

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 30, 2021

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

STITCH FIX, INC.

(Exact name of registrant as specified in its charter)

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)

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

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Class A common stock, par value \$0.00002 per share	SFIX	Nasdaq Global Select Market

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

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

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

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

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

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

As of December 3, 2021, the number of outstanding shares of the registrant's Class A common stock, par value \$0.00002 per share, was 83,313,478, and the number of outstanding shares of the registrant's Class B common stock, par value \$0.00002 per share, was 25,486,335.

STITCH FIX, INC.
TABLE OF CONTENTS

	<u>Page No.</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements:</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flow</u>	<u>6</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>25</u>
<u>Item 4. Controls and Procedures</u>	<u>26</u>
<u>PART II. OTHER INFORMATION</u>	<u>27</u>
<u>Item 1. Legal Proceedings</u>	<u>27</u>
<u>Item 1A. Risk Factors</u>	<u>27</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>50</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>50</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>50</u>
<u>Item 5. Other Information</u>	<u>50</u>
<u>Item 6. Exhibits</u>	<u>51</u>
<u>Signatures</u>	<u>52</u>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	October 30, 2021	July 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 249,677	\$ 129,785
Short-term investments	62,438	101,546
Inventory, net	184,129	212,294
Prepaid expenses and other current assets	48,902	50,512
Income tax receivable	27,624	27,667
Total current assets	572,770	521,804
Long-term investments	88,420	59,035
Income tax receivable, net of current portion	27,054	27,054
Property and equipment, net	98,975	86,959
Operating lease right-of-use assets	136,849	118,565
Other long-term assets	5,354	5,732
Total assets	\$ 929,422	\$ 819,149
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 129,229	\$ 73,499
Operating lease liabilities	25,881	25,702
Accrued liabilities	115,281	99,028
Gift card liability	9,461	9,903
Deferred revenue	16,617	18,154
Other current liabilities	1,764	2,027
Total current liabilities	298,233	228,313
Operating lease liabilities, net of current portion	144,014	121,623
Other long-term liabilities	8,580	8,364
Total liabilities	450,827	358,300
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Class A common stock, \$0.00002 par value – 2,000,000,000 shares authorized as of October 30, 2021, and July 31, 2021; 83,193,536 and 76,780,570 shares issued and outstanding as of October 30, 2021, and July 31, 2021, respectively	1	1
Class B common stock, \$0.00002 par value – 100,000,000 shares authorized as of October 30, 2021, and July 31, 2021; 25,601,420 and 31,175,418 shares issued and outstanding as of October 30, 2021, and July 31, 2021, respectively	1	1
Additional paid-in capital	437,246	416,755
Accumulated other comprehensive income (loss)	2,493	3,411
Retained earnings	38,854	40,681
Total stockholders' equity	478,595	460,849
Total liabilities and stockholders' equity	\$ 929,422	\$ 819,149

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

Stitch Fix, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited)

(In thousands, except share and per share amounts)

	For the Three Months Ended	
	October 30, 2021	October 31, 2020
Revenue, net	\$ 581,244	\$ 490,423
Cost of goods sold	308,327	270,972
Gross profit	272,917	219,451
Selling, general, and administrative expenses	274,767	238,984
Operating income (loss)	(1,850)	(19,533)
Interest income	334	1,161
Other expense, net	(109)	(205)
Income (loss) before income taxes	(1,625)	(18,577)
Provision (benefit) for income taxes	202	(28,118)
Net income (loss)	\$ (1,827)	\$ 9,541
Other comprehensive income (loss):		
Change in unrealized gain (loss) on available-for-sale securities, net of tax	(315)	(663)
Foreign currency translation	(603)	(338)
Total other comprehensive income (loss), net of tax	(918)	(1,001)
Comprehensive income (loss)	\$ (2,745)	\$ 8,540
Net income (loss) attributable to common stockholders:		
Basic	\$ (1,827)	\$ 9,541
Diluted	\$ (1,827)	\$ 9,541
Earnings (loss) per share attributable to common stockholders:		
Basic	\$ (0.02)	\$ 0.09
Diluted	\$ (0.02)	\$ 0.09
Weighted-average shares used to compute earnings (loss) per share attributable to common stockholders:		
Basic	108,375,911	104,134,850
Diluted	108,375,911	109,477,354

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

Stitch Fix, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

(In thousands, except share amounts)

For the Three Months Ended October 30, 2021

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance as of July 31, 2021	107,955,988	\$ 2	\$ 416,755	\$ 3,411	\$ 40,681	\$ 460,849
Issuance of common stock upon exercise of stock options	91,394	—	1,054	—	—	1,054
Issuance of common stock upon settlement of restricted stock units, net of tax withholdings	747,574	—	(14,752)	—	—	(14,752)
Stock-based compensation	—	—	34,189	—	—	34,189
Net income (loss)	—	—	—	—	(1,827)	(1,827)
Other comprehensive income (loss), net of tax	—	—	—	(918)	—	(918)
Balance as of October 30, 2021	108,794,956	\$ 2	\$ 437,246	\$ 2,493	\$ 38,854	\$ 478,595

For the Three Months Ended October 31, 2020

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance as of August 1, 2020	103,755,507	\$ 2	\$ 348,750	\$ 2,728	\$ 49,557	\$ 401,037
Issuance of common stock upon exercise of stock options	525,316	—	5,106	—	—	5,106
Issuance of common stock upon settlement of restricted stock units, net of tax withholdings	440,918	—	(7,002)	—	—	(7,002)
Stock-based compensation	—	—	20,906	—	—	20,906
Net income (loss)	—	—	—	—	9,541	9,541
Other comprehensive income (loss), net of tax	—	—	—	(1,001)	—	(1,001)
Balance as of October 31, 2020	104,721,741	\$ 2	\$ 367,760	\$ 1,727	\$ 59,098	\$ 428,587

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

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

	For the Three Months Ended	
	October 30, 2021	October 31, 2020
Cash Flows from Operating Activities		
Net income (loss)	\$ (1,827)	\$ 9,541
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Change in inventory reserves	(2,763)	(1,343)
Stock-based compensation expense	32,323	19,925
Depreciation, amortization, and accretion	8,335	6,961
Other	(923)	271
Change in operating assets and liabilities:		
Inventory	30,806	(30,665)
Prepaid expenses and other assets	6,035	(9,503)
Income tax receivables	43	(18,796)
Operating lease right-of-use assets and liabilities	101	(225)
Accounts payable	55,352	44,609
Accrued liabilities	16,193	32,237
Deferred revenue	(1,532)	1,906
Gift card liability	(442)	(271)
Other liabilities	(45)	2,712
Net cash provided by operating activities	141,656	57,359
Cash Flows from Investing Activities		
Purchases of property and equipment	(16,392)	(5,985)
Purchases of securities available-for-sale	(52,435)	(41,307)
Sales of securities available-for-sale	2,160	16,193
Maturities of securities available-for-sale	59,130	32,800
Net cash provided by (used in) investing activities	(7,537)	1,701
Cash Flows from Financing Activities		
Proceeds from the exercise of stock options, net	1,054	5,106
Payments for tax withholdings related to vesting of restricted stock units	(14,752)	(7,002)
Net cash used in financing activities	(13,698)	(1,896)
Net increase in cash and cash equivalents	120,421	57,164
Effect of exchange rate changes on cash	(529)	(273)
Cash and cash equivalents at beginning of period	129,785	143,455
Cash and cash equivalents at end of period	\$ 249,677	\$ 200,346
Supplemental Disclosure		
Cash paid for income taxes	\$ 190	\$ 38
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	\$ 4,394	\$ 4,880
Capitalized stock-based compensation	\$ 1,866	\$ 981

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

Stitch Fix, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of Business

Stitch Fix, Inc. (“we,” “our,” “us” or the “Company”) delivers personalization to our clients through the pairing of data science and human judgment. Currently, clients can engage with us in one of two ways that, combined, form an ecosystem of personalized experiences across styling, shopping and inspiration: (1) by receiving a personalized shipment of items informed by our algorithms and sent by a Stitch Fix stylist (a “Fix”); or (2) by purchasing directly from our website or mobile app based on a personalized assortment of outfit and item recommendations (“Freestyle”). 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. After receiving a Fix, our clients purchase the items they want to keep and return the other items, if any. Freestyle utilizes our algorithms to recommend a personalized assortment of outfit and item recommendations that will update throughout the day and will continue to evolve as we learn more about the client. We are incorporated in Delaware and have operations in the United States and the United Kingdom (“UK”).

