client experience and driving business model efficiencies. The vast majority of our client data is provided directly and explicitly by the client, rather than inferred, scraped or obtained from other sources. We also gather extensive merchandise data, such as inseam, pocket shape, silhouette and fit. This large and growing data set provides the foundation for proprietary algorithms that we use throughout our business, including those that predict purchase behavior, forecast demand, optimize inventory and enable us to design new apparel. We believe our data science capabilities give us a significant competitive advantage, and as our data set grows, our algorithms become more powerful.

Our stylists leverage our data science through a custom-built, web-based styling application that provides recommendations from our broad selection of merchandise. Our stylists then apply their judgment to select what they believe to be the best items for each Fix. Our stylists provide a personal touch, offer styling advice and context to each item selected and help us develop long-term relationships with our clients.

We offer merchandise across multiple price points and styles from established and emerging brands, as well as our own private labels, which we call Exclusive Brands. Many of our brand partners also design and supply items exclusively for our clients.

In October 2018, we announced that we are planning to launch operations in the United Kingdom, or UK, by the end of our fiscal year 2019.

## **Industry Overview**

### **Technology is Driving Transformation Across Industries**

Technological innovation has profoundly impacted how consumers discover and purchase products, forcing businesses to adapt to engage effectively with consumers. We believe that new business models that embrace these changes and truly focus on the consumer will be the winners in this changing environment.

### **The Apparel, Shoes and Accessories Market is Massive but Many Retailers have Failed to Adapt to Changing Consumer Behavior**

The U.S. apparel, shoes and accessories market is large, but we believe many brick-and-mortar retailers have failed to adapt to evolving consumer preferences. Euromonitor, a consumer market research company, estimated that the U.S. apparel, footwear and accessories market was \$342 billion in calendar 2017. Euromonitor expects this market to grow to \$406 billion by calendar 2022, a compound annual growth rate, or CAGR, of 3.5%.

Historically, brick-and-mortar retailers have been the primary source of apparel, shoes and accessories sales in the United States. Over time, brick-and-mortar retail has changed and the era of salespersons who know each customer on a personal level has passed. We believe many of today's consumers view the traditional retail experience as impersonal, time-consuming and inconvenient. This has led to financial difficulties, bankruptcies and store closures for many major department stores, specialty retailers and retail chains.

### **eCommerce is Growing, but has Further Depersonalized the Shopping Experience**

The internet has created new opportunities for consumers to shop for apparel. eCommerce continues to take market share from brick-and-mortar retail. Euromonitor estimated that the eCommerce portion of the U.S. apparel, footwear and accessories market was \$70 billion in calendar 2017. Euromonitor expects the eCommerce portion of this market to grow to \$133 billion by calendar 2022, a CAGR of 13.8%. This represents an expansion of eCommerce penetration of the U.S. apparel, footwear and accessories market from 20.4% of \$342 billion in calendar 2017 to 32.7% of \$406 billion in calendar 2022.

The first wave of eCommerce companies prioritized low price and fast delivery. This transaction-focused model is well suited for commoditized products and when consumers already know what they want. However, we believe eCommerce companies often fall short when consumers do not know what they want and price and delivery speed are not the primary decision drivers. There is an overwhelming selection of apparel, shoes and accessories available to consumers online, and searches and filters are poor tools when it comes to finding items that fit one's style, figure and occasion. eCommerce companies also lack the critical personal touchpoints necessary to help consumers find what they love, further depersonalizing the shopping experience.

### **Personalization is the Next Wave**

To be relevant today, retailers must find a way to connect with consumers on a personal level and fit conveniently into their lifestyles. Personalization in retail can be difficult and nuanced, as consumers consider many factors that can be difficult to articulate, including style, size, fit, feel and occasion. We believe that an intelligent combination of data science and human judgment is required to deliver the personalized retail experience that consumers seek.

### **Competition**

The retail apparel industry is highly competitive. Our competitors include eCommerce companies that market apparel, shoes and accessories, local, national and global department stores, specialty retailers, discount chains, independent retail stores and the online offerings of these traditional retail competitors. Additionally, we experience competition for consumer discretionary spending from other product and experiential categories.

We compete primarily on the basis of client experience, brand, product selection, quality, convenience and price. We believe that we are able to compete effectively because we offer clients a personalized and fun shopping experience that our competitors are unable to match. See Part I, Item 1A "Risk Factors—Our industry is highly competitive and if we do not compete effectively our operating results could be adversely affected" for more information.

## **Our Service**

Stitch Fix combines data science and human judgment to deliver one-to-one personalization to our clients at scale. We help millions of clients discover and buy what they love through data-driven, personalized, hand-selected shipments of apparel, shoes and accessories.

## **Our Data Science Advantage**

Our data science capabilities fuel our business. These capabilities consist of our rich and growing set of detailed client and merchandise data and our proprietary algorithms. We use data science throughout our business, including to style our clients, predict purchase behavior, forecast demand, optimize inventory and design new apparel.

Our data set is particularly powerful because:

- the vast majority of our client data is provided directly and explicitly by the client, rather than inferred, scraped or obtained from other sources;
- our clients are motivated to provide us with relevant personal data, both at initial signup and over time as they use our service, because they trust it will improve their Fixes; and
- our merchandise data tracks dimensions that enable us to predict purchase behavior and deliver more personalized Fixes.

On average, each client directly provides us with over 90 meaningful data points through his or her style profile, including detailed style, size, fit and price preferences, as well as unique inputs such as how often he or she dresses for certain occasions or which parts of his or her body the client likes to flaunt or cover up. Over time, through their feedback on Fixes they receive, clients share additional information about their preferences as well as detailed data about both the merchandise they keep and return. Historically, over 85% of our shipments have resulted in direct client feedback. This feedback loop drives important network effects, as our client-provided data informs not only our personalization capabilities for the specific client, but also helps us better serve other clients. In 2018, we introduced Style Shuffle, an interactive mobile and web-based game in which participants rate an assortment of Stitch Fix merchandise, providing additional data to strengthen our understanding of client tastes and style preferences.

We believe our proprietary merchandise data set is differentiated from other retailers. We encode each of our SKUs with many information attributes to help our algorithms make better recommendations for our clients. The information we store for each SKU includes:

- basic data, such as brand, size, color, pattern, silhouette and material;
- item measurements, such as length, width, diameter of sleeve opening and distance from collar to first button;
- nuanced descriptors, such as how appropriate the piece is for a client that prefers preppy clothing or whether it is appropriate for a formal event; and
- client feedback, such as how the item fit a 5'10" client or how popular the piece is with young mothers.

Our algorithms use our data set to match merchandise to each of our clients. For every combination of client and merchandise, we compute the probability the client will keep that item based on her and other clients' preferences and purchase history as well as the attributes and past performance of the merchandise.

## **Pairing Data Science with Human Judgment**

The combination of data science and human judgment drives a better client experience and a more powerful business model than either element could deliver independently. Our advanced data science capabilities harness the power of our data for our stylists by generating predictive recommendations to streamline our stylists' individualized curation process. Stylists add a critical layer of contextual, human decision making that augments and improves our algorithms' selections and ultimately produces a better, more personalized Fix for each client.

## **Our Differentiated Value Proposition**

### **Our Value Proposition to Clients**

Our clients love our service for many reasons. We help clients find apparel, shoes and accessories that they love in a way that is convenient and fun. We save our clients time by doing the shopping, delivering Fixes right to their homes, allowing them to try on merchandise in the comfort of their homes and in the context of their own closets and making the return process simple. Our expert styling service connects each client to a professional who will understand her fashion needs, hand select items personalized to her and offer her ongoing style advice. Clients also value the quality and diversity of our merchandise as we deliver the familiar brands they know, offer items they can't find anywhere else and expand their fashion palette by exposing them to new brands and styles they might not have tried if they shopped for themselves. We often hear from clients that we have helped them find the perfect pair of jeans or discover a dress silhouette they never would have selected for themselves. In these situations, not only is our service more convenient, it is in fact more effective at helping clients find what they love. We proudly style men, women and kids across ages, sizes, tastes, geographies and price preferences.

### **Our Value Proposition to Brand Partners**

We believe that we are a preferred channel and a powerful growth opportunity for our brand partners. Unlike many sales channels, we do not rely on discounts or promotions. Also, by introducing our clients to brands they may not have shopped for, we help our brand partners reach clients they may not have otherwise reached. Further, we provide our brand partners with insights based on client feedback that help our brand partners improve and evolve their merchandise to better meet consumer demand.

## Our Strengths

Since we were founded in 2011, we have shipped millions of Fixes to clients throughout the United States. We have achieved this success due to our following key strengths:

- our rich client and merchandise data;
- our expert data science team and proprietary and predictive algorithms;
- our team of 3,900+ stylists;
- our unique combination of data science and human judgment; and
- our superior business model.

## Our Strategy

We aim to transform the way people find what they love. We plan to achieve this goal by continuing to:

- expand our relationships with existing clients;
- acquire new clients; and
- expand our addressable market.

## How it Works

### The Fix

A Fix is a Stitch Fix-branded box containing a combination of apparel, shoes and accessories personally selected for a client by her Stitch Fix stylist and delivered to the client for her to try on in the comfort of her own home. She can keep some, all or none of the items in the Fix and easily return any items in a postage-prepaid bag provided in the Fix. One of our stylists individually selects each item in a Fix for a client from a broad range of merchandise recommended to the stylist by our algorithms. These algorithmic recommendations are based on the client's personal style profile, her own order behavior, the aggregate historical behavior of our client base and the aggregate historical data we have collected on each item of merchandise we have available.

We have numerous touch points with our clients. Before a client receives his or her first Fix, he or she shares the following information with us:

- *Style profile.* Upon registering, each client fills out a style profile on either our website or mobile application. The style profile allows us to introduce ourselves to a client, initiate a dialogue and start gathering data.
- *Personal note to stylist.* Each client can share a personal note with his or her stylist when placing a Fix order or after receiving a Fix. For example, a client might request shoes for a friend's wedding or shorts for an upcoming vacation. These personal notes enable us to better personalize a Fix.

After completing her initial style profile, a client chooses her preferred order frequency and can select the exact date by which she wants to receive her Fix. We currently offer two types of Fix scheduling:

- *Auto-ship.* A client can elect to auto-ship Fixes every two to three weeks, monthly, bi-monthly or quarterly.
- *On-demand.* Our on-demand option allows clients to schedule a one-time Fix at any time, either instead of or in addition to utilizing the auto-ship option. An on-demand client is prompted to schedule her next Fix each time she checks out, but is not obligated to do so.

We recognize that our clients have different needs, so our Fix frequency options are another way that we personalize the client experience. Each client can increase or decrease the Fix frequency at any time, and can also easily reschedule any given shipment to better accommodate her needs. Each Fix is delivered to the client's address of choice.

In February 2018, we launched Extras, a feature that allows clients to select items such as socks, bras, underwear and other intimates that are then added to the five items their stylist selects for their Fix.

In addition to a personalized selection of apparel, shoes and accessories, each Fix also includes a personal note from the stylist and a style card to provide clients with outfit ideas for each item.

Once a client decides which items she wishes to keep she can easily check out and pick the delivery date for her next Fix via our website or mobile application.

During the checkout process, each client is invited to provide feedback about the fit, price, style and quality of the items received. Historically, over 85% of shipments have resulted in direct client feedback. This feedback informs both our algorithms and stylists to improve each future Fix. In 2018, we introduced Style Shuffle, an interactive mobile and web-based game in which participants rate an assortment of Stitch Fix merchandise, providing additional data to strengthen our understanding of client tastes and style preferences.

We charge clients a \$20 styling fee for each Fix, which is credited toward the merchandise purchased. For our Style Pass clients, we charge a \$49 annual fee, which provides unlimited styling for the year and is credited toward the merchandise purchased over the course of the year. If the client chooses to keep all items chosen for them by their stylist, she receives a 25% discount on the entire shipment. The client can return the items she does not want or exchange items for a different size if available, using the postage-prepaid bag delivered in her Fix. We request that clients return items to us that they do not wish to purchase within three calendar days of receiving a Fix.

### **Our Merchandise, Brand Partners and Exclusive Brands**

The breadth of our merchandise selection is essential to our success. Our algorithms filter over one thousand SKUs to recommend a subset of relevant merchandise to our stylists, who leverage the information to select the merchandise for a client's Fix. We source merchandise from brand partners and also create our own merchandise to serve unmet client needs. We offer apparel, shoes and accessories across a range of price points. We currently serve our clients in the following categories: Women's, Petite, Maternity, Men's, Plus and Kids, and our merchandise addresses a diverse range of styles.

#### **Brand Partners**

We partner with established and emerging brands across multiple price points and styles. With many of our brand partners, we develop third-party branded items exclusively sold to Stitch Fix clients. This exclusivity allows our clients to discover personally recommended products that are unavailable elsewhere.

#### **Exclusive Brands**

We also design and bring to market our own styles, which we refer to as Exclusive Brands, in order to target specific client needs that are unmet by what our merchandising team can source in the market. We use data science to identify and develop the new products for our Exclusive Brands. We then pair our data with the expertise of our design teams to bring these new products to market. We expect our product development efforts will yield better products for our clients as we acquire more data and feedback.

Exclusive Brands are a meaningful part of our business and we expect them to be a permanent part of our portfolio. However, we do not have specific targets for the merchandise mix provided by our brand partners and our Exclusive Brands, and expect it will fluctuate over time. We will continue to develop products when we identify opportunities or gaps in the market.

#### **Sourcing**

We purchase merchandise directly from our brand partners, who are responsible for the entire manufacturing process.

For the production of our Exclusive Brands, we contract with merchandise vendors, who are responsible for the entire manufacturing process. Some of these vendors operate their own manufacturing facilities and others subcontract the manufacturing to other parties. Our vendors agree to our standard vendor terms, which govern our business relationship. Although we do not have long-term agreements with our vendors, we have long-standing relationships with a diverse base of vendors that we believe to be mutually satisfactory.

All of our Exclusive Brand merchandise is produced according to our specifications, and we require that all of our vendors comply with applicable law and observe strict standards of conduct. We have hired independent firms that conduct audits of the working conditions at the factories producing our Exclusive Brands. If an audit reveals potential problems, we require that the vendor institute corrective action plans to bring the factory into compliance with our standards, or we may discontinue our relationship with the vendor. We require that all new factories producing Exclusive Brand merchandise for us be audited before Stitch Fix production begins.

#### **Inventory Management and Fulfillment**

We have five fulfillment centers located in California, Arizona, Texas, Pennsylvania and Indiana and intend to establish a sixth fulfillment center in the UK.

In our fulfillment centers, our algorithms increase efficiencies in processes such as allocation, batch picking, transportation, shipping, returns and ongoing process improvement. We have a reverse logistics operation to manage returned merchandise. Our specialist returns teams in our dedicated return intake areas accept, process and reallocate returns to our inventory so the merchandise can be selected for another Fix. Our expertise in inventory management allows us to turn inventory quickly, which drives working capital efficiency.

#### **Seasonality**

Seasonality in our business does not follow that of traditional retailers, such as typical concentration of revenue in the holiday quarter. For example, in the three months ended January 27, 2018 and January 28, 2017, we experienced lower quarter over quarter growth rates due to slower active client growth during the holiday season.

#### **Intellectual Property**

We protect our intellectual property through a combination of trademarks, domain names, copyrights, trade secrets and patents, as well as contractual provisions and restrictions on access to our proprietary technology. Our principal trademark assets include the trademarks "Stitch Fix" and "Fix," which are registered in the United States and some foreign jurisdictions, our logos and taglines, and multiple private label apparel and accessory brand names. We have applied to register or registered many of our trademarks in the United States



and other jurisdictions, and we will pursue additional trademark registrations to the extent we believe they would be beneficial and cost-effective.

We have one patent issued and six patent applications pending in the United States. We also have four patent applications filed in the People's Republic of China. Our issued patent will expire in 2035. We intend to pursue additional patent protection to the extent we believe it would be beneficial and cost-effective.

We are the registered holder of multiple domestic and international domain names that include "stitchfix" and similar variations. We also hold domain registrations for many of our private-label brand names and other related trade names and slogans.

Our proprietary algorithm technologies, other than those incorporated into a patent application, are protected by trade secret laws.

In addition to the protection provided by our intellectual property rights, we enter into confidentiality and proprietary rights agreements with our employees, consultants, contractors and business partners. Our employees are also subject to invention assignment agreements. We further control the use of our proprietary technology and intellectual property through provisions in both our client terms of use on our website and in our vendor terms and conditions.

### **Government Regulation**

As with all retailers and companies operating on the internet, we are subject to a variety of U.S. federal and state laws governing the processing of payments, consumer protection, the privacy of consumer information and other laws regarding unfair and deceptive trade practices.

Apparel, shoes and accessories sold by us are also subject to regulation in the United States by governmental agencies, including the Federal Trade Commission and the Consumer Products Safety Commission. These regulations relate principally to product labeling, licensing requirements, flammability testing and product safety. We are also subject to environmental laws, rules and regulations. Similarly, apparel, shoes and accessories sold by us are also subject to import regulations in the United States and other countries concerning the use of wildlife products for commercial and non-commercial trade, including the U.S. Fish and Wildlife Service. We do not estimate any significant capital expenditures for environmental control matters either in the current fiscal year or in the near future.

We are also subject to regulations relating to our supply chain. For example, the California Transparency in Supply Chains Act requires retail sellers that do business in California to disclose their efforts to eradicate slavery and human trafficking in their supply chains. We require our suppliers to adhere to labor and workplace standards and to warrant that any products sent to us were made in compliance with all applicable laws, including laws prohibiting child labor, forced labor and unsafe working conditions. Although we have not suffered any material restriction from doing business in the past due to government regulation, significant impediments may arise in the future as we expand product offerings.

### **Employees**

As of July 28, 2018, we had over 6,600 employees, including over 3,900 stylists, 1,700 fulfillment center employees, 270 client experience employees, 180 engineers and 100 data scientists. As of such date, over 87% of our employees and 45% of our management team identified as female. None of our employees is represented by a labor union. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

### **Information About Segment and Geographic Revenue**

Information about segment and geographic revenue is set forth in "Segment Information" in Note 2 of the Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Form 10-K.

### **Corporate and Available Information**

We were incorporated in Delaware in 2011 under the name rack habit inc. We changed our name to Stitch Fix, Inc. in October 2011. Our principal executive offices are located at 1 Montgomery Street, Suite 1500, San Francisco, California 94104, and our telephone number is (415) 882-7765. Our website is located at [www.stitchfix.com](http://www.stitchfix.com), and our investor relations website is located at <https://investors.stitchfix.com>.

We file or furnish electronically with the U.S. Securities and Exchange Commission (the "SEC") annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We make copies of these reports available free of charge through our investor relations website as soon as reasonably practicable after we file or furnish them with the SEC. All materials we file with the SEC are available at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Information contained on or accessible through our websites is not incorporated into, and does not form a part of, this Annual Report or any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

## **Item 1A. Risk Factors.**

### **Risks Related to Our Business**

***We have a short operating history in an evolving industry and, as a result, our past results may not be indicative of future operating performance.***

We have a short operating history in a rapidly evolving industry that may not develop in a manner favorable to our business. Our relatively short operating history makes it difficult to assess our future performance. You should consider our business and prospects in light of the risks and difficulties we may encounter.

Our future success will depend in large part upon our ability to, among other things:

- cost-effectively acquire new clients and engage with existing clients;
- increase consumer awareness of our brand and maintain our reputation;
- successfully expand our offering and geographic reach;
- anticipate and respond to changing style trends and consumer preferences;
- manage our inventory effectively;
- anticipate and respond to macroeconomic changes;
- compete effectively;
- avoid interruptions in our business from information technology downtime, cybersecurity breaches or labor stoppages;
- effectively manage our growth;
- continue to enhance our personalization capabilities;
- hire, integrate and retain talented people at all levels of our organization;
- maintain the quality of our technology infrastructure;
- develop new features to enhance the client experience; and
- retain our existing merchandise vendors and attract new vendors.

If we fail to address the risks and difficulties that we face, including those associated with the challenges listed above as well as those described elsewhere in this “Risk Factors” section, our business and our operating results will be adversely affected.

***If we fail to effectively manage our growth, our business, financial condition and operating results could be harmed.***

To effectively manage our growth, we must continue to implement our operational plans and strategies, improve and expand our infrastructure of people and information systems and expand, train and manage our employee base. Since our inception, we have rapidly increased our employee headcount to support the growth of our business. We added a significant number of employees during 2018 and expect to continue growing in 2019. We have expanded across all areas of our business. To support continued growth, we must effectively integrate, develop and motivate a large number of new employees while maintaining our corporate culture. The risks associated with a rapidly growing workforce will be particularly acute as we expand internationally, as we are less familiar with the labor markets outside of the United States, and if we choose to expand into new merchandise categories.

We are also required to manage numerous relationships with various vendors and other third parties. Further growth of our operations, vendor base, fulfillment centers, information technology systems or internal controls and procedures may not be adequate to support our operations. For example, in October 2018, we announced our plans to enter the UK, which will involve working with international vendors, establishing offices and fulfillment centers in the UK and complying with UK and European Union, or EU, laws and regulations. Our launch of Stitch Fix Kids in July 2018 also required us to increase our vendor base, expand our fulfillment center operations and evaluate compliance with additional regulatory requirements, among other things. If we are unable to manage the growth of our organization effectively, our business, financial condition and operating results may be adversely affected.

***Our continued growth depends on attracting new clients.***

Our success depends on our ability to attract new clients in a cost-effective manner. To expand our client base, we must appeal to and acquire clients who have historically used other means to purchase apparel, shoes and accessories, such as traditional brick-and-mortar apparel retailers or the websites of our competitors. We reach new clients through paid marketing, referral programs, organic word of mouth and other methods of discovery, such as mentions in the press or internet search engine results. Starting in calendar year 2017, we began to increase our paid marketing expenses by investing more in digital marketing and launching our first television advertising campaigns. We expect to increase our spending on these and other paid marketing channels in the future and cannot be certain that these efforts will yield more clients or be as cost effective. Moreover, new clients may not purchase from us as frequently or spend as much

with us as existing clients, and the revenue generated from new clients may not be as high as the revenue generated from our existing clients. These factors may harm our growth prospects and our business could be adversely affected.

***We rely on consumer discretionary spending and may be adversely affected by economic downturns and other macroeconomic conditions or trends.***

Our business and operating results are subject to global economic conditions and their impact on consumer discretionary spending. Some of the factors that may negatively influence consumer spending include high levels of unemployment, higher consumer debt levels, reductions in net worth and declines in asset values and related market uncertainty, home foreclosures and reductions in home values, fluctuating interest rates and credit availability, fluctuating fuel and other energy costs, fluctuating commodity prices and general uncertainty regarding the overall future political and economic environment. Economic conditions in certain regions may also be affected by natural disasters, such as hurricanes, tropical storms and wildfires. Consumer purchases of discretionary items, including the merchandise that we offer, generally decline during periods of economic uncertainty, when disposable income is reduced or when there is a reduction in consumer confidence.

Adverse economic changes could reduce consumer confidence, and thereby could negatively affect our operating results. In challenging and uncertain economic environments, we cannot predict when macroeconomic uncertainty may arise, whether or when such circumstances may improve or worsen or what impact such circumstances could have on our business.

***We expect to increase our paid marketing to help grow our business, but these efforts may not be successful or cost effective.***

Promoting awareness of our service is important to our ability to grow our business, drive client engagement and attract new clients. We believe that much of the growth in our client base during our first five years originated from referrals, organic word of mouth and other methods of discovery, as our marketing efforts and expenditures were relatively limited. More recently, we increased our paid marketing initiatives and intend to continue to do so. Our marketing efforts currently include client referrals, affiliate programs, partnerships, display advertising, television, print, radio, video, content, direct mail, social media, email, mobile "push" communications, search engine optimization and keyword search campaigns. We have limited experience marketing our services using some of these methods and our efforts may be unsuccessful. Our marketing initiatives may become increasingly expensive and generating a meaningful return on those initiatives may be difficult. Even if we successfully increase revenue as a result of our paid marketing efforts, it may not offset the additional marketing expenses we incur.

We currently obtain a significant number of visits to our websites via organic search engine results. Search engines frequently change the algorithms that determine the ranking and display of results of a user's search, which could reduce the number of organic visits to our websites, in turn reducing new client acquisition and adversely affecting our operating results.

Social networks are important as a source of new clients and as a means by which to connect with current clients, and their importance may be increasing. We may be unable to effectively maintain a presence within these networks, which could lead to lower than anticipated brand affinity and awareness, and in turn could adversely affect our operating results.

With respect to our email marketing efforts, if we are unable to successfully deliver emails to our clients or if clients do not engage with our emails, whether out of choice, because those emails are marked as low priority or spam or for other reasons, our business could be adversely affected.

***We may be unable to maintain a high level of engagement with our clients and increase their spending with us, which could harm our business, financial condition or operating results.***

A high proportion of our revenue comes from repeat purchases by existing clients, especially those existing clients who are highly engaged and purchase a significant amount of merchandise from us. If existing clients no longer find our service and merchandise appealing, they may make fewer purchases and may stop using our service. Even if our existing clients continue to find our service and merchandise appealing, they may decide to receive fewer Fixes and purchase less merchandise over time as their demand for new apparel declines. Additionally, if clients who receive Fixes most frequently and purchase a significant amount of merchandise from us were to make fewer purchases or stop using our service, our financial results could be negatively affected. A decrease in the number of our clients or a decrease in their spending on the merchandise we offer could negatively impact our operating results. Further, we believe that our future success will depend in part on our ability to increase sales to our existing clients over time and, if we are unable to do so, our business may suffer.

***Compromises of our data security could cause us to incur unexpected expenses and may materially harm our reputation and operating results.***

In the ordinary course of our business, we and our vendors collect, process and store certain personal information and other data relating to individuals, such as our clients and employees, including client payment card information. We rely substantially on commercially available systems, software, tools and monitoring to provide security for our processing, transmission and storage of personal information and other confidential information. There can be no assurance, however, that we or our vendors will not suffer a data compromise, that hackers or other unauthorized parties will not gain access to personal information or other data, including payment card data or confidential business information, or that any such data compromise or access will be discovered in a timely fashion. The techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not identified until they are launched against a target, and we and our vendors may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, our

employees, contractors, vendors or other third parties with whom we do business may attempt to circumvent security measures in order to misappropriate such personal information, confidential information or other data, or may inadvertently release or compromise such data.

Compromise of our data security or of third parties with whom we do business, failure to prevent or mitigate the loss of personal or business information and delays in detecting or providing prompt notice of any such compromise or loss could disrupt our operations, damage our reputation and subject us to litigation, government action or other additional costs and liabilities that could adversely affect our business, financial condition and operating results.

***Our industry is highly competitive and if we do not compete effectively our operating results could be adversely affected.***

The retail apparel industry is highly competitive. We compete with eCommerce companies that market the same or similar merchandise and services that we offer, local, national and global department stores, specialty retailers, discount chains, independent retail stores and the online offerings of these traditional retail competitors. Additionally, we experience competition for consumer discretionary spending from other product and experiential categories. We believe our ability to compete depends on many factors within and beyond our control, including:

- effectively differentiating our service and value proposition from those of our competitors;
- attracting new clients and engaging with existing clients;
- our direct relationships with our clients and their willingness to share personal information with us;
- further developing our data science capabilities;
- maintaining favorable brand recognition and effectively marketing our services to clients;
- delivering merchandise that each client perceives as personalized to him or her;
- the amount, diversity and quality of brands and merchandise that we or our competitors offer;
- our ability to expand and maintain appealing Exclusive Brands and exclusive-to-Stitch Fix merchandise;
- the price at which we are able to offer our merchandise;
- the speed and cost at which we can deliver merchandise to our clients and the ease with which they can use our services to return merchandise; and
- anticipating and quickly responding to changing apparel trends and consumer shopping preferences.

Many of our current competitors have, and potential competitors may have, longer operating histories, larger fulfillment infrastructures, greater technical capabilities, faster shipping times, lower-cost shipping, larger databases, more purchasing power, higher profiles, greater financial, marketing, institutional and other resources and larger customer bases than we do. These factors may allow our competitors to derive greater revenue and profits from their existing customer bases, acquire customers at lower costs or respond more quickly than we can to new or emerging technologies, changes in apparel trends and consumer shopping behavior and changes in supply conditions. These competitors may engage in more extensive research and development efforts, enter or expand their presence in the personalized retail market, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies, which may allow them to build larger customer bases or generate revenue from their existing customer bases more effectively than we do. If we fail to execute on any of the above better than our competitors, our operating results may be adversely affected.

***If we are unable to develop and introduce new merchandise offerings or expand into new markets in a timely and cost-effective manner, our business, financial condition and operating results could be negatively impacted.***

The largest portion of our revenue today comes from the sale of Women's apparel. From 2015 to 2017, we expanded our merchandise offering into categories including Petite, Maternity, Men's and Plus, began offering different product types including shoes and accessories and expanded the number of brands we offer. In 2018, we also launched our Premium Brands, Extras and Kids offerings. In October 2018, we announced our intention to enter the UK market. We continue to explore additional offerings to serve our existing clients, attract new clients and expand our geographic scope.

New offerings may not have the same success, or gain traction as quickly, as our current offerings. If the merchandise we offer is not accepted by our clients or does not attract new clients, or if we are not able to attract clients in new markets such as the UK, our sales may fall short of expectations, our brand and reputation could be adversely affected and we may incur expenses that are not offset by sales. If the launch of a new category or in a new geography requires investments greater than we expect, our operating results could be adversely affected. Also, our business may be adversely affected if we are unable to attract brands and other merchandise vendors that produce sufficient high quality, appropriately priced and on-trend merchandise. For example, vendors in the UK may not be familiar with our company or brand, which may make it difficult for us to obtain the merchandise we seek or be able to purchase products at an appropriate price.

Our current merchandise offerings have a range of margin profiles and we believe new offerings will also have a broad range of margin profiles that will affect our operating results. New businesses generally contribute lower margins and imported merchandise may be subject to tariffs or duties that lower margins. Additionally, as we enter into new categories and markets, we may not have as high of purchasing power as we do in our current offerings, which could increase our costs of goods sold and further reduce our margins. Expansion of our merchandise offerings and geographic scope may also strain our management and operational resources, specifically the need to hire and manage additional merchandise buyers to source new merchandise and to allocate new categories across our distribution network. We may also face greater competition in specific categories or regions from companies that are more focused on these areas. For example, when we launch in the UK, we will compete with existing businesses that have been providing similar services in the region and may be more familiar with trends and customer preferences in that market. Also, our recent entry into the Kids' category means we now compete with a number of additional companies that have been in the Kids' category for a longer period of time and may have more experience in children's clothing. If any of the above were to occur, it could damage our reputation, limit our growth and have an adverse effect on our operating results.

***Expansion of our operations internationally will require management attention and resources, involves additional risks and may be unsuccessful.***

In October 2018, we announced plans to enter the UK market, and we may choose to expand to other international markets in the future. We have no experience with operating internationally or selling our merchandise outside of the United States, and when we expand internationally we will need to adapt to different local cultures, standards, laws and policies. The business model we employ and the merchandise we currently offer may not appeal to consumers outside of the United States. Furthermore, to succeed with clients in international locations, such as the UK, we will need to locate fulfillment centers in foreign markets and hire local employees, and we will have to invest in these facilities and employees before proving we can successfully run foreign operations. We may not be successful in expanding into international markets or in generating revenue from foreign operations for a variety of reasons, including:

- localization of our merchandise offerings, including translation into foreign languages and adaptation for local practices;
- different consumer demand dynamics, which may make our model and the merchandise we offer less successful compared to the United States;
- competition from local incumbents that understand the local market and may operate more effectively;
- regulatory requirements, taxes, trade laws, trade sanctions and economic embargoes, tariffs, export quotas, custom duties or other trade restrictions or any unexpected changes thereto;
- laws and regulations regarding anti-bribery and anti-corruption compliance;
- differing labor regulations where labor laws may be more advantageous to employees as compared to the United States and result in increased labor costs;
- more stringent regulations relating to privacy and data security and access to, or use of, commercial and personal information, particularly in Europe;
- changes in a specific country's or region's political or economic conditions; and
- risks resulting from changes in currency exchange rates.

If we invest substantial time and resources to establish and expand our operations internationally and are unable to do so successfully and in a timely manner, our operating results would suffer.