COVID-19 Update

There continues to be uncertainty around the COVID-19 pandemic as the Delta variant of COVID-19, which appears to be the most transmissible and contagious variant to date, has caused an increase in COVID-19 cases globally. The full impact of the COVID-19 pandemic on our business will depend on factors such as the length of time of the pandemic; how federal, state and local governments are responding, the impact of the Delta variant, the Omicron variant, and other variants that may emerge; vaccination rates among the population; the efficacy of the COVID-19 vaccines against the Delta variant, Omicron variant, and other variants that may emerge; the longer-term impact of the pandemic on the economy and consumer behavior; and the effect on our clients, employees, vendors, and other partners.

We believe our financial resources will allow us to manage the impact of COVID-19 on our business and operations. We believe our existing cash, cash equivalents, short-term investment balances, and the borrowing available under our credit agreement with Silicon Valley Bank and other lenders (the “2021 Credit Agreement”), if needed, will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months.

We also do not anticipate any impairments with respect to long-lived assets or short-term and long-term investments that would have a material impact on our financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation

Our fiscal year is a 52-week or 53-week period ending on the Saturday closest to July 31. The fiscal years ending July 30, 2022 (“2022”), and July 31, 2021 (“2021”), consist of 52 weeks.

The unaudited condensed consolidated financial statements include the accounts of Stitch Fix, Inc. and our wholly owned subsidiaries, and have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and the requirements of the U.S. Securities and Exchange Commission (the “SEC”) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. These financial statements have been prepared on the same basis as our annual consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for the fair statement of our financial information. These interim results are not necessarily indicative of the results to be expected for the fiscal year ending July 30, 2022, or for any other interim period or for any other future year. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the fiscal year ended July 31, 2021, included in our Annual Report on Form 10-K filed with the SEC on September 27, 2021 (the “2021 Annual Report”).

Reclassification

Certain items in the prior year’s consolidated financial statements have been reclassified to conform to the current year presentation reflected. Specifically, the Company reclassified \$18.8 million previously included in “Prepaid expenses and other assets” into “Income tax receivables” on the Condensed Consolidated Statement of Cash Flow for the quarter ended October 31, 2020, to conform to the current year presentation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in our condensed consolidated financial statements and accompanying footnotes.

Significant estimates and assumptions are used for inventory, stock-based compensation expense, income taxes, and revenue recognition. Actual results could differ from those estimates and such differences may be material to the condensed consolidated financial statements.

We have considered the impact of the COVID-19 pandemic on significant estimates and judgments used in applying accounting policies. While there is a greater degree of uncertainty in applying these judgments in light of this pandemic, we believe reasonable estimates have been used in preparing the unaudited condensed consolidated financial statements.

Change in Accounting Principle

Effective August 1, 2021, we completed the implementation of a new inventory management process and system, which enhances our procure-to-pay processes. In connection with this implementation, we changed our inventory costing method from specific identification to the first-in-first-out ("FIFO") method. We believe this change in accounting principle is preferable because it streamlines our inventory accounting process, is generally consistent with the physical flow of our inventories, and is more consistent with the inventory costing method used by industry peers. This change in accounting principle did not have a material effect on inventory, net or cost of goods sold for all periods presented; therefore, prior comparative financial statements have not been restated.

Short-Term and Long-Term Investments

Our short-term and long-term investments have been classified and accounted for as available-for-sale securities. We determine the appropriate classification of our investments at the time of purchase and reevaluate the classification at each balance sheet date. Available-for-sale securities with maturities of 12 months or less are classified as short-term and available-for-sale securities with maturities greater than 12 months are classified as long-term. Our available-for-sale securities are carried at fair value, with unrealized gains and losses, net of taxes, reported within accumulated other comprehensive income (loss) ("AOCI") in stockholders' equity. The cost of securities sold is based upon the specific identification method.

For debt securities with an amortized cost basis in excess of estimated fair value, we determine what amount of that deficit, if any, is caused by expected credit losses. The portion of the deficit attributable to expected credit losses is recognized in other (income) expense, net on our condensed consolidated statements of income. During the three months ended October 30, 2021, we did not record any expected credit losses on our available-for-sale debt securities.

We have elected to present accrued interest receivable separately from short-term and long-term investments on our condensed consolidated balance sheets. Accrued interest receivable was \$0.7 million at both October 30, 2021, and October 31, 2020, and was recorded in prepaid expenses and other current assets. We have also elected to exclude accrued interest receivable from the estimation of expected credit losses on our available-for-sale securities and reverse accrued interest receivable through interest income (expense) when amounts are determined to be uncollectible. We did not write off any accrued interest receivable during the three months ended October 30, 2021.

Inventory, net

Inventory, net consists of finished goods which are recorded at the lower of cost or net realizable value using the first-in-first-out (FIFO) method. Gross inventory costs include both merchandise costs and in-bound freight costs. Inventory, net includes reserves for excess and slow-moving inventory we expect to write off based on historical trends, damaged inventory, and shrinkage. We estimate and accrue shrinkage as a percentage of inventory out to the client and damaged items at 100% of cost.

Leases

Our leasing portfolio consists of operating leases, which include lease arrangements for our corporate offices, fulfillment centers, and, to a lesser extent, equipment. Operating leases with a term greater than one year are recorded on the consolidated balance sheets as operating lease right-of-use assets and operating lease liabilities at the commencement date. These balances are initially recorded at the present value of future minimum lease payments calculated using our incremental borrowing rate and expected lease term. Certain adjustments to our operating lease right-of-use assets may be required for items such as initial direct costs paid or incentives received.

In November 2020, we entered into an agreement to lease approximately 700,000 square feet of space to be used as a fulfillment center in Salt Lake City, Utah. This lease commenced in August 2021 and was classified as an operating lease with an initial lease liability of \$28.8 million and a right-of-use asset of \$24.6 million.

Foreign Currency

The functional currency of our international subsidiary is the British pound sterling. For that subsidiary, we translate assets and liabilities to U.S. dollars using period-end exchange rates, and average monthly exchange rates for revenues, costs, and expenses. We record translation gains and losses in AOCI as a component of stockholders' equity. Net foreign exchange transaction gains and losses resulting from the conversion of the transaction currency to functional currency are recorded in other income, net in the condensed consolidated statements of operations and comprehensive income.

Revenue Recognition

We generate revenue primarily from the sale of merchandise in a Fix and from Freestyle purchases. Clients create an online account on our website or mobile app, complete a style profile, and order a Fix or merchandise 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 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 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 discount to clients who purchase all of the items in the Fix.

We recognize revenue through the following steps: (1) identification of the contract, or contracts, with the customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Both our styling fee and Style Pass arrangements consist of one performance obligation, which is the option to purchase merchandise. The upfront styling fee is not a performance obligation as the styling activity is not distinct within the context of the contract. Similarly, the right to receive multiple options under Style Pass does not provide the customer with material stand-alone value and therefore does not give rise to a separate performance obligation. Both the upfront styling fee and Style Pass annual fee are included in deferred revenue until the performance obligation is satisfied when the client exercises his or her option to purchase merchandise (i.e., upon checkout of a Fix) or when the option(s) to purchase merchandise expire(s).

Revenue is recognized when control of the promised goods is transferred to the client. For a Fix, control is transferred when the client accepts or rejects the offer to purchase merchandise. Upon acceptance by purchasing one or more items within the Fix at checkout, 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 at checkout, the upfront styling fee is recognized as revenue at that time. The Style Pass annual fee is recognized at the earlier of (i) the time at which a client accepts and applies the Style Pass fee to an offer to purchase merchandise or (ii) 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 exchanged item is shipped, which coincides with the transfer of control to the customer. For a Freestyle purchase, control is transferred and revenue is recognized upon shipment to the client.

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. All shipping costs are accounted for in cost of goods sold and all handling costs are accounted for as fulfillment costs within selling, general, and administrative expense ("SG&A"), and are therefore not evaluated as a separate performance obligation. 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 is included in accrued liabilities in the condensed consolidated balance sheets, was \$14.2 million and \$11.7 million as of October 30, 2021, and July 31, 2021, respectively.

We have five types of contractual liabilities: (i) cash collections of upfront styling fees, which are included in deferred revenue and are recognized as revenue upon the earlier of application to a merchandise purchase or expiry of the offer, (ii) cash collections of Style Pass annual fees, which are included in deferred revenue and are recognized upon the earlier of application to a merchandise purchase or expiry of the Style Pass annual period, (iii) unredeemed gift cards, which are included in gift card liability and recognized as revenue upon usage or inclusion in gift card breakage estimates, (iv) referral credits, which are included in other current liabilities and are recognized as revenue when used, and (v) cash collections of Freestyle purchases, which are included in deferred revenue and are recognized as revenue upon shipment.

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 usage of the gift card. If a gift card is not used, we will recognize estimated gift card breakage revenue proportionately to customer usage of gift cards over the expected gift card usage period, subject to requirements to remit balances to governmental agencies. All commissions paid to third parties upon issuance of gift cards are recognized in SG&A as incurred, as on average, gift cards are used within a one-year period. Similarly, referral credits that are considered incremental costs of obtaining a contract with a customer are recognized in SG&A when issued, as on average, referral credits are used within a one-year period.

We expect deferred revenue for upfront styling fees, Freestyle orders, and Style Pass annual fees to be recognized within one year. On average, gift card liability and other current liabilities are also recognized within one year.

The following table summarizes the balances of contractual liabilities included in other current liabilities, deferred revenue and gift card liability as of the dates indicated:

(in thousands)	October 30, 2021	July 31, 2021
Deferred revenue		
Upfront styling fees	\$ 10,869	\$ 11,989
Style Pass annual fees	3,304	3,474
Freestyle orders	2,112	2,691
Other	332	—
Total deferred revenue	\$ 16,617	\$ 18,154
Gift card liability	\$ 9,461	\$ 9,903
Other current liabilities		
Referral credits	\$ 1,224	\$ 1,231

The following table summarizes revenue recognized during the three months ended October 30, 2021, that was previously included in deferred revenue, gift card liability, and other current liabilities at July 31, 2021:

(in thousands)	Revenue Recognized From Amounts Previously Included in Deferred Balances at July 31, 2021
Upfront styling fees	\$ 11,621
Style Pass annual fees	1,956
Freestyle orders	2,341
Gift card liability	1,520
Referral credits	578

Concentration of Credit Risks

We are subject to concentrations of credit risk principally from cash and cash equivalents and investment securities. The majority of our cash is held by two 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. The associated risk of concentration for cash equivalents and investments is mitigated by maintaining a diversified portfolio of highly rated instruments.

No client accounted for greater than 10% of total revenue, net for the three months ended October 30, 2021, and October 31, 2020, respectively.

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes*. This update amends and simplifies the accounting for income taxes by eliminating certain exceptions in existing guidance related to performing intraperiod tax allocation, calculating interim period taxes, and recognizing deferred taxes for investments. The update also provides new guidance to reduce complexity in certain areas. The Company adopted this guidance on August 1, 2021. The adoption of this guidance did not have a material impact on the Company's 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, short-term and long-term investments, accounts payable, and accrued liabilities. At October 30, 2021, and July 31, 2021, the carrying values of cash and cash equivalents, accounts payable, and accrued liabilities approximated fair value due to their short-term maturities.

The following table sets forth the amortized cost, gross unrealized gains, gross unrealized losses and fair values of our short-term and long-term investments accounted for as available-for-sale securities as of October 30, 2021, and July 31, 2021:

(in thousands)	October 30, 2021				July 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Financial Assets:								
Investments:								
U.S. Treasury securities	\$ 37,960	\$ —	\$ (42)	\$ 37,918	\$ 42,009	\$ 35	\$ —	\$ 42,044
Certificates of deposit	2,200	—	—	2,200	1,500	—	—	1,500
Commercial paper	10,197	—	—	10,197	10,192	—	—	10,192
Asset-backed securities	11,246	9	(14)	11,241	10,393	18	(9)	10,402
Corporate bonds	89,430	24	(152)	89,302	96,347	103	(7)	96,443
Total	\$ 151,033	\$ 33	\$ (208)	\$ 150,858	\$ 160,441	\$ 156	\$ (16)	\$ 160,581

The following table sets forth the fair value of available-for-sale securities by contractual maturity as of October 30, 2021, and July 31, 2021:

(in thousands)	October 30, 2021				July 31, 2021			
	One Year or Less	Over One Year Through Five Years	Over Five Years	Total	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
Financial Assets:								
Investments:								
U.S. Treasury securities	\$ 6,391	\$ 31,527	\$ —	\$ 37,918	\$ 41,633	\$ 411	\$ —	\$ 42,044
Certificates of deposit	2,200	—	—	2,200	1,500	—	—	1,500
Commercial paper	10,197	—	—	10,197	10,192	—	—	10,192
Asset-backed securities	3,049	8,192	—	11,241	29	10,373	—	10,402
Corporate bonds	40,601	48,701	—	89,302	48,192	48,251	—	96,443
Total	\$ 62,438	\$ 88,420	\$ —	\$ 150,858	\$ 101,546	\$ 59,035	\$ —	\$ 160,581

The following table sets forth our cash equivalents, and short-term and long-term investments accounted for as available-for-sale securities that were measured at fair value on a recurring basis based on the fair value hierarchy as of October 30, 2021, and July 31, 2021:

(in thousands)	October 30, 2021				July 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Assets:								
Cash equivalents:								
Money market funds	\$ 20,569	\$ —	\$ —	\$ 20,569	\$ 10,728	\$ —	\$ —	\$ 10,728
Investments:								
U.S. Treasury securities	37,918	—	—	37,918	42,044	—	—	42,044
Certificates of deposit	—	2,200	—	2,200	—	1,500	—	1,500
Commercial paper	—	10,197	—	10,197	—	10,192	—	10,192
Asset-backed securities	—	11,241	—	11,241	—	10,402	—	10,402
Corporate bonds	—	89,302	—	89,302	—	96,443	—	96,443
Total	\$ 58,487	\$ 112,940	\$ —	\$ 171,427	\$ 52,772	\$ 118,537	\$ —	\$ 171,309

There were no transfers of financial assets or liabilities into or out of Level 1, Level 2, or Level 3 for the three months ended October 30, 2021, and October 31, 2020.