***We may not be able to sustain our revenue growth rate and we may not be profitable in the future.***

Our recent revenue growth and past profitability should not be considered indicative of our future performance. Our rate of revenue growth has varied in recent periods. Specifically, our revenue increased by 25.5% in 2018 compared to 2017, 33.8% in 2017 from 2016, and 113.0% in 2016 from 2015. As we grow our business, our revenue growth rates may slow in future periods due to a number of reasons, which may include slowing demand for our merchandise and service, increasing competition, a decrease in the growth rate of our overall market and our failure to capitalize on growth opportunities, as well as the maturation of our business.

Moreover, our expenses have increased in recent periods, and we expect expenses to increase substantially in the near term, particularly as we make significant investments in our marketing initiatives, expand our geographic markets, operations and infrastructure, develop and introduce new merchandise offerings and hire additional personnel. We may not always pursue short-term profits but are often focused on long-term growth, which may impact our financial results. In addition, in connection with operating as a public company, we are incurring additional significant legal, accounting and other expenses that we did not incur as a private company. If our revenue does not increase to offset increases in our operating expenses, we may not be profitable in future periods.

***We must successfully gauge apparel trends and changing consumer preferences.***

Our success is, in large part, dependent upon our ability to identify apparel trends, predict and gauge the tastes of our clients and provide a service that satisfies client demand in a timely manner. However, lead times for many of our purchasing decisions may make it difficult

for us to respond rapidly to new or changing apparel trends or client acceptance of merchandise chosen by our merchandising buyers. We generally enter into purchase contracts significantly in advance of anticipated sales and frequently before apparel trends are confirmed by client purchases. In the past, we have not always predicted our clients' preferences and acceptance levels of our merchandise with accuracy. Further, we use our data science to predict our clients' preferences and gauge demand for our merchandise, and there is no guarantee that our data science and algorithms will accurately anticipate client demand and tastes. Our planned entry into the UK will also require us to become familiar with different apparel trends and customer preferences. In addition, consumer shopping behavior may continue to evolve and we may need to adapt our service to such changes. To the extent we misjudge the market for the service we offer or fail to execute on trends and deliver attractive merchandise to clients, our sales will decline and our operating results will be adversely affected.

***If we are unable to manage our inventory effectively, our operating results could be adversely affected.***

To ensure timely delivery of merchandise, we generally enter into purchase contracts well in advance of a particular season and often before apparel trends are confirmed by client purchases. As a result, we are vulnerable to demand and pricing shifts and to suboptimal selection and timing of merchandise purchases. In the past, we have not always predicted our clients' preferences and acceptance levels of our trend items with accuracy, which has resulted in significant inventory write offs and lower gross margins. Furthermore, we do not use the same liquidation methods as traditional retailers, such as markdowns. We rely on our merchandising team to order styles and products that our clients will purchase and we rely on our data science to inform the levels of inventory we purchase, including when to reorder items that are selling well and when to write off items that are not selling well. If our merchandise team does not predict client demand and tastes well or if our algorithms do not help us reorder the right products or write off the right products timely, we may not effectively manage our inventory and our operating results could be adversely affected.

***Our business depends on a strong brand and we may not be able to maintain our brand and reputation.***

We believe that maintaining the Stitch Fix brand and reputation is critical to driving client engagement and attracting clients and merchandise vendors. Building our brand will depend largely on our ability to continue to provide our clients with valued personal styling services and high-quality merchandise, which we may not do successfully. Client complaints or negative publicity about our styling services, merchandise, delivery times or client support, especially on social media platforms, could harm our reputation and diminish client use of our services, the trust that our clients place in Stitch Fix and vendor confidence in us.

Our brand depends in part on effective client support, which requires significant personnel expense. Failure to manage or train our client support representatives properly or inability to handle client complaints effectively could negatively affect our brand, reputation and operating results.

If we fail to cost-effectively promote and maintain the Stitch Fix brand, our business, financial condition and operating results may be adversely affected.

***If we fail to attract and retain key personnel, effectively manage succession or hire, develop and motivate our employees, our business, financial condition and operating results could be adversely affected.***

Our success, including our ability to anticipate and effectively respond to changing style trends and deliver a personalized styling experience, depends in part on our ability to attract and retain key personnel on our executive team and in our merchandising, algorithms, engineering, marketing, styling and other organizations.

We do not have long-term employment or non-competition agreements with any of our personnel. Senior employees have left Stitch Fix in the past and others may in the future, which we cannot necessarily anticipate and whom we may not be able to promptly replace. The loss of one or more of our key personnel or the inability to promptly identify a suitable successor to a key role could have an adverse effect on our business. In particular, our Founder and Chief Executive Officer has unique and valuable experience leading our company from its inception through today. If she were to depart or otherwise reduce her focus on Stitch Fix, our business may be disrupted. We do not currently maintain key-person life insurance policies on any member of our senior management team and other key employees.

We also face significant competition for personnel, particularly in the San Francisco Bay Area where our headquarters are located. To attract top talent, we have had to offer, and believe we will need to continue to offer, competitive compensation and benefits packages before we can validate the productivity of those employees. We may also need to increase our employee compensation levels in response to competition. We cannot be sure that we will be able to attract, retain and motivate a sufficient number of qualified personnel in the future, or that the compensation costs of doing so will not adversely affect our operating results. Additionally, we may not be able to hire new employees quickly enough to meet our needs. If we fail to effectively manage our hiring needs or successfully integrate new hires, our efficiency, ability to meet forecasts and maintain employee morale, productivity and retention could suffer, which may have an adverse effect on our business, financial condition and operating results.

***If we fail to effectively manage our stylists, our business, financial condition and operating results could be adversely affected.***

More than 3,900 of our employees are stylists, who work remotely and on a part-time basis for us and are paid hourly. They track and report the time they spend working for us. These employees are classified as nonexempt under federal and state law. If we fail to effectively manage our stylists, including by ensuring accurate tracking and reporting of their hours worked and proper processing of their hourly wages, then we may face claims alleging violations of wage and hour employment laws, including, without limitation, claims of back

wages, unpaid overtime pay and missed meal and rest periods. Any such employee litigation could be attempted on a class or representative basis. Such litigation can be expensive and time-consuming regardless of whether the claims against us are valid or whether we are ultimately determined to be liable, and could divert management's attention from our business. We could also be adversely affected by negative publicity, litigation costs resulting from the defense of these claims and the diversion of time and resources from our operations.

***Our business, including our costs and supply chain, is subject to risks associated with sourcing, manufacturing and warehousing.***

We currently source nearly all of the merchandise we offer from third-party vendors, many of whom use manufacturers in the same geographic region, and as a result we may be subject to price fluctuations or demand disruptions. Our operating results would be negatively impacted by increases in the cost of our merchandise, and we have no guarantees that costs will not rise. In addition, as we expand into new categories, product types and geographies, we expect that we may not have strong purchasing power in these new areas, which could lead to higher costs than we have historically seen in our current categories. We may not be able to pass increased costs on to clients, which could adversely affect our operating results.

The fabrics used by our vendors are made of raw materials including petroleum-based products and cotton. Significant price fluctuations or shortages in petroleum, cotton or other raw materials could significantly increase our cost of goods sold. Moreover, in the event of a significant disruption in the supply of the fabrics or raw materials used in the manufacture of the merchandise we offer, our vendors might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price. For example, natural disasters have in the past increased raw material costs, impacting pricing with certain of our vendors, and caused shipping delays for certain of our merchandise. In addition, the labor costs to produce our products may fluctuate. Any delays, interruption, damage to or increased costs in the manufacture of the merchandise we offer could result in higher prices to acquire the merchandise, or non-delivery of merchandise altogether, and could adversely affect our operating results.

In addition, we cannot guarantee that merchandise we receive from vendors will be of sufficient quality or free from damage, or that such merchandise will not be damaged during shipping, while stored in one of our fulfillment centers or when returned by customers. While we take measures to ensure merchandise quality and avoid damage, including evaluating vendor product samples, conducting inventory inspections and inspecting returned product, we cannot control merchandise while it is out of our possession or prevent all damage while in our fulfillment centers. We may incur additional expenses and our reputation could be harmed if clients and potential clients believe that our merchandise is not of high quality or may be damaged.

***If we are unable to acquire new merchandise vendors or retain existing merchandise vendors, our operating results may be harmed.***

We offer merchandise from hundreds of established and emerging brands. In order to continue to attract and retain quality merchandise brands, we must help merchandise vendors increase their sales and offer them a high-quality, cost-effective fulfillment process.

If we do not continue to acquire new merchandise vendors or retain our existing merchandise vendors on acceptable commercial terms, we may not be able to maintain a broad selection of products for our clients, and our operating results may suffer.

In addition, our Exclusive Brands are sourced from third-party vendors and contract manufacturers. The loss of one of our Exclusive Brand vendors, or our inability to source any additional vendors needed for our Exclusive Brands, could require us to source Exclusive Brand merchandise from another vendor or manufacturer, which could cause inventory delays, impact our clients' experiences and otherwise harm our operating results.

***Any failure by us or our vendors to comply with product safety, labor or other laws, or our standard vendor terms and conditions, or to provide safe factory conditions for our or their workers, may damage our reputation and brand and harm our business.***

The merchandise we sell to our clients is subject to regulation by the Federal Consumer Product Safety Commission, the Federal Trade Commission and similar state and international regulatory authorities. As a result, such merchandise could in the future be subject to recalls and other remedial actions. Product safety, labeling and licensing concerns may result in us voluntarily removing selected merchandise from our inventory. Such recalls or voluntary removal of merchandise can result in, among other things, lost sales, diverted resources, potential harm to our reputation and increased client service costs and legal expenses, which could have a material adverse effect on our operating results. Our entry into children's clothing with Stitch Fix Kids also requires us to comply with additional product safety, labeling and other regulations and requirements, which result in increased operational and compliance costs and may adversely affect our operating results.

Some of the merchandise we sell may expose us to product liability claims and litigation or regulatory action relating to personal injury or environmental or property damage. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms or at all. In addition, some of our agreements with our vendors may not indemnify us from product liability for a particular vendor's merchandise or our vendors may not have sufficient resources or insurance to satisfy their indemnity and defense obligations.

We purchase our merchandise from numerous domestic and international vendors. Our standard vendor terms and conditions require vendors to comply with applicable laws. We have hired independent firms that conduct audits of the working conditions at the factories producing our Exclusive Brand products. If an audit reveals potential problems, we require that the vendor institute corrective action plans to bring the factory into compliance with our standards, or we may discontinue our relationship with the vendor. Failure of our vendors to comply with applicable laws and regulations and contractual requirements could lead to litigation against us, resulting in

increased legal expenses and costs. In addition, the failure of any such vendors to provide safe and humane factory conditions and oversight at their facilities could damage our reputation with clients or result in legal claims against us.

***We may incur significant losses from fraud.***

We have in the past incurred and may in the future incur losses from various types of fraud, including stolen credit card numbers, claims that a client did not authorize a purchase, merchant fraud and clients who have closed bank accounts or have insufficient funds in open bank accounts to satisfy payments. In addition to the direct costs of such losses, if the fraud is related to credit card transactions and becomes excessive, it could result in us paying higher fees or losing the right to accept credit cards for payment. In addition, under current credit card practices, we are typically liable for fraudulent credit card transactions. Our failure to adequately prevent fraudulent transactions could damage our reputation, result in litigation or regulatory action and lead to expenses that could substantially impact our operating results.

***We are subject to payment-related risks.***

We accept payments online via credit and debit cards, which subjects us to certain regulations and fraud, and we may in the future offer new payment options to clients that would be subject to additional regulations and risks. We pay interchange and other fees in connection with credit card payments, which may increase over time and adversely affect our operating results. While we use a third party to process payments, we are subject to payment card association operating rules and certification requirements, including the Payment Card Industry Data Security Standard and rules governing electronic funds transfers. If we fail to comply with applicable rules and regulations, we may be subject to fines or higher transaction fees and may lose our ability to accept online payments or other payment card transactions. If any of these events were to occur, our business, financial condition and operating results could be adversely affected.

***System interruptions that impair client access to our website or other performance failures in our technology infrastructure could damage our business.***

The satisfactory performance, reliability and availability of our website, mobile application, internal applications and technology infrastructure are critical to our business. We rely on our website and mobile application to engage with our clients and sell them merchandise. We also rely on a host of internal custom-built applications to run critical business functions, such as styling, merchandise purchasing, warehouse operations and order fulfillment. In addition, we rely on a variety of third-party, cloud-based solution vendors for key elements of our technology infrastructure. These systems are vulnerable to damage or interruption and we have experienced interruptions in the past. For example, in February 2017, as a result of an outage with Amazon Web Services, where much of our technology infrastructure is hosted, we experienced disruptions in applications that support our warehouse operations and order fulfillment that caused a temporary slowdown in the number of Fix shipments we were able to make. Interruptions may be caused by a variety of incidents, including human error, our failures to update or improve our proprietary systems, cyber attacks, fire, flood, power loss or telecommunications failures. Any failure or interruption of our website, mobile application, internal business applications or our technology infrastructure could harm our ability to serve our clients, which would adversely affect our business and operating results.

***Our use of personal information and other data subjects us to privacy laws and obligations, and our failure to comply with such obligations could harm our business.***

We collect and maintain significant amounts of personal information and other data relating to our clients and employees. Numerous laws, rules and regulations in the United States and internationally, including the EU's General Data Protection Regulation, or the GDPR, govern privacy and the collection, use and protection of personal information. These laws, rules and regulations evolve frequently and may be inconsistent from one jurisdiction to another or may be interpreted to conflict with our practices. Any failure or perceived failure by us or any third parties with which we do business to comply with these laws, rules and regulations, or with other obligations to which we may be or become subject, may result in actions against us by governmental entities, private claims and litigation, fines, penalties or other liabilities. Any such action would be expensive to defend, damage our reputation and adversely affect our business and operating results. For example, in May 2018, the GDPR went into effect in the EU. The GDPR imposed more stringent data protection requirements and provides greater penalties for noncompliance than previous data protection laws. Further, following a referendum in June 2016 in which voters in the UK approved an exit from the EU, the UK government has initiated a process to leave the EU, or Brexit. Brexit has created uncertainty with regard to the regulation of data protection in the UK. In particular, it is uncertain whether the UK will enact data protection laws or regulations designed to be consistent with the GDPR and how data transfers to and from the UK will be regulated. Similarly, in June 2018, the State of California legislature passed the California Consumer Privacy Act of 2018, or CCPA, which would require us to make new disclosures to consumers about our data collection, use and sharing practices. The CCPA also allows consumers to opt out of certain data sharing with third parties, and provides a new cause of action for data breaches. As currently enacted, the act takes effect on January 1, 2020. Additionally, the Federal Trade Commission and many state attorneys general are interpreting federal and state consumer protection laws as imposing standards for the online collection, use, dissemination and security of data.



***Unfavorable changes or failure by us to comply with evolving internet and eCommerce regulations could substantially harm our business and operating results.***

We are subject to general business regulations and laws as well as regulations and laws specifically governing the internet and eCommerce. These regulations and laws may involve taxes, privacy and data security, consumer protection, the ability to collect and/or share necessary information that allows us to conduct business on the internet, marketing communications and advertising, content protection, electronic contracts or gift cards. Furthermore, the regulatory landscape impacting internet and eCommerce businesses is constantly evolving. For example, in 2010, California's Automatic Renewal Law went into effect, requiring companies to adhere to enhanced disclosure requirements when entering into automatically renewing contracts with consumers. As a result, a wave of consumer class action lawsuits was brought against companies that offer online products and services on a subscription or recurring basis. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, lost business and proceedings or actions against us by governmental entities or others, which could impact our operating results.

***Material weaknesses in our internal control over financial reporting may cause us to fail to timely and accurately report our financial results or result in a material misstatement of our financial statements.***

As of July 28, 2018, we had a material weakness in our internal control over financial reporting, as defined in the standards established by the Sarbanes-Oxley Act of 2002, (the "Sarbanes-Oxley Act"). 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 our financial statements will not be prevented or detected on a timely basis.

The material weakness identified in our internal control over financial reporting primarily related to our accounting and proprietary systems used in our financial reporting process not having the proper level of controls. Specifically, our systems lacked controls over access, program change management and computer operations that are needed to ensure access to financial data is adequately restricted to appropriate personnel. As a result of this material weakness, we have initiated and will continue to implement remediation measures including, but not limited to, engaging external consultants to conduct a review of processes that involve financial data within our accounting and proprietary systems. This review, which is ongoing, includes the identification of potential risks, documentation of processes and recommendations for improvements.

We are still in the process of completing the remediation of the material weakness related to our accounting and proprietary systems. However, we cannot assure you that the steps we are taking will be sufficient to remediate our material weakness or prevent future material weaknesses or significant deficiencies from occurring.

If we identify future material weaknesses in our internal controls over financial reporting or fail to meet the demands placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act, we may be unable to accurately report our financial results or report them within the timeframes required by law or stock exchange regulations. Failure to comply with Section 404 of the Sarbanes-Oxley Act could also potentially subject us to sanctions or investigations by the SEC or other regulatory authorities. If additional material weaknesses exist or are discovered in the future, and we are unable to remediate any such material weakness, our reputation, financial condition and operating results could suffer.

***Shipping is a critical part of our business and any changes in our shipping arrangements or any interruptions in shipping could adversely affect our operating results.***

We currently rely on two major vendors for our shipping. If we are not able to negotiate acceptable pricing and other terms with these entities or they experience performance problems or other difficulties, it could negatively impact our operating results and our clients' experience. In addition, our ability to receive inbound inventory efficiently and ship merchandise to clients may be negatively affected by inclement weather, fire, flood, power loss, earthquakes, labor disputes, acts of war or terrorism and similar factors. For example, strikes at major international shipping ports have in the past impacted our supply of inventory from our vendors. In addition, as a result of Hurricane Harvey in September 2017, one of our shipping vendors was unable to deliver Fixes to certain affected areas for several weeks, resulting in delivery delays and Fix cancellations. We are also subject to risks of damage or loss during delivery by our shipping vendors. If our merchandise is not delivered in a timely fashion or is damaged or lost during the delivery process, our clients could become dissatisfied and cease using our services, which would adversely affect our business and operating results.

***Our operating results could be adversely affected by natural disasters, public health crises, political crises or other catastrophic events.***

Our principal offices and one of our fulfillment centers are located in the San Francisco Bay Area, which has a history of earthquakes, and are thus vulnerable to damage. We also operate offices and fulfillment centers in other regions. Natural disasters, such as earthquakes, hurricanes, tornadoes, floods and other adverse weather and climate conditions; unforeseen public health crises, such as pandemics and epidemics; political crises, such as terrorist attacks, war and other political instability; or other catastrophic events, whether occurring in the United States or internationally, could disrupt our operations in any of our offices and fulfillment centers or the operations of one or more of our third-party providers or vendors. In particular, these types of events could impact our merchandise supply chain, including our ability to ship merchandise to clients from or to the impacted region, and could impact our ability or the ability of third parties to operate our sites and ship merchandise. In addition, these types of events could negatively impact consumer spending in the impacted regions. To the extent any of these events occur, our business and operating results could be adversely affected.

***If we cannot successfully protect our intellectual property, our business would suffer.***

We rely on trademark, copyright, trade secrets, patents, confidentiality agreements and other practices to protect our brands, proprietary information, technologies and processes. Our principal trademark assets include the registered trademarks "Stitch Fix" and "Fix," multiple private label clothing and accessory brand names and our logos and taglines. Our trademarks are valuable assets that support our brand and consumers' perception of our services and merchandise. We also hold the rights to the "stitchfix.com" internet domain name and various other related domain names, which are subject to internet regulatory bodies and trademark and other related laws of each applicable jurisdiction. If we are unable to protect our trademarks or domain names in the United States, the UK or in other jurisdictions in which we may ultimately operate, our brand recognition and reputation would suffer, we would incur significant expense establishing new brands and our operating results would be adversely impacted.

We currently have one patent issued and six patent applications pending in the United States. We also have four patent applications filed in the People's Republic of China. The patent we own and those that may be issued in the future may not provide us with any competitive advantages or may be challenged by third parties, and our patent applications may never be granted. Even if issued, there can be no assurance that these patents will adequately protect our intellectual property or survive a legal challenge, as the legal standards relating to the validity, enforceability and scope of protection of patent and other intellectual property rights are uncertain. Our limited patent protection may restrict our ability to protect our technologies and processes from competition. We primarily rely on trade secret laws to protect our technologies and processes, including the algorithms we use throughout our business. Others may independently develop the same or similar technologies and processes, or may improperly acquire and use information about our technologies and processes, which may allow them to provide a service similar to ours, which could harm our competitive position.

We may be required to spend significant resources to monitor and protect our intellectual property rights, and the efforts we take to protect our proprietary rights may not be sufficient.

***We may be accused of infringing intellectual property rights of third parties.***

We are also at risk of claims by others that we have infringed their copyrights, trademarks or patents, or improperly used or disclosed their trade secrets. The costs of supporting any litigation or disputes related to these claims can be considerable, and we cannot assure you that we will achieve a favorable outcome of any such claim. If any such claims are valid, we may be compelled to cease our use of such intellectual property and pay damages, which could adversely affect our business. Even if such claims are not valid, defending them could be expensive and distracting, adversely affecting our operating results.

***We could be required to collect additional sales taxes or be subject to other tax liabilities that may increase the costs our clients would have to pay for our offering and adversely affect our operating results.***

In general, we have not historically collected state or local sales, use or other similar taxes in any jurisdictions in which we do not have a tax nexus, in reliance on court decisions or applicable exemptions that restrict or preclude the imposition of obligations to collect such taxes with respect to online sales of our products. In addition, we have not historically collected state or local sales, use or other similar taxes in certain jurisdictions in which we do have a physical presence, in reliance on applicable exemptions. On June 21, 2018, the U.S. Supreme Court decided, in *South Dakota v. Wayfair, Inc.*, that state and local jurisdictions may, at least in certain circumstances, enforce a sales and use tax collection obligation on remote vendors that have no physical presence in such jurisdiction. A number of states have already begun, or have positioned themselves to begin, requiring sales and use tax collection by remote vendors and/or by online marketplaces. The details and effective dates of these collection requirements vary from state to state. We are in the process of determining how and when our collection practices will need to change in the relevant jurisdictions. It is possible that one or more jurisdictions may assert that we have liability for periods for which we have not collected sales, use or other similar taxes, and if such an assertion or assertions were successful it could result in substantial tax liabilities, including for past sales taxes and penalties and interest, which could materially adversely affect our business, financial condition and operating results.

***Federal income tax reform could have unforeseen effects on our financial condition and results of operations.***

The Tax Cuts and Jobs Act, or the Tax Act, was enacted on December 22, 2017, and contains many significant changes to U.S. federal tax laws. The Tax Act requires complex computations that were not previously provided for under U.S. tax law. We have provided for an estimated effect of the Tax Act in our financial statements. The Tax Act requires significant judgments to be made in interpretation of the law and significant estimates in the calculation of the provision for income taxes. However, additional guidance may be issued by the Internal Revenue Service, or IRS, the Department of the Treasury, or other governing body that may significantly differ from our interpretation of the law, which may result in a material adverse effect on our business, cash flow, results of operations or financial conditions. As we complete our analysis of the Tax Act, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes and effective tax rate in the period in which the adjustments are made.

***We may be subject to additional tax liabilities, which could adversely affect our operating results.***

We are subject to income- and non-income-based taxes in the United States under federal, state and local jurisdictions. The governing tax laws and applicable tax rates vary by jurisdiction and are subject to interpretation, which tax authorities may disagree with upon review or audit across open examination periods. Various tax authorities may disagree with tax positions we take and if any such tax authority were to successfully challenge one or more of our tax positions, the results could have a material effect on our operating results.

Further, the ultimate amount of tax payable in a given financial statement period may be materially impacted by sudden or unforeseen changes in tax laws, changes in the mix and level of earnings by taxing jurisdictions, or changes to existing accounting rules or regulations. For example, on July 24, 2018, the Ninth Circuit Court of Appeals issued an opinion in *Altera Corp. v. Commissioner* requiring related parties in an intercompany cost-sharing arrangement to share expenses related to stock-based compensation. On August 7, 2018, the opinion was withdrawn to allow time for a reconstituted panel to confer. We are monitoring this case and any impact the final opinion could have on our financial statements. The determination of our overall provision for income and other taxes is inherently uncertain as it requires significant judgment around complex transactions and calculations. As a result, fluctuations in our ultimate tax obligations may differ materially from amounts recorded in our financial statements and could adversely affect our business, financial condition and operating results in the periods for which such determination is made.

***Changes in U.S. tax or tariff policy regarding apparel produced in other countries could adversely affect our business.***

A predominant portion of the apparel we sell is originally manufactured in countries other than the United States. The U.S. government has at times indicated a willingness to significantly change existing trade policies. This exposes us to risks of disruption and cost increases in our established patterns for sourcing our merchandise, and creates increased uncertainties in planning our sourcing strategies and forecasting our margins. Changes in U.S. tariffs, quotas, trade relationships or tax provisions could reduce the supply of goods available to us or increase our cost of goods. Although such changes would have implications across the entire industry, we may fail to effectively adapt and to manage the adjustments in strategy that would be necessary in response to those changes. In addition to the general uncertainty and overall risk from potential changes in U.S. laws and policies, as we make business decisions in the face of uncertainty as to potential changes, we may incorrectly anticipate the outcomes, miss out on business opportunities or fail to effectively adapt our business strategies and manage the adjustments that are necessary in response to those changes. These risks could adversely affect our revenues, reduce our profitability and negatively impact our business.

***We may require additional capital to support business growth, and this capital might not be available or may be available only by diluting existing stockholders.***

We intend to continue making investments to support our business growth and may require additional funds to support this growth and respond to business challenges, including the need to develop our services, expand our inventory, enhance our operating infrastructure, expand the markets in which we operate and potentially acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our Class A common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, and our business and prospects could fail or be adversely affected.

***Our failure to adequately and effectively staff our fulfillment centers, through third parties or with our own employees, could adversely affect our client experience and operating results.***

We currently receive and distribute merchandise at five fulfillment centers in the United States, one of which is operated by a third party. We also intend to open a sixth fulfillment center in the UK in connection with our entry into the UK market, which will be operated by the same third party that we use in the United States. If we or our third-party partner are unable to adequately staff our fulfillment centers to meet demand or if the cost of such staffing is higher than historical or projected costs due to mandated wage increases, regulatory changes, international expansion or other factors, our operating results could be harmed. In addition, operating fulfillment centers comes with potential risks, such as workplace safety issues and employment claims for the failure or alleged failure to comply with labor laws or laws respecting union organizing activities. Furthermore, if we fail to comply with wage and hour laws for our nonexempt employees, many of whom work in our fulfillment centers, we could be subject to legal risk, including claims for back wages, unpaid overtime pay and missed meal and rest periods, which could be on a class or representative basis. Any such issues may result in delays in shipping times, reduced packing quality or costly litigation, and our reputation and operating results may be harmed.

By using a third-party operator for some of our fulfillment centers, we also face additional risks associated with not having complete control over operations at those fulfillment centers. Any deterioration in the financial condition or operations of that third party, or the loss of the relationship with that third party, would have significant impact on our operations.

***Some of our software and systems contain open source software, which may pose particular risks to our proprietary applications.***

We use open source software in the applications we have developed to operate our business and will use open source software in the future. We may face claims from third parties demanding the release or license of the open source software or derivative works that we developed from such software (which could include our proprietary source code) or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to purchase a costly license, publicly release the affected portions of our source code or cease offering the implicated solutions unless and until we can re-engineer them to avoid infringement. In addition, our use of open source software may present additional security risks because the source code for open source software is

publicly available, which may make it easier for hackers and other third parties to determine how to breach our website and systems that rely on open source software. Any of these risks could be difficult to eliminate or manage and, if not addressed, could have an adverse effect on our business and operating results.

***Adverse litigation judgments or settlements resulting from legal proceedings in which we may be involved could expose us to monetary damages or limit our ability to operate our business.***

We have in the past and may in the future become involved in private actions, collective actions, investigations and various other legal proceedings by clients, employees, suppliers, competitors, government agencies or others. The results of any such litigation, investigations and other legal proceedings are inherently unpredictable and expensive. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, damage our reputation, require significant amounts of management time and divert significant resources. If any of these legal proceedings were to be determined adversely to us, or we were to enter into a settlement arrangement, we could be exposed to monetary damages or limits on our ability to operate our business, which could have an adverse effect on our business, financial condition and operating results.

***If we are unable to make acquisitions and investments, or successfully integrate them into our business, our business could be harmed.***

As part of our business strategy, we may acquire other companies or businesses. However, we may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. Acquisitions involve numerous risks, any of which could harm our business and negatively affect our operating results, including:

- difficulties in integrating the technologies, operations, existing contracts and personnel of an acquired company;
- difficulties in supporting and transitioning clients and suppliers, if any, of an acquired company;
- diversion of financial and management resources from existing operations or alternative acquisition opportunities;
- failure to realize the anticipated benefits or synergies of a transaction;
- failure to identify all of the problems, liabilities or other shortcomings or challenges of an acquired company or technology, including issues related to intellectual property, regulatory compliance practices, revenue recognition or other accounting practices, or employee or client issues;
- risks of entering new markets in which we have limited or no experience;
- potential loss of key employees, clients, vendors and suppliers from either our current business or an acquired company's business;
- inability to generate sufficient revenue to offset acquisition costs;
- additional costs or equity dilution associated with funding the acquisition; and
- possible write-offs or impairment charges relating to acquired businesses.

#### **Risks Relating to Ownership of Our Class A Common Stock**

***The market price of our Class A common stock may be volatile or may decline steeply or suddenly regardless of our operating performance and we may not be able to meet investor or analyst expectations. You may lose all or part of your investment.***

The market price of our Class A common stock may fluctuate or decline significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our client base, the level of client engagement, revenue or other operating results;
- variations between our actual operating results and the expectations of securities analysts, investors and the financial community;
- any forward-looking financial or operating information we may provide to the public or securities analysts, any changes in this information or our failure to meet expectations based on this information;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- whether investors or securities analysts view our stock structure unfavorably, particularly our dual-class structure and the significant voting control of our executive officers, directors and their affiliates;
- additional shares of our Class A common stock being sold into the market by us or our existing stockholders, or the anticipation of such sales;
- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;

- changes in operating performance and stock market valuations of companies in our industry, including our vendors and competitors;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- lawsuits threatened or filed against us;
- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

In addition, extreme price and volume fluctuations in the stock markets have affected and continue to affect many eCommerce and other technology companies' stock prices. Often, their stock prices have fluctuated in ways unrelated or disproportionate to the companies' operating performance. In the past, stockholders have filed securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and seriously harm our business.

Moreover, because of these fluctuations, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. This variability and unpredictability could also result in our failing to meet the expectations of industry or financial analysts or investors for any period. If our revenue or operating results fall below the expectations of analysts or investors or below any forecasts we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our Class A common stock could decline substantially. Such a stock price decline could occur even when we have met any previously publicly stated revenue or earnings forecasts that we may provide.

***An active trading market for our Class A common stock may not be sustained.***

Our Class A common stock is currently listed on the Nasdaq Global Select Market, or Nasdaq, under the symbol "SFIX" and trades on that market and others. We cannot assure you that an active trading market for our Class A common stock will be sustained. Accordingly, we cannot assure you of the liquidity of any trading market, your ability to sell your shares of our Class A common stock when desired or the prices that you may obtain for your shares.

***Future sales of shares by existing stockholders could cause our stock price to decline.***

If our existing stockholders sell or indicate an intention to sell, substantial amounts of our Class A common stock in the public market, the trading price of our Class A common stock could decline. In addition, shares underlying any outstanding options and restricted stock units will become eligible for sale if exercised or settled, as applicable, and to the extent permitted by the provisions of various vesting agreements and Rule 144 of the Securities Act. All the shares of Class A and Class B common stock subject to stock options and restricted stock units outstanding and reserved for issuance under our 2011 Equity Incentive Plan, as amended, and our 2017 Incentive Plan have been registered on Form S-8 under the Securities Act and such shares are eligible for sale in the public markets, subject to Rule 144 limitations applicable to affiliates. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our Class A common stock could decline.

***The dual class structure of our common stock concentrates voting control with our executive officers, directors and their affiliates, and may depress the trading price of our Class A common stock.***

Our Class B common stock has ten votes per share and our Class A common stock has one vote per share. As a result, the holders of our Class B common stock, including our directors and executive officers and their affiliates, will be able to exercise considerable influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or our assets, even if their stock holdings represent less than 50% of the outstanding shares of our capital stock. This concentration of ownership will limit the ability of other stockholders to influence corporate matters and may cause us to make strategic decisions that could involve risks to you or that may not be aligned with your interests. This control may adversely affect the market price of our Class A common stock.