4. Accrued Liabilities

Accrued liabilities consisted of the following:

(in thousands)	October 30, 2021	July 31, 2021
Compensation and related benefits	\$ 20,692	\$ 13,645
Advertising	14,379	12,649
Sales taxes	10,705	9,937
Shipping and freight	16,343	6,209
Accrued accounts payable	8,720	5,804
Inventory purchases	20,233	30,384
Sales refund reserve	14,194	11,704
Other	10,015	8,696
Total accrued liabilities	\$ 115,281	\$ 99,028

5. Credit Agreement

In June 2021, we entered into an amended and restated credit agreement with Silicon Valley Bank and other lenders (the “2021 Credit Agreement”), to provide a revolving line of credit of up to \$100.0 million, including a letter of credit sub-facility in the aggregate amount of \$30.0 million, and a swingline sub-facility in the aggregate amount of \$50.0 million. We also have the option to request an incremental facility of up to an additional \$150.0 million from one or more of the lenders under the 2021 Credit Agreement.

Under the terms of the 2021 Credit Agreement, revolving loans may be either Eurodollar Loans or ABR Loans. Outstanding Eurodollar Loans incur interest at the Eurodollar Rate, which is defined in the 2021 Credit Agreement as LIBOR (or any successor thereto), plus a margin of 2.25%. Outstanding ABR Loans incur interest at the highest of (a) the Prime Rate, as published by the Wall Street Journal, (b) the federal funds rate in effect for such day plus 0.50%, and (c) the Eurodollar Rate plus 1.00%, in each case plus a margin of 1.25%. We are charged a commitment fee of 0.25% for committed but unused amounts. The revolving line of credit under the 2021 Credit Agreement will terminate on May 31, 2024, unless the termination date is extended at the election of the lenders.

Our obligations under the 2021 Credit Agreement and any hedging or cash management agreements entered into with any lender thereunder are secured by substantially all of our current and future property, rights, and assets, including, but not limited to, cash, inventory, equipment, contractual rights, financial assets, and intangible assets. The 2021 Credit Agreement contains covenants limiting the ability to, among other things, dispose of assets, undergo a change in control, merge or consolidate, make acquisitions, incur debt, incur liens, pay dividends, repurchase stock, and make investments, in each case subject to certain exceptions. The 2021 Credit Agreement also contains financial covenants requiring us to maintain minimum free cash flow and an adjusted current ratio above specified levels, measured in each case at the end of each fiscal quarter. The 2021 Credit Agreement contains events of default that include, among others, non-payment of principal, interest, or fees, breach of covenants, inaccuracy of representations and warranties, cross defaults to certain other indebtedness, bankruptcy and insolvency events, and material judgments.

As of October 30, 2021, we did not have any borrowings outstanding under the 2021 Credit Agreement and we were in compliance with all financial covenants.

6. Commitments and Contingencies

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, and cash flows.

On October 11, 2018, October 26, 2018, November 16, 2018, and December 10, 2018, four putative class action lawsuits alleging violations of the federal securities laws were filed in the U.S. District Court for the Northern District of California, naming as defendants us and certain of our officers. The four lawsuits each make the same allegations of violations of the Securities Exchange Act of 1934, as amended, by us and our officers for allegedly making materially false and misleading statements regarding our active client growth and strategy with respect to television advertising between June 2018 and October 2018. The plaintiffs seek unspecified monetary damages and other relief. The four lawsuits have been consolidated and a lead plaintiff has been appointed. On September 18, 2019, the lead plaintiff in the consolidated class action lawsuits (the "Class Action") filed a consolidated complaint for violation of the federal securities laws. On October 28, 2019, we and other defendants filed a motion to dismiss the consolidated complaint. The lead plaintiff filed an opposition to the motion to dismiss on December 9, 2019, and we and the other defendants filed our reply in support of our motion to dismiss on December 30, 2019. The court granted our motion to dismiss on September 30, 2020 but allowed the lead plaintiff to file an amended complaint. On November 6, 2020, the lead plaintiff filed his amended complaint. We filed a motion to dismiss the amended complaint on December 7, 2020. The lead plaintiff filed an opposition to the motion to dismiss on January 8, 2021, and we filed our reply in support of our motion to dismiss on January 22, 2021. The court granted our motion to dismiss on October 1, 2021. On October 29, 2021, the plaintiffs filed a notice of appeal.

On December 12, 2018, a derivative action was filed against our directors in the same court, alleging the same violations of securities laws as alleged in the Class Action and breach of fiduciary duties. The derivative action has been stayed pending the outcome of the motion to dismiss in the Class Action pursuant to the parties' stipulation. On December 12, 2019, a second derivative action was filed against our directors in the same court, alleging the same violations of securities laws and breach of fiduciary duties as the other derivative action. The second derivative action has also been stayed pending the outcome of the motion to dismiss in the Class Action pursuant to the parties' stipulation. The two derivative actions have been related to each other and to the Class Action, and all the related cases are now proceeding before a single judge in the U.S. District Court for the Northern District of California.

There have been no other material changes to our commitments and contingencies disclosed in our 2021 Annual Report.

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 condensed consolidated financial statements.

7. Accumulated Other Comprehensive Income (Loss)

The following tables present the changes in AOCI by component and, if applicable, the reclassifications out of AOCI for the periods presented:

(in thousands)	For the Three Months Ended October 30, 2021			For the Three Months Ended October 31, 2020		
	Available-for-sale Securities	Foreign Currency Translation	Total	Available-for-sale Securities	Foreign Currency Translation	Total
Beginning balance	\$ (290)	\$ 3,701	\$ 3,411	\$ 1,213	\$ 1,515	\$ 2,728
Other comprehensive income (loss) before reclassifications ⁽¹⁾	(315)	(603)	(918)	(548)	(338)	(886)
Amounts reclassified from AOCI	—	—	—	(115)	—	(115)
Net change in AOCI	(315)	(603)	(918)	(663)	(338)	(1,001)
Ending balance	\$ (605)	\$ 3,098	\$ 2,493	\$ 550	\$ 1,177	\$ 1,727

⁽¹⁾ There was no associated income tax effect for gains/ losses on available-for-sale securities for the three months ended October 30, 2021 or October 31, 2020, as we have recorded a valuation allowance against these deferred tax balances.

8. Stock-Based Compensation

2011 Equity Incentive Plan

In 2011, we adopted the 2011 Equity Incentive Plan (the “2011 Plan”). The 2011 Plan provided for the grant of stock-based awards to employees, directors, and nonemployees under terms and provisions established by the board of directors.