In addition, in July 2017, FTSE Russell and Standard & Poor's announced that they would cease to allow most newly public companies utilizing dual or multi-class capital structures to be included in their indices. Affected indices include the Russell 2000 and the S&P 500, S&P MidCap 400 and S&P SmallCap 600, which together make up the S&P Composite 1500. Under the announced policies, our dual class capital structure makes us ineligible for inclusion in any of these indices and, as a result, mutual funds, exchange-traded funds and other investment vehicles that attempt to passively track these indices will not be investing in our stock. These policies are new and it is unclear what effect, if any, they will have on the valuations of publicly traded companies excluded from the indices, but it is possible that they may depress these valuations compared to those of other similar companies that are included.

***If securities or industry analysts either do not publish research about us or publish inaccurate or unfavorable research about us, our business or our market, or if they change their recommendations regarding our common stock adversely, the trading price or trading volume of our Class A common stock could decline.***

The trading market for our Class A common stock is influenced in part by the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors. If one or more of the analysts initiate research with an unfavorable rating or downgrade our Class A common stock, provide a more favorable recommendation about our competitors or publish inaccurate or unfavorable research about our business, our Class A common stock price would likely decline. If any analyst who may cover us were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the trading price or trading volume of our Class A common stock to decline.

***We do not currently intend to pay dividends on our Class A common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation of the value of our Class A common stock.***

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to pay any cash dividends on our Class A common stock in the foreseeable future. As a result, any investment return on our Class A common stock will depend upon increases in the value for our Class A common stock, which is not certain.

***Future securities sales and issuances could result in significant dilution to our stockholders and impair the market price of our Class A common stock.***

We may issue additional equity securities in the future. We also issue common stock to our employees and others under our incentive plans. As of September 27, 2018, 58,806,498 of our 99,132,928 shares outstanding were held by directors, executive officers and other affiliates. Future issuances of shares of our Class A common stock or the conversion of a substantial number of shares of our Class B common stock, or the perception that these sales or conversions may occur, could depress the market price of our Class A common stock and result in dilution to existing holders of our Class A common stock. Also, to the extent outstanding options to purchase our shares of our Class A or Class B common stock are exercised or options or other stock-based awards are issued or become vested, there will be further dilution. The amount of dilution could be substantial depending upon the size of the issuances or exercises. Furthermore, we may issue additional equity securities that could have rights senior to those of our Class A common stock. As a result, holders of our Class A common stock bear the risk that future issuances of debt or equity securities may reduce the value of our Class A common stock and further dilute their ownership interest.

***The requirements of being a public company may strain our resources, result in more litigation and divert management's attention.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, the listing requirements of the Nasdaq and other applicable securities rules and regulations. Complying with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, make some activities more difficult, time consuming or costly and increase demand on our systems and resources. To address these challenges, we recently expanded our finance and accounting teams. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are required to disclose changes made in our internal control and procedures on a quarterly basis. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. We may need to hire additional employees or engage outside consultants to comply with these requirements, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

These new rules and regulations may make it more expensive for us to obtain director and officer liability insurance and, in the future, we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

By disclosing information in filings required of a public company, our business and financial condition are more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If those claims are successful, our business could be seriously harmed. Even if the claims do not result in litigation or are resolved in our favor, the time and resources needed to resolve them could divert our management's resources and seriously harm our business.

***Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our Class A common stock.***

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could depress the trading price of our Class A common stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions include the following:

- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- permit the board of directors to establish the number of directors and fill any vacancies and newly-created directorships;
- provide that directors may only be removed for cause;
- require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- authorize the issuance of "blank check" preferred stock that our board of directors could use to implement a stockholder rights plan;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws;
- restrict the forum for certain litigation against us to Delaware;
- reflect the dual class structure of our common stock; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

Any provision of our amended and restated certificate of incorporation or amended and restated bylaws that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

***Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware and the federal district courts of the United States are the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.***

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a breach of fiduciary duty;
- any action asserting a claim against us arising under the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; and
- any action asserting a claim against us that is governed by the internal affairs doctrine.

Our amended and restated certificate of incorporation further provides that the federal district courts of the United States will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act.

These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage lawsuits against us and our directors, officers and other employees. We are currently subject to a stockholder derivative action regarding the validity of the federal exclusive forum provision. If a court were to find either exclusive-forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could seriously harm our business.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

Our corporate headquarters are located in San Francisco, California and comprise approximately 134,000 square feet of space. We also operate a photography studio in San Francisco that is approximately 19,200 square feet. Our current leases on these facilities, entered into in January 2016 and February 2016, respectively, expire in May 2028 and May 2021, respectively.

We lease an additional 36,200 square feet of office space in Texas, where our client experience team is based, and 3,300 square feet of space for an engineering office in Pennsylvania.

We also lease and operate four fulfillment centers, comprising a total of approximately 1,478,000 square feet, at which we receive merchandise from vendors, ship products to clients and receive and process returns from clients. These facilities are located in California, Arizona, Texas and Pennsylvania. Our fifth fulfillment center in Indiana, representing approximately 400,000 square feet, is leased and operated by a third-party logistics contractor. In August 2018, we signed a letter of intent with a third-party logistics contractor to lease and operate a fulfillment center in Leicester, England.

In addition, we own approximately 24,000 square feet of space in Pennsylvania that houses the apparel manufacturing assets we acquired in October 2017.

We believe our facilities, including our planned expansions, are sufficient for our current needs.

**Item 3. Legal Proceedings.**

We are not party to any material legal proceedings at this time. From time to time, we may become involved in various legal proceedings that arise in the ordinary course of business. We have in the past and may in the future become involved in private actions, collective actions, investigations and various other legal proceedings by clients, employees, suppliers, competitors, government agencies, stockholders or others. We evaluate any claims and lawsuits with respect to their potential merits, our potential defenses and counter claims, and the expected effect on us of defending the claims and a potential adverse result. However, the results of any litigation, investigations and other legal proceedings are inherently unpredictable and expensive. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, damage our reputation, require significant amounts of management time and divert significant resources. If any legal proceedings were to be determined adversely to us, or we were to enter into a settlement arrangement, we could be exposed to monetary damages or limits on our ability to operate our business, which could have an adverse effect on our business, financial condition and operating results.

**Item 4. Mine Safety Disclosures.**

None.



## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### Market Information for Common Stock

Our Class A common stock, par value \$0.00002 per share, is listed on the Nasdaq Global Select Market, under the symbol "SFIX" and began trading on November 17, 2017. Prior to that date, there was no public trading market for our Class A common stock. There is no public trading market for our Class B common stock, par value \$0.00002 per share.

The following table sets forth on a per-share basis the high and low intraday sales prices of our Class A common stock, as reported on the Nasdaq Global Select Market, for the periods indicated:

	For the Fiscal Year Ended July 28, 2018	
	High	Low
Quarterly period ended October 28, 2017	n/a	n/a
Quarterly period ended January 27, 2018 (from November 17, 2017)	\$ 30.07	\$ 14.48
Quarterly period ended April 28, 2018	\$ 26.00	\$ 18.00
Quarterly period ended July 28, 2018	\$ 35.45	\$ 18.02

#### Holdings of Record

As of the close of business on September 27, 2018, there were 47 stockholders of record of our Class A common stock and 59 stockholders of record of our Class B common stock. The actual number of holders of our Class A and Class B common stock is greater than the number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers or other nominees. The number of holders of record presented here also does not include stockholders whose shares may be held in trust by other entities.

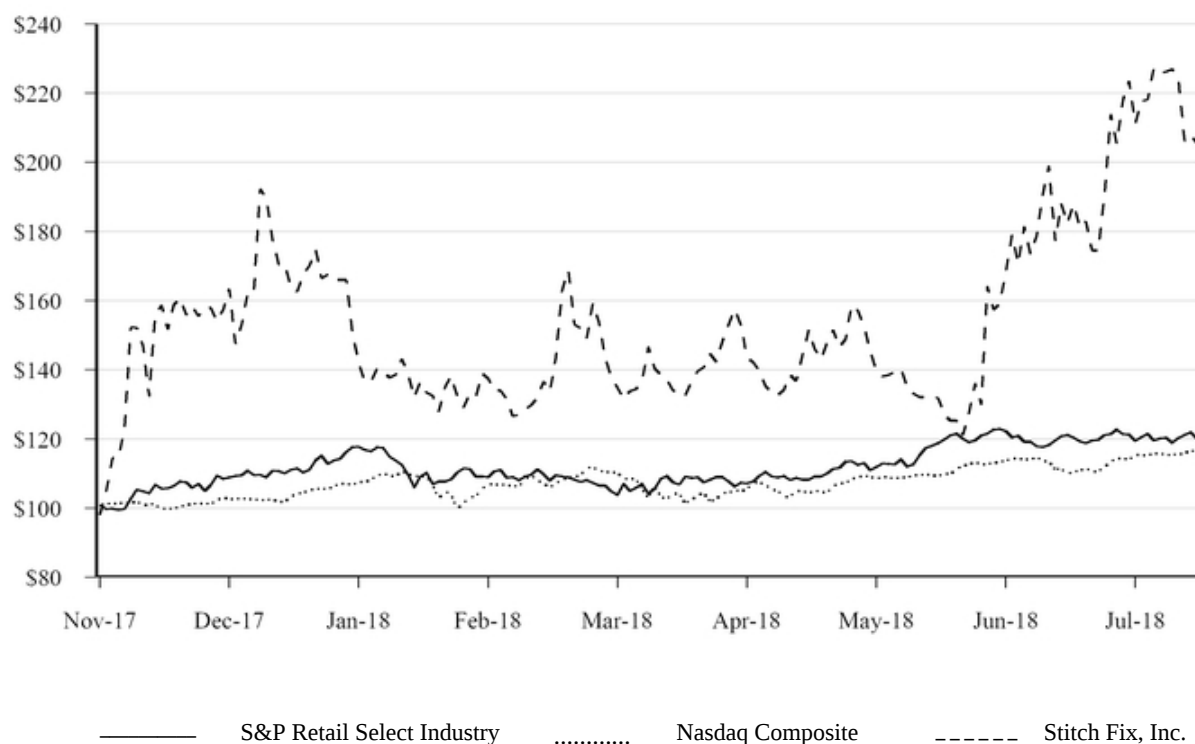
#### Dividend Policy

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and future earnings, if any, to fund the development and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future. Any future determination regarding the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

#### Cumulative Stock Performance Graph

The following graph compares the cumulative total return to stockholders on our Class A common stock relative to the cumulative total returns of the Standard and Poor's Retail Select Industry Index (S&P Retail Select Industry) and Nasdaq Composite Index (Nasdaq Composite). An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our Class A common stock and in each index on November 17, 2017, the date our Class A common stock began trading on the Nasdaq, and its relative performance is tracked through July 28, 2018. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our Class A common stock.

### Cumulative Stock Performance Graph



The following table assumes an investment of \$100 (with reinvestment of all dividends) to have been made in our Class A common stock and in each index on November 17, 2017, the date our Class A common stock began trading on the Nasdaq, and indicates the cumulative total return to stockholders on our Class A common stock and the cumulative total return of each index at our fiscal year end of July 28, 2018:

(in dollars)	November 17, 2017		July 28, 2018	
S&P Retail Select Industry	\$	100.00	\$	118.27
Nasdaq Composite	\$	100.00	\$	114.07
Stitch Fix, Inc.	\$	100.00	\$	194.79

*The information under “Cumulative Stock Performance Graph” is not deemed to be “soliciting material” or “filed” with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act, and is not to be incorporated by reference in any filing of Stitch Fix under the Securities Act or the Exchange Act, whether made before or after the date of this Annual Report and irrespective of any general incorporation language in those filings.*

#### Unregistered Sales of Equity Securities

None.

#### Issuer Purchases of Equity Securities

None.

#### Item 6. Selected Consolidated and Other Financial Data.

The following selected consolidated financial and other data should be read in conjunction with, and are qualified by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our audited consolidated financial statements and the accompanying notes included elsewhere in this Annual Report. The consolidated statements of operations data for the fiscal years ended July 28, 2018, July 29, 2017, and July 30, 2016, and the consolidated balance sheet data as of July 28, 2018, and

July 29, 2017, are derived from the audited consolidated financial statements that are included elsewhere in this Annual Report. The consolidated statements of operations data for the fiscal years ended August 1, 2015, and August 2, 2014, as well as the consolidated balance sheet data as of July 30, 2016, August 1, 2015, and August 2, 2014, are derived from audited consolidated financial statements that are not included in this Annual Report. We have included, in our opinion, all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of the financial information set forth in those statements. Our historical results are not necessarily indicative of the results to be expected in any period in the future.

(in thousands, except per share data)	For the Fiscal Year Ended				
	July 28, 2018	July 29, 2017	July 30, 2016	August 1, 2015	August 2, 2014
Revenue, net	\$ 1,226,505	\$ 977,139	\$ 730,313	\$ 342,803	\$ 73,227
Cost of goods sold	690,483	542,718	407,064	198,054	47,425
Gross profit	536,022	434,421	323,249	144,749	25,802
Selling, general and administrative expenses <sup>(1)(2)</sup>	492,998	402,781	259,021	108,562	30,242
Operating income	43,024	31,640	64,228	36,187	(4,440)
Remeasurement of preferred stock warrant liability	(10,685)	18,881	3,019	2,938	1,534
Other income, net	(1,004)	(42)	(13)	(2)	336
Income (loss) before income taxes	54,713	12,801	61,222	33,251	(6,310)
Provision for income taxes	9,813	13,395	28,041	12,322	23
Net income (loss) and comprehensive income (loss)	\$ 44,900	\$ (594)	\$ 33,181	\$ 20,929	\$ (6,333)
Net income (loss) attributable to common stockholders: <sup>(3)</sup>					
Basic	\$ 35,541	\$ (594)	\$ 8,211	\$ 4,573	\$ (6,333)
Diluted	\$ 27,285	\$ (594)	\$ 9,496	\$ 5,318	\$ (6,333)
Earnings (loss) per share attributable to common stockholders: <sup>(3)</sup>					
Basic	\$ 0.47	\$ (0.02)	\$ 0.36	\$ 0.22	\$ (0.34)
Diluted	\$ 0.34	\$ (0.02)	\$ 0.34	\$ 0.21	\$ (0.34)
Weighted-average shares used to compute earnings per share attributable to common stockholders: <sup>(3)</sup>					
Basic	75,947,759	24,973,931	22,729,890	20,705,313	18,893,197
Diluted	81,288,418	24,973,931	27,882,844	25,452,912	18,893,197
<b>Other Financial and Operating Data</b>					
Adjusted EBITDA <sup>(4)</sup>	\$ 53,566	\$ 60,578	\$ 72,582	\$ 42,126	\$ (3,791)
Non-GAAP net income (loss) <sup>(4)</sup>	\$ 38,424	\$ 30,680	\$ 41,010	\$ 29,033	\$ (4,422)
Active clients (as of period end) <sup>(5)</sup>	2,742	2,194	1,674	867	261

<sup>(1)</sup> Includes stock-based compensation expense of \$15.4 million, \$3.5 million, \$1.9 million, \$0.7 million and \$0.2 million for 2018, 2017, 2016, 2015 and 2014, respectively.

<sup>(2)</sup> Includes compensation expense related to certain stock sales by current and former employees of \$21.3 million and \$4.8 million for 2017 and 2016, respectively.

<sup>(3)</sup> See Note 11 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for an explanation of the calculations of our basic and diluted earnings (loss) per share attributable to common stockholders and the weighted average number of shares used in the computation of the per share amounts.

<sup>(4)</sup> See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics" for information regarding our use of adjusted EBITDA and non-GAAP net income (loss), and their reconciliation to net income (loss).

<sup>(5)</sup> See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics" for information on how we define and calculate active clients.

(in thousands)	July 28, 2018	July 29, 2017	July 30, 2016	August 1, 2015	August 2, 2014
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 297,516	\$ 110,608	\$ 91,488	\$ 68,449	\$ 34,636
Total assets	481,585	257,205	191,600	111,600	46,145
Working capital <sup>(1)</sup>	274,774	63,844	63,199	41,615	28,684
Convertible preferred stock	—	42,222	42,222	42,222	42,222
Total stockholders' equity (deficit)	315,072	61,861	49,947	8,539	(12,945)

<sup>(1)</sup> Working capital for all periods presented above is defined as current assets less current liabilities.

## Item 7. 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 audited consolidated financial statements and related notes thereto included in Part II, Item 8 of this Annual Report on Form 10-K, or Annual Report. We use a 52- or 53-week fiscal year, with our fiscal year ending on the Saturday that is closest to July 31 of that year. Each fiscal year generally consists of four 13-week fiscal quarters, with each fiscal quarter ending on the Saturday that is closest to the last day of the last month of the quarter. Each of the fiscal years ended July 28, 2018, July 29, 2017, and July 30, 2016, included 52 weeks of operations. Throughout this Annual Report, all references to quarters and years are to our fiscal quarters and fiscal years unless otherwise noted.*

*In addition, this discussion contains forward-looking statements that reflect our plans, estimates and beliefs, and involve risks and uncertainties. Our actual results and the timing of certain events could differ materially from those anticipated in or implied by these forward-looking statements as a result of several factors, including those discussed in the section titled “Risk Factors” included under Part I, Item 1A and elsewhere in this Annual Report. See “Special Note Regarding Forward-Looking Statements” in this Annual Report.*

### Overview

*Stitch Fix is transforming the way people find what they love, one client at a time and one Fix at a time.*

We are reinventing the shopping experience by delivering one-to-one personalization to our clients through the combination of data science and human judgment. This combination drives a better client experience and a more powerful business model than either element could deliver independently. Our stylists hand select items from a broad range of merchandise. Stylists pair their own judgment with our analysis of client and merchandise data to provide a personalized shipment of apparel, shoes and accessories suited to each client’s needs. We call each of these unique shipments a Fix. Our clients may choose to schedule automatic shipments that arrive every two to three weeks or on a monthly, bi-monthly or quarterly cadence, or schedule a Fix on demand. Clients can increase or decrease their desired Fix frequency at any time, and can select the exact date by which they want to receive a Fix. After receiving a Fix, our clients purchase the items they want to keep and return the other items. Historically, we have charged clients a \$20 styling fee that is credited towards the merchandise purchased. If the client chooses to keep all items in a Fix, she receives a 25% discount on her entire purchase. We also provide select clients with an alternative to paying a \$20 styling fee per Fix, known as Style Pass. Style Pass clients pay a \$49 annual fee for unlimited styling that is credited towards merchandise purchases.

In February 2018, we launched Extras, a new feature that allows clients to select items such as socks, bras, underwear and other intimates that are then added to the five items their stylist selects for their Fix. In July 2018, we launched Stitch Fix Kids in time for back-to-school season. In addition, in October 2018, we announced our plan to launch in the United Kingdom, or UK.

The very human experience that we deliver is powered by data science. Our data science capabilities consist of our rich data set and our proprietary algorithms, which fuel our business by enhancing the client experience and driving business model efficiencies. The vast majority of our client data is provided directly and explicitly by our clients, rather than inferred, scraped or obtained from other sources. We also gather extensive merchandise data, such as inseam, pocket shape, silhouette and fit.

This large and growing data set provides the foundation for proprietary algorithms that we use throughout our business, including those that predict purchase behavior, forecast demand, optimize inventory and enable us to design new apparel. We believe our data science capabilities give us a significant competitive advantage, and as our data set grows, our algorithms become more powerful.

Our stylists leverage our data science through a custom-built, web-based styling application that provides recommendations from our broad selection of merchandise. Our stylists then apply their judgment to select what they believe to be the best items for each Fix. Our stylists provide a personal touch, offer styling advice and context to each item selected, and help us develop long-term relationships with our clients. Our stylists are U.S.-based employees, most of whom work part-time and remotely.

We maintain a broad range of product offerings to serve our clients. We offer both merchandise sourced from brand partners and our own Exclusive Brands. We use our data to inform the merchandise we buy and develop to best suit our clients.

We reach clients through a combination of word of mouth, referrals, advertising and other marketing efforts. We invest in marketing with the goal of attracting new clients, improving engagement with current clients and expanding our client closet share over time. As we continue to expand our marketing efforts, we plan to remain disciplined in measuring the return on advertising spend.

We believe our success in serving clients has resulted in our rapid and profitable growth. We have achieved positive cash flows from operations on an annual basis since 2014, while continuing to make meaningful investments to drive growth. For the fiscal year ended July 28, 2018, we reported \$1.2 billion of revenue representing year-over-year growth of 25.5% from the fiscal year ended July 29, 2017, compared to year-over-year growth of 33.8% from the fiscal year ended July 30, 2016, to the fiscal year ended July 29, 2017. As of July 28, 2018, July 29, 2017, and July 30, 2016, we had active clients of 2,742,000, 2,194,000 and 1,674,000, respectively, representing year-over-year growth of 25.0% and 31.1%, respectively.

Net income for the fiscal year ended July 28, 2018, was \$44.9 million, an increase of \$45.5 million from the fiscal year ended July 29, 2017. Net loss for the fiscal year ended July 29, 2017, was \$0.6 million, a decrease of \$33.8 million from the fiscal year ended July 30, 2016. Included in net income for the fiscal year ended July 28, 2018, was a \$10.7 million gain on remeasurement of our preferred stock

warrant liability prior to our initial public offering, or IPO, and a \$6.7 million remeasurement expense on our net deferred tax assets related to the Tax Cuts and Jobs Act, or the Tax Act, which was enacted on December 22, 2017. Included in net income for the fiscal year ended July 29, 2017, was a \$21.3 million compensation expense related to certain stock sales by current and former employees and a \$18.9 million loss on remeasurement of our preferred stock warrant liability. Included in net income for the fiscal year ended July 29, 2016, was a \$4.8 million compensation expense related to certain stock sales by current and former employees and a \$3.0 million loss on remeasurement of our preferred stock warrant liability.

## Key Metrics

We report our financial results in accordance with generally accepted accounting principles in the United States, or GAAP. However, management believes that certain non-GAAP financial measures provide users of our financial information with additional useful information in evaluating our performance. Management believes that excluding certain items that may vary substantially in frequency and magnitude period-to-period from net income (loss) and earnings (loss) per share, or EPS, provides useful supplemental measures that assist in evaluating our ability to generate earnings and to more readily compare these metrics between past and future periods. Management also believes that adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, and that this supplemental measure facilitates comparisons between companies. We believe free cash flow is an important metric because it represents a measure of how much cash from operations we have available for discretionary and non-discretionary items after the deduction of capital expenditures. These non-GAAP financial measures may be different than similarly titled measures used by other companies. For instance, we do not exclude stock-based compensation expense from adjusted EBITDA or non-GAAP net income. Stock-based compensation is an important part of how we attract and retain our employees, and we consider it to be a real cost of running the business.

Our non-GAAP financial measures should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP. There are several limitations related to the use of our non-GAAP financial measures as compared to the closest comparable GAAP measures. Some of these limitations include:

- our non-GAAP net income, adjusted EBITDA and non-GAAP EPS – diluted measures exclude compensation expense that we recognized related to certain stock sales by current and former employees;
- our non-GAAP net income and non-GAAP EPS – diluted measures exclude the impact of the remeasurement of our net deferred tax assets following the adoption of the Tax Act;
- our non-GAAP net income, adjusted EBITDA and non-GAAP EPS – diluted measures exclude the remeasurement of the preferred stock warrant liability, which is a non-cash expense incurred in the periods prior to the completion of our IPO;
- adjusted EBITDA also excludes the recurring, non-cash expenses of depreciation and amortization of property and equipment and, although these are non-cash expenses, the assets being depreciated and amortized may have to be replaced in the future;
- adjusted EBITDA does not reflect our tax provision, which reduces cash available to us; and
- free cash flow does not represent the total residual cash flow available for discretionary purposes and does not reflect our future contractual commitments.

## Adjusted EBITDA

We define adjusted EBITDA as net income (loss) excluding other (income), net, provision for income taxes, depreciation and amortization, and, when present, the remeasurement of preferred stock warrant liability and compensation expense related to certain stock sales by current and former employees. The following table presents a reconciliation of net income (loss), the most comparable GAAP financial measure, to adjusted EBITDA for each of the periods presented:

(in thousands)	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
<b>Adjusted EBITDA reconciliation:</b>			
Net income (loss)	\$ 44,900	\$ (594)	\$ 33,181
Add (deduct):			
Other income, net	(1,004)	(42)	(13)
Provision for income taxes	9,813	13,395	28,041
Depreciation and amortization	10,542	7,655	3,544
Remeasurement of preferred stock warrant liability	(10,685)	18,881	3,019
Compensation expense related to certain stock sales by current and former employees	—	21,283	4,810
<b>Adjusted EBITDA</b>	<b>\$ 53,566</b>	<b>\$ 60,578</b>	<b>\$ 72,582</b>

### Non-GAAP Net Income

We define non-GAAP net income as net income (loss) excluding, when present, the remeasurement of preferred stock warrant liability, compensation expense related to certain stock sales by current and former employees, and the related tax impact of those items, as well as the remeasurement of our net deferred tax assets in relation to the adoption of the Tax Act. The following table presents a reconciliation of net income (loss), the most comparable GAAP financial measure, to non-GAAP net income for each of the periods presented:

(in thousands)	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
<b>Non-GAAP net income reconciliation:</b>			
Net income (loss)	\$ 44,900	\$ (594)	\$ 33,181
Add (deduct):			
Remeasurement of preferred stock warrant liability	(10,685)	18,881	3,019
Compensation expense related to certain stock sales by current and former employees	—	21,283	4,810
Tax impact of non-GAAP adjustments	—	(8,890)	—
Impact of Tax Act <sup>(1)</sup>	4,209	—	—
<b>Non-GAAP net income</b>	<b>\$ 38,424</b>	<b>\$ 30,680</b>	<b>\$ 41,010</b>

<sup>(1)</sup>The U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a net charge of \$4.2 million for the fiscal year ended July 28, 2018, due to the remeasurement of our net deferred tax assets for the reduction in tax rate from 35% to 21%. The adjustment to non-GAAP net income only includes this transitional impact. It does not include the ongoing impacts of the lower U.S. statutory rate on current year earnings.

### Non-GAAP Earnings Per Share - Diluted

We define non-GAAP EPS as diluted EPS excluding, when present, the per share impact of the remeasurement of preferred stock warrant liability, compensation expense related to certain stock sales by current and former employees, and the related tax impact of those items, as well as the per share impact of the remeasurement of our net deferred tax assets in relation to the adoption of the Tax Act. The following table presents a reconciliation of EPS attributable to common stockholders - diluted, the most comparable GAAP financial measure, to non-GAAP EPS attributable to common stockholders - diluted for each of the periods presented:

(in dollars)	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
<b>Non-GAAP earnings per share - diluted reconciliation:</b>			
Earnings (loss) per share attributable to common stockholders - diluted	\$ 0.34	\$ (0.02)	\$ 0.34
Per share impact of the remeasurement of preferred stock warrant liability <sup>(1)</sup>	—	0.36	0.08
Per share impact of compensation expense related to certain stock sales by current and former employees	—	0.40	0.12
Per share impact from tax effect of non-GAAP adjustments	—	(0.17)	—
Per share impact from Tax Act <sup>(2)</sup>	0.05	—	—
<b>Non-GAAP earnings per share attributable to common stockholders - diluted</b>	<b>\$ 0.39</b>	<b>\$ 0.57</b>	<b>\$ 0.54</b>

<sup>(1)</sup> For the fiscal year ended July 28, 2018, the preferred stock warrant liability was dilutive and included in earnings per share attributable to common stockholders - diluted. Therefore, it is not an adjustment to arrive at non-GAAP EPS - diluted.

<sup>(2)</sup> The U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a net charge of \$4.2 million for the fiscal year ended July 28, 2018, due to the remeasurement of our net deferred tax assets for the reduction in tax rate from 35% to 21%. The adjustment to non-GAAP net income only includes this transitional impact. It does not include the ongoing impacts of the lower U.S. statutory rate on current year earnings.

### Free Cash Flow

We define free cash flow as cash flow from operations reduced by purchases of property and equipment that are included in cash flow from investing activities. The following table presents a reconciliation of cash flows from operating activities, the most comparable GAAP financial measure, to free cash flow for each of the periods presented:

(in thousands)	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
<b>Free cash flow reconciliation:</b>			
Cash flows from operating activities	\$ 72,178	\$ 38,624	\$ 45,116
Deduct:			
Purchase of property and equipment	(16,565)	(17,130)	(15,238)
<b>Free cash flow</b>	<b>\$ 55,613</b>	<b>\$ 21,494</b>	<b>\$ 29,878</b>
Cash flows used in investing activities	\$ (16,565)	\$ (17,130)	\$ (15,238)
Cash flows from (used in) financing activities	\$ 134,795	\$ (3,028)	\$ 499

### Active Clients

We believe that the number of active clients is a key indicator of our growth and the overall health of our business. We define an active client as a client who checked out a Fix in the preceding 12-month period, measured as of the last date of that period. A client checks out a Fix when she indicates what items she is keeping through our mobile application or on our website. We had 2,742,000, 2,194,000 and 1,674,000 active clients as of July 28, 2018, July 29, 2017, and July 30, 2016, respectively, representing year-over-year growth of 25.0% and 31.1%, respectively.

### Factors Affecting Our Performance

#### Client Acquisition and Engagement

To grow our business, we must continue to acquire clients and successfully engage them. We believe that implementing broad-based marketing strategies that increase our brand awareness has the potential to strengthen Stitch Fix as a national consumer brand, help us acquire new clients and drive revenue growth. As our business has achieved a greater scale and we are able to support a large and growing client base, we have increased our investments in marketing to take advantage of more marketing channels to efficiently acquire clients. For example, we recently significantly increased our advertising spend, from \$70.5 million and \$25.0 million for the fiscal years ended July 29, 2017, and July 30, 2016, respectively, to \$102.1 million for the fiscal year ended July 28, 2018, to support the growth of our business. We expect to continue to make significant marketing investments to grow our business. We currently utilize both digital and

offline channels to attract new visitors to our website or mobile app and subsequently convert them into clients. Our current marketing efforts include client referrals, affiliate programs, partnerships, display advertising, television, print, radio, video, content, direct mail, social media, email, mobile “push” communications, search engine optimization and keyword search campaigns.

To successfully acquire clients and increase engagement, we must also continue to improve the diversity of our offering. These efforts may include broadening our brand partnerships and expanding into new categories, product types, price points and geographies. For example, in July 2018 we launched Stitch Fix Kids, expanding our client and vendor base, and in October 2018, we announced our intention to launch in the UK, expanding our geographic scope.

### ***Investment in our Operations and Infrastructure***

To grow our client base and enhance our offering, we will incur additional expenses. We intend to leverage our data science and deep understanding of our clients’ needs to inform investments in operations and infrastructure. We anticipate that our expenses will increase as we continue to hire additional personnel and further advance our technological and data science capabilities. Moreover, we intend to make capital investments in our inventory, fulfillment centers and office space and logistics infrastructure as we launch new categories, expand internationally and drive operating efficiencies. We expect to increase our spending on these investments in the future and cannot be certain that these efforts will grow our client base or be cost-effective. However, we believe these strategies will yield positive returns in the long term.

### ***Inventory Management***

We leverage our data science to buy and manage our inventory, including merchandise assortment and fulfillment center optimization. To ensure sufficient availability of merchandise, we generally enter into purchase orders well in advance and frequently before apparel trends are confirmed by client purchases. As a result, we are vulnerable to demand and pricing shifts and availability of merchandise at time of purchase. We incur inventory write-offs and changes in inventory reserves that impact our gross margins. Because our merchandise assortment directly correlates to client success, we may at times optimize our inventory to prioritize long-term client success over short-term gross margin impact. Moreover, our inventory investments will fluctuate with the needs of our business. For example, entering new categories such as our recent launch of Stitch Fix Kids or adding new fulfillment centers will require additional investments in inventory.

### ***Merchandise Mix***

We offer apparel, shoes and accessories across categories, brands, product types and price points. We currently serve our clients in the following categories: Women’s, Petite, Maternity, Men’s, Plus and Kids. We carry a mix of third-party branded merchandise, including premium brands, and our own Exclusive Brands. We also offer a wide variety of product types, including denim, dresses, blouses, skirts, shoes, jewelry and handbags. We sell merchandise across a broad range of price points and may further broaden our price point offerings in the future.