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. Only incentive and nonqualified stock options were granted under the 2011 Plan. Employee stock option awards generally vest 25% on the first anniversary of the grant date with the remaining shares subject to the option vesting ratably over the next three years. Options generally expire after 10 years. Effective upon our initial public offering in 2017, 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 our 2011 Plan became reserved for issuance under the 2017 Plan. Our 2017 Plan provides for the grant of Class A incentive stock options to employees, including employees of any parent or subsidiary, and for the grant of nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards (“RSU”), performance stock awards, performance cash awards, and other forms of stock awards to employees, directors, and consultants, including employees and consultants of our subsidiaries. Employee stock option awards generally vest 25% on the first anniversary of the grant date with the remaining shares subject to the option vesting ratably over the next three years. Options generally expire after 10 years. RSU awards generally vest ratably on a quarterly basis over four years. The number of shares authorized for issuance under the 2017 Plan was 32,793,232 as of October 30, 2021.

2019 Inducement Plan

In October 2019, our board of directors adopted our 2019 Inducement Plan (the “2019 Plan”). Our 2019 Plan provides for the grant of Class A nonqualified stock options and RSU awards to individuals who satisfy the standards for inducement grants under the relevant Nasdaq Stock Market rules. The number of shares authorized for issuance under the 2019 Plan was 4,750,000 shares of Class A common stock as of October 30, 2021.

Stock option activity under the 2011 Plan, 2017 Plan, and 2019 Plan is as follows:

	Options Outstanding			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in thousands)
Balance – July 31, 2021	3,650,482	\$ 25.47	7.40	\$ 106,490
Granted	—	—		
Exercised	(91,394)	11.83		
Cancelled	(59,861)	40.47		
Balance – October 30, 2021	<u>3,499,227</u>	\$ 25.57	7.18	\$ 45,379

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.

The following table summarizes the RSU award activity under the 2017 Plan and 2019 Plan:

	Unvested RSUs	
	Class A Common Stock	Weighted-Average Grant Date Fair Value
Unvested at July 31, 2021	10,264,925	\$ 31.35
Granted	1,558,890	39.51
Vested	(747,574)	24.30
Forfeited	(970,720)	26.63
Unvested at October 30, 2021	<u>10,105,521</u>	\$ 33.59

Stock-Based Compensation Expense

Stock-based compensation expense for employees was \$32.3 million for the three months ended October 30, 2021 and \$19.9 million for the three months ended October 31, 2020. Stock-based compensation expense is included in selling, general, and administrative expenses in our condensed consolidated statements of operations and comprehensive income.

As of October 30, 2021, the total unrecognized compensation expense related to unvested options and RSUs, net of estimated forfeitures, was \$309.1 million, which we expect to recognize over an estimated weighted average period of 2.1 years.

We record stock-based compensation of stock options granted to employees by estimating the fair value of stock-based awards using the Black-Scholes option pricing model and amortizing the fair value of the stock-based awards granted over the applicable vesting period of the awards on a straight-line basis. During the three months ended October 30, 2021, no options were granted to employees. The weighted-average grant date fair value of options granted during the three months ended October 31, 2020, was \$17.70 per share. For the three months ended October 31, 2020, 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 Three Months Ended	
	October 31, 2020	
Expected term (in years)		5.5
Volatility		55.9%
Risk free interest rate		0.3%
Dividend yield		— %

9. Income Taxes

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

(in thousands)	For the Three Months Ended	
	October 30, 2021	October 31, 2020
Income (loss) before income taxes	\$ (1,625)	\$ (18,577)
Provision (benefit) for income taxes	202	(28,118)
Effective tax rate	(12.4)%	151.4 %

We are primarily subject to income taxes in the United States and the United Kingdom. Our effective tax rate for the three months ended October 30, 2021, differs from the federal statutory income tax rate primarily due to the full valuation allowance recorded on our net federal and state deferred tax assets. The tax provision for the three months ended October 30, 2021, is comprised of state taxes and income taxes in foreign jurisdictions.

Our effective tax rate for the three months ended October 31, 2020, differed from the federal statutory income tax rate primarily due to the net operating loss carryback provisions of the CARES Act, partially offset by certain nondeductible expenses.

We continue to monitor the progress of ongoing discussions with tax authorities and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions.

10. Earnings (Loss) Per Share Attributable to Common Stockholders

Basic and diluted earnings (loss) per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities: Class A 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.

Basic 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 during the period.

For the calculation of diluted earnings (loss) 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 basic and diluted EPS attributable to common stockholders is as follows:

(in thousands, except share and per share amounts)	For the Three Months Ended			
	October 30, 2021		October 31, 2020	
	Class A	Class B	Class A	Class B
Numerator:				
Net income (loss)	\$ (1,341)	\$ (486)	\$ 5,425	\$ 4,116
Net income (loss) attributable to common stockholders - basic	(1,341)	(486)	5,425	4,116
Reallocation of undistributed earnings (loss) as a result of conversion of Class B to Class A shares	(486)	—	4,116	—
Reallocation of undistributed earnings (loss) to Class B shares	—	—	—	(60)
Net income (loss) attributable to common stockholders - diluted	\$ (1,827)	\$ (486)	\$ 9,541	\$ 4,056
Denominator:				
Weighted-average shares of common stock - basic	79,534,871	28,841,040	59,205,535	44,929,315
Conversion of Class B to Class A common shares outstanding	28,841,040	—	44,929,315	—
Effect of dilutive stock options and restricted stock units	—	—	5,342,504	1,610,475
Weighted-average shares of common stock - diluted	108,375,911	28,841,040	109,477,354	46,539,790
Earnings (loss) per share attributable to common stockholders:				
Basic	\$ (0.02)	\$ (0.02)	\$ 0.09	\$ 0.09
Diluted	\$ (0.02)	\$ (0.02)	\$ 0.09	\$ 0.09

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:

	For the Three Months Ended	
	October 30, 2021	October 31, 2020
Restricted stock units	10,105,521	3,910,451
Stock options to purchase Class A common stock	2,266,417	1,647,310
Stock options to purchase Class B common stock	1,232,810	137,977
Total	13,604,748	5,695,738

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and related notes thereto included in Part I, Item 1 of this report and with our audited consolidated financial statements and related notes and our Annual Report on Form 10-K (the “2021 Annual Report”) for the year ended July 31, 2021, filed with the Securities and Exchange Commission on September 27, 2021. 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 typically consists of four 13-week fiscal quarters. The fiscal year ending July 30, 2022, and the fiscal year ended July 31, 2021, include 52 weeks of operations. Throughout this Quarterly Report on Form 10-Q (this “Quarterly Report”), all references to quarters and years are to our fiscal quarters and fiscal years unless otherwise noted.

Special Note Regarding Forward-Looking Statements

This Quarterly 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 Quarterly Report that are not purely historical, including without limitation statements in the following discussion and analysis of financial condition and results of operations regarding our projected financial position and results, business strategy, plans, and objectives of our management for future operations, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. 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 II, 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.

Overview

Since our founding in 2011, we have helped millions of women, men, and kids discover and buy what they love through personalized shipments of apparel, shoes, and accessories. Currently, clients can engage with us in one of two ways that, combined, form an ecosystem of personalized experiences across styling, shopping and inspiration: (1) by receiving a personalized shipment of items informed by our algorithms and sent by a Stitch Fix stylist (a “Fix”); or (2) by purchasing directly from our website or mobile app based on a personalized assortment of outfit and item recommendations (“Freestyle”). For a Fix, clients can choose to schedule automatic shipments or order on demand after they fill out a style profile on our website or mobile app. After receiving a Fix, our clients purchase the items they want to keep and return the other items, if any. Freestyle utilizes our algorithms to recommend a personalized assortment of outfit and item recommendations that will update throughout the day and will continue to evolve as we learn more about the client.

For the three months ended October 30, 2021, we reported \$581.2 million in net revenue, representing year-over-year growth of 18.5% from the three months ended October 31, 2020. As of October 30, 2021, and October 31, 2020, we had 4,180,000 and 3,763,000 active clients, respectively, representing year-over-year growth of 11.1%.

Net loss for the three months ended October 30, 2021, was \$1.8 million, compared to net income for three months ended October 31, 2020, of \$9.5 million. For more information on the components of net loss, refer to the section titled “Results of Operations” below.

COVID-19 Update

There continues to be uncertainty around the COVID-19 pandemic as the Delta variant of COVID-19, which appears to be the most transmissible and contagious variant to date, has caused an increase in COVID-19 cases globally. The full impact of the COVID-19 pandemic on our business will depend on factors such as the length of time of the pandemic; how federal, state and local governments are responding; the impact of the Delta variant, Omicron variant and other variants that may emerge; vaccination rates among the population; the efficacy of the COVID-19 vaccines against the Delta variant. Omicron variant and other variants that emerge; the longer-term impact of the pandemic on the economy and consumer behavior; and the effect on our clients, employees, vendors, and other partners.

During this time, we are focused on protecting the health and safety of our employees and clients, while seeking to continue operating our business responsibly.

While we only experienced intermittent and temporary closures of our fulfillment centers in fiscal year 2021 due to COVID-19, we recently experienced an increase of COVID-19 cases in our fulfillment centers in connection with the increase of cases caused by the Delta variant. This recent increase in cases has affected capacity at our fulfillment centers, which could affect shipments to clients and inventory management. Additionally, we have experienced difficulty hiring employees in our fulfillment centers, which we attribute to COVID-19 concerns and to increased competition and rising wages for eCommerce fulfillment center workers as eCommerce demand accelerates.

While we expect many employees to return to our offices later this fiscal year, the timing of such a return has been effected by the Delta variant and related surge in COVID-19 cases and could be further effected by this resurgence of COVID-19 or additional resurgences. When we return to our offices, we expect many employees to continue to work in a remote capacity or a hybrid of in-person and remote work. These changes to our operations going forward present additional challenges and increased costs to ensure our offices are safe and functional for hybrid offices that enable effective collaboration of both remote and in-person colleagues.

The effect of the COVID-19 pandemic on the broader economy and consumer behavior continues to evolve. While we did initially experience lower demand during the third quarter of fiscal 2020, we saw growth in new client demand and strong auto-ship retention during fiscal 2021 and believe we are benefiting from the dislocation in the retail apparel market that is resulting from the COVID-19 pandemic. For further discussion of the COVID-19 related risks facing our business, refer to the “Risk Factors” section included in Part II, Item 1A.

Although we are experiencing unprecedented challenges during this global health crisis, we continue to focus on our long-term growth and strategies that capture the changing ways people shop. While we cannot reasonably estimate the long-term impacts of the COVID-19 pandemic on our operations or financial results, we believe that our business model positions us to emerge from this pandemic with a structural advantage and new opportunities to increase market share.

Key Financial and Operating Metrics

Non-GAAP Financial Measures

We report our financial results in accordance with generally accepted accounting principles in the United States (“GAAP”). However, management believes that certain non-GAAP financial measures provide users of our financial information with additional useful information in evaluating our performance. We believe 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.

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:

- adjusted EBITDA excludes interest income and other expense, net, as these items are not components of our core business;
- adjusted EBITDA does not reflect our tax provision (benefit), which may increase or decrease cash available to us;
- adjusted EBITDA 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 excludes the non-cash expense of stock-based compensation, which has been, and will continue to be for the foreseeable future, an important part of how we attract and retain our employees and a significant recurring expense in our business; 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 interest income, other expense, net, provision (benefit) for income taxes, depreciation and amortization, and stock-based compensation expense. 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 Three Months Ended	
	October 30, 2021	October 31, 2020
Net income (loss)	\$ (1,827)	\$ 9,541
Add (deduct):		
Interest income	(334)	(1,161)
Other expense, net	109	205
Provision (benefit) for income taxes	202	(28,118)
Depreciation and amortization	7,740	6,459
Stock-based compensation expense	32,323	19,925
Adjusted EBITDA	\$ 38,213	\$ 6,851

Free Cash Flow

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

(in thousands)	For the Three Months Ended	
	October 30, 2021	October 31, 2020
Free cash flow reconciliation:		
Cash flows provided by operating activities	\$ 141,656	\$ 57,359
Deduct:		
Purchases of property and equipment	(16,392)	(5,985)
Free cash flow	\$ 125,264	\$ 51,374
Cash flows provided by (used in) investing activities	\$ (7,537)	\$ 1,701
Cash flows used in financing activities	\$ (13,698)	\$ (1,896)

Operating Metrics

	October 30, 2021	July 31, 2021	May 1, 2021	January 30, 2021	October 31, 2020
Active clients (in thousands)	4,180	4,165	4,107	3,873	3,763
Net revenue per active client	\$ 524	\$ 505	\$ 481	\$ 467	\$ 467

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 or was shipped an item using our direct-buy functionality, "Freestyle," in the preceding 52 weeks, measured as of the last day 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 consider each Men's, Women's, or Kids account as a client, even if they share the same household. We had 4,180,000 and 3,763,000 active clients as of October 30, 2021, and October 31, 2020, respectively, representing year-over-year growth of 11.1%.

Net Revenue per Active Client

We believe that net revenue per active client is an indicator of client engagement and satisfaction. We calculate net revenue per active client based on net revenue over the preceding four fiscal quarters divided by the number of active clients, measured as of the last day of the period. Net revenue per active client was \$524 and \$467 as of October 30, 2021, and October 31, 2020, respectively, representing a year-over-year increase of 12.2%.

Factors Affecting Our Performance

Inventory Management

We leverage our data science to buy and manage our inventory, including merchandise assortment and fulfillment center optimization. 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. 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. Moreover, our inventory investments will fluctuate with the needs of our business. For example, entering new locations, expanding to new categories, offering new functionalities such as Freestyle, or adding new fulfillment centers will all require additional investments in inventory.

In the first quarter of fiscal 2022, we experienced lower than expected inventory receipts due largely to global supply chain delays. We will continue to actively manage these delays and have plans to mitigate the impact on future periods.

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. 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. While we expect to continue to make significant marketing investments to grow our business in the long run, our marketing expenses may vary from period to period.

The largest component of our marketing spend is advertising, which was \$50.7 million for the three months ended October 30, 2021, compared to \$51.4 million for the three months ended October 31, 2020.

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 May 2019, we launched our services in the UK, expanding our geographic scope. We’ve also launched “Freestyle” in the United States, which provides clients the flexibility to purchase items outside of a Fix.

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. For example, in November 2020, we entered into an agreement to lease approximately 700,000 square feet of space to be used as a new fulfillment center in Salt Lake City, Utah, and we are building mezzanine levels in certain existing warehouses to maximize capacity. We expect to increase our spending on operations and infrastructure 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.

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.

Generally, changes in our merchandise mix have not caused significant fluctuations in our gross margin to date; however categories, brands, product types, and price points do have a range of margin profiles. For example, our Exclusive Brands have generally contributed higher margins, shoes have generally contributed lower margins, and newer categories 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, either through our Fix or Freestyle offerings. With our Fix offering, we charge a nonrefundable upfront fee, referred to as a “styling fee,” that is credited towards any merchandise purchased. We offer Style Pass to provide select U.S. clients with an alternative to paying a styling fee per Fix. Style Pass clients pay a nonrefundable annual fee for unlimited styling that is credited towards merchandise purchases. We deduct discounts, sales tax, and estimated refunds to arrive at net revenue, which we refer to as revenue throughout this Quarterly Report. We also recognize revenue resulting from estimated breakage income on gift cards. We expect our revenue to increase in absolute dollars as we grow our business, although our revenue growth rate may slow in future periods.