While changes in our merchandise mix have not caused significant fluctuations in our gross margin to date, categories, brands, product types and price points do have a range of margin profiles. For example, our Exclusive Brands have generally contributed higher margin, shoes have generally contributed lower margin, and new categories, such as Kids, tend to initially have lower margins. Shifts in merchandise mix driven by client demand may result in fluctuations in our gross margin from period to period.

## **Components of Results of Operations**

### ***Revenue***

We generate revenue from the sale of merchandise. We charge a \$20 nonrefundable upfront fee, referred to as a “styling fee,” that is credited towards any merchandise purchased in the Fix. We deduct discounts, sales tax and estimated refunds to arrive at net revenue, which we refer to as revenue throughout the report. In December 2017, we launched Style Pass to provide select clients with an alternative to paying a \$20 styling fee per Fix. Style Pass clients pay a \$49 nonrefundable annual fee for unlimited styling that is credited towards merchandise purchases. We expect our revenue to increase in absolute dollars as we grow our business, although our revenue growth rate may continue to slow in future periods.

### ***Cost of Goods Sold***

Cost of goods sold consists of the costs of merchandise, expenses for shipping to and from clients and inbound freight, inventory write-offs and changes in our inventory reserve, payment processing fees and packaging materials costs. We expect our cost of goods sold to fluctuate as a percentage of revenue primarily due to how we manage our inventory and merchandise mix. Our classification of cost of goods sold may vary from other companies in our industry and may not be comparable.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses consist primarily of compensation and benefits costs, including stock-based compensation expense, for our employees including our stylist, fulfillment center operations, data analytics, merchandising, engineering, client experience, marketing and corporate personnel. Selling, general and administrative expenses also include marketing and advertising costs, third-party logistics costs, facility costs for our fulfillment centers and offices, professional service fees, information technology costs and depreciation and amortization expense. We expect our selling, general and administrative expenses to increase in absolute dollars



and to fluctuate as a percentage of revenue due to the anticipated growth of our business, increased marketing investments and additional costs associated with being a public company. Our classification of selling, general and administrative expenses may vary from other companies in our industry and may not be comparable.

### **Remeasurement of Preferred Stock Warrant Liability**

We estimate the fair value of the preferred stock warrant liability at the end of each reporting period and recognize changes in the fair value through our statement of operations. In connection with our IPO, all warrants were automatically exercised for no consideration, therefore we do not expect to have preferred stock warrant liability in future periods.

### **Provision for Income Taxes**

Our provision for income taxes consists of an estimate of federal and state income taxes based on enacted federal and state tax rates, as adjusted for allowable credits, deductions and uncertain tax positions.

## **Results of Operations**

### **Comparison of the Fiscal Years Ended July 28, 2018, July 29, 2017 and July 30, 2016**

The following table sets forth our results of operations for the periods indicated:

(in thousands)	For the Fiscal Year Ended			2018 vs. 2017	2017 vs. 2016
	July 28, 2018	July 29, 2017	July 30, 2016	% Change	% Change
Revenue, net	\$ 1,226,505	\$ 977,139	\$ 730,313	25.5 %	33.8 %
Cost of goods sold	690,483	542,718	407,064	27.2 %	33.3 %
Gross profit	536,022	434,421	323,249	23.4 %	34.4 %
Selling, general and administrative expenses	492,998	402,781	259,021	22.4 %	55.5 %
Operating income	43,024	31,640	64,228	36.0 %	(50.7)%
Remeasurement of preferred stock warrant liability	(10,685)	18,881	3,019	(156.6)%	525.4 %
Other income, net	(1,004)	(42)	(13)	*	223.1 %
Income before income taxes	54,713	12,801	61,222	327.4 %	(79.1)%
Provision for income taxes	9,813	13,395	28,041	(26.7)%	(52.2)%
Net income (loss)	\$ 44,900	\$ (594)	\$ 33,181	*	(101.8)%

\* Not meaningful

The following table sets forth the components of our results of operations as a percentage of revenue:

	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
Revenue, net	100.0 %	100.0%	100.0%
Cost of goods sold	56.3 %	55.5%	55.7%
Gross margin	43.7 %	44.5%	44.3%
Selling, general and administrative expenses	40.2 %	41.2%	35.5%
Operating income	3.5 %	3.3%	8.8%
Remeasurement of preferred stock warrant liability	(0.9)%	1.9%	0.4%
Other income, net	(0.1)%	—%	—%
Income before income taxes	4.5 %	1.4%	8.4%
Provision for income taxes	0.8 %	1.4%	3.8%
Net income (loss)	3.7 %	—%	4.6%

### **Revenue and Gross Margin**

Revenue in the fiscal year ended July 28, 2018, increased by \$249.4 million, or 25.5%, from revenue in the fiscal year ended July 29, 2017. The increase in revenue was primarily attributable to a 25.0% increase in active clients from July 29, 2017, to July 28, 2018, which drove increased sales of merchandise.

Gross margin for the fiscal year ended July 28, 2018, decreased by 0.8% compared with the fiscal year ended July 29, 2017. The decrease was primarily attributable to an increase in inventory shrink, shipping expense and expansion into new categories, partially offset by a decrease in inventory obsolescence reserves due to improved inventory management.

Revenue in the fiscal year ended July 29, 2017, increased by \$246.8 million, or 33.8%, from revenue in the fiscal year ended July 30, 2016. The increase in revenue was primarily attributable to a 31.1% increase in active clients, which drove increased sales of merchandise.

Gross margin increased by 0.2% in the fiscal year ended July 29, 2017, from 44.3% in fiscal year ended July 30, 2016. The increase was primarily attributable to improved inventory management.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by \$90.2 million, or 22.4%, during the fiscal year ended July 28, 2018, compared with the fiscal year ended July 29, 2017. The increase was primarily related to higher compensation and benefits expense and stock-based compensation expense due to increased headcount as we continue to invest in technology talent and higher advertising spend as we expanded our advertising initiatives, partially offset by improvements in variable labor.

Selling, general and administrative expenses in the fiscal year ended July 29, 2017, increased by \$143.8 million, or 55.5%, from the fiscal year ended July 30, 2016. The increase in selling, general and administrative expenses was primarily attributable to an increase in compensation and benefits expenses as we increased our headcount, including a \$16.5 million increase related to compensation expense recognized for certain stock sales by current and former employees. In addition, the increase was driven by higher marketing spend as we expanded our television, online and radio advertising initiatives.

**Remeasurement of Preferred Stock Warrant Liability**

The change in the preferred stock warrant liability was due to a change in the underlying fair value of our preferred stock until the conversion of our preferred stock warrants into Class B common stock as part of our IPO.

**Provision for Income Taxes**

The following table summarizes our effective tax rate from income for the periods presented:

(in thousands)	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
Income before income taxes	\$ 54,713	\$ 12,801	\$ 61,222
Provisions for income taxes	9,813	13,395	28,041
Effective tax rate	17.9%	104.6%	45.8%

We are subject to income taxes in the United States. Our effective tax rate and provision for income taxes decreased from the fiscal year ended July 29, 2017, to the fiscal year ended July 28, 2018, primarily due to stock-based compensation deductions, analysis of our 2016 through 2018 qualified activities for U.S. and California research and development tax credits, and a decrease in the nondeductible remeasurement of the preferred stock warrant liability. These tax benefits were partially offset by tax charges for the remeasurement of our net deferred tax assets associated with the enactment of the Tax Act, which reduced the corporate tax rate from 35% to 21%.

Our effective tax rate and provision for income taxes increased from the fiscal year ended July 30, 2016, to fiscal year ended July 29, 2017, primarily due to an increase in the nondeductible remeasurement of the preferred stock warrant liability.

## Quarterly Results of Operations

The following tables set forth our unaudited quarterly consolidated statements of operations for each of the quarters indicated. The information for each quarter has been prepared on a basis consistent with our audited consolidated financial statements included in this Annual Report and reflect, in the opinion of management, all adjustments of a normal, recurring nature that are necessary for a fair presentation of the financial information contained in those statements. Our historical results are not necessarily indicative of the results that may be expected for the full year or any other period in the future. The following quarterly financial information should be read in conjunction with our audited consolidated financial statements and related notes included in this Annual Report.

(in thousands, except per share data)	Quarter Ended							
	July 28, 2018	April 28, 2018	January 27, 2018	October 28, 2017	July 29, 2017	April 29, 2017	January 28, 2017	October 29, 2016
Revenue, net	\$ 318,295	\$ 316,741	\$ 295,906	\$ 295,563	\$ 258,285	\$ 245,075	\$ 237,775	\$ 236,004
Cost of goods sold	176,877	178,535	168,523	166,548	146,047	139,692	131,053	125,926
Gross profit	141,418	138,206	127,383	129,015	112,238	105,383	106,722	110,078
Selling, general and administrative expenses	133,302	128,454	111,771	119,471	112,028	101,368	105,835	83,550
Operating income	8,116	9,752	15,612	9,544	210	4,015	887	26,528
Remeasurement of preferred stock warrant liability	—	—	(1,614)	(9,071)	3,374	12,858	1,146	1,503
Other income, net	(760)	(209)	(18)	(17)	(17)	(12)	(6)	(7)
Income (loss) before income taxes	8,876	9,961	17,244	18,632	(3,147)	(8,831)	(253)	25,032
Provision (benefit) for income taxes	(9,408)	474	13,603	5,144	1,360	732	(486)	11,789
Net income (loss) and comprehensive income (loss)	<u>\$ 18,284</u>	<u>\$ 9,487</u>	<u>\$ 3,641</u>	<u>\$ 13,488</u>	<u>\$ (4,507)</u>	<u>\$ (9,563)</u>	<u>\$ 233</u>	<u>\$ 13,243</u>
Net income attributable to common stockholders:								
Basic	<u>\$ 18,244</u>	<u>\$ 9,458</u>	<u>\$ 3,036</u>	<u>\$ 3,915</u>	<u>\$ (4,507)</u>	<u>\$ (9,563)</u>	<u>\$ —</u>	<u>\$ 3,595</u>
Diluted	<u>\$ 18,246</u>	<u>\$ 9,459</u>	<u>\$ 1,653</u>	<u>\$ 1,347</u>	<u>\$ (4,507)</u>	<u>\$ (9,563)</u>	<u>\$ —</u>	<u>\$ 4,055</u>
Earnings (loss) per share attributable to common stockholders:								
Basic	<u>\$ 0.19</u>	<u>\$ 0.10</u>	<u>\$ 0.04</u>	<u>\$ 0.15</u>	<u>\$ (0.18)</u>	<u>\$ (0.38)</u>	<u>\$ —</u>	<u>\$ 0.15</u>
Diluted	<u>\$ 0.18</u>	<u>\$ 0.09</u>	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ (0.18)</u>	<u>\$ (0.38)</u>	<u>\$ —</u>	<u>\$ 0.14</u>
Weighted-average shares used to compute earnings per share attributable to common stockholders:								
Basic	<u>98,019,577</u>	<u>97,055,573</u>	<u>82,439,351</u>	<u>26,329,495</u>	<u>25,708,011</u>	<u>25,094,602</u>	<u>24,742,682</u>	<u>24,349,434</u>
Diluted	<u>102,782,006</u>	<u>101,847,521</u>	<u>87,954,656</u>	<u>33,262,082</u>	<u>25,708,011</u>	<u>25,094,602</u>	<u>24,742,682</u>	<u>28,940,058</u>
<b>Other Financial and Operating Data:</b>								
Adjusted EBITDA	\$ 11,120	\$ 12,402	\$ 18,230	\$ 11,814	\$ 2,445	\$ 6,050	\$ 24,094	\$ 27,989
Non-GAAP net income (loss)	\$ 17,763	\$ 9,487	\$ 6,757	\$ 4,417	\$ (1,133)	\$ 3,295	\$ 13,772	\$ 14,746
Non-GAAP earnings (loss) per share attributable to common stockholders - diluted	\$ 0.17	\$ 0.09	\$ 0.07	\$ 0.04	\$ (0.04)	\$ 0.03	\$ 0.42	\$ 0.16
Active clients (as of period end)	2,742	2,688	2,508	2,396	2,194	2,074	1,920	1,847

The following table provides a reconciliation of net income (loss) to adjusted EBITDA:

(in thousands)	Quarter Ended							
	July 28, 2018	April 28, 2018	January 27, 2018	October 28, 2017	July 29, 2017	April 29, 2017	January 28, 2017	October 29, 2016
<b>Adjusted EBITDA reconciliation:</b>								
Net income (loss)	\$ 18,284	\$ 9,487	\$ 3,641	\$ 13,488	\$ (4,507)	\$ (9,563)	\$ 233	\$ 13,243
Add (deduct):								
Other income, net	(760)	(209)	(18)	(17)	(17)	(12)	(6)	(7)
Provision (benefit) for income taxes	(9,408)	474	13,603	5,144	1,360	732	(486)	11,789
Depreciation and amortization	3,004	2,650	2,618	2,270	2,235	2,035	1,924	1,461
Remeasurement of preferred stock warrant liability	—	—	(1,614)	(9,071)	3,374	12,858	1,146	1,503
Compensation expense related to certain stock sales by current and former employees	—	—	—	—	—	—	21,283	—
<b>Adjusted EBITDA</b>	<b>\$ 11,120</b>	<b>\$ 12,402</b>	<b>\$ 18,230</b>	<b>\$ 11,814</b>	<b>\$ 2,445</b>	<b>\$ 6,050</b>	<b>\$ 24,094</b>	<b>\$ 27,989</b>

The following table provides a reconciliation of net income (loss) to non-GAAP net income (loss):

(in thousands)	Quarter Ended							
	July 28, 2018	April 28, 2018	January 27, 2018	October 28, 2017	July 29, 2017	April 29, 2017	January 28, 2017	October 29, 2016
<b>Non-GAAP net income reconciliation:</b>								
Net income (loss)	\$ 18,284	\$ 9,487	\$ 3,641	\$ 13,488	\$ (4,507)	\$ (9,563)	\$ 233	\$ 13,243
Add (deduct):								
Remeasurement of preferred stock warrant liability	—	—	(1,614)	(9,071)	3,374	12,858	1,146	1,503
Compensation expense related to certain stock sales by current and former employees	—	—	—	—	—	—	21,283	—
Tax impact of non-GAAP adjustments	—	—	—	—	—	—	(8,890)	—
Impact of Tax Act <sup>(1)</sup>	(521)	—	4,730	—	—	—	—	—
<b>Non-GAAP net income (loss)</b>	<b>\$ 17,763</b>	<b>\$ 9,487</b>	<b>\$ 6,757</b>	<b>\$ 4,417</b>	<b>\$ (1,133)</b>	<b>\$ 3,295</b>	<b>\$ 13,772</b>	<b>\$ 14,746</b>

<sup>(1)</sup> The U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a net charge of \$4.7 million for the three months ended January 27, 2018 and a net benefit of \$0.5 million for the three months ended July 28, 2018, due to the remeasurement of our net deferred tax assets for the reduction in tax rate from 35% to 21%. The adjustment to non-GAAP net income only includes this transitional impact. It does not include the ongoing impacts of the lower U.S. statutory rate on current year earnings.

The following table provides a reconciliation of earnings per share - diluted to non-GAAP earnings per share - diluted:

(in dollars)	Quarter Ended							
	July 28, 2018	April 28, 2018	January 27, 2018	October 28, 2017	July 29, 2017	April 29, 2017	January 28, 2017	October 29, 2016
<b>Non-GAAP earnings per share - diluted reconciliation:</b>								
Earnings (loss) per share attributable to common stockholders - diluted	\$ 0.18	\$ 0.09	\$ 0.02	\$ 0.04	\$ (0.18)	\$ (0.38)	\$ —	\$ 0.14
Per share impact of the remeasurement of preferred stock warrant liability <sup>(1)</sup>	—	—	—	—	0.14	0.41	0.04	0.02
Per share impact of compensation expense related to certain stock sales by current and former employees	—	—	—	—	—	—	0.66	—
Per share impact from tax effect of non-GAAP adjustments	—	—	—	—	—	—	(0.28)	—
Per share impact from Tax Act <sup>(2)</sup>	(0.01)	—	0.05	—	—	—	—	—
<b>Non-GAAP earnings (loss) per share attributable to common stockholders - diluted</b>	<b>\$ 0.17</b>	<b>\$ 0.09</b>	<b>\$ 0.07</b>	<b>\$ 0.04</b>	<b>\$ (0.04)</b>	<b>\$ 0.03</b>	<b>\$ 0.42</b>	<b>\$ 0.16</b>

<sup>(1)</sup> For fiscal 2018, the preferred stock warrant liability was dilutive and included in earnings per share attributable to common stockholders - diluted. Therefore, it is not an adjustment to arrive at non-GAAP EPS - diluted.

<sup>(2)</sup> The U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a net charge of \$4.7 million for the three months ended January 27, 2018 and a net benefit of \$0.5 million for the three months ended July 28, 2018, due to the remeasurement of our net deferred tax assets for the reduction in tax rate from 35% to 21%. The adjustment to non-GAAP net income only includes this transitional impact. It does not include the ongoing impacts of the lower U.S. statutory rate on current year earnings.

The following table sets forth components of results of operations as a percentage of revenue:

	Quarter Ended							
	July 28, 2018	April 28, 2018	January 27, 2018	October 28, 2017	July 29, 2017	April 29, 2017	January 28, 2017	October 29, 2016
Revenue, net	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	55.6 %	56.4 %	57.0 %	56.3 %	56.5 %	57.0 %	55.1 %	53.4 %
Gross profit	44.4 %	43.6 %	43.0 %	43.7 %	43.5 %	43.0 %	44.9 %	46.6 %
Selling, general and administrative expenses	41.9 %	40.6 %	37.8 %	40.5 %	43.4 %	41.4 %	44.5 %	35.4 %
Operating income	2.5 %	3.0 %	5.2 %	3.2 %	0.1 %	1.6 %	0.4 %	11.2 %
Remeasurement of preferred stock warrant liability	— %	— %	(0.6)%	(3.1)%	1.3 %	5.2 %	0.5 %	0.6%
Other income, net	(0.2)%	(0.1)%	— %	— %	— %	— %	— %	—%
Income (loss) before income taxes	2.7 %	3.1 %	5.8 %	6.3 %	(1.2)%	(3.6)%	(0.1)%	10.6%
Provision (benefit) for income taxes	(3.0)%	0.1 %	4.6 %	1.7 %	0.5 %	0.3 %	(0.2)%	5.0%
Net income (loss) and comprehensive income (loss)	5.7 %	3.0 %	1.2 %	4.6 %	(1.7)%	(3.9)%	0.1 %	5.6%

Our quarterly revenue increased for all periods presented primarily due to increases in active clients. Our growth rate fluctuated from quarter to quarter and we expect that it will continue to do so because of a variety of factors, including the success of our marketing initiatives, our ability to match merchandise to client demand, the launch of new categories and product types, seasonality and economic cycles that influence retail apparel purchase trends. Seasonality in our business does not follow that of traditional retailers, such as typical concentration of revenue in the holiday quarter. For example, in the three months ended January 27, 2018, we experienced a lower quarter over quarter growth rate due to slower active client growth during the holiday season. Additionally, while we expect our revenue base to continue to expand, our revenue may increase at a lower rate as compared to our prior periods.

Our quarterly gross profit increased for all periods presented, except for the three months ended January 27, 2018, April 29, 2017, and January 28, 2017. Our gross profit decreased in the three months ended January 27, 2018, as compared to the three months ended October 28, 2017, due to higher than expected clearance on fall goods following an extended summer season. Our gross profit decreased

in the three months ended April 29, 2017, as compared to the three months ended January 28, 2017, primarily due to an increase in the inventory provision as a result of a higher balance of inventory. Our gross profit decreased in the three months ended January 28, 2017, as compared to the three months ended October 29, 2016, due to slower revenue growth over the holidays and increased inventory write-offs.

Our selling, general and administrative expenses increased for all periods presented, except for the three months ended January 27, 2018, and April 29, 2017, primarily due to increased compensation and benefits as a result of growth in headcount and higher marketing expenses as we continued to grow our business. In addition, our selling, general and administrative expenses in the three months ended January 28, 2017, was impacted by a compensation expense of \$21.3 million, related to certain stock sales by current and former employees, which were discrete transactions and consequently led to a decrease in selling, general and administrative expenses from the three months ended January 28, 2017, to the three months ended April 29, 2017. Excluding this discrete transaction, our selling, general and administrative expenses increased significantly in the three months ended April 29, 2017, due to increased marketing expenses as we expanded our television, online and radio advertising initiatives. The decrease in selling, general and administrative expenses from the three months ended October 28, 2017, to the three months ended January 27, 2018, was primarily related to an increase in advertising spend due to certain marketing initiatives during the three months ended October 28, 2017, that did not reoccur the following quarter.

We had net income for all periods presented except for the three months ended July 29, 2017 and April 29, 2017. Our net loss in the three months ended July 29, 2017 and April 29, 2017, was driven by the \$3.4 million and \$12.9 million expense, respectively, related to the remeasurement of the preferred stock warrant liability due to increases in the underlying fair value of our preferred stock. In addition, our net income for the three months ended January 28, 2017, was impacted by the discrete transaction mentioned above.

We had positive adjusted EBITDA for all periods presented. We had positive non-GAAP net income for all periods presented except for the three months ended July 29, 2017. The decline in the three months ended April 29, 2017, and July 29, 2017, for both adjusted EBITDA and non-GAAP net income (loss) was primarily due to increased headcount and increased marketing expenses as we expanded our television, online and radio advertising initiatives.

## Liquidity and Capital Resources

### Sources of Liquidity

Our principal sources of liquidity since inception have been our cash flows from operations, as well as the net proceeds we received through private sales of equity securities and our IPO. We have had positive and growing cash flows from operations since 2014. As of July 28, 2018, we had raised an aggregate of \$169.6 million of equity capital including proceeds from our IPO. We had \$297.5 million of cash and \$12.9 million of restricted cash as of July 28, 2018.

Our primary use of cash includes operating costs such as merchandise purchases, compensation and benefits, marketing and other expenditures necessary to support our business growth. We have been able to fund these costs through our cash flows from operations since 2014 and expect to continue to do so. We believe our existing cash balances and cash flows from operations will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months.

### Cash Flows

The following table summarizes our cash flows for the periods indicated and our cash and working capital balances as of the end of the period (in thousands):

(in thousands)	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
Net cash provided by operating activities	\$ 72,178	\$ 38,624	\$ 45,116
Net cash used in investing activities	(16,565)	(17,130)	(15,238)
Net cash provided by (used in) financing activities	134,795	(3,028)	499
Net increase in cash and restricted cash	\$ 190,408	\$ 18,466	\$ 30,377

### Cash provided by operating activities

During the fiscal year ended July 28, 2018, cash provided by operating activities was \$72.2 million, which consisted of net income of \$44.9 million, adjusted by non-cash charges of \$23.9 million and a change of \$3.4 million in our net operating assets and liabilities. The non-cash charges were largely driven by \$15.4 million of stock-based compensation expense, \$10.5 million of depreciation and amortization and a \$6.6 million increase in deferred tax expense primarily related to a remeasurement of our net deferred tax assets under the Tax Act, partially offset by \$10.7 million related to the remeasurement of the preferred stock warrant liability. The change in our net operating assets and liabilities was primarily due to an increase of \$35.5 million in accounts payable related to the increased business activity, substantially offset by an increase of \$19.4 million in our inventory balance due to increased inventory purchases to support our growth.

During the fiscal year ended July 29, 2017, cash provided by operating activities was \$38.6 million, which was primarily due to net loss of \$0.6 million and non-cash expenses of \$36.6 million. The non-cash expenses were largely driven by \$18.9 million in expenses related

to the remeasurement of the preferred stock warrant liability, a \$13.2 million non-cash compensation expense related to stock-based compensation and certain stock sales by the then-current and former employees, \$7.7 million of depreciation and amortization and a \$3.6 million increase in our inventory reserve, partially offset by a \$6.7 million increase in our deferred tax asset.

During the fiscal year ended July 30, 2016, cash provided by operating activities was \$45.1 million, which was primarily due to net income of \$33.2 million and non-cash expenses of \$13.2 million. The non-cash expenses were largely driven by a \$4.8 million non-cash compensation expense related to a stock sale by an employee, a \$5.9 million increase in our inventory reserve and \$3.5 million of depreciation and amortization, partially offset by a \$5.9 million increase in our deferred tax asset.

#### **Cash used in investing activities**

During the fiscal year ended July 28, 2018, cash used in investing activities was \$16.6 million, due to the purchase of property and equipment primarily related to the expansion of our fulfillment centers and offices as well as continued investment in our proprietary systems.

During the fiscal year ended July 29, 2017 and July 30, 2016, cash used in investing activities was \$17.1 million and \$15.2 million, respectively, due to the purchase of property and equipment primarily related to the expansion of our fulfillment centers and offices.

#### **Cash (used in) provided by financing activities**

During the fiscal year ended July 28, 2018, cash provided by financing activities was \$134.8 million, which was primarily due to the net proceeds from our IPO.

During the fiscal year ended July 29, 2017, cash used in financing activities was \$3.0 million, which was primarily due to \$3.6 million for the repurchase of our common stock in a tender offer and \$1.9 million in deferred payments for offering costs, partially offset by \$2.3 million in proceeds from the issuance of common stock upon exercise of stock options.

During fiscal year ended July 30, 2016, cash provided by financing activities was \$0.5 million, which was primarily due to proceeds from the exercise of stock options.

#### **Contractual Obligations and Other Commitments**

The following table summarizes our contractual obligations as of July 28, 2018:

(in thousands)	Total	Payments Due by Period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Operating leases	\$ 149,656	\$ 19,756	\$ 38,669	\$ 32,072	\$ 59,159
Purchase commitments <sup>(1)</sup>	234,065	234,057	8	—	—
Unrecognized tax benefits <sup>(2)</sup>	—	—	—	—	—
Total	\$ 383,721	\$ 253,813	\$ 38,677	\$ 32,072	\$ 59,159

<sup>(1)</sup> Represents estimated open purchase orders to purchase inventory in the normal course of business.

<sup>(2)</sup> Due to the uncertainty with respect to the timing of future cash flows associated with our \$5.5 million of unrecognized tax benefits at July 28, 2018, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities. Therefore, the related balances have not been included in the table above.

#### **Off-Balance Sheet Arrangements**

We have not entered any off-balance sheet arrangements and do not have any holdings in variable interest entities.

#### **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of our financial statements requires us to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. The critical accounting policies, estimates and judgments that we believe to have the most significant impacts to our consolidated financial statements are described below.

#### **Inventory**

Inventory consists of finished goods, which are recorded at the lower of cost or net realizable value using the specific identification method. We establish a reserve for excess and slow-moving inventory we expect to write off based on historical trends. In addition, we estimate and accrue shrinkage and damage as a percentage of revenue based on historical trends. Inventory shrinkage and damage estimates are made to reduce the inventory value for lost, stolen or damaged items. If actual experience differs significantly from our estimates, our operating results could be adversely affected.

## **Stock-Based Compensation**

We grant stock options to our employees, consultants and members of our board of directors and recognize stock-based compensation expense based on the fair value of stock options at grant date. We estimate the fair value of stock options using the Black-Scholes option-pricing model. This model requires us to use certain estimates and assumptions such as:

- Fair value of our common stock-estimated using the methodology as discussed below in *Common Stock Valuation*;
- Expected volatility of our common stock-based on the volatility of comparable publicly traded companies;
- Expected term of our stock options-as we do not have sufficient historical experience for determining the expected term of the stock option awards granted, we base our expected term on the simplified method, generally calculated as the mid-point between the vesting date and the end of the contractual term;
- Expected dividend yield-as we have not paid and do not anticipate paying dividends on our common stock, our expected dividend yield is 0%; and
- Risk-free interest rates-based on the U.S. Treasury zero coupon notes in effect at the grant date with maturities equal to the expected terms of the options granted.

If any of the assumptions used in the Black-Scholes option-pricing model changes significantly, stock-based compensation for future awards may differ materially compared with the awards granted previously.

We record stock-based compensation expense net of estimated forfeitures so that expense is recorded for only those stock options that we expect to vest. We estimate forfeitures based on our historical forfeiture of stock options adjusted to reflect future changes in facts and circumstances, if any. We will revise our estimated forfeiture rate if actual forfeitures differ from our initial estimates.

We have granted certain option awards that contain both service and performance conditions. The service condition for such awards is satisfied ratably over the 24-month period following the fourth anniversary of the grant date. The performance condition for such awards was satisfied if we consummated an IPO, within 12 months of the grant date. Expense related to awards which contain both service and performance conditions is recognized using the accelerated attribution method. Since an IPO is not deemed probable until such event occurs, no compensation cost related to the performance condition was recognized prior to the consummation of our IPO in November 2017. Subsequently, we recorded stock-based compensation expense of \$0.5 million related to periods prior to the IPO.

### **Common Stock Valuations**

Prior to our IPO in November 2017, the valuation of our common stock was determined based on the guidelines outlined in the American Institute of Certified Public Accountants Accounting & Valuation Guide, Valuation of Privately-Held-Company Equity Securities Issued as Compensation.

We considered objective and subjective factors to determine our best estimate of the fair value of our common stock including the following factors:

- contemporaneous valuations of our common stock by an independent valuation specialist;
- the prices, rights, preferences and privileges of our convertible preferred stock relative to the common stock;
- the prices of our common stock in sale transactions;
- our operating and financial performance and projections;
- the likelihood of achieving a liquidity event, such as an IPO given internal company and external market condition;
- the lack of marketability of our common stock;
- the market multiples of comparable publicly traded companies; and
- macroeconomic conditions and outlook.

In 2016 and through the three months ended October 29, 2016, the equity value of our business was determined using the market approach. The market approach estimates the fair value of a company by applying market multiples of comparable publicly traded companies in the same industry or similar lines of business. The selection of our comparable industry peer companies requires us to make significant judgments as to the comparability of these companies to us. We considered several factors including business description, business size, market share, revenue model, development stage and historical operating results. The equity value was then allocated to the common stock using the Option Pricing Method, or OPM. The OPM treats common shares and preferred shares as call options on the total equity value of a company, with exercise prices based on the value thresholds at which the allocation among the various holders of a company's securities changes. Under this method, the common shares have value only if the funds available for distribution to stockholders exceed the value of the preferred shares liquidation preferences at the time of the liquidity event, such as a strategic sale or a merger.

Starting in the three months ended January 28, 2017, we began using a hybrid method, which is an application of the Probability Weighted Expected Return Method, or PWERM, in which at least one of the scenarios includes an OPM analysis. In our application of the hybrid



method a discrete IPO scenario was weighted with an OPM analysis (intended to represent exit scenarios other than the defined IPO scenario). For the IPO scenario, our enterprise value was estimated using a market approach. The market approach estimated the fair value of our company by applying market multiples derived from companies that recently completed IPO transactions. We then applied an appropriate weighting to the results of each scenario to determine the per share fair value of our common stock. The determination of the weighting requires significant judgment including our overall expectations for a possible IPO.

Subsequent to the completion of our IPO in November 2017, the fair value of our common stock is based on observable market prices.

#### ***Remeasurement of Preferred Stock Warrant Liability***

Our preferred stock warrants are classified as liabilities and recorded at fair value at the end of each reporting period with the change in fair value recorded in the statements of operations. We estimate the fair value of our preferred stock using a methodology and assumptions that are consistent with those used in estimating the fair value of our common stock discussed above. We continued to remeasure these warrants until they were exercised for no consideration in connection with our IPO.

#### ***Income Taxes***

We are subject to income taxes in the United States. We compute our provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and for tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled.

Significant judgment is required in determining our uncertain tax positions. We continuously review issues raised in connection with all ongoing examinations and open tax years to evaluate the adequacy of our tax liabilities. We evaluate uncertain tax positions under a two-step approach. The first step is to evaluate the uncertain tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination based on its technical merits. The second step is, for those positions that meet the recognition criteria, to measure the tax benefit as the largest amount that is more than 50% likely of being realized. We believe our recorded tax liabilities are adequate to cover all open tax years based on our assessment. This assessment relies on estimates and assumptions and involves significant judgments about future events. To the extent that our view as to the outcome of these matters changes, we will adjust income tax expense in the period in which such determination is made. We classify interest and penalties related to income taxes as income tax expense.

#### ***Revenue Recognition***

While our revenue recognition does not involve significant judgment, it represents an important accounting policy. Revenue is recognized net of sales taxes, discounts and estimated refunds. We generate revenue when clients purchase merchandise, at which point we apply the nonrefundable upfront styling fee against the price of merchandise purchased. If none of the items within the Fix are purchased, we recognize the nonrefundable upfront styling fee as revenue at that time. For Style Pass clients, we recognize revenue at the earlier of the time the annual Style Pass fee is applied against the price of merchandise purchased or the expiry of the annual period. If a client exchanges an item, we recognize revenue at the time the client receives the new item. Sales tax collected from clients is not considered revenue and is included in accrued liabilities until remitted to the taxing authorities. Discounts are recorded as a reduction to revenue when merchandise is purchased. We record a refund reserve based on our historical refund patterns.

We sell gift cards to clients and establish a liability based on the face value of such gift cards. The liability is relieved and we recognize revenue upon redemption by our clients. For unredeemed gift cards, we will recognize revenue when the likelihood of gift card redemption becomes remote. To date, we have not recognized any revenue related to unredeemed gift cards as we are unable to determine whether the possibility of redemption has become remote.

#### ***Recent Accounting Pronouncements***

For recent accounting pronouncements, please see "Significant Accounting Policies" in Note 2 of the Notes to Consolidated Financial Statements included in this Annual Report.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

*Interest Rate Risk*

We had \$175.2 million in cash equivalents as of July 28, 2018, which consisted of highly liquid investments placed in money market funds. These investments are valued at their original purchase prices plus interest accrued at the stated rate. These interest-earning instruments carry a degree of interest rate risk; to date, however, fluctuations in our interest income have not been significant. In 2018, interest income on these investments was \$0.2 million.

A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

**Item 8. Financial Statements and Supplementary Data.**

**STITCH FIX, INC.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Stitch Fix, Inc.:

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Stitch Fix, Inc. and subsidiaries (the "Company") as of July 28, 2018 and July 29, 2017, and the related consolidated statements of operations and comprehensive income (loss), convertible preferred stock and stockholders' equity, and cash flow for each of the fiscal years ended July 28, 2018, July 29, 2017 and July 30, 2016, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of July 28, 2018 and July 29, 2017, and the results of its operations and its cash flow for each of the fiscal years ended July 28, 2018, July 29, 2017 and July 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

San Francisco, California

October 3, 2018

We have served as the Company's auditor since 2014.

**Stitch Fix, Inc.**  
**Consolidated Balance Sheets**  
(In thousands, except share and per share amounts)

	July 28, 2018	July 29, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 297,516	\$ 110,608
Restricted cash	250	250
Inventory, net	85,092	67,592
Prepaid expenses and other current assets	34,148	19,312
<b>Total current assets</b>	<b>417,006</b>	<b>197,762</b>
Property and equipment, net	34,169	26,733
Deferred tax assets	14,107	19,991
Restricted cash, net of current portion	12,600	9,100
Other long-term assets	3,703	3,619
<b>Total assets</b>	<b>\$ 481,585</b>	<b>\$ 257,205</b>
<b>Liabilities, Convertible Preferred Stock and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 79,782	\$ 44,238
Accrued liabilities	43,037	46,363
Preferred stock warrant liability	—	26,679
Gift card liability	6,814	5,190
Deferred revenue	8,870	7,150
Other current liabilities	3,729	4,298
<b>Total current liabilities</b>	<b>142,232</b>	<b>133,918</b>
Deferred rent, net of current portion	15,288	11,781
Other long-term liabilities	8,993	7,423
<b>Total liabilities</b>	<b>166,513</b>	<b>153,122</b>
Commitments and contingencies (Note 7)		
Convertible preferred stock, \$0.00002 par value – zero and 60,577,280 shares authorized as of July 28, 2018 and July 29, 2017, respectively; zero and 59,511,055 shares issued and outstanding as of July 28, 2018 and July 29, 2017, respectively; aggregate liquidation preference of \$42,389 as of July 29, 2017	—	42,222
Stockholders' equity:		
Preferred stock, \$0.00002 par value – 20,000,000 and zero shares authorized as of July 28, 2018 and July 29, 2017, respectively; zero shares issued and outstanding as of July 28, 2018 and July 29, 2017	—	—
Class A common stock, \$0.00002 par value – 2,000,000,000 and zero shares authorized as of July 28, 2018 and July 29, 2017, respectively; 35,756,628 and zero shares issued and outstanding as of July 28, 2018 and July 29, 2017, respectively	1	—
Class B common stock, \$0.00002 par value – 100,000,000 shares authorized as of July 28, 2018 and July 29, 2017; 63,043,233 and 26,834,535 shares issued and outstanding as of July 28, 2018 and July 29, 2017, respectively <sup>(1)</sup>	1	1
Additional paid-in capital	235,312	27,002
Retained earnings	79,758	34,858
<b>Total stockholders' equity</b>	<b>315,072</b>	<b>61,861</b>
<b>Total liabilities, convertible preferred stock and stockholders' equity</b>	<b>\$ 481,585</b>	<b>\$ 257,205</b>

<sup>(1)</sup> Shares authorized, issued and outstanding as of July 29, 2017 includes common stock prior to our initial public offering. See Note 1 for additional details.

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

**Stitch Fix, Inc.**  
**Consolidated Statements of Operations and Comprehensive Income (Loss)**  
*(In thousands, except share and per share amounts)*

	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
Revenue, net	\$ 1,226,505	\$ 977,139	\$ 730,313
Cost of goods sold	690,483	542,718	407,064
Gross profit	536,022	434,421	323,249
Selling, general and administrative expenses	492,998	402,781	259,021
Operating income	43,024	31,640	64,228
Remeasurement of preferred stock warrant liability	(10,685)	18,881	3,019
Other income, net	(1,004)	(42)	(13)
Income before income taxes	54,713	12,801	61,222
Provision for income taxes	9,813	13,395	28,041
Net income (loss) and comprehensive income (loss)	\$ 44,900	\$ (594)	\$ 33,181
Net income (loss) attributable to common stockholders:			
Basic	\$ 35,541	\$ (594)	\$ 8,211
Diluted	\$ 27,285	\$ (594)	\$ 9,496
Earnings (loss) per share attributable to common stockholders:			
Basic	\$ 0.47	\$ (0.02)	\$ 0.36
Diluted	\$ 0.34	\$ (0.02)	\$ 0.34
Weighted-average shares used to compute earnings per share attributable to common stockholders:			
Basic	75,947,759	24,973,931	22,729,890
Diluted	81,288,418	24,973,931	27,882,844

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

**Stitch Fix, Inc.**  
**Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity**  
(In thousands, except share amounts)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance as of August 1, 2015	59,511,055	\$ 42,222	24,933,448	\$ —	\$ 2,711	\$ 5,828	\$ 8,539
Compensation expense related to a stock sale by an employee	—	—	—	—	4,810	—	4,810
Issuance of common stock upon exercise of stock options, net of amount related to early exercised options of \$85	—	—	939,986	—	351	—	351
Vesting of early exercised options	—	—	—	—	1,095	—	1,095
Stock-based compensation expense	—	—	—	—	1,908	—	1,908
Excess tax benefit related to stock-based compensation	—	—	—	—	63	—	63
Net income	—	—	—	—	—	33,181	33,181
Balance as of July 30, 2016	<u>59,511,055</u>	<u>\$ 42,222</u>	<u>25,873,434</u>	<u>\$ —</u>	<u>\$ 10,938</u>	<u>\$ 39,009</u>	<u>\$ 49,947</u>
Compensation expense related to certain stock sales by current and former employees	—	—	—	—	9,699	—	9,699
Issuance of common stock upon exercise of stock options, net of amount related to early exercised options of \$642	—	—	1,462,434	—	1,704	—	1,704
Vesting of early exercised options	—	—	—	1	890	—	891
Repurchase of common stock	—	—	(501,333)	—	—	(3,557)	(3,557)
Stock-based compensation	—	—	—	—	3,709	—	3,709
Excess tax benefit related to stock-based compensation	—	—	—	—	62	—	62
Net income	—	—	—	—	—	(594)	(594)
Balance as of July 29, 2017	<u>59,511,055</u>	<u>\$ 42,222</u>	<u>26,834,535</u>	<u>\$ 1</u>	<u>\$ 27,002</u>	<u>\$ 34,858</u>	<u>\$ 61,861</u>
Issuance of Class A common stock upon initial public offering, net of offering costs	—	—	9,175,557	—	127,033	—	127,033
Issuance of Class B common stock upon conversion of convertible preferred stock	(59,511,055)	(42,222)	59,511,055	1	42,221	—	42,222
Reclassification of warrant liability to additional paid-in capital upon the initial public offering	—	—	1,066,225	—	15,994	—	15,994
Issuance of Class B common stock upon exercise of stock options	—	—	2,192,430	—	6,384	—	6,384
Issuance of Class A restricted stock units, net of tax withholdings	—	—	39,538	—	(596)	—	(596)
Repurchase of Class B common stock related to early exercised options	—	—	(19,479)	—	—	—	—
Vesting of early exercised options	—	—	—	—	988	—	988
Stock-based compensation	—	—	—	—	16,286	—	16,286
Net income	—	—	—	—	—	44,900	44,900
Balance as of July 28, 2018	<u>—</u>	<u>\$ —</u>	<u>98,799,861</u>	<u>\$ 2</u>	<u>\$ 235,312</u>	<u>\$ 79,758</u>	<u>\$ 315,072</u>

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

**Stitch Fix, Inc.**  
**Consolidated Statements of Cash Flow**  
(In thousands)

	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 44,900	\$ (594)	\$ 33,181
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	6,588	(6,728)	(5,869)
Remeasurement of preferred stock warrant liability	(10,685)	18,881	3,019
Inventory reserves	1,916	3,591	5,941
Compensation expense related to certain stock sales by current and former employees	—	9,699	4,810
Stock-based compensation expense	15,403	3,545	1,850
Excess tax benefit related to stock-based compensation expense	—	(62)	(63)
Depreciation and amortization	10,542	7,655	3,544
Loss on disposal of property and equipment	155	—	—
Change in operating assets and liabilities:			
Inventory	(19,416)	(26,375)	(26,509)
Prepaid expenses and other assets	(17,307)	(7,596)	(9,504)
Accounts payable	35,502	7,841	10,192
Accrued liabilities	(3,595)	17,748	10,904
Deferred revenue	1,720	2,719	1,574
Gift card liability	1,624	1,993	1,530
Other liabilities	4,831	6,307	10,516
Net cash provided by operating activities	<u>72,178</u>	<u>38,624</u>	<u>45,116</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of property and equipment	(16,565)	(17,130)	(15,238)
Net cash used in investing activities	<u>(16,565)</u>	<u>(17,130)</u>	<u>(15,238)</u>
<b>Cash Flows from Financing Activities</b>			
Proceeds from initial public offering, net of underwriting discounts paid	129,046	—	—
Proceeds from the exercise of stock options	5,788	2,346	436
Excess tax benefit related to stock-based compensation expense	—	62	63
Repurchase of Class B common stock related to early exercised options	(39)	(3,557)	—
Payment of deferred offering costs	—	(1,879)	—
Net cash provided by (used in) financing activities	<u>134,795</u>	<u>(3,028)</u>	<u>499</u>
Net increase in cash and restricted cash	190,408	18,466	30,377
Cash and restricted cash at beginning of period	119,958	101,492	71,115
Cash and restricted cash at end of period	<u>\$ 310,366</u>	<u>\$ 119,958</u>	<u>\$ 101,492</u>
<b>Components of cash and restricted cash</b>			
Cash	\$ 297,516	\$ 110,608	\$ 91,488
Restricted cash – current portion	250	250	1,391
Restricted cash – long-term portion	12,600	9,100	8,613
Total cash and restricted cash	<u>\$ 310,366</u>	<u>\$ 119,958</u>	<u>\$ 101,492</u>
<b>Supplemental Disclosure</b>			
Cash paid for income taxes	\$ 10,071	28,023	39,387
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</b>			
Purchases of property and equipment included in accounts payable and accrued liabilities	\$ 795	\$ 111	\$ 2,177
Capitalized stock-based compensation	\$ 883	\$ 164	\$ 58
Leasehold improvements paid by landlord	\$ —	\$ —	\$ 249
Vesting of early exercised options	\$ 988	\$ 891	\$ 1,095
Conversion of preferred stock upon initial public offering	\$ 42,222	\$ —	\$ —
Reclassification of preferred stock warrant liability upon initial public offering	\$ 15,994	\$ —	\$ —
Deferred offering costs included in accrued liabilities	\$ —	\$ 508	\$ —
Deferred offering costs paid in prior year	\$ 1,879	\$ —	\$ —

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





**STITCH FIX, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business**

Stitch Fix, Inc. (“we,” “our,” “us” or “the Company”) delivers one-to-one personalization to our clients through the combination of data science and human judgment. Our stylists hand select items from a broad range of merchandise. Stylists pair their own judgment with our analysis of client and merchandise data to provide a personalized shipment of apparel, shoes and accessories suited to each client’s needs. We call each of these unique shipments a Fix. After receiving a Fix, our clients purchase the items they want to keep and return the other items. We are incorporated in Delaware and have operations in the United States and the United Kingdom.

***Initial Public Offering***

On November 16, 2017, we completed an initial public offering, or IPO. In connection with the IPO, we authorized two new classes of common stock: Class A common stock and Class B common stock. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting, conversion and transfer rights. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock is convertible at any time at the option of the stockholder into one share of Class A common stock and has no expiration date. The Class B common stock automatically converts to Class A common stock upon transfers or any sale. In the IPO, we issued and sold 8,000,000 shares of our Class A common stock at a public offering price of \$15.00 per share. We received \$110.4 million in net proceeds after deducting \$6.2 million of underwriting discounts and \$3.4 million in offering costs. Upon the closing of the IPO, all of the then-outstanding shares of common stock were reclassified into Class B common stock, all of the outstanding shares of convertible preferred stock automatically converted into 59,511,055 shares of Class B common stock and all of the outstanding preferred stock warrants were automatically exercised into 1,066,225 shares of Class B common stock. Subsequent to the closing of the IPO, there were no shares of preferred stock or preferred stock warrants outstanding.

In December 2017, we issued an additional 1,175,557 shares of Class A common stock at a price of \$15.00 per share following the underwriters’ exercise of their option to purchase additional shares and received \$16.7 million in net proceeds after deducting underwriting discounts and expenses.

**2. Significant Accounting Policies**

***Basis of Presentation***

The consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The consolidated financial statements include the accounts of Stitch Fix, Inc. and our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Our fiscal year is a 52-week or 53-week period ending on the Saturday closest to July 31. The fiscal years ended July 28, 2018 (“2018”), July 29, 2017 (“2017”), and July 30, 2016, (“2016”) each consisted of 52 weeks.

***Segment Information***

We have one operating segment and one reportable segment as our chief operating decision maker, who is our Chief Executive Officer, reviews financial information on a consolidated basis for purposes of allocating resources and evaluating financial performance. All long-lived assets are located in the United States and all revenue is attributed to the United States.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in our consolidated financial statements and accompanying footnotes. Significant estimates and assumptions are used for inventory, stock-based compensation expense, common stock valuation and remeasurement of preferred stock warrant liability prior to IPO, income taxes and revenue recognition. Actual results could differ from those estimates and such differences may be material to the consolidated financial statements.

***Cash and Cash Equivalents***

Cash consists of bank deposits and amounts in transit from banks for client credit card and debit card transactions that will process in less than seven days. Cash equivalents consist of investments in short-term, highly liquid money market funds.

***Restricted Cash***

Restricted cash represents cash balances held in segregated accounts collateralizing letters of credit for our leased properties as of July 28, 2018, and July 29, 2017.

### ***Inventory, net***

Inventory consists of finished goods which are recorded at the lower of cost or net realizable value using the specific identification method. The cost of inventory consists of merchandise costs and in-bound freight costs. We establish a reserve for excess and slow-moving inventory we expect to write off based on historical trends. In addition, we estimate and accrue for shrinkage and damage as a percentage of revenue based on historical trends. Inventory shrinkage and damage estimates are made to reduce the inventory value for lost, stolen or damaged items.

The inventory reserve, which reduces inventory in our consolidated balance sheets, was \$17.6 million and \$15.7 million as of July 28, 2018, and July 29, 2017, respectively.

### ***Property and Equipment, net***

Property and equipment, net is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is recorded on a straight-line basis over the estimated useful lives of the respective assets. Repair and maintenance costs are expensed as incurred.

The estimated useful lives of our assets are as follows:

	<b>Estimated useful life</b>
Computer equipment and capitalized software	3 years
Office furniture and equipment	5 years
Buildings	25 years
Leasehold improvements	Shorter of lease term or estimated useful life

We capitalize eligible costs to develop our proprietary systems, website and mobile app. Capitalization of such costs begins when the preliminary project stage is completed and it is probable that the project will be completed and the software will be used to perform the function intended. A subsequent addition, modification or upgrade to internal-use software is capitalized to the extent that it enhances the software's functionality or extends its useful life. Costs related to design or maintenance are expensed as incurred.

### ***Deferred Offering Costs***

Deferred offering costs, which consist of direct incremental legal, consulting, banking and accounting fees relating to the IPO were capitalized and offset against proceeds upon the consummation of the IPO, which became effective on November 21, 2017.

In December 2017, we issued additional shares of Class A common stock following the underwriters' exercise of their option to purchase additional shares. The related deferred offering costs were capitalized and offset against proceeds upon issuance of the shares.

### ***Impairment of Long-Lived Assets***

We review our long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated from the use of the asset and its eventual disposition. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount exceeds the fair value of the impaired assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value less cost to sell. We have not recorded an impairment of long-lived assets since inception.

### ***Preferred Stock Warrant Liability***

We recorded our preferred stock warrants as current liabilities in the consolidated balance sheets at their estimated fair value because the warrants were exercisable at any time by the holders for cash at a purchase price per share equal to the lowest price per share at which we had sold shares of a specific series of our preferred stock or a number of shares of equivalent value as determined by a specified calculation. At initial recognition, we recorded these warrants at their estimated fair value. The liability associated with these warrants was subject to remeasurement at each balance sheet date, with changes in fair value recorded as remeasurement of preferred stock warrant liability in the consolidated statements of operations. In November 2017, in connection with our IPO, the preferred stock warrants were automatically exercised into Class B common stock and the preferred stock warrant liability was reclassified to additional paid-in capital.

### ***Revenue Recognition***

We generate revenue from the sale of merchandise in a Fix. Clients create an online account on our website or mobile app, complete a style profile and order a Fix to be delivered on a specified date.

Each Fix represents an offer made by us to the client to purchase merchandise. The client is charged a nonrefundable \$20 upfront styling fee before the Fix is shipped. As an alternative to the styling fee, we offer select clients the option to purchase a Style Pass. Style Pass clients pay a \$49 nonrefundable annual fee for unlimited Fixes that is credited towards merchandise purchases. If the offer to purchase merchandise is accepted, we charge the client the order amount for the accepted merchandise, net of the upfront styling fee or Style Pass annual fee. For each Fix, acceptance occurs when the client checks out the merchandise on our website or mobile app. We offer a 25% discount to clients that purchase all of the items in the Fix.

Both our styling fee and Style Pass arrangements consist of one unit of account, which is the sale of merchandise. The upfront styling fee is not a separate deliverable as there is no stand-alone value related to the styling activity. Similarly, the right to receive multiple options under Style Pass does not provide the customer with material stand-alone value. Both the upfront styling fee and Style Pass annual fee are included in deferred revenue until all revenue recognition criteria are met.

We recognize revenue when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured. These criteria are met when the client accepts or rejects the offer to purchase merchandise. Upon acceptance, the total amount of the order, including the upfront styling fee, is recognized as revenue. If none of the items within the Fix are accepted, the upfront styling fee is recognized as revenue at that time. The Style Pass annual fee is recognized at the earlier of the time at which a client accepts and applies the Style Pass fee to an offer to purchase merchandise or upon expiry of the annual period. Under Style Pass arrangements, if a client does not accept any items within the Fix, the annual fee will continue to be deferred until it is applied to a future purchase or upon expiry of the annual period. If a client would like to exchange an item, we recognize revenue at the time the client receives the new item, as that is when all revenue recognition criteria are met.

We deduct discounts, sales tax and estimated refunds to arrive at net revenue. Sales tax collected from clients is not considered revenue and is included in accrued liabilities until remitted to the taxing authorities. Discounts are recorded as a reduction to revenue when the order is accepted. We record a refund reserve based on our historical refund patterns. Our refund reserve, which was included in accrued liabilities in the consolidated balance sheets, was \$2.3 million and \$1.6 million as of July 28, 2018, and July 29, 2017, respectively.

Deferred revenue related to upfront styling fees and exchanges totaled \$7.8 million and \$7.2 million as of July 28, 2018, and July 29, 2017, respectively. Deferred revenue related to Style Pass annual fees totaled \$1.1 million as of July 28, 2018; the Company did not offer Style Pass prior to fiscal year 2018. Deferred shipping costs related to Fixes shipped at period end but not checked out were \$1.4 million and \$1.3 million as of July 28, 2018, and July 29, 2017, respectively, and are included within prepaid expenses and other current assets in the consolidated balance sheets.

We sell gift cards to clients and establish a liability based upon the face value of such gift cards. We reduce the liability and recognize revenue upon the redemption of the gift card. If a gift card is not redeemed, we will recognize revenue when the likelihood of its redemption becomes remote. We have not recognized any revenue related to unredeemed gift cards as we are unable to determine whether the likelihood of redemption has become remote.

#### ***Cost of Goods Sold***

Cost of goods sold consists of the costs of merchandise, expenses for shipping to and from clients and inbound freight, inventory write-offs and changes in our inventory reserve, payment processing fees and packaging material costs.

#### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses consist primarily of compensation and benefits costs, including stock-based compensation expense, for our employees including our stylist, fulfillment center operations, data analytics, merchandising, engineering, client experience, marketing and corporate personnel. Selling, general and administrative expenses also include marketing and advertising, third-party logistics costs, facility costs for our fulfillment centers and offices, professional services fees, information technology and depreciation and amortization.

#### ***Advertising Expenses***

Costs associated with the production of advertising, such as writing, copy, printing and other production costs are expensed as incurred. Costs associated with communicating advertising on television and radio are expensed the first time the advertisement is run. Online advertising costs are expensed as incurred. Advertising costs totaled \$102.1 million, \$70.5 million and \$25.0 million for 2018, 2017 and 2016, respectively, and are included within selling, general and administrative expenses in the consolidated statements of operations.

#### ***Marketing Programs***

We have a client referral program under which we issue credits for future purchases to clients when the referral results in a new client who has ordered a Fix. We record a liability at the time of issuing the credit and reduce the liability upon application of the credit to a client's purchase. Our liability for client referral credits amounted to \$2.7 million and \$2.3 million as of July 28, 2018, and July 29, 2017, respectively. We also have an affiliate program under which we make cash payments to lifestyle or fashion bloggers or others who refer clients in high volumes. Amounts related to both of these programs are included within selling, general and administrative expenses in the consolidated statements of operations.

## **Leases**

We recognize rent expense over the term of the lease, starting when the property is made available for use to us by the landlord. When a lease contains a predetermined fixed rent escalation, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rent expense and the amounts paid under the lease as deferred rent included in other current liabilities and deferred rent, net of current portion, on the consolidated balance sheets. We also receive tenant allowances upon entering into certain leases, which are recorded as a liability and amortized using the straight-line method as a reduction to rent expense over the term of the lease.

## **Income Taxes**

We account for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which they are expected to be realized or settled.

We believe that it is more likely than not that forecasted income and potential income from tax planning strategies, together with future reversals of existing taxable temporary differences and results of recent operations, will be sufficient to fully recover the deferred tax assets. In the event that we determine all or part of the net deferred tax assets are not realizable in the future, we would record a valuation allowance.

We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We recognize interest and penalties related to unrecognized tax benefits, if any, as income tax expense.

## **Stock-Based Compensation Expense**

We measure stock-based compensation expense associated with option awards made to employees and members of our board of directors based on the estimated fair values of the awards at grant date using the Black-Scholes option-pricing model. For options with service conditions only, stock-based compensation expense is recognized, net of forfeitures, over the requisite service period using the straight-line method such that an expense is only recognized for those awards that we expect to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

We have granted certain option awards that contain both service and performance conditions. The service condition for such awards is satisfied ratably over the 24-month period following the fourth anniversary of the grant date. The performance condition for such awards was satisfied if we consummated an IPO within 12 months of the grant date. Expense related to awards which contain both service and performance conditions is recognized using the accelerated attribution method. Since an IPO is not deemed probable until such event occurs, no compensation cost related to the performance condition was recognized prior to the consummation of our IPO in November 2017. Subsequently, we recorded stock-based compensation expense of \$0.5 million related to periods prior to the IPO.

For stock options granted to non-employees, we determined that the estimated fair value of the stock options is more readily measurable than the fair value of the services received. The fair value of stock options granted to non-employees is calculated at each grant date and re-measured at each reporting date using the Black-Scholes option-pricing model and the resulting change in value, if any, is recognized in our consolidated statements of operations for the periods in which the related services are rendered.

## **Comprehensive Income (Loss)**

Comprehensive income (loss) represents net income (loss) for the period plus the results of certain other changes to stockholders' equity. Our net income (loss) was equal to our comprehensive income (loss) for 2018, 2017 and 2016.

## **Concentration of Credit Risks**

The majority of our cash is held by three financial institutions within the United States. Our cash balances held by these institutions may exceed federally insured limits. The associated risk of concentration for cash is mitigated by banking with credit-worthy institutions. No client accounted for greater than 10% of total revenue, net for 2018, 2017 and 2016.

## **Recently Adopted Accounting Pronouncements**

In July 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2015-11, *Inventory: Simplifying the Measurement of Inventory (Topic 330)*. The new guidance replaces the current inventory measurement requirement of using the lower of cost or market with the lower of cost or net realizable value. We early adopted this standard beginning in 2017, which had no impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*, or ASU 2016-18. ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents and restricted cash. We early adopted this standard beginning in 2017 and have retroactively adjusted the consolidated statements of cash flows for all periods presented.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting (Topic 718)* or ASU 2016-09, which simplifies the accounting and reporting of share-based payment transactions, including adjustments to how excess tax benefits and payments for tax withholdings should be classified and provides the election to eliminate the estimate for forfeitures. Upon adoption, ASU 2016-09 requires that excess tax benefits for share-based payments be recorded as a reduction of income tax expense and reflected within operating cash flows, rather than being recorded within equity and reflected within financing cash flows. ASU 2016-09 also permits the repurchase of more of an employee's shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee's behalf for withheld shares should be presented as a financing activity on the Company's statement of cash flows, and provides an accounting policy election to account for forfeitures as they occur. We adopted this standard in our first fiscal quarter of 2018. We made an accounting policy election to continue to estimate forfeitures. All excess tax benefits and tax deficiencies related to share-based payment awards are now reflected in the consolidated statement of operations and comprehensive income as a component of the provision for income taxes on a prospective basis, whereas they were recognized in equity under the previous guidance. Additionally, excess tax benefits related to share-based payment awards are now reflected in operating activities, along with other income tax related cash flows, in our consolidated statement of cash flows on a prospective basis. The adoption did not have a material impact on our consolidated financial statements.

#### **Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, or ASU 2014-09, which amended the existing FASB Accounting Standards Codification. ASU 2014-09 establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services and also provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts. The new guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption ("modified retrospective method").

We will adopt the standard in the first quarter of fiscal 2019 under the modified retrospective approach. Under the new standard, we will begin to recognize revenue from estimated unredeemed gift cards over the expected customer redemption period rather than waiting until the likelihood of redemption becomes remote. Further, we expect to recognize revenue related to exchanges upon shipment by us, rather than upon receipt by the customer. In the first fiscal quarter of 2019, the Company will record a cumulative catch-up adjustment resulting in an increase to opening retained earnings, net of tax, of approximately \$2.5 million, comprised primarily of the impact from the change in revenue recognition related to gift cards.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, or ASU 2016-02, which requires lessees to record most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. We expect to adopt this standard in our first fiscal quarter of 2020. We are currently evaluating the impact that this standard will have on our consolidated financial statements but we expect that it will result in a substantial increase in our long-term assets and liabilities.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory (Topic 740)*, which amends existing guidance on the recognition of current and deferred income tax impacts for intra-entity asset transfers other than inventory. This amendment may be applied on a modified retrospective basis. We expect to adopt this standard in fiscal year 2019 and are currently evaluating the impact that it will have on our consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, or ASU 2018-07. Under this ASU, the accounting for awards issued to nonemployees will be similar to the accounting for employee awards. This includes allowing for the measurement of awards at the grant date and recognition of awards with performance conditions when those conditions are probable, both of which are earlier than under current guidance for nonemployee awards. We expect to adopt this standard in our first fiscal quarter of 2020. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

### **3. Fair Value Measurements**

We disclose and recognize the fair value of our assets and liabilities using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes three levels of the fair value hierarchy as follows:

*Level 1:* Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

*Level 2:* Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

*Level 3:* Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

Our financial instruments consist of cash and cash equivalents, accounts payable, accrued liabilities and the preferred stock warrant liability. At July 28, 2018, we had cash equivalents of \$175.2 million which consisted of money market funds with maturities of less than three months. At July 28, 2018, and July 29, 2017, the carrying values of cash and cash equivalents, accounts payable and accrued liabilities approximated fair value due to their short-term maturities. In November 2017, in connection with our IPO, all outstanding preferred stock warrants were automatically exercised into shares of Class B common stock. As a result, we remeasured and reclassified the preferred stock warrant liability to additional paid-in capital upon the closing of the IPO. As of July 28, 2018, the Company did not have any financial instruments measured at fair value.

The following table sets forth our financial instruments that were measured at fair value on a recurring basis based on the fair value hierarchy as of July 29, 2017:

(in thousands)	July 29, 2017			
	Level 1	Level 2	Level 3	Total
<b>Financial Liabilities:</b>				
Preferred stock warrant liability	—	—	26,679	26,679
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 26,679</b>	<b>\$ 26,679</b>

There were no transfers of financial assets or liabilities into or out of Level 1, Level 2 or Level 3 for 2018 or 2017. The key assumptions used in the Black-Scholes option-pricing model for the valuation of the preferred stock warrant liability upon remeasurement were as follows:

	July 29, 2017
Expected term (in years)	2.0
Fair value of underlying shares	\$ 25.09
Volatility	43.8%
Risk free interest rate	1.3%
Dividend yield	—%

Generally, increases or decreases in the fair value of the underlying convertible preferred stock would result in a directionally similar impact in the fair value measurement of the associated warrant liability.

The following table sets forth a summary of the changes in the fair value of the preferred stock warrant liability:

(in thousands)	For the Fiscal Year Ended July 28, 2018	
Balance at July 29, 2017	\$	26,679
Change in fair value		(10,685)
Reclassification of warrant liability to additional paid-in capital upon the initial public offering		(15,994)
Ending balance at July 28, 2018	<b>\$</b>	<b>—</b>

#### 4. Property and Equipment, net

Property and equipment, net consisted of the following:

(in thousands)	July 28, 2018	July 29, 2017
Computer equipment	\$ 2,920	\$ 5,086
Office furniture and equipment	9,829	4,514
Leasehold improvements	16,091	14,693
Capitalized software	24,982	11,481
Construction in progress	356	1,618
Building and land	402	—
Total property and equipment	54,580	37,392
Less: accumulated depreciation and amortization	(20,411)	(10,659)
Property and equipment, net	\$ 34,169	\$ 26,733

Depreciation and amortization expense for 2018, 2017 and 2016 was \$10.5 million, \$7.7 million and \$3.5 million, respectively.

#### 5. Accrued Liabilities

Accrued liabilities consisted of the following:

(in thousands)	July 28, 2018	July 29, 2017
Compensation and related benefits	\$ 10,680	\$ 9,632
Advertising	10,456	9,995
Sales taxes	7,066	3,702
Shipping and freight	4,801	3,390
Accrued accounts payable	4,567	4,814
Inventory purchases	506	11,186
Other	4,961	3,644
Total accrued liabilities	\$ 43,037	\$ 46,363

#### 6. Preferred Stock Warrant Liability

In 2012 and 2013, in connection with financing arrangements, we issued warrants to purchase shares of our convertible preferred stock. For one of the financing arrangements, we issued warrants to purchase 375,230 shares of Series Seed convertible preferred stock at an exercise price of \$0.1066 per share and 66,265 shares of Series A convertible preferred stock at an exercise price of \$0.22636 per share. For the second financing arrangement, we issued warrants for the purchase of, at the warrant holder's option, either (a) 624,730 shares of Series A-1 convertible preferred stock at an exercise price of \$0.2401 per share or (b) 308,315 shares of Series B convertible preferred stock at an exercise price of \$0.486516 per share. Prior to their automatic exercise in connection with the IPO, the warrants were exercisable for and expired ten years from the date of issuance. In November 2017, in connection with our IPO, the preferred stock warrants were automatically exercised into shares of common stock and the preferred stock warrant liability was reclassified to additional paid-in capital.