Cost of Goods Sold

Cost of goods sold consists of the costs of merchandise, expenses for inbound freight and shipping to and from clients, inventory write-offs and changes in our inventory reserve, payment processing fees, and packaging materials costs, offset by the recoverable cost of merchandise estimated to be returned. 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 stylists, fulfillment center operations, data analytics, merchandising, engineering, marketing, client experience, 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, and increased marketing investments. Our classification of selling, general, and administrative expenses may vary from other companies in our industry and may not be comparable.

Interest Income

Interest income is generated from our cash equivalents and investments in available-for-sale securities.

Provision (Benefit) for Income Taxes

Our provision (benefit) for income taxes consists of an estimate of federal, state, and international income taxes based on enacted federal, state, and international tax rates, as adjusted for allowable credits, deductions, uncertain tax positions, and changes in the valuation of our net federal and state deferred tax assets.

Results of Operations

Comparison of the Three Months Ended October 30, 2021, and October 31, 2020

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

(in thousands)	For the Three Months Ended		% Change
	October 30, 2021	October 31, 2020	
Revenue, net	\$ 581,244	\$ 490,423	18.5 %
Cost of goods sold	308,327	270,972	13.8 %
Gross profit	272,917	219,451	24.4 %
Selling, general, and administrative expenses	274,767	238,984	15.0 %
Operating income (loss)	(1,850)	(19,533)	(90.5)%
Interest income	334	1,161	(71.2)%
Other expense, net	(109)	(205)	(46.8)%
Income (loss) before income taxes	(1,625)	(18,577)	(91.3)%
Provision (benefit) for income taxes	202	(28,118)	(100.7)%
Net income (loss)	\$ (1,827)	\$ 9,541	(119.1)%

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

	For the Three Months Ended	
	October 30, 2021	October 31, 2020
Revenue, net	100.0 %	100.0 %
Cost of goods sold	53.0 %	55.3 %
Gross margin	47.0 %	44.7 %
Selling, general, and administrative expenses	47.3 %	48.7 %
Operating income (loss)	(0.3)%	(4.0)%
Interest income	— %	0.2 %
Other expense, net	— %	— %
Income (loss) before income taxes	(0.3)%	(3.8)%
Provision (benefit) for income taxes	— %	(5.7)%
Net income (loss)	(0.3)%	1.9 %

Revenue and Gross Margin

Revenue increased by \$90.8 million or 18.5% during the three months ended October 30, 2021, compared with the same period last year. The increase in revenue was attributable to a 12.2% increase in revenue per active client and 11.1% increase in active clients from October 31, 2020, to October 30, 2021.

Gross margin for the three months ended October 30, 2021, increased by over 220 basis points compared with the same period last year. The increase was primarily driven by improved product margins and shipping optimization, which was partially offset by higher clearance rates.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses (“SG&A”) increased by \$35.8 million for the three months ended October 30, 2021, compared with the same period last year. As a percentage of revenue, SG&A decreased to 47.3% for the three months ended October 30, 2021, compared with 48.7% for the three months ended October 31, 2020.

The increase in SG&A for the three months ended October 30, 2021, compared with the same period last year, was primarily related to higher compensation and benefits expense, including an increase in hourly wages for our full-time U.S. warehouse associates. The decrease in SG&A as a percentage of revenue was primarily related to marketing costs during the three months ended October 30, 2021, compared to the three months ended October 31, 2020. As a percentage of revenue, marketing costs were lower this period due to the issuance of high-dollar referral credits to existing clients in the prior year period. In addition, marketing costs were lower year-over-year due to a shift in strategy towards newer channels, despite higher brand marketing costs year-over-year.

Provision (Benefit) for Income Taxes

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

(in thousands)	For the Three Months Ended	
	October 30, 2021	October 31, 2020
Income (loss) before income taxes	\$ (1,625)	\$ (18,577)
Provision (benefit) for income taxes	202	(28,118)
Effective tax rate	(12.4)%	151.4 %

We are primarily subject to income taxes in the United States and the United Kingdom. Our effective tax rate for the three months ended October 30, 2021, differs from the federal statutory income tax rate primarily due to the full valuation allowance recorded on our net federal and state deferred tax assets. The tax provision for the three months ended October 30, 2021, is comprised of state taxes and income taxes in foreign jurisdictions.

Our effective tax rate for the three months ended October 31, 2020, differed from the federal statutory income tax rate primarily due to the net operating loss carryback provisions of the CARES Act, partially offset by certain nondeductible expenses.

We continue to monitor the progress of ongoing discussions with tax authorities and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions.

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.

As of October 30, 2021, we had \$249.7 million of cash and cash equivalents and \$150.9 million of investments. Our investment balance includes \$62.4 million of short-term investments with contractual maturities of 12 months or less as of October 30, 2021.

In June 2021, we entered into a \$100.0 million amended and restated credit agreement (the “2021 Credit Agreement”) with Silicon Valley Bank and other lenders. The 2021 Credit Agreement includes a letter of credit sub-facility of \$30.0 million and a swingline sub-facility of up to \$50.0 million.

Under the terms of the 2021 Credit Agreement, revolving loans may be either Eurodollar Loans or ABR Loans. Outstanding Eurodollar Loans incur interest at the Eurodollar Rate, which is defined in the 2021 Credit Agreement as LIBOR (or any successor thereto), plus a margin of 2.25%. Outstanding ABR Loans incur interest at the highest of (a) the Prime Rate, as published by the Wall Street Journal, (b) the federal funds rate in effect for such day plus 0.50%, and (c) the Eurodollar Rate plus 1.00%, in each case plus a margin of 1.25%. We are charged a commitment fee of 0.25% for committed but unused amounts. The revolving line of credit under the 2021 Credit Agreement will terminate on May 31, 2024.

As of October 30, 2021, we did not have any borrowings outstanding under the 2021 Credit Agreement and we were in compliance with all financial covenants.

For information on the terms of the 2021 Credit Agreement, please see “Credit Agreement” in Note 5 of the Notes to Condensed Consolidated Financial Statements included in this Report.

Uses of Cash

Our primary use of cash includes operating costs such as merchandise purchases, lease obligations, compensation and benefits, marketing, and other expenditures necessary to support our business growth.

We believe our existing cash, cash equivalents, investment balances, and the borrowing available under our 2021 Credit Agreement, if needed, 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 below:

(in thousands)	For the Three Months Ended	
	October 30, 2021	October 31, 2020
Net cash provided by operating activities	\$ 141,656	\$ 57,359
Net cash provided by (used in) investing activities	(7,537)	1,701
Net cash used in financing activities	(13,698)	(1,896)
Net increase in cash and cash equivalents	\$ 120,421	\$ 57,164

Cash provided by operating activities

During the three months ended October 30, 2021, cash provided by operating activities was \$141.7 million, which consisted of a net loss of \$1.8 million, adjusted by non-cash charges of \$36.9 million and by a change of \$106.6 million in our net operating assets and liabilities. The non-cash charges were primarily driven by \$32.3 million of stock-based compensation expense and \$8.3 million of depreciation, amortization, and accretion. The change in our net operating assets and liabilities was primarily due to an increase of \$71.5 million in our accounts payable and accrued liabilities related to increased business activity and timing of payments and a change of \$30.8 million in our inventory balance primarily due to a decline in inventory receipts from global supply chain delays.