#### 7. Commitments and Contingencies

##### Leases

We have entered into various lease arrangements for our corporate offices and fulfillment centers. Such leases generally have original lease terms between five and eight years. We had security deposits totaling \$1.3 million and \$1.3 million as of July 28, 2018, and July 29, 2017, respectively. We have letters of credit totaling \$12.9 million and \$9.4 million as of July 28, 2018, and July 29, 2017, respectively, which are collateralized by time deposits.



A schedule of the future minimum rental commitments under our non-cancelable operating lease agreements with an initial or remaining term in excess of one year as of July 28, 2018, is as follows:

(in thousands)	July 28, 2018
2019	\$ 18,652
2020	19,646
2021	19,024
2022	17,127
2023	14,945
Thereafter	59,159
<b>Total</b>	<b>\$ 148,553</b>

At one fulfillment center, the Company recognizes contingent rent in excess of its minimum lease payments. Contingent rental amounts are determined based on additional square footage utilized in excess of the Company's contractual minimum commitments.

Total rent expense classified within selling, general and administrative expenses in the consolidated statements of operations was \$18.2 million, \$16.6 million and \$11.1 million for 2018, 2017 and 2016, respectively.

Future minimum rental commitments as of July 28, 2018 have not been reduced by sublease rentals of \$3.0 million due to the Company under non-cancelable subleases through fiscal 2021.

#### Contingencies

We record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We also disclose material contingencies when we believe a loss is not probable but reasonably possible. Accounting for contingencies requires us to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. Although we cannot predict with assurance the outcome of any litigation or tax matters, we do not believe there are currently any such actions that, if resolved unfavorably, would have a material impact on our operating results, financial position or cash flows.

#### Indemnifications

In the ordinary course of business, we may provide indemnifications of varying scope and terms to vendors, directors, officers and other parties with respect to certain matters. We have not incurred any material costs as a result of such indemnifications and have not accrued any liabilities related to such obligations in our consolidated financial statements.

## 8. Convertible Preferred Stock

Prior to the IPO, the Company's convertible preferred stock consisted of the following as of July 29, 2017, and July 30, 2016 (in thousands, except share data):

(in thousands, except share data)	Shares Authorized	Shares Outstanding	Net Carrying Value	Liquidation Preference
Series Seed	7,457,785	7,082,555	\$ 754	\$ 754
Series A	11,715,050	11,648,785	2,602	2,637
Series A-1	9,571,715	8,946,985	2,147	2,147
Series B	24,358,445	24,358,445	11,756	11,851
Series C	7,474,285	7,474,285	24,963	25,000
<b>Total</b>	<b>60,577,280</b>	<b>59,511,055</b>	<b>\$ 42,222</b>	<b>\$ 42,389</b>

Upon the closing of the IPO, all of the outstanding shares of convertible preferred stock automatically converted into 59,511,055 shares of Class B common stock. As of July 28, 2018, the Company is authorized to issue 20,000,000 shares of preferred stock, with a \$0.00002 par value. There are currently no outstanding shares of preferred stock as of July 28, 2018.

Prior to the IPO, the significant provisions of the convertible preferred stock were as follows:

*Dividends* - The holders of convertible preferred stock were entitled to receive, on a pari passu basis, non-cumulative dividends prior and in preference to any declaration or payment of any dividends to the holders of common stock, when and if declared by the board of directors, at annual rates equal to 6% of original issue price per share for Series Seed, Series A, Series A-1, Series B and Series C convertible

preferred stock, as adjusted for stock splits, stock dividends, reclassifications or the like. Holders of convertible preferred stock were also entitled to participate in dividends on the common stock on an as-converted basis. No dividends have been declared by the board of directors or paid since inception.

*Conversion* - At the option of the holder, each share of convertible preferred stock was convertible into fully paid and non-assessable shares of common stock. As of July 29, 2017, and July 30, 2016, each share of convertible preferred stock was convertible into one share of common stock, subject to adjustment for stock splits, stock dividends and the like. The conversion price of each series of convertible preferred stock was subject to weighted-average adjustment if we issued additional shares of common stock after the applicable original issue date of such series of convertible preferred stock without consideration or for consideration per share less than the conversion price for such series of convertible preferred stock, subject to customary exceptions. Each share of preferred stock automatically converted into the number of shares of common stock into which such shares were convertible at the then-applicable conversion ratio upon (i) the closing of the sale of shares of common stock in a public offering resulting in gross proceeds of at least \$30,000,000 and the listing of our common stock on the Nasdaq Global Select Market, or (ii) the consent of the holders of a majority of the outstanding convertible preferred stock, voting as a single class on an as-converted basis.

*Liquidation* - In the event of any voluntary or involuntary liquidation, dissolution or winding up of Stitch Fix, Inc. (a "liquidation event"), holders of convertible preferred stock were entitled to receive, prior and in preference to holders of common stock, an amount equal to the greater of (i) the applicable original issue price for each series of convertible preferred stock (\$0.1066, \$0.22636, \$0.2401, \$0.486516 and \$3.344798 per share for Series Seed, Series A, Series A-1, Series B and Series C, respectively, as adjusted for stock splits, stock dividends and the like), plus any declared and unpaid dividends and (ii) the amount per share that would have been payable if all shares of convertible preferred stock were converted into common stock subject to the applicable conversion rights. If upon occurrence of such an event, the assets and funds to be distributed among the holders of convertible preferred stock were insufficient to permit the payment to such holders, our entire assets and funds legally available for distribution would have been distributed ratably among the holders. Upon completion of the distribution to the holders of the convertible preferred stock, all remaining legally available assets would have been distributed ratably to the holders of common stock. A liquidation event would have been deemed to have occurred (unless waived by the holders of the majority of the outstanding shares of convertible preferred stock) upon (i) a consolidation, reorganization or merger of the Company, other than any consolidation, reorganization or merger in which the Company's stockholders of record as of immediately prior to such transaction would continue to hold a majority of the voting power of the surviving company of such transaction, (ii) a transfer of shares of the Company representing a majority of the voting power of the Company, other than for equity financing purposes or (iii) a sale, lease, exclusive license or other disposition of all or substantially all of the assets of the Company.

*Voting* - Each share of convertible preferred stock was entitled to the number of votes equal to the number of shares of common stock into which such share could be converted on the record date for the vote or consent of the stockholders, except as otherwise required by law or other provisions of the Company's Certificate of Incorporation, as amended, or Certificate of Incorporation, and generally had voting rights and powers equal to the voting rights and powers of the common stockholders. For so long as at least 3,250,000 shares of Series B convertible preferred stock, as adjusted for stock splits, stock dividends and the like, remained outstanding, the holders of Series B convertible preferred stock, voting as a separate class, were entitled to elect one member of the board of directors. For so long as at least 950,000 shares of Series Seed convertible preferred stock, as adjusted for stock splits, stock dividends and the like, remain outstanding, the holders of Series Seed convertible preferred stock, voting as a separate class, were entitled to elect one member of the board of directors. The holders of Common Stock, voting as a separate class, were entitled to elect two members of the board of directors. The holders of convertible preferred stock and common stock, voting as a single class on an as-converted basis, were entitled to elect all remaining members of the board of directors.

*Protective Provisions* - For so long as at least 2,000,000 shares of convertible preferred stock, as adjusted for stock splits, stock dividends and the like, remained outstanding, the holders of convertible preferred stock had certain protective provisions whereby the Company could not, without the written consent or affirmative vote of the holders of the majority of outstanding shares of convertible preferred stock, voting together as a single class on an as-converted basis (i) authorize or designate any new class or series of stock or any other securities convertible into equity securities of the Company ranking on a parity with or senior to the convertible preferred stock in respect to redemption rights, liquidation preference, voting or dividend rights, or increase the authorized or designated number of any such class or series; (ii) redeem or repurchase stock, pay or declare dividends or make other distributions in respect of stock, subject to certain exceptions; (iii) consummate a transaction that would have been a liquidation event, or other merger or consolidation or enter into any agreement by the Company or its stockholders regarding a liquidation event or other merger or consolidation; (iv) amend, alter or repeal any provision of the Certificate of Incorporation or the Amended and Restated Bylaws of the Company; (v) increase or decrease the authorized number of members of the board of directors; (vi) increase or decrease the authorized number of shares of common stock or convertible preferred stock or any series thereof; (vii) consummate or enter into any transaction with the Company's executive officers or their affiliates, subject to certain exceptions; or (viii) create, permit the creation of or hold capital stock in any direct or indirect subsidiary that was not wholly owned by the Company.

The holders of Series A, Series B and Series C convertible preferred stock each had additional protective provisions whereby the Company could not, so long as 1,221,780 shares, 2,435,835 shares and 747,430 shares, respectively, as adjusted for stock splits, stock dividends and the like, remained outstanding, without the written consent or voting approval of the holders of a majority of the then-outstanding shares of the respective series of convertible preferred stock, take any action that: (i) amended, altered or repealed any powers, preferences

or rights of such series of convertible preferred stock, so as to affect them adversely and in a manner disproportionate to other series of preferred stock; or (ii) increased or decreased the authorized number of shares of such series of convertible preferred stock.

*Other* - We classified our convertible preferred stock outside of stockholders' equity because the shares contained certain liquidation features that were not solely within our control. During 2017 and 2016, we did not adjust the carrying value of the convertible preferred stock to the deemed liquidation value of such shares as a qualifying liquidation event was not probable.

## 9. Stockholders' Equity

### 2011 Equity Incentive Plan

In 2011, we adopted the 2011 Equity Incentive Plan (the "2011 Plan"). The 2011 Plan provided for the granting of stock-based awards to employees, directors and non-employees under terms and provisions established by the board of directors. The number of shares authorized for issuance under the 2011 Plan was 23,223,374 and 20,364,297 as of July 29, 2017, and July 30, 2016, respectively, of which 2,023,424 and 3,101,370 were available for grant, respectively.

The 2011 Plan allowed for the grant of incentive stock options or nonqualified stock options as well as restricted stock units, restricted stock and stock appreciation rights. As of July 28, 2018, we had only granted incentive and nonqualified stock options under the 2011 Plan. Effective upon our IPO, the 2011 Plan was replaced by the 2017 Incentive Plan.

### 2017 Incentive Plan

In November 2017, our board of directors and stockholders adopted our 2017 Incentive Plan (the "2017 Plan"). The remaining shares available for issuance under the 2011 Plan became reserved for issuance under the 2017 Plan. The 2017 Plan provides for the grant of incentive stock options to employees, including employees of any parent or subsidiary, and for the grant of nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards and other forms of stock awards to employees, directors and consultants, including employees and consultants of our subsidiaries. As of July 28, 2018, the number of shares authorized for issuance under the 2017 Plan was 28,423,374, of which 3,743,623 were available for grant.

Employee stock options generally vest 25% on the first anniversary of the grant date with the remaining vesting ratably over the next three years. Options generally expire after 10 years.

Stock option activity under the 2011 Plan and 2017 Plan is as follows:

	Shares Available for Grant	Number of Options	Options Outstanding		
			Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in thousands)
Balance – July 29, 2017	2,023,424	10,218,912	\$ 7.12	8.53	\$ 166,670
Authorized	5,200,000	—			
Granted	(4,820,596)	2,180,789	21.57		
Exercised	—	(2,194,168)	2.33		
Cancelled	1,340,795	(1,153,373)	7.16		
Balance – July 28, 2018	3,743,623	9,052,160	\$ 11.74	8.23	\$ 160,856
Options vested and exercisable - July 28, 2018		2,361,520	\$ 4.30	6.65	\$ 59,539
Options vested and expected to vest - July 28, 2018		8,046,527	\$ 11.20	8.01	\$ 147,367

The weighted-average grant date fair value of options granted during 2018, 2017 and 2016 was \$8.40, \$9.11 and \$1.99 per share, respectively. The total grant date fair value of options that vested during 2018, 2017 and 2016 was \$8.5 million, \$2.6 million and \$1.5 million, respectively. The aggregate intrinsic value of options exercised during 2018, 2017 and 2016 was \$59.6 million, \$17.4 million and \$3.5 million, respectively. The aggregate intrinsic value is the difference between the current fair value of the underlying common stock and the exercise price for in-the-money stock options.

Employee restricted stock units are granted under the 2017 Plan and generally vest 25% on the first anniversary of the grant date with the remaining vesting ratably over the next three years.

The following table summarizes the restricted stock unit, or RSU, award activity under the 2017 Plan:

	Unvested RSU's			
	Class A Common Stock	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in thousands)
Unvested at July 29, 2017	—	—		
Granted	2,639,807	\$ 21.34		
Vested	(39,538)	19.38		
Forfeited	(167,943)	18.28		
Unvested at July 28, 2018	2,432,326	\$ 21.58	3.50	\$ 71,778
Expected to vest - July 28, 2018	2,018,344	\$ 21.57	3.50	\$ 59,561

### Stock-Based Compensation Expense

Stock-based compensation expense for options granted to employees was \$15.4 million, \$3.4 million and \$1.6 million for 2018, 2017 and 2016, respectively. Stock-based compensation expense for options granted to non-employees was less than \$0.1 million in 2018. Stock-based compensation expense for options granted to non-employees was \$0.2 million and \$0.3 million for 2017 and 2016, respectively. The income tax benefit related to stock-based compensation was \$4.7 million, \$1.3 million and \$0.6 million for 2018, 2017 and 2016, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in our consolidated statements of operations.

As of July 28, 2018, the total unrecognized compensation expense related to unvested options and RSU's, net of estimated forfeitures, was \$97.7 million, which we expect to recognize over an estimated weighted average period of 3.1 years.

In determining the fair value of the stock-based awards, we use the Black-Scholes option-pricing model and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment.

**Fair Value of Common Stock** - As of July 28, 2018, the fair value of the shares of common stock underlying our stock options has been determined based on market prices. Prior to our IPO on November 16, 2017, the fair value of the shares of common stock underlying our stock options was determined by the board of directors. As there was no public market for our common stock, the board of directors determined the fair value of the common stock on the stock option grant date by considering a number of objective and subjective factors, including third-party valuations of our common stock, sales of our common stock, operating and financial performance, the lack of marketability of our common stock and general macroeconomic conditions.

**Expected Term** - The expected term represents the period that our stock options are expected to be outstanding and is determined using the simplified method (generally calculated as the mid-point between the vesting date and the end of the contractual term).

**Expected Volatility** - The expected volatility was estimated based on the average volatility for publicly traded companies that we considered comparable, over a period equal to the expected term of the stock option grants.

**Risk-Free Interest Rate** - The risk-free interest rate is based on the U.S. Treasury zero coupon notes in effect at the time of grant for periods corresponding with the expected term of the option.

**Expected Dividend** - We have not paid dividends on our common stock and do not anticipate paying dividends on our common stock; therefore, we use an expected dividend yield of zero.

The fair value of stock options granted to employees was estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions:

	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
Expected term (in years)	5.4 - 6.6	5.1 - 7.7	5.4 - 6.9
Volatility	41.4 - 43.5%	42.6 - 46.0%	44.3 - 47.9%
Risk free interest rate	1.9 - 3.0%	1.3 - 2.3%	1.1 - 1.9%
Dividend yield	—%	—%	—%

In July 2017, options to purchase an aggregate of 1,097,463 shares of common stock which had both a service-based condition and a liquidity event-related performance condition were granted to certain members of our executive management team. Such options vest ratably over the 24-month period following the fourth anniversary of the grant date, subject to an IPO occurring within 12 months of the grant date and the option holder's continuous service through each vesting date. The aggregate grant-date fair value of such option awards

was \$14.0 million. Since an IPO is not deemed probable until such event occurs, no compensation cost related to the performance condition was recognized prior to the consummation of our IPO in November 2017. Subsequently, we recorded stock-based compensation expense of \$0.5 million related to periods prior to the IPO.

### **Early Exercise of Employee Options**

We allow certain employees to exercise options granted under the 2011 Plan prior to vesting in exchange for shares of restricted common stock subject to a right of repurchase that lapses according to the original option vesting schedule. The proceeds from the exercise of options are recorded in other current liabilities and other long-term liabilities in our consolidated balance sheets at the time the options are exercised and reclassified to common stock and additional paid-in capital as our repurchase right lapses. Upon termination of employment, any unvested shares are subject to repurchase by us at the original purchase price.

We did not issue any shares upon exercise of unvested stock options during 2018. We issued 111,557 and 42,500 shares of common stock during 2017 and 2016, respectively, upon exercise of unvested stock options. As of July 28, 2018, July 29, 2017, and July 30, 2016 there were 160,417, 702,144 and 1,699,147 shares of common stock, respectively, held by employees subject to repurchase at an aggregate price of \$0.2 million, \$1.2 million and \$1.5 million, respectively.

### **Sales of Our Stock**

In April 2016, an employee sold an aggregate of 268,095 shares of our common stock for a total of \$6.0 million to an existing investor. The purchase price was in excess of the fair value of such shares. As a result, during 2016, we recorded the excess of the purchase price above fair value of \$4.8 million as compensation expense with a corresponding credit to additional paid-in capital.

In November 2016, we initiated a cash tender offer which was completed in December 2016 for the purchase of our common stock, including shares underlying then-unexercised vested options, at a purchase price of \$22.61 per share. To be eligible to participate in the tender offer, employees must have received equity grants with vesting start dates on or before October 31, 2014. Such employees could elect to sell up to 10% of their total vested holdings. The total number of tendered shares was 526,620 for total cash consideration of \$11.9 million. The purchase price per share in the tender offer was in excess of the fair value of our common stock at the time of the transaction. As a result, during 2017, we recorded the excess of the purchase price above fair value of \$8.3 million as compensation expense.

In January 2017, two of our former employees sold 554,799 shares of our common stock for a total of \$12.5 million to existing investors. In addition, an employee sold 85,000 shares of our Series C convertible preferred stock for a total purchase price of \$1.9 million to an existing investor. The purchase price was in excess of the fair value of such shares. During 2017, we recorded \$13.0 million as compensation expense related to these transactions.

## **10. Income Taxes**

The components of income (loss) before income taxes are as follows:

(in thousands)	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
<b>Income (loss) before income taxes</b>			
U.S.	\$ 56,978	\$ 12,801	\$ 61,222
Foreign	(2,265)	—	—
Total	\$ 54,713	\$ 12,801	\$ 61,222

The components of the provision for income tax expense are as follows:

(in thousands)	For the Fiscal Year Ended		
	July 28, 2018	July 29, 2017	July 30, 2016
<b>Current:</b>			
Federal	\$ 2,732	\$ 17,027	\$ 29,204
State	493	3,096	4,706
Total current	3,225	20,123	33,910
<b>Deferred:</b>			
Federal	7,917	(6,009)	(5,458)
State	(1,329)	(719)	(411)
Total deferred	6,588	(6,728)	(5,869)
Provision for income taxes	\$ 9,813	\$ 13,395	\$ 28,041

The reconciliation of our effective tax rate to the statutory federal rate is as follows:

(in thousands, except percentages)	For the Fiscal Year Ended					
	July 28, 2018		July 29, 2017		July 30, 2016	
Tax at federal statutory rate	\$ 14,752	27.0 %	\$ 4,481	35.0%	\$ 21,428	35.0%
State taxes, net of federal effect	(755)	(1.4)%	1,270	9.9%	2,386	3.9%
Remeasurement of preferred stock warrant liability	(2,881)	(5.3)%	6,608	51.6%	1,057	1.7%
Stock-based compensation	(5,454)	(9.9)%	229	1.8%	—	0.0%
Tax Act impact	6,670	12.2 %	—	0.0%	—	0.0%
Research and development credits	(2,146)	(3.9)%	—	0.0%	—	0.0%
Uncertain tax positions	2,846	5.1 %	23	0.2%	52	0.1%
Return to provision	(3,891)	(7.1)%	—	0.0%	45	0.1%
Nondeductible compensation	—	0.0 %	—	0.0%	1,684	2.8%
Other	672	1.2 %	784	6.1%	1,389	2.2%
Effective tax rate	\$ 9,813	17.9 %	\$ 13,395	104.6%	\$ 28,041	45.8%

The components of net deferred tax assets are as follows:

(in thousands)	July 28, 2018	July 29, 2017	July 30, 2016
<b>Deferred tax assets:</b>			
Inventory reserve and uniform capitalization	\$ 7,504	\$ 13,378	\$ 9,262
Deferred rent	202	4,858	3,736
Accruals and reserves	8,274	6,215	3,054
Research and development credits	754	—	—
Stock-based compensation	2,210	308	195
Deferred revenue	739	616	272
Other	404	175	438
Gross deferred tax assets	20,087	25,550	16,957
<b>Deferred tax liabilities:</b>			
Depreciation and amortization	(5,860)	(5,407)	(3,522)
Other	(120)	(152)	(234)
Gross deferred tax liabilities	(5,980)	(5,559)	(3,756)
Net deferred tax assets	\$ 14,107	\$ 19,991	\$ 13,201

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act, or the Tax Act, which significantly changed U.S. tax law. The Tax Act contains several key tax provisions including the reduction of the corporate income tax rate from 35% to 21%, as well as a variety of other changes including the acceleration of expensing of certain business assets and reductions in the amount of executive pay that could qualify as a tax deduction. The federal statutory tax rate reduction was effective January 1, 2018. The Company has a fiscal year end, which subjects us to transitional tax rate rules. Due to the tax rate reduction being effective beginning after December 31, 2017, for the year ended July 28, 2018, we applied a blended U.S. statutory rate of 26.96% due to the tax rate reduction. Additionally, we remeasured our net deferred tax assets, which resulted in an increase in income tax expense of \$6.7 million.

On December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Act, or SAB 118, which provides guidance on accounting for the Tax Act's impact and allows registrants to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. During the fiscal year ended July 28, 2018, we recorded an amount of \$6.7 million due to the remeasurement of our net deferred tax assets for the reduction in U.S. statutory tax rate.

We had a federal net operating loss carryforward of \$0.3 million for the year ended July 29, 2017. These losses were fully utilized in the year ended July 28, 2018. We had state net operating loss carryforwards of \$0.2 million and \$0.5 million as of July 28, 2018, and July 29, 2017, respectively. If not utilized, these losses will begin to expire in 2033. As of July 28, 2018, we had California research and development tax credit carryforwards of \$1.5 million which are not subject to expiration.

#### **Uncertain Tax Positions**

A reconciliation of our unrecognized tax benefits is as follows:

<b>(in thousands)</b>	<b>July 28, 2018</b>	<b>July 29, 2017</b>	<b>July 30, 2016</b>
Balance at the beginning of the year	\$ 1,052	\$ 846	\$ 481
Increase related to prior period tax positions	2,334	—	—
Decrease related to prior period tax positions	(241)	(36)	—
Increase related to current year tax positions	2,358	242	365
Balance at the end of the year	<u>\$ 5,503</u>	<u>\$ 1,052</u>	<u>\$ 846</u>

The amount of unrecognized tax benefits relating to our tax positions is subject to change based on future events including, but not limited to, the settlements of ongoing audits and/or the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, we anticipate that the balance of the liability for unrecognized tax benefits and related deferred tax assets will decrease by \$0.4 million during the next twelve months due to lapses of applicable statutes of limitation. Our liability for uncertain tax positions as of July 28, 2018, includes \$4.7 million related to amounts that would impact our current and future tax expense.

We recognize interest related to uncertain tax positions in our provision for income taxes. We file U.S. federal and various state and local income tax returns, including the state of California. We are subject to U.S. federal, state or local income tax examinations for all prior years.

#### **11. Earnings (Loss) Per Share Attributable to Common Stockholders**

Basic and diluted net income (loss) per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. We consider convertible preferred stock and early exercised share options to be participating securities. In connection with the IPO, we established two classes of authorized common stock: Class A common stock and Class B common stock. As a result, all then-outstanding shares of common stock were converted into shares of Class B common stock upon effectiveness of the IPO. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting, conversion and transfer rights. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock is convertible at any time at the option of the stockholder into one share of Class A common stock.

Undistributed earnings allocated to participating securities are subtracted from net income (loss) in determining net income (loss) attributable to common stockholders. Basic earnings per share, or EPS, attributable to common stockholders is computed by dividing the net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. All participating securities are excluded from basic weighted-average common shares outstanding.

For the calculation of diluted earnings per share EPS, net income (loss) attributable to common stockholders for basic EPS is adjusted by the effect of dilutive securities. Diluted net income (loss) per share attributable to common stockholders is computed by dividing the net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding, including all potentially dilutive common shares. The undistributed earnings are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the year have been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. The computation of the diluted net income (loss) per share of Class A common stock assumes the conversion of Class B common stock, while diluted net income (loss) per share of Class B common stock does not assume the conversion of Class A common stock as Class A common stock is not convertible into Class B common stock.



A reconciliation of the numerator and denominator used in the calculation of the basic and diluted EPS attributable to common stockholders is as follows (in thousands except share and per share amounts):

(in thousands except share and per share amounts)	July 28, 2018		July 29, 2017	July 30, 2016
	Class A	Class B	Class B	Class B
<b>Numerator:</b>				
Net income (loss)	\$ 7,650	\$ 37,250	\$ (594)	\$ 33,181
Less: noncumulative dividends to preferred stockholders	(131)	(637)	—	(2,533)
Less: undistributed earnings to participating securities	(1,464)	(7,127)	—	(22,437)
Net income (loss) attributable to common stockholders - basic	6,055	29,486	(594)	8,211
Less: change in fair value of preferred stock warrant liability (net of tax)	(10,685)	(10,685)	—	—
Add: adjustments to undistributed earnings to participating securities	2,429	2,015	—	1,285
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	29,486	—	—	—
Reallocation of undistributed earnings to Class B shares	—	2,122	—	—
Net income (loss) attributable to common stockholders - diluted	\$ 27,285	\$ 22,938	\$ (594)	\$ 9,496
<b>Denominator:</b>				
Weighted-average shares of common stock - basic	12,940,593	63,007,166	24,973,931	22,729,890
Conversion of Class B to Class A common shares outstanding	63,007,166	—	—	—
Effect of dilutive stock options and restricted stock units	5,021,692	5,011,712	—	5,152,954
Effect of potentially dilutive preferred stock warrants	318,967	318,967	—	—
Weighted-average shares of common stock - diluted	81,288,418	68,337,845	24,973,931	27,882,844
Earnings (loss) per share attributable to common stockholders:				
Basic	\$ 0.47	\$ 0.47	\$ (0.02)	\$ 0.36
Diluted	\$ 0.34	\$ 0.34	\$ (0.02)	\$ 0.34

The following common stock equivalents were excluded from the computation of diluted earnings (loss) per share for the periods presented because including them would have been antidilutive:

	July 28, 2018	July 29, 2017	July 30, 2016
Convertible preferred stock	—	59,511,055	59,511,055
Preferred stock warrants	—	1,066,225	1,066,225
Restricted stock units	2,276,994	—	—
Stock options to purchase Class A common stock	1,271,152	—	—
Stock options to purchase Class B common stock	3,689,369	5,675,447	105,993
Total	7,237,515	66,252,727	60,683,273

## 12. Subsequent Events

On August 16, 2018 we signed a letter of intent (LOI) with a third-party logistics contractor to lease and operate a fulfillment center in Leicester, England. The LOI commits the Company to a two year contract for logistics services at the Leicester fulfillment center that could be terminated after 18 months, with six months' notice. Under the terms of the LOI, nonperformance by the Company could result in an estimated termination payment of between \$5.0 million and \$10.0 million.



## **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

### **Item 9A. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Annual Report.

Based on the evaluation of our disclosure controls and procedures as of July 28, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as a result of the material weakness in our internal control, our disclosure controls and procedures were not effective as of July 28, 2018.

#### **Management's Report on Internal Control Over Financial Reporting**

This Annual Report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by SEC rules for newly public companies.

#### **Material Weakness in Internal Control Over Financial Reporting**

As of July 28, 2018, we have a material weakness in our internal control over financial reporting relating to the accounting and proprietary systems used in our financial reporting process not having the proper level of controls. Specifically, our systems lacked controls over access, program change management and computer operations that are needed to ensure access to financial data is adequately restricted to appropriate personnel.

A material weakness, as defined in the standards established by the Sarbanes-Oxley Act of 2002, (the "Sarbanes-Oxley Act"), 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 our annual or interim financial statements will not be prevented or detected on a timely basis.

#### **Management's Plan to Remediate the Material Weakness**

As a result of this material weakness, we have initiated and will continue to implement remediation measures including, but not limited to, engaging external consultants to conduct a review of processes that involve financial data within our accounting and proprietary systems. This review includes identification of potential risks, documentation of processes and recommendations for improvement. We are still in the process of completing the remediation of the previously identified material weakness.

The initiatives we are implementing to remediate the material weakness are subject to continued management review supported by confirmation and testing, as well as audit committee oversight. We will continue to implement measures to remedy our internal control deficiencies in order to meet the deadline imposed by Section 404 of the Sarbanes-Oxley Act. However, we cannot be certain that the measures we have taken or may take in the future will ensure that we will establish and maintain adequate controls over our financial processes and reporting in the future.

Notwithstanding the material weakness, our management has concluded that the financial statements included elsewhere in this Annual Report present fairly, in all material respects, our financial position, results of operations and cash flows in conformity with GAAP.

If we fail to fully remediate the material weakness or fail to maintain effective internal controls in the future, it could result in a material misstatement of our financial statements that would not be prevented or detected on a timely basis, which could cause investors to lose confidence in our financial information or cause our stock price to decline. Our independent registered public accounting firm has not assessed the effectiveness of our internal control over financial reporting, which may increase the risk that weaknesses or deficiencies in our internal control over financial reporting go undetected.

#### **Changes in Internal Control**

Other than the changes intended to remediate the material weakness noted above, there were no changes in our internal control over financial reporting during the fiscal quarter ended July 28, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Limitations on Effectiveness of Controls and Procedures**

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

**Item 9B. Other Information.**

None.

**PART III****Item 10. Directors, Executive Officers and Corporate Governance.**

Information required by this item regarding directors and director nominees, executive officers, the board of directors and its committees, certain corporate governance matters and compliance with Section 16(a) of the Exchange Act is incorporated by reference to the information set forth in the definitive proxy statement for our 2018 Annual Meeting of Stockholders, or the 2018 Proxy Statement.

We have adopted a written code of business conduct and ethics, or the Code of Conduct, that applies to all of our employees, officers and directors, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Conduct is available on our corporate website at <https://investors.stitchfix.com/> under "Documents" under the section entitled "Governance." If we make any substantive amendments to our Code of Conduct or grant any of our directors or executive officers any waiver, including any implicit waiver, from a provision of our Code of Conduct, we will disclose the nature of the amendment or waiver on our website or in a Current Report on Form 8-K.

**Item 11. Executive Compensation.**

Information required by this item regarding executive compensation is incorporated by reference to the information set forth in our 2018 Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Information required by this item regarding security ownership of certain beneficial owners and management and securities authorized for issuance under our equity compensation plans is incorporated by reference to the information set forth in our 2018 Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information required by this item regarding certain relationships and related transactions and director independence is incorporated by reference to the information set forth in our 2018 Proxy Statement.

**Item 14. Principal Accounting Fees and Services.**

Information required by this item regarding principal accounting fees and services is incorporated by reference to the information set forth in our 2018 Proxy Statement.

**PART IV****Item 15. Exhibits, Financial Statement Schedules.**

(a) The following documents are filed as part of this Annual Report:

- (1) The financial statements are filed as part of this Annual Report under "Item 8. Financial Statements and Supplementary Data."
- (2) The financial statement schedules are omitted because they are either not applicable or the information required is presented in the financial statements and notes thereto under "Item 8. Financial Statements and Supplementary Data."
- (3) The exhibits listed in the following Exhibit Index are filed, furnished or incorporated by reference as part of this Annual Report.

## Exhibit Index

Exhibit Number	Description	Incorporation by Reference				Filed or Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Stitch Fix, Inc.</a>	8-K	001-38291	3.1	11/21/2017	
3.2	<a href="#">Amended and Restated Bylaws of Stitch Fix, Inc.</a>	8-K	001-38291	3.2	11/21/2017	
4.1	<a href="#">Form of Class A Common Stock Certificate.</a>	S-1/A	333-221014	4.1	11/6/2017	
4.2	<a href="#">Form of Class B Common Stock Certificate.</a>	S-8	333-221650	4.6	11/17/2017	
10.1	<a href="#">Amended and Restated Investor Rights Agreement, dated April 10, 2014.</a>	S-1	333-221014	10.1	10/19/2017	
10.2+	<a href="#">Stitch Fix, Inc. 2011 Equity Incentive Plan, as amended.</a>	S-1	333-221014	10.2	10/19/2017	
10.3+	<a href="#">Forms of grant notice, stock option agreement, notice of exercise and early exercise stock purchase agreement under the Stitch Fix, Inc. 2011 Equity Incentive Plan, as amended.</a>	S-1	333-221014	10.3	10/19/2017	
10.4+	<a href="#">Stitch Fix, Inc. 2017 Incentive Plan.</a>					X
10.5+	<a href="#">Forms of stock option grant notice, stock option agreement and notice of exercise under the Stitch Fix, Inc. 2017 Incentive Plan.</a>	S-1/A	333-221014	10.5	11/6/2017	
10.6+	<a href="#">Forms of restricted stock unit grant notice and award agreement under the Stitch Fix, Inc. 2017 Incentive Plan.</a>	S-1/A	333-221014	10.6	11/6/2017	
10.7+	<a href="#">Form of Indemnity Agreement entered into by and between Stitch Fix, Inc. and each director and executive officer.</a>	S-1	333-221014	10.7	10/19/2017	
10.8+	<a href="#">Offer Letter, by and between Stitch Fix, Inc. and Katrina Lake, dated September 5, 2017.</a>	S-1	333-221014	10.8	10/19/2017	
10.9+	<a href="#">Amended and Restated Offer Letter, by and between Stitch Fix, Inc. and Paul Yee, dated September 5, 2017.</a>	S-1	333-221014	10.9	10/19/2017	
10.10+	<a href="#">Offer Letter, by and between Stitch Fix, Inc. and Julie Bornstein, dated February 27, 2015.</a>	S-1	333-221014	10.10	10/19/2017	
10.11+	<a href="#">Amended and Restated Offer Letter, by and between Stitch Fix, Inc. and Scott Darling, dated September 5, 2017.</a>	S-1	333-221014	10.11	10/19/2017	
10.12+	<a href="#">Confidential Separation Agreement and General Release of all Claims, by and between Stitch Fix, Inc. and Julie Bornstein, dated as of July 21, 2017.</a>	S-1	333-221014	10.13	10/19/2017	
10.13+	<a href="#">Amended and Restated Offer Letter, by and between Stitch Fix, Inc. and Mike Smith, dated September 25, 2017.</a>	S-1	333-221014	10.16	10/19/2017	
10.14+	<a href="#">Stitch Fix, Inc. Independent Director Compensation Policy.</a>					X
10.15	<a href="#">Office Lease, by and between Stitch Fix, Inc. and Post-Montgomery Associates, dated as of November 10, 2015, as amended.</a>	S-1/A	333-221014	10.12	11/6/2017	
10.16	<a href="#">First Amendment to Original Office Lease, executed February 22, 2016, between Stitch Fix, Inc. and Post-Montgomery Associates.</a>	10-Q	001-38291	10.1	3/13/2018	
10.17	<a href="#">Second Amendment to Original Office Lease, executed September 6, 2017, between Stitch Fix, Inc. and Post-Montgomery Associates.</a>	10-Q	001-38291	10.2	3/13/2018	

10.18	<a href="#">Third Amendment to the Office Lease, by and between Stitch Fix, Inc. and Post-Montgomery Associates, dated as of January 29, 2018.</a>	8-K	001-38291	10.1	2/2/2018	
10.19	<a href="#">Fourth Amendment to the Office Lease, by and between Stitch Fix, Inc. and Post-Montgomery Associates, dated as of June 4, 2018.</a>	10-Q	001-38291	10.2	6/8/2018	
10.20#	<a href="#">Logistics Services Agreement, by and between Stitch Fix, Inc. and Ozburn-Hessey Logistics, LLC, dated as of April 24, 2014.</a>	S-1	333-221014	10.14	10/19/2017	
10.21#	<a href="#">Amendment One to the Logistics Services Agreement, by and between Stitch Fix, Inc. and Ozburn-Hessey Logistics LLC, dated as of July 1, 2016.</a>	10-Q	001-38291	10.4	6/8/2018	
10.22#	<a href="#">Amendment Two to the Logistics Services Agreement, by and between Stitch Fix, Inc. and Geodis Logistics LLC, dated as of February 23, 2018.</a>	10-Q	001-38291	10.3	6/8/2018	
21.1	<a href="#">List of Subsidiaries of Stitch Fix, Inc.</a>					X
23.1	<a href="#">Consent of Deloitte &amp; Touche LLP, independent registered public accounting firm.</a>					X
31.1	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
31.2	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
32.1†	<a href="#">Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

+ Indicates management contract or compensatory plan.

# Confidential treatment has been granted for portions of this exhibit. These portions have been omitted from the registration statement and submitted separately to the SEC.

† The certification attached as Exhibit 32.1 accompanying this Annual Report on Form 10-K is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Stitch Fix, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

**Item 16. Form 10-K Summary.**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Stitch Fix, Inc.

Date: October 3, 2018

By: /s/ Paul Yee

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Paul Yee

Chief Financial Officer

(Principal Financial and Accounting Officer)

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Katrina Lake, Paul Yee and Scott Darling, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution for him or her, and in his or her name in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the U.S. Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, and either of them, his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
<hr/> <i>/s/ Katrina Lake</i> Katrina Lake	Founder, Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	October 3, 2018
<hr/> <i>/s/ Paul Yee</i> Paul Yee	Chief Financial Officer <i>(Principal Financial and Accounting Officer)</i>	October 3, 2018
<hr/> <i>/s/ Steven Anderson</i> Steven Anderson	Director	October 3, 2018
<hr/> <i>/s/ J. William Gurley</i> J. William Gurley	Director	October 3, 2018
<hr/> <i>/s/ Marka Hansen</i> Marka Hansen	Director	October 3, 2018
<hr/> <i>/s/ Kirsten Lynch</i> Kirsten Lynch	Director	October 3, 2018
<hr/> <i>/s/ Sharon McCollam</i> Sharon McCollam	Director	October 3, 2018

## STITCH FIX, INC.

## 2017 INCENTIVE PLAN

ADOPTED BY THE BOARD OF DIRECTORS: NOVEMBER 3, 2017

APPROVED BY THE STOCKHOLDERS: NOVEMBER 3, 2017

IPO DATE: NOVEMBER 16, 2017

## 1. GENERAL.

(a) **Successor to and Continuation of Prior Plan.** The Plan is intended as the successor to and continuation of the Company's 2011 Equity Incentive Plan (the "**Prior Plan**"). From and after 12:01 a.m. Eastern time on the IPO Date, no additional awards will be granted under the Prior Plan. All Awards granted on or after 12:01 a.m. Eastern Time on the IPO Date will be granted under this Plan. All awards granted under the Prior Plan will remain subject to the terms of the Prior Plan.

(i) Any shares that would otherwise remain available for future grants under the Prior Plan as of 12:01 a.m. Eastern Time on the IPO Date (the "**Prior Plan's Available Reserve**") will cease to be available under the Prior Plan at such time. Instead, that number of shares of Common Stock equal to the Prior Plan's Available Reserve will be added to the Share Reserve (as further described in Section 3(a) below) and will be immediately available for grants and issuance pursuant to Stock Awards hereunder, up to the maximum number set forth in Section 3(a) below.

(ii) In addition, from and after 12:01 a.m. Eastern time on the IPO Date, any shares subject, at such time, to outstanding stock awards granted under the Prior Plan that (i) expire or terminate for any reason prior to exercise or settlement; (ii) are forfeited or repurchased by the Company because of the failure to meet a contingency or condition required to vest such shares or otherwise return to the Company; or (iii) are reacquired, withheld (or not issued) to satisfy a tax withholding obligation in connection with an award or to satisfy the purchase price or exercise price of a stock award (such shares the "**Returning Shares**") will immediately be added to the Share Reserve (as further described in Section 3(a) below) as and when such shares become Returning Shares, up to the maximum number set forth in Section 3(a) below.

(b) **Eligible Award Recipients.** Employees, Directors and Consultants are eligible to receive Awards.

(c) **Available Awards.** The Plan provides for the grant of the following Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock Awards, (v) Restricted Stock Unit Awards, (vi) Performance Stock Awards, (vii) Performance Cash Awards, and (viii) Other Stock Awards.

(d) **Purpose.** The Plan, through the grant of Awards, is intended to help the Company secure and retain the services of eligible award recipients, provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate, and provide a means by which the eligible recipients may benefit from increases in value of the Common Stock.

## 2. ADMINISTRATION.

(a) **Administration by Board.** The Board will administer the Plan. The Board may delegate administration of the Plan to a Committee or Committees, as provided in Section 2(c).

(b) **Powers of Board.** The Board will have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine: (A) who will be granted Awards; (B) when and how each Award will be granted; (C) what type of Award will be granted; (D) the provisions of each Award (which need not be identical), including when a person will be permitted to exercise or otherwise receive cash or Common Stock under the Award; (E) the number of shares of Common Stock subject to, or the cash value of, an Award; and (F) the Fair Market Value applicable to a Stock Award.

(ii) To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for administration of the Plan and Awards. The Board, in the exercise of these powers, may correct any defect, omission or inconsistency in the Plan or in any Award Agreement or in the written terms of a Performance Cash Award, in a manner and to the extent it will deem necessary or expedient to make the Plan or Award fully effective.

(iii) To settle all controversies regarding the Plan and Awards granted under it.

(iv) To accelerate, in whole or in part, the time at which an Award may be exercised or vest (or the time at which cash or shares of Common Stock may be issued in settlement thereof).



(v) To suspend or terminate the Plan at any time. Except as otherwise provided in the Plan or an Award Agreement, suspension or termination of the Plan will not materially impair a Participant's rights under the Participant's then-outstanding Award without the Participant's written consent, except as provided in subsection (viii) below.

(vi) To amend the Plan in any respect the Board deems necessary or advisable, including, without limitation, by adopting amendments relating to Incentive Stock Options and certain nonqualified deferred compensation under Section 409A of the Code and/or bringing the Plan or Awards granted under the Plan into compliance with the requirements for Incentive Stock Options or ensuring that they are exempt from, or compliant with, the requirements for nonqualified deferred compensation under Section 409A of the Code, subject to the limitations, if any, of applicable law. If required by applicable law or listing requirements, and except as provided in Section 9(a) relating to Capitalization Adjustments, the Company will seek stockholder approval of any amendment of the Plan that (A) materially increases the number of shares of Common Stock available for issuance under the Plan, (B) materially expands the class of individuals eligible to receive Awards under the Plan, (C) materially increases the benefits accruing to Participants under the Plan, (D) materially reduces the price at which shares of Common Stock may be issued or purchased under the Plan, (E) materially extends the term of the Plan, or (F) materially expands the types of Awards available for issuance under the Plan. Except as otherwise provided in the Plan or an Award Agreement, no amendment of the Plan will materially impair a Participant's rights under an outstanding Award without the Participant's written consent.

(vii) To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of (A) Section 162(m) of the Code regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to Covered Employees, (B) Section 422 of the Code regarding "incentive stock options" or (C) Rule 16b-3.

(viii) To approve forms of Award Agreements for use under the Plan and to amend the terms of any one or more Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; *provided, however*, that a Participant's rights under any Award will not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant, and (B) such Participant consents in writing. Notwithstanding the foregoing, (1) a Participant's rights will not be deemed to have been materially impaired by any such amendment if the Board, in its sole discretion, determines that the amendment, taken as a whole, does not materially impair the Participant's rights, and (2) subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Awards without the affected Participant's consent (A) to maintain the qualified status of the Award as an Incentive Stock Option under Section 422 of the Code; (B) notwithstanding any other provision of the Plan, to change the terms of an Incentive Stock Option, if such change results in impairment of the Award solely because it impairs the qualified status of the Award as an Incentive Stock Option under Section 422 of the Code; (C) to clarify the manner of exemption from, or to bring the Award into compliance with, Section 409A of the Code; or (D) to comply with other applicable laws or listing requirements.

(ix) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Awards.

(x) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States (provided that Board approval will not be necessary for immaterial modifications to the Plan or any Award Agreement that are required for compliance with the laws of the relevant foreign jurisdiction).

(xi) To effect, with the consent of any adversely affected Participant, (A) the increase or reduction of the exercise, purchase or strike price of any outstanding Stock Award; (B) the cancellation of any outstanding Stock Award and the grant in substitution therefor of a new (1) Option or SAR, (2) Restricted Stock Award, (3) Restricted Stock Unit Award, (4) Other Stock Award, (5) cash and/or (6) other valuable consideration determined by the Board, in its sole discretion, with any such substituted award (x) covering the same or a different number of shares of Common Stock as the cancelled Stock Award and (y) granted under the Plan or another equity or compensatory plan of the Company; or (C) any other action that is treated as a repricing under generally accepted accounting principles.

### (c) Delegation to Committee.

(i) **General.** The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee will have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board will thereafter be construed as being to the Committee or subcommittee, as applicable). Any delegation of administrative powers will be reflected in resolutions, not inconsistent with the provisions of the Plan, adopted from time to time by the Board or Committee (as applicable). The Board retains the authority to concurrently administer the Plan with the Committee and may, at any time, revert in the Board some or all of the powers previously delegated.

(ii) **Section 162(m) and Rule 16b-3 Compliance.** The Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, who are also considered Non-Employee Directors in accordance with

**(d) Delegation to an Officer.** The Board may delegate to one (1) or more Officers the authority to do one or both of the following (i) designate Employees who are not Officers to be recipients of Options and SARs (and, to the extent permitted by applicable law, other Stock Awards) and, to the extent permitted by applicable law, the terms of such Awards, and (ii) determine the number of shares of Common Stock to be subject to such Stock Awards granted to such Employees; *provided, however*, that the Board resolutions regarding such delegation will specify the total number of shares of Common Stock that may be subject to the Stock Awards granted by such Officer and that such Officer may not grant a Stock Award to himself or herself. Any such Stock Awards will be granted on the form of Stock Award Agreement most recently approved for use by the Committee or the Board, unless otherwise provided in the resolutions approving the delegation authority. The Board may not delegate authority to an Officer who is acting solely in the capacity of an Officer (and not also as a Director) to determine the Fair Market Value pursuant to Section 13(x)(iii) below.

**(e) Effect of Board's Decision.** All determinations, interpretations and constructions made by the Board in good faith will not be subject to review by any person and will be final, binding and conclusive on all persons, to the maximum extent permitted by law.

### 3. SHARES SUBJECT TO THE PLAN.

**(a) Share Reserve.** Subject to Section 9(a) relating to Capitalization Adjustments, and the following sentence regarding the annual increase, the aggregate number of shares of Common Stock that may be issued pursuant to Stock Awards will not exceed 17,259,462 shares (the "**Share Reserve**"), which number is the sum of (i) 5,200,000 new shares, *plus* (ii) the number of shares subject to the Prior Plan's Available Reserve, *plus* (iii) the number of shares that are Returning Shares, as such shares become available from time to time.

In addition, the Share Reserve may be increased by the Board as of the first day of each fiscal year (the "**Fiscal Date**"), for a period of not more than ten years, commencing on the Fiscal Date that falls in the year following the year in which the IPO Date occurs and ending on (and including) the Fiscal Date falling in 2027, by a number of shares of Common Stock determined by the Board in an amount not to exceed 5% of the total number of shares of Capital Stock outstanding on final day of the preceding fiscal year.

For clarity, the Share Reserve in this Section 3(a) is a limitation on the number of shares of Common Stock that may be issued pursuant to the Plan. Accordingly, this Section 3(a) does not limit the granting of Stock Awards except as provided in Section 7(a). Shares may be issued in connection with a merger or acquisition as permitted by NASDAQ Listing Rule 5635(c) or, if applicable, NYSE Listed Company Manual Section 303A.08, AMEX Company Guide Section 711 or other applicable rule, and such issuance will not reduce the number of shares available for issuance under the Plan.

**(b) Reversion of Shares to the Share Reserve.** If a Stock Award or any portion thereof (i) expires or terminates for any reason prior to exercise or settlement; (ii) is forfeited or repurchased by the Company because of the failure to meet a contingency or condition required to vest such shares or otherwise return to the Company; (iii) is settled in cash (*i.e.*, the Participant receives cash rather than stock); or (iv) is reacquired, withheld (or not issued) to satisfy a tax withholding obligation in connection with an award or to satisfy the purchase price or exercise price of a Stock Award, such expiration, termination or settlement will not reduce (or otherwise offset) the number of shares of Common Stock that may be available for issuance under the Plan.

**(c) Incentive Stock Option Limit.** Subject to the provisions of Section 9(a) relating to Capitalization Adjustments, the aggregate maximum number of shares of Common Stock that may be issued pursuant to the exercise of Incentive Stock Options will be 51,778,386 shares of Common Stock.

**(d) Limitation on Grants to Non-Employee Directors.** The maximum number of shares of Common Stock subject to Stock Awards granted under the Plan or otherwise during any one calendar year to any Non-Employee Director, taken together with any cash fees paid by the Company to such Non-Employee Director during such calendar year for service on the Board, will not exceed \$750,000 in total value (calculating the value of any such Stock Awards based on the grant date fair value of such Stock Awards for financial reporting purposes).

**(e) Source of Shares.** The stock issuable under the Plan will be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

### 4. ELIGIBILITY.

**(a) Eligibility for Specific Stock Awards.** Incentive Stock Options may be granted only to employees of the Company or a "parent corporation" or "subsidiary corporation" thereof (as such terms are defined in Sections 424(e) and 424(f) of the Code). Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants; *provided, however*, that Stock Awards may not be granted to Employees, Directors and Consultants who are providing Continuous Service only to any "parent" of the Company, as such term is defined in Rule 405 of the Securities Act, unless (i) the stock underlying such Stock Awards is treated as "service recipient stock" under Section 409A of the Code (for example, because the Stock Awards are granted

pursuant to a corporate transaction such as a spin off transaction), (ii) the Company, in consultation with its legal counsel, has determined that such Stock Awards are otherwise exempt from Section 409A of the Code, or (iii) the Company, in consultation with its legal counsel, has determined that such Stock Awards comply with the requirements of Section 409A of the Code to avoid the consequences specified in Section 409A(a)(1) of the Code.

**(b) Ten Percent Stockholders.** A Ten Percent Stockholder will not be granted an Incentive Stock Option unless the exercise price of such Option is at least 110% of the Fair Market Value on the date of grant and the Option is not exercisable after the expiration of five years from the date of grant. If a purported grant of an Incentive Stock Option to a Ten Percent Stockholder does not meet these requirements, the grant will be of a Nonstatutory Stock Option.

## 5. PROVISIONS RELATING TO OPTIONS AND STOCK APPRECIATION RIGHTS.

Each Option or SAR will be in such form and will contain such terms and conditions as the Board deems appropriate. All Options will be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. If an Option is not specifically designated as an Incentive Stock Option, or if an Option is designated as an Incentive Stock Option but some portion or all of the Option fails to qualify as an Incentive Stock Option under the applicable rules, then the Option (or portion thereof) will be a Nonstatutory Stock Option. The provisions of separate Options or SARs need not be identical; *provided, however*, that each Award Agreement will conform to (through incorporation of provisions hereof by reference in the applicable Award Agreement or otherwise) the substance of each of the following provisions:

**(a) Term.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, no Option or SAR will be exercisable after the expiration of ten years from the date of its grant or such shorter period specified in the Award Agreement.

**(b) Exercise Price.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, the exercise or strike price of each Option or SAR will be not less than 100% of the Fair Market Value of the Common Stock subject to the Option or SAR on the date the Award is granted. Notwithstanding the foregoing, an Option or SAR may be granted with an exercise or strike price lower than 100% of the Fair Market Value of the Common Stock subject to the Award if such Award is granted pursuant to an assumption of or substitution for another option or stock appreciation right pursuant to a Corporate Transaction and in a manner consistent with the provisions of Section 409A of the Code and, if applicable, Section 424(a) of the Code. Each SAR will be denominated in shares of Common Stock equivalents.

**(c) Purchase Price for Options.** The purchase price of Common Stock acquired pursuant to the exercise of an Option may be paid, to the extent permitted by applicable law and as determined by the Board in its sole discretion, by any combination of the methods of payment set forth below. The Board will have the authority to grant Options that do not permit all of the following methods of payment (or otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to use a particular method of payment. The permitted methods of payment are as follows:

**(i)** by cash, check, bank draft or money order payable to the Company;

**(ii)** pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of the Common Stock subject to the Option, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;

**(iii)** by delivery to the Company (either by actual delivery or attestation) of shares of Common Stock;

**(iv)** if an Option is a Nonstatutory Stock Option, by a “net exercise” arrangement pursuant to which the Company will reduce the number of shares of Common Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; *provided, however*, that the Company will accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued. Shares of Common Stock will no longer be subject to an Option and will not be exercisable thereafter to the extent that (A) shares issuable upon exercise are used to pay the exercise price pursuant to the “net exercise,” (B) shares are delivered to the Participant as a result of such exercise, and (C) shares are withheld to satisfy tax withholding obligations; or

**(v)** in any other form of legal consideration that may be acceptable to the Board and specified in the applicable Award Agreement.

**(d) Exercise and Payment of a SAR.** To exercise any outstanding SAR, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Appreciation Right Agreement evidencing such SAR. The appreciation distribution payable on the exercise of a SAR will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the SAR) of a number of shares of Common Stock equal to the number of Common Stock equivalents in which the Participant is vested under such SAR, and with respect to which the Participant is exercising the SAR on such date, over (B) the aggregate strike price of the number of Common Stock equivalents with respect to which the Participant is exercising the SAR on such date. The appreciation distribution may be paid in Common Stock, in cash, in

any combination of the two or in any other form of consideration, as determined by the Board and contained in the Award Agreement evidencing such SAR.

**(e) Transferability of Options and SARs.** The Board may, in its sole discretion, impose such limitations on the transferability of Options and SARs as the Board will determine. In the absence of such a determination by the Board to the contrary, the following restrictions on the transferability of Options and SARs will apply:

**(i) Restrictions on Transfer.** An Option or SAR will not be transferable except by will or by the laws of descent and distribution (or pursuant to subsections (ii) and (iii) below), and will be exercisable during the lifetime of the Participant only by the Participant. The Board may permit transfer of the Option or SAR in a manner that is not prohibited by applicable tax and securities laws. Except as explicitly provided in the Plan, neither an Option nor a SAR may be transferred for consideration.

**(ii) Domestic Relations Orders.** Subject to the approval of the Board or a duly authorized Officer, an Option or SAR may be transferred pursuant to the terms of a domestic relations order, official marital settlement agreement or other divorce or separation instrument as permitted by Treasury Regulations Section 1.421-1(b)(2). If an Option is an Incentive Stock Option, such Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

**(iii) Beneficiary Designation.** Subject to the approval of the Board or a duly authorized Officer, a Participant may, by delivering written notice to the Company, in a form approved by the Company (or the designated broker), designate a third party who, on the death of the Participant, will thereafter be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, upon the death of the Participant, the executor or administrator of the Participant's estate will be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. However, the Company may prohibit designation of a beneficiary at any time, including due to any conclusion by the Company that such designation would be inconsistent with the provisions of applicable laws.

**(f) Vesting Generally.** The total number of shares of Common Stock subject to an Option or SAR may vest and become exercisable in periodic installments that may or may not be equal. The Option or SAR may be subject to such other terms and conditions on the time or times when it may or may not be exercised (which may be based on the satisfaction of Performance Goals or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options or SARs may vary. The provisions of this Section 5(f) are subject to any Option or SAR provisions governing the minimum number of shares of Common Stock as to which an Option or SAR may be exercised.

**(g) Termination of Continuous Service.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates (other than for Cause and other than upon the Participant's death or Disability), the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Award as of the date of termination of Continuous Service) within the period of time ending on the earlier of (i) the date that is three months following the termination of the Participant's Continuous Service (or such longer or shorter period specified in the applicable Award Agreement), and (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR (as applicable) within the applicable time frame, the Option or SAR will terminate. The Company has no obligation to notify a Participant of the expiration of an Option or SAR other than via providing the Participant with a copy of the Plan and individual award notice and agreement at the time of grant of such Option or SAR.

**(h) Extension of Termination Date.** If the exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option or SAR will terminate on the earlier of (i) the expiration of a total period of time (that need not be consecutive) equal to the applicable post termination exercise period after the termination of the Participant's Continuous Service during which the exercise of the Option or SAR would not be in violation of such registration requirements, and (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement. In addition, unless otherwise provided in a Participant's Award Agreement, if the sale of any Common Stock received on exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause) would violate the Company's insider trading policy, then the Option or SAR will terminate on the earlier of (i) the expiration of a period of months (that need not be consecutive) equal to the applicable post-termination exercise period after the termination of the Participant's Continuous Service during which the sale of the Common Stock received upon exercise of the Option or SAR would not be in violation of the Company's insider trading policy, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement.

**(i) Disability of Participant.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates as a result of the Participant's Disability, the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Option or SAR as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date 12 months following such termination of Continuous Service (or such longer or shorter period specified in the Award Agreement), and (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous

Service, the Participant does not exercise his or her Option or SAR within the applicable time frame, the Option or SAR (as applicable) will terminate.

**(j) Death of Participant.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if (i) a Participant's Continuous Service terminates as a result of the Participant's death, or (ii) the Participant dies within the period (if any) specified in the Award Agreement for exercisability after the termination of the Participant's Continuous Service for a reason other than death, then the Option or SAR may be exercised (to the extent the Participant was entitled to exercise such Option or SAR as of the date of death) by the Participant's estate, by a person who acquired the right to exercise the Option or SAR by bequest or inheritance or by a person designated to exercise the Option or SAR upon the Participant's death, but only within the period ending on the earlier of (i) the date 18 months following the date of death (or such longer or shorter period specified in the Award Agreement), and (ii) the expiration of the term of such Option or SAR as set forth in the Award Agreement. If, after the Participant's death, the Option or SAR is not exercised within the applicable time frame, the Option or SAR (as applicable) will terminate.

**(k) Termination for Cause.** Except as explicitly provided otherwise in a Participant's Award Agreement or other individual written agreement between the Company and the Participant, if a Participant's Continuous Service is terminated for Cause, the Option or SAR will terminate immediately upon such Participant's termination of Continuous Service, and the Participant will be prohibited from exercising his or her Option or SAR from and after the time of such termination of Continuous Service.

**(l) Non-Exempt Employees.** If an Option or SAR is granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, the Option or SAR will not be first exercisable for any shares of Common Stock until at least six months following the date of grant of the Option or SAR (although the Award may vest prior to such date). Consistent with the provisions of the Worker Economic Opportunity Act, (i) if such non-exempt Employee dies or suffers a Disability, (ii) upon a Corporate Transaction in which such Option or SAR is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Participant's retirement (as such term may be defined in the Participant's Award Agreement in another agreement between the Participant and the Company, or, if no such definition, in accordance with the Company's then current employment policies and guidelines), the vested portion of any Options and SARs may be exercised earlier than six months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Option or SAR will be exempt from his or her regular rate of pay. To the extent permitted and/or required for compliance with the Worker Economic Opportunity Act to ensure that any income derived by a non-exempt employee in connection with the exercise, vesting or issuance of any shares under any other Stock Award will be exempt from the employee's regular rate of pay, the provisions of this Section 5(l) will apply to all Stock Awards and are hereby incorporated by reference into such Stock Award Agreements.

## 6. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS AND SARs.

**(a) Restricted Stock Awards.** Each Restricted Stock Award Agreement will be in such form and will contain such terms and conditions as the Board will deem appropriate. To the extent consistent with the Company's bylaws, at the Board's election, shares of Common Stock may be (x) held in book entry form subject to the Company's instructions until any restrictions relating to the Restricted Stock Award lapse; or (y) evidenced by a certificate, which certificate will be held in such form and manner as determined by the Board. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical. Each Restricted Stock Award Agreement will conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

**(i) Consideration.** A Restricted Stock Award may be awarded in consideration for (A) cash, check, bank draft or money order payable to the Company, (B) past or future services to the Company or an Affiliate, or (C) any other form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

**(ii) Vesting.** Shares of Common Stock awarded under the Restricted Stock Award Agreement may be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Board.

**(iii) Termination of Participant's Continuous Service.** If a Participant's Continuous Service terminates, the Company may receive through a forfeiture condition or a repurchase right any or all of the shares of Common Stock held by the Participant that have not vested as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

**(iv) Transferability.** Rights to acquire shares of Common Stock under the Restricted Stock Award Agreement will be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Board will determine in its sole discretion, so long as Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

**(v) Dividends.** A Restricted Stock Award Agreement may provide that any dividends paid on Common Stock subject to the Restricted Stock Award will be subject to the same vesting and forfeiture restrictions as apply to the Common Stock

subject to the Restricted Stock Award to which they relate.

**(b) Restricted Stock Unit Awards.** Each Restricted Stock Unit Award Agreement will be in such form and will contain such terms and conditions as the Board will deem appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical. Each Restricted Stock Unit Award Agreement will conform to (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

**(i) Consideration.** At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon settlement of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

**(ii) Vesting.** At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

**(iii) Payment.** A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

**(iv) Additional Restrictions.** At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

**(v) Dividend Equivalents.** Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate.

**(vi) Termination of Participant's Continuous Service.** Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

**(c) Performance Awards.**

**(i) Performance Stock Awards.** A Performance Stock Award is a Stock Award (covering a number of shares not in excess of that set forth in Section 3(d) above) that is payable (including that may be granted, may vest or may be exercised) contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Stock Award may, but need not, require the Participant's completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained will be conclusively determined by the Committee (or, if not required for compliance with Section 162(m) of the Code, the Board), in its sole discretion. In addition, to the extent permitted by applicable law and the applicable Award Agreement, the Board (or Committee, as the case may be) may determine that cash may be used in payment of Performance Stock Awards.

**(ii) Performance Cash Awards.** A Performance Cash Award is a cash award (for a dollar value not in excess of that set forth in Section 3(d) above) that is payable contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Cash Award may also require the completion of a specified period of Continuous Service. At the time of grant of a Performance Cash Award, the length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained will be conclusively determined by the Committee (or, if not required for compliance with Section 162(m) of the Code, the Board), in its sole discretion. The Board (or Committee, as the case may be) may specify the form of payment of Performance Cash Awards, which may be cash or other property, or may provide for a Participant to have the option for his or her Performance Cash Award, or such portion thereof as the Board (or Committee, as the case may be) may specify, to be paid in whole or in part in cash or other property.

**(iii) Board Discretion.** The Board (or Committee, as the case may be) retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals and to define the manner of calculating the Performance Criteria it selects to use for a Performance Period. Partial achievement of the specified criteria may result in the payment or vesting corresponding to the degree of achievement as specified in the Stock Award Agreement or the written terms of a Performance Cash Award.

**(iv) Section 162(m) Compliance.** Unless otherwise permitted in compliance with the requirements of Section 162(m) of the Code with respect to an Award intended to qualify as “performance-based compensation” thereunder, the Committee will establish the Performance Goals applicable to, and the formula for calculating the amount payable under, the Award no later than the earlier of (a) the date 90 days after the commencement of the applicable Performance Period, and (b) the date on which 25% of the Performance Period has elapsed, and in any event at a time when the achievement of the applicable Performance Goals remains substantially uncertain. Prior to the payment of any compensation under an Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code, the Committee will certify the extent to which any Performance Goals and any other material terms under such Award have been satisfied (other than in cases where such Performance Goals relate solely to the increase in the value of the Common Stock). Notwithstanding satisfaction of, or completion of any Performance Goals, the number of shares of Common Stock, Options, cash or other benefits granted, issued, retainable and/or vested under an Award on account of satisfaction of such Performance Goals may be reduced by the Committee on the basis of such further considerations as the Committee, in its sole discretion, will determine.