During the three months ended October 31, 2020, cash provided by operating activities was \$57.4 million, which consisted of net income of \$9.5 million, adjusted by non-cash charges of \$25.8 million and by a change of \$22.1 million in our net operating assets and liabilities. The non-cash charges were largely driven by \$19.9 million of stock-based compensation expense and \$7.0 million of depreciation, amortization, and accretion. The change in our net operating assets and liabilities was primarily due to an increase of \$76.8 million in our accounts payable and accrued liabilities related to increased business activity and timing of payments. This was partially offset by a change of \$30.7 million in our inventory balance due to increased inventory purchases to support our growth and a change of \$28.3 million in prepaid expenses and other assets due to an increase in federal tax receivables.

Cash provided by (used in) investing activities

During the three months ended October 30, 2021, cash used in investing activities was \$7.5 million. This was primarily due to maturities and sales of available-for-sale securities of \$59.1 million and \$2.2 million, respectively, substantially offset by our investment of \$52.4 million in available-for-sale securities and purchases of property and equipment of \$16.4 million.

During the three months ended October 31, 2020, cash provided by investing activities was \$1.7 million. This was primarily due to maturities and sales of available-for-sale securities of \$32.8 million and \$16.2 million, respectively, substantially offset by our investment of \$41.3 million in highly rated available-for-sale securities and \$6.0 million in purchases of property and equipment.

Cash provided by (used in) financing activities

During the three months ended October 30, 2021, and October 31, 2020, cash used in financing activities was \$13.7 million and \$1.9 million, respectively, which was primarily due to payments for tax withholding related to vesting of restricted stock units, partially offset by proceeds from the exercise of stock options.

Contractual Obligations and Other Commitments

There have been no other material changes to our contractual obligations and other commitments as disclosed in our 2021 Annual Report.

Refer to “Note 2 - Summary of Significant Accounting Policies: Leases” in the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for commitments entered into during the three months ended October 30, 2021.

Critical Accounting Policies and Estimates

Our unaudited condensed consolidated financial statements have been prepared in accordance with GAAP. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and the related disclosures. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Except for the change in accounting principle related to our inventory costing methodology, there have been no significant changes to our critical accounting policies and estimates as disclosed in our 2021 Annual Report. Refer to “Note 2 - Summary of Significant Accounting Policies: Change in Accounting Principle” in the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for more information on our change in inventory costing method.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We have operations both within the United States and in the UK, and we are exposed to market risks in the ordinary course of business. These risks primarily include interest rate risk, foreign currency risk and inflation risk.

Interest Rate Risk

We are primarily exposed to market risks through interest rate risk on our investments. As of October 30, 2021, we had \$150.9 million in highly rated investments accounted for as available-for-sale securities, which are presented on our balance sheet at their fair market value compared to \$160.6 million as of July 31, 2021. These interest-earning instruments carry a degree of interest rate risk; however, a hypothetical 10% change in interest rates during the three months ended October 30, 2021, would not have had a material impact on our condensed consolidated financial statements.

Foreign Currency Risk

As of October 30, 2021, our revenue was earned in U.S. dollars and British pound sterling. Our expansion into the United Kingdom (“UK”) exposes us to fluctuations in foreign currency exchange rates. Fluctuations in foreign currency exchange rates may also result in transaction gains or losses on transactions in currencies other than the U.S. Dollar or British pound sterling. For the three months ended October 30, 2021, a hypothetical 10% increase or decrease in current exchange rates would not have had a material impact on our condensed consolidated financial results.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, and results of operations.

ITEM 4. 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 Quarterly Report. Based on the evaluation of our disclosure controls and procedures as of October 30, 2021, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the quarter ended October 30, 2021, we enhanced our procure-to-pay processes, which included the implementation of a new inventory management system. As part of these changes, we modified certain existing internal controls and implemented new internal controls over financial reporting. There were no additional changes during the period that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

An effective internal control system, no matter how well designed, has inherent limitations, including the possibility of human error or overriding of controls, and therefore can provide only reasonable assurance with respect to reliable financial reporting. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect all misstatements, including the possibility of human error, the circumvention or overriding of controls, or fraud. Effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in “Note 6 - Commitments and Contingencies: Contingencies” in the Notes to the Condensed Consolidated Financial Statements included within this Quarterly Report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

RISK FACTOR SUMMARY

Our business is subject to numerous risks. The following summary highlights some of the risks you should consider with respect to our business and prospects. This summary is not complete and the risks summarized below are not the only risks we face. You should review and consider carefully the risks and uncertainties described in more detail in the “Risk Factors” below, which includes a more complete discussion of the risks summarized here.

Risks Relating to Our Business

- The COVID-19 pandemic has caused significant disruption to our operations and impacted our business, key financial and operating metrics, and results of operations in numerous ways that remain unpredictable.
- Our failure to adequately and effectively staff our fulfillment centers, through third parties or with our own employees, and other operational constraints at our fulfillment centers could adversely affect our client experience and operating results.
- If we are unable to manage our inventory effectively, our operating results could be adversely affected.
- 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.
- Our business, including our costs and supply chain, is subject to risks associated with sourcing of merchandise and raw materials and manufacturing.
- 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.
- If we fail to effectively manage our growth, our business, financial condition, and operating results could be harmed.
- Our continued growth depends on attracting new clients.
- 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.
- We expect to increase our paid marketing to help grow our business, but these efforts may not be successful or cost effective.
- 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.
- Expansion of our operations internationally requires management attention and resources, involves additional risks, and may be unsuccessful.
- We may not be able to sustain our revenue growth rate and we may not be profitable in the future.
- Our business depends on a strong brand and we may not be able to maintain our brand and reputation.
- 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.
- If we fail to effectively manage our stylists, our business, financial condition and operating results could be adversely affected.
- If we are unable to acquire new merchandise vendors or retain existing merchandise vendors, our operating results may be harmed.
- We may incur significant losses from fraud.
- We are subject to payment-related risks.

Risks Relating to our Industry, the Market, and the Economy

- We rely on consumer discretionary spending and have been, and may in the future be, adversely affected by economic downturns and other macroeconomic conditions or trends.
- Our industry is highly competitive and if we do not compete effectively our operating results could be adversely affected.
- We must successfully gauge apparel trends and changing consumer preferences.
- Our operating results have been, and could be in the future, adversely affected by natural disasters, public health crises, political crises, or other catastrophic events.

Cybersecurity, Legal and Regulatory Risks

- System interruptions that impair client access to our website or other performance failures in our technology infrastructure could damage our business.
- Compromises of our data security could cause us to incur unexpected expenses and may materially harm our reputation and operating results.
- Some of our software and systems contain open source software, which may pose particular risks to our proprietary applications.
- Adverse litigation judgments or settlements resulting from legal proceedings in which we are or may be involved could expose us to monetary damages or limit our ability to operate our business.
- 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.
- Our use of personal information and other data subjects us to privacy laws and obligations, and our compliance with or failure to comply with such obligations could harm our business.
- Unfavorable changes or failure by us to comply with evolving internet and eCommerce regulations could substantially harm our business and operating results.
- If the use of “cookie” tracking technologies is further restricted, regulated, or blocked, or if changes in technology cause cookies to become less reliable or acceptable as a means of tracking