**(d) Other Stock Awards.** Other forms of Stock Awards valued in whole or in part by reference to, or otherwise based on, Common Stock, including the appreciation in value thereof (e.g., options or stock rights with an exercise price or strike price less than 100% of the Fair Market Value of the Common Stock at the time of grant) may be granted either alone or in addition to Stock Awards provided for under Section 5 and the preceding provisions of this Section 6. Subject to the provisions of the Plan, the Board will have sole and complete authority to determine the persons to whom and the time or times at which such Other Stock Awards will be granted, the number of shares of Common Stock (or the cash equivalent thereof) to be granted pursuant to such Other Stock Awards and all other terms and conditions of such Other Stock Awards.

## 7. COVENANTS OF THE COMPANY.

**(a) Availability of Shares.** The Company will keep available at all times the number of shares of Common Stock reasonably required to satisfy then-outstanding Awards.

**(b) Securities Law Compliance.** The Company will seek to obtain from each regulatory commission or agency, as necessary, such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise or vesting of the Stock Awards; *provided, however*, that this undertaking will not require the Company to register under the Securities Act or other securities or applicable laws, the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts and at a reasonable cost, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary or advisable for the lawful issuance and sale of Common Stock under the Plan, the Company will be relieved from any liability for failure to issue and sell Common Stock upon exercise or vesting of such Stock Awards unless and until such authority is obtained. A Participant will not be eligible for the grant of an Award or the subsequent issuance of cash or Common Stock pursuant to the Award if such grant or issuance would be in violation of any applicable law.

**(c) No Obligation to Notify or Minimize Taxes.** The Company will have no duty or obligation to any Participant to advise such holder as to the tax treatment or time or manner of exercising such Stock Award. Furthermore, the Company will have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of an Award or a possible period in which the Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of an Award to the holder of such Award.

## 8. MISCELLANEOUS.

**(a) Use of Proceeds from Sales of Common Stock.** Proceeds from the sale of shares of Common Stock pursuant to Awards will constitute general funds of the Company.

**(b) Corporate Action Constituting Grant of Awards.** Corporate action constituting a grant by the Company of an Award to any Participant will be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Award is communicated to, or actually received or accepted by, the Participant. In the event that the corporate records (e.g., Board consents, resolutions or minutes) documenting the corporate action constituting the grant contain terms (e.g., exercise price, vesting schedule or number of shares) that are inconsistent with those in the Award Agreement or related grant documents as a result of a clerical error in the papering of the Award Agreement or related grant documents, the corporate records will control and the Participant will have no legally binding right to the incorrect term in the Award Agreement or related grant documents.

**(c) Stockholder Rights.** No Participant will be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to an Award unless and until (i) such Participant has satisfied all requirements for exercise of, or the issuance of shares of Common Stock under, the Award pursuant to its terms, and (ii) the issuance of the Common Stock subject to such Award has been entered into the books and records of the Company.

**(d) No Employment or Other Service Rights.** Nothing in the Plan, any Award Agreement or any other instrument executed thereunder or in connection with any Award granted pursuant thereto will confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or will affect the right of

the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state or foreign jurisdiction in which the Company or the Affiliate is domiciled or incorporated, as the case may be.

**(e) Change in Time Commitment.** In the event a Participant's regular level of time commitment in the performance of his or her services for the Company and any Affiliates is reduced (for example, and without limitation, if the Participant is an Employee of the Company and the Employee has a change in status from a full-time Employee to a part-time Employee or takes an extended leave of absence) after the date of grant of any Award to the Participant, the Board has the right in its sole discretion to (x) make a corresponding reduction in the number of shares or cash amount subject to any portion of such Award that is scheduled to vest or become payable after the date of such change in time commitment, and (y) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Award. In the event of any such reduction, the Participant will have no right with respect to any portion of the Award that is so reduced.

**(f) Incentive Stock Option Limitations.** To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds \$100,000 (or such other limit established in the Code) or otherwise does not comply with the rules governing Incentive Stock Options, the Options or portions thereof that exceed such limit (according to the order in which they were granted) or otherwise do not comply with such rules will be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of the applicable Option Agreement(s).

**(g) Investment Assurances.** The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that such Participant is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, will be inoperative if (A) the issuance of the shares upon the exercise or acquisition of Common Stock under the Award has been registered under a then currently effective registration statement under the Securities Act, or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

**(h) Withholding Obligations.** Unless prohibited by the terms of an Award Agreement or applicable law, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an Award by any of the following means or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Award; *provided, however,* that no shares of Common Stock are withheld with a value exceeding the maximum amount of tax required to be withheld by law (or such lesser amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award Agreement.

**(i) Electronic Delivery.** Any reference herein to a "written" agreement or document will include any agreement or document delivered electronically, filed publicly at [www.sec.gov](http://www.sec.gov) (or any successor website thereto) or posted on the Company's intranet (or other shared electronic medium controlled by the Company to which the Participant has access).

**(j) Deferrals.** To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant's termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

**(k) Compliance with Section 409A of the Code.** Unless otherwise expressly provided for in an Award Agreement, the Plan and Award Agreements will be interpreted to the greatest extent possible in a manner that makes the Plan and the Awards granted hereunder exempt from Section 409A of the Code, and, to the extent not so exempt, in compliance with Section 409A of the Code. If the Board determines that any Award granted hereunder is not exempt from and is therefore subject to Section 409A of the Code, the Award Agreement evidencing such Award will incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code, and to the extent an Award Agreement is silent on terms necessary for compliance, such terms are hereby incorporated by reference into the Award Agreement. Notwithstanding anything to the contrary in this Plan (and unless the Award Agreement specifically provides otherwise), if the shares of Common Stock are publicly traded,



and if a Participant holding an Award that constitutes “deferred compensation” under Section 409A of the Code is a “specified employee” for purposes of Section 409A of the Code, no distribution or payment of any amount that is due because of a “separation from service” (as defined in Section 409A of the Code without regard to alternative definitions thereunder) will be issued or paid before the date that is six months following the date of such Participant’s “separation from service” (as defined in Section 409A of the Code without regard to alternative definitions thereunder) or, if earlier, the date of the Participant’s death, unless such distribution or payment can be made in a manner that complies with Section 409A of the Code, and any amounts so deferred will be paid in a lump sum on the day after such six month period elapses, with the balance paid thereafter on the original schedule.

**(l) Clawback/Recovery.** All Awards granted under the Plan will be subject to recoupment in accordance with any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company’s securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Board may impose such other clawback, recovery or recoupment provisions in an Award Agreement as the Board determines necessary or appropriate, including but not limited to a reacquisition right in respect of previously acquired shares of Common Stock or other cash or property upon the occurrence of an event constituting Cause. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for “good reason” or “constructive termination” (or similar term) under any agreement with the Company.

## 9. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; OTHER CORPORATE EVENTS.

**(a) Capitalization Adjustments.** In the event of a Capitalization Adjustment, the Board will appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities by which the share reserve is to increase automatically each year pursuant to Section 3(a), (iii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of Incentive Stock Options pursuant to Section 3(c), (iv) the class(es) and maximum number of securities that may be awarded to any person pursuant to Sections 3(d), and (v) the class(es) and number of securities and price per share of stock subject to outstanding Stock Awards. The Board will make such adjustments, and its determination will be final, binding and conclusive.

**(b) Dissolution.** Except as otherwise provided in the Stock Award Agreement, in the event of a Dissolution of the Company, all outstanding Stock Awards (other than Stock Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company’s right of repurchase) will terminate immediately prior to the completion of such Dissolution, and the shares of Common Stock subject to the Company’s repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Stock Award is providing Continuous Service; *provided, however,* that the Board may, in its sole discretion, cause some or all Stock Awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such Stock Awards have not previously expired or terminated) before the Dissolution is completed but contingent on its completion.

**(c) Transaction.** The following provisions shall apply to Awards in the event of a Transaction unless otherwise provided in the instrument evidencing the Stock Award or any other written agreement between the Company or any Affiliate and the Participant or unless otherwise expressly provided by the Board at the time of grant of a Stock Award. In the event of a Transaction, then, notwithstanding any other provision of the Plan, the Board shall take one or more of the following actions with respect to Stock Awards, contingent upon the closing or completion of the Transaction:

**(i)** arrange for the surviving corporation or acquiring corporation (or the surviving or acquiring corporation’s parent company) to assume or continue the Stock Award or to substitute a similar stock award for the Stock Award (including, but not limited to, an award to acquire the same consideration paid to the stockholders of the Company pursuant to the Transaction);

**(ii)** arrange for the assignment of any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to the Stock Award to the surviving corporation or acquiring corporation (or the surviving or acquiring corporation’s parent company);

**(iii)** accelerate the vesting, in whole or in part, of the Stock Award (and, if applicable, the time at which the Stock Award may be exercised) to a date prior to the effective time of such Transaction as the Board shall determine (or, if the Board shall not determine such a date, to the date that is five days prior to the effective date of the Transaction), with such Stock Award terminating if not exercised (if applicable) at or prior to the effective time of the Transaction;

**(iv)** arrange for the lapse, in whole or in part, of any reacquisition or repurchase rights held by the Company with respect to the Stock Award;

**(v)** cancel or arrange for the cancellation of the Stock Award, to the extent not vested or not exercised prior to the effective time of the Transaction, in exchange for such cash consideration, if any, as the Board, in its sole discretion, may consider appropriate; and

**(vi)** make a payment, in such form as may be determined by the Board equal to the excess, if any, of (A) the value of the property the Participant would have received upon the exercise of the Stock Award immediately prior to the effective time of the Transaction, over (B) any exercise price payable by such holder in connection with such exercise. For clarity, this payment may

be zero (\$0) if the value of the property is equal to or less than the exercise price. Payments under this provision may be delayed to the same extent that payment of consideration to the holders of Common Stock in connection with the Transaction is delayed as a result of escrows, earn outs, holdbacks or other contingencies.

The Board need not take the same action or actions with respect to all Stock Awards or portions thereof or with respect to all Participants. The Board may take different actions with respect to the vested and unvested portions of a Stock Award.

**(d) Change in Control.** An Award may be subject to additional acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the Stock Award Agreement for such Stock Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant.

#### **10. PLAN TERM; EARLIER TERMINATION OR SUSPENSION OF THE PLAN.**

The Board may suspend or terminate the Plan at any time. No Incentive Stock Options may be granted after the tenth anniversary of the earlier of (i) the date the Plan is adopted by the Board (the "**Adoption Date**"), or (ii) the date the Plan is approved by the stockholders of the Company. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

#### **11. EXISTENCE OF THE PLAN; TIMING OF FIRST GRANT OR EXERCISE.**

The Plan will come into existence on the Adoption Date; *provided, however*, that no Stock Award may be granted prior to the IPO Date. In addition, no Stock Award will be exercised (or, in the case of a Restricted Stock Award, Restricted Stock Unit Award, Performance Stock Award, or Other Stock Award, no Stock Award will be granted) and no Performance Cash Award will be settled unless and until the Plan has been approved by the stockholders of the Company, which approval will be within 12 months after the Adoption Date.

#### **12. CHOICE OF LAW.**

The laws of the State of Delaware will govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state's conflict of laws rules.

#### **13. DEFINITIONS.** As used in the Plan, the following definitions will apply to the capitalized terms indicated below:

**(a) "Affiliate"** means, at the time of determination, any "parent" or "subsidiary" of the Company as such terms are defined in Rule 405 of the Securities Act. The Board will have the authority to determine the time or times at which "parent" or "subsidiary" status is determined within the foregoing definition.

**(b) "Award"** means a Stock Award or a Performance Cash Award.

**(c) "Award Agreement"** means a written agreement between the Company and a Participant evidencing the terms and conditions of an Award.

**(d) "Board"** means the Board of Directors of the Company.

**(e) "Capital Stock"** means each and every class of common stock of the Company, regardless of the number of votes per share.

**(f) "Capitalization Adjustment"** means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the Adoption Date without the receipt of consideration by the Company through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, reverse stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto). Notwithstanding the foregoing, the conversion of any convertible securities of the Company will not be treated as a Capitalization Adjustment.

**(g) "Cause"** shall have the meaning ascribed to such term in any written agreement between the Participant and the Company defining such term (and if there are multiple such agreements, the most recent) and, in the absence of such agreement, such term means, with respect to a Participant, the occurrence of any of the following events: (i) conviction (including a guilty plea or plea of nolo contendere) of any felony; (ii) commission or attempted commission of or participation in a fraud or act of dishonesty or misrepresentation against the Company; (iii) willful and continued failure to follow the lawful directions of the Board or the employees of the Company to whom the Participant reports, and failure to cure such failure within a reasonable time after receiving written notice from the Company of the claimed failure; (iv) deliberate harm or injury, or attempt to deliberately harm or injure, the Company; (v) willful misconduct that materially discredits or harms the Company or its reputation; (vi) material violation or breach of any written and fully executed contract or agreement between the Participant and the Company, including without limitation, material breach of any confidentiality agreement, or of any Company policy, or of any statutory duty the Participant owes to the Company; (vii) gross negligence or willful misconduct; (viii) failure to cooperate with any investigation as

requested by the Board or employees of the Company to whom the Participant reports or (ix) unauthorized use of confidential information that causes material harm to the Company. The determination that a termination of the Participant's Continuous Service is either for Cause or without Cause shall be made by the Company, in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Awards held by such Participant shall have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

(h) "**Change in Control**" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control will not be deemed to occur (A) on account of the acquisition of securities of the Company directly from the Company, (B) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person that acquires the Company's securities in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities, (C) on account of the acquisition of securities of the Company by any individual who is, on the IPO Date, either an executive officer or a Director (either, an "**IPO Investor**") and/or any entity in which an IPO Investor has a direct or indirect interest (whether in the form of voting rights or participation in profits or capital contributions) of more than 50% (collectively, the "**IPO Entities**") or on account of the IPO Entities continuing to hold shares that come to represent more than 50% of the combined voting power of the Company's then outstanding securities as a result of the conversion of any class of the Company's securities into another class of the Company's securities having a different number of votes per share pursuant to the conversion provisions set forth in the Company's Amended and Restated Certificate of Incorporation; or (D) solely because the level of Ownership held by any Exchange Act Person (the "**Subject Person**") exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control will be deemed to occur;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than 50% of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than 50% of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction; *provided, however*, that a merger, consolidation or similar transaction will not constitute a Change in Control under this prong of the definition if the outstanding voting securities representing more than 50% of the combined voting power of the surviving Entity or its parent are owned by the IPO Entities;

(iii) there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than 50% of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition; *provided, however*, that a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries will not constitute a Change in Control under this prong of the definition if the outstanding voting securities representing more than 50% of the combined voting power of the acquiring Entity or its parent are owned by the IPO Entities;

(iv) the stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company will otherwise occur, except for a liquidation into a parent corporation; or

(v) individuals who, on the date the Plan is adopted by the Board, are members of the Board (the "**Incumbent Board**") cease for any reason to constitute at least a majority of the members of the Board; *provided, however*, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member will, for purposes of this Plan, be considered as a member of the Incumbent Board.

Notwithstanding the foregoing definition or any other provision of the Plan, the term Change in Control will not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company and the definition of Change in Control (or any analogous term) in an individual written agreement between the Company or any Affiliate and the Participant will supersede the foregoing definition with respect to Awards subject to such agreement; *provided, however*,

that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition will apply.

(i) “**Code**” means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(j) “**Committee**” means a committee of one or more Directors to whom authority has been delegated by the Board in accordance with Section 2(c).

(k) “**Common Stock**” means, as of the IPO Date, the Class A common stock of the Company, having one vote per share.

(l) “**Company**” means Stitch Fix, Inc., a Delaware corporation.

(m) “**Consultant**” means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, will not cause a Director to be considered a “Consultant” for purposes of the Plan. Notwithstanding the foregoing, a person is treated as a Consultant under this Plan only if a Form S-8 Registration Statement under the Securities Act is available to register either the offer or the sale of the Company’s securities to such person.

(n) “**Continuous Service**” means that the Participant’s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s service with the Company or an Affiliate, will not terminate a Participant’s Continuous Service; *provided, however*, that if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Board, in its sole discretion, such Participant’s Continuous Service will be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. To the extent permitted by law, the Board or (except with respect to determinations regarding the chief executive officer of the Company) the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service will be considered interrupted in the case of (i) any leave of absence approved by the Board or chief executive officer, including sick leave, military leave or any other personal leave, or (ii) transfers between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence will be treated as Continuous Service for purposes of vesting in an Award only to such extent as may be provided in the Company’s leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

(o) “**Corporate Transaction**” means the consummation, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board, in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of more than 50% of the outstanding securities of the Company;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation;

or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(p) “**Covered Employee**” will have the meaning provided in Section 162(m)(3) of the Code.

(q) “**Director**” means a member of the Board.

(r) “**Disability**” means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months, as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and will be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

(s) “**Dissolution**” means when the Company, after having executed a certificate of dissolution with the State of Delaware (or other applicable state), has completely wound up its affairs. Conversion of the Company into a limited liability company (or any other pass-through entity) will not be considered a “Dissolution” for purposes of the Plan.

(t) “**Employee**” means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, will not cause a Director to be considered an “Employee” for purposes of the Plan.

(u) “**Entity**” means a corporation, partnership, limited liability company or other analogous entity.

(v) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(w) “**Exchange Act Person**” means any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that “Exchange Act Person” will not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to a registered public offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the IPO Date, is the Owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company’s then outstanding securities.

(x) “**Fair Market Value**” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock will be, unless otherwise determined by the Board, the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in a source the Board deems reliable.

(ii) Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value will be the closing selling price on the last preceding date for which such quotation exists.

(iii) In the absence of such markets for the Common Stock, the Fair Market Value will be determined by the Board in good faith and in a manner that complies with Sections 409A and 422 of the Code.

(y) “**Incentive Stock Option**” means an option granted pursuant to Section 5 of the Plan that is intended to be, and qualifies as, an “incentive stock option” within the meaning of Section 422 of the Code.

(z) “**IPO Date**” means the date of the underwriting agreement between the Company and the underwriter(s) managing the initial public offering of the Common Stock, pursuant to which the Common Stock is priced for the initial public offering.

(aa) “**Non-Employee Director**” means a Director who either (i) is not a current employee or officer of the Company or an Affiliate, does not receive compensation, either directly or indirectly, from the Company or an Affiliate for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act (“**Regulation S-K**”)), does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K; or (ii) is otherwise considered a “non-employee director” for purposes of Rule 16b-3.

(bb) “**Nonstatutory Stock Option**” means any Option granted pursuant to Section 5 of the Plan that does not qualify as an Incentive Stock Option.

(cc) “**Officer**” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

(dd) “**Option**” means an Incentive Stock Option or a Nonstatutory Stock Option to purchase shares of Common Stock granted pursuant to the Plan.

(ee) “**Option Agreement**” means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an Option grant. Each Option Agreement will be subject to the terms and conditions of the Plan.

(ff) “**Optionholder**” means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(gg) “**Other Stock Award**” means an award based in whole or in part by reference to the Common Stock which is granted pursuant to the terms and conditions of Section 6(d).

(hh) “**Other Stock Award Agreement**” means a written agreement between the Company and a holder of an Other Stock Award evidencing the terms and conditions of an Other Stock Award grant. Each Other Stock Award Agreement will be subject to the terms and conditions of the Plan.

**(ii) “Outside Director”** means a Director who either (i) is not a current employee of the Company or an “affiliated corporation” (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an “affiliated corporation” who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, has not been an officer of the Company or an “affiliated corporation,” and does not receive remuneration from the Company or an “affiliated corporation,” either directly or indirectly, in any capacity other than as a Director, or (ii) is otherwise considered an “outside director” for purposes of Section 162(m) of the Code.

**(jj) “Own,” “Owned,” “Owner,” “Ownership”** means a person or Entity will be deemed to “Own,” to have “Owned,” to be the “Owner” of, or to have acquired “Ownership” of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

**(kk) “Participant”** means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

**(ll) “Performance Cash Award”** means an award of cash granted pursuant to the terms and conditions of Section 6(c)(ii).

**(mm) “Performance Criteria”** means the one or more criteria that the Board or Committee (as applicable) will select for purposes of establishing the Performance Goals for a Performance Period. The Performance Criteria that will be used to establish such Performance Goals may be based on any one of, or combination of, the following as determined by the Board: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) earnings before interest, taxes, depreciation, amortization and legal settlements; (v) earnings before interest, taxes, depreciation, amortization, legal settlements and other income (expense); (vi) earnings before interest, taxes, depreciation, amortization, legal settlements, other income (expense) and stock-based compensation; (vii) earnings before interest, taxes, depreciation, amortization, legal settlements, other income (expense), stock-based compensation and changes in deferred revenue; (viii) total stockholder return; (ix) return on equity or average stockholder’s equity; (x) return on assets, investment, or capital employed; (xi) stock price; (xii) margin (including gross margin); (xiii) income (before or after taxes); (xiv) operating income; (xv) operating income after taxes; (xvi) pre-tax profit; (xvii) operating cash flow; (xviii) sales or revenue targets; (xix) increases in revenue or product revenue; (xx) expenses and cost reduction goals; (xxi) improvement in or attainment of working capital levels; (xxii) economic value added (or an equivalent metric); (xxiii) market share; (xxiv) cash flow; (xxv) cash flow per share; (xxvi) share price performance; (xxvii) debt reduction; (xxviii) implementation or completion of projects or processes; (xxix) stockholders’ equity; (xxx) capital expenditures; (xxxi) debt levels; (xxxii) operating profit or net operating profit; (xxxiii) workforce diversity; (xxxiv) growth of net income or operating income; (xxxv) billings; (xxxvi) bookings; (xxxvii) employee retention; (xxxviii) user satisfaction, including CSAT or NPS measures; (xxxix) the number of users, including unique users; (xl) budget management; (xli) partner satisfaction; (xlii) entry into or completion of strategic partnerships or transactions (including in-licensing and out-licensing of intellectual property); (xliii) active clients; (xliv) keep rate; (xlv) average order value; (xlvi) client signups; (xlvii) client retention; (xlviii) conversion metrics; (xlix) client order metrics; (xlx) inventory metrics; and (xli) to the extent that an award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by the Board or Committee.

**(nn) “Performance Goals”** means, for a Performance Period, the one or more goals established by the Board or Committee (as applicable) for the Performance Period based upon the Performance Criteria. Performance Goals may be based on a Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. Unless specified otherwise by the Board (i) in the Award Agreement at the time the Award is granted or (ii) in such other document setting forth the Performance Goals at the time the Performance Goals are established, the Board will appropriately make adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (1) to exclude restructuring and/or other nonrecurring charges; (2) to exclude exchange rate effects; (3) to exclude the effects of changes to generally accepted accounting principles; (4) to exclude the effects of any statutory adjustments to corporate tax rates; (5) to exclude the effects of any items that are unusual in nature or occur infrequently as determined under generally accepted accounting principles; (6) to exclude the dilutive effects of acquisitions or joint ventures; (7) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a Performance Period following such divestiture; (8) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common stockholders other than regular cash dividends; (9) to exclude the effects of stock based compensation and the award of bonuses under the Company’s bonus plans; (10) to exclude costs incurred in connection with potential acquisitions or divestitures that are required to be expensed under generally accepted accounting principles; (11) to exclude the goodwill and intangible asset impairment charges that are required to be recorded under generally accepted accounting principles; and (12) to exclude the effect of any other unusual, non-recurring gain or loss or other extraordinary item. In addition, the Board or Committee (as applicable) retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals and to define the manner of calculating the Performance Criteria it selects to use for such Performance Period. Partial achievement of the specified criteria may result in the payment or vesting corresponding to the degree of achievement as specified in the Stock Award Agreement or the written terms of a Performance Cash Award.

(oo) “**Performance Period**” means the period of time selected by the Board or Committee (as applicable) over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to and the payment of a Stock Award or a Performance Cash Award. Performance Periods may be of varying and overlapping duration, at the sole discretion of the Board or Committee.

(pp) “**Performance Stock Award**” means a Stock Award granted under the terms and conditions of Section 6(c)(i).

(qq) “**Plan**” means this Stitch Fix, Inc. 2017 Incentive Plan.

(rr) “**Restricted Stock Award**” means an award of shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(a).

(ss) “**Restricted Stock Award Agreement**” means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement will be subject to the terms and conditions of the Plan.

(tt) “**Restricted Stock Unit Award**” means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(b).

(uu) “**Restricted Stock Unit Award Agreement**” means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement will be subject to the terms and conditions of the Plan.

(vv) “**Rule 16b-3**” means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(ww) “**Securities Act**” means the Securities Act of 1933, as amended.

(xx) “**Stock Appreciation Right**” or “**SAR**” means a right to receive the appreciation on Common Stock that is granted pursuant to the terms and conditions of Section 5.

(yy) “**Stock Appreciation Right Agreement**” means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement will be subject to the terms and conditions of the Plan.

(zz) “**Stock Award**” means any right to receive Common Stock granted under the Plan, including an Incentive Stock Option, a Nonstatutory Stock Option, a Restricted Stock Award, a Restricted Stock Unit Award, a Stock Appreciation Right, a Performance Stock Award or any Other Stock Award; provided, however, that a Stock Award shall also include any of the foregoing that may be or must be settled in cash.

(II) “**Stock Award Agreement**” means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement will be subject to the terms and conditions of the Plan.

(aaa) “**Subsidiary**” means, with respect to the Company, (i) any corporation of which more than 50% of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation will have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than 50%.

(bbb) “**Ten Percent Stockholder**” means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Affiliate.

(ccc) “**Transaction**” means a Corporate Transaction or a Change in Control.

**STITCH FIX, INC.**  
**INDEPENDENT DIRECTOR COMPENSATION POLICY**

APPROVED BY THE BOARD OF DIRECTORS FEBRUARY 28, 2018

Each member of the Board of Directors (the “**Board**”) of Stitch Fix, Inc. (the “**Company**”) who is a non-employee director of the Company and who is not affiliated with any of the purchasers of the Company’s Preferred Stock prior to the Company’s initial public offering of Class A Common Stock (the “**IPO**”); each such director, an “**Independent Director**”) will receive the compensation described in this Independent Director Compensation Policy (the “**Director Compensation Policy**”) for his or her Board service.

**Cash Compensation**

Commencing with the effective date of the registration statement pertaining to the IPO, each Independent Director will receive the cash compensation set forth below for service on the Board. The annual cash compensation amounts will be payable in equal quarterly installments, in arrears following the end of each quarter in which the service occurred, pro-rated for any partial quarters. All annual cash fees are vested upon payment.

1. Annual Board Service Retainer:
  - a. All Independent Directors: \$50,000
2. Annual Committee Member Service Retainer:
  - a. Member of the Audit Committee: \$10,000
  - b. Member of the Compensation Committee: \$7,500
  - c. Member of the Nominating and Corporate Governance Committee: \$5,000
3. Annual Committee Chair Service Retainer (in lieu of Committee Member Service Retainer):
  - a. Chairman of the Audit Committee: \$20,000
  - b. Chairman of the Compensation Committee: \$15,000
  - c. Chairman of the Nominating and Corporate Governance Committee: \$10,000
4. Annual Lead Independent Director Retainer: \$10,000

**Equity Compensation**

Equity awards will be granted under the Company’s 2017 Incentive Plan (the “**Plan**”). All stock options granted under the Director Compensation Policy will be Nonstatutory Stock Options (as defined in the Plan), with a term of ten years from the date of grant and an exercise price per share equal to 100% of the Fair Market Value (as defined in the Plan) of the underlying Class A Common Stock on the date of grant.

**(a) Automatic Equity Grants.**

**(i) Annual Grant.** Without any further action of the Board or Compensation Committee of the Board, at the close of business on the date of each annual meeting of the Company’s stockholders (the “**Annual Meeting Date**”), each person who is then an Independent Director will automatically receive a Nonqualified Stock Option grant with an aggregate value of \$150,000. Notwithstanding the foregoing, any Independent Director who is a member of Board as of the IPO will not receive a Nonqualified Stock Option grant until the Annual Meeting Date that follows the date on which all equity award grants held by such Independent Director as of the IPO have become fully vested.

**(ii) Initial Grant for New Directors.** Without any further action of the Board or Compensation Committee of the Board, each person who, after the IPO, is elected or appointed for the first time to be an Independent Director will automatically, upon the date of his or her initial election or appointment to be an Independent Director (the “**Commencement Date**”), receive a Nonqualified Stock Option grant with an aggregate value of \$150,000, multiplied by a fraction, the numerator of which is the number of days between the Commencement Date and the then-scheduled next Annual Meeting Date (or, if such Annual Meeting Date has not yet been scheduled, the first anniversary of the immediately preceding Annual Meeting Date or such other date as is determined by the Board in its sole discretion), and the denominator of which is 365.

**(iii) Option Value.** The value of a stock option to be granted under the Director Compensation Policy will be determined using the same method the Company uses to calculate stock option awards to its employees, as approved by the Compensation Committee of the Board.

**(b) Vesting; Change in Control.** Each Nonstatutory Stock Option granted pursuant to the Director Compensation Policy will vest on the earlier of the first anniversary of its date of grant and the next Annual Meeting Date. All vesting is subject to the Independent Director’s Continuous Service (as defined in the Plan) through the applicable vesting date. Notwithstanding the foregoing vesting schedule, for each Independent Director who remains in Continuous Service with the Company until immediately prior to the closing of a Change in Control (as defined in the Plan), his or her then-outstanding stock options will become fully vested immediately prior to the closing of such Change in Control in which their Service is terminated.

**(c) Remaining Terms.** The remaining terms and conditions of each Nonstatutory Stock Option, including transferability, will be as set forth in the Company’s standard option agreement, in the applicable form adopted from time to time by the Board or the Compensation Committee of the Board.

**Expenses**

The Company will reimburse each Independent Director for ordinary, necessary and reasonable out-of-pocket travel expenses to cover in-person attendance at and participation in Board meetings and meetings of any committee of the Board; *provided*, that the Independent Director timely submit to the Company



appropriate documentation substantiating such expenses in accordance with the Company's travel and expense policy, as in effect from time to time. To the extent that any taxable reimbursements are provided to any Independent Director, they will be provided in accordance with Section 409A of the Internal Revenue Code of 1986, including, but not limited to, the following provisions: (i) the amount of any such expenses eligible for reimbursement during such individual's taxable year may not affect the expenses eligible for reimbursement in any other taxable year; (ii) the reimbursement of an eligible expense must be made no later than the last day of such individual's taxable year that immediately follows the taxable year in which the expense was incurred; and (iii) the right to any reimbursement may not be subject to liquidation or exchange for another benefit.

#### **Administration**

The Board, or any committee to whom the Board delegates the requisite authority, will administer the Policy. The Board (or such committee) will have the sole discretion and authority to administer, interpret, amend and terminate the Policy, and the decisions of the Board (or such committee) will be final and binding on all persons having an interest in the Policy.

**List of Subsidiaries of Stitch Fix, Inc.**

<b>Name of Subsidiary</b>	<b>Jurisdiction</b>
Stitch Fix International (Cayman), Ltd.	Cayman Islands
Stitch Fix International (Delaware), Inc.	Delaware
Stitch Fix Gift Cards, LLC	Virginia
Partner In Style, Ltd.	United Kingdom

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-221650 on Form S-8 of our report dated October 3, 2018, relating to the consolidated financial statements of Stitch Fix, Inc. and its subsidiaries (the “Company”) appearing in this Annual Report on Form 10-K of the Company for the fiscal year ended July 28, 2018.

/s/ Deloitte & Touche LLP

October 3, 2018

## CERTIFICATION

I, Katrina Lake, certify that:

1. I have reviewed this annual report on Form 10-K of Stitch Fix, 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we 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) 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 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: October 3, 2018

/s/ Katrina Lake

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Katrina Lake

Founder, Chief Executive Officer and Director  
(Principal Executive Officer)

## CERTIFICATION

I, Paul Yee, certify that:

1. I have reviewed this annual report on Form 10-K of Stitch Fix, 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we 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;
  - (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 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: October 3, 2018

/s/ Paul Yee

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Paul Yee

Chief Financial Officer

(Principal Financial and Accounting Officer)

## CERTIFICATION

In connection with the Annual Report of Stitch Fix, Inc. (the “Company”) on Form 10-K for the year ended July 28, 2018, as filed with the Securities and Exchange Commission (the “Annual Report”), we, Katrina Lake, Chief Executive Officer of the Company, and Paul Yee, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

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

Dated: October 3, 2018

/s/ Katrina Lake

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Katrina Lake

Founder, Chief Executive Officer and Director

(Principal Executive Officer)

/s/ Paul Yee

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Paul Yee

Chief Financial Officer

(Principal Financial and Accounting Officer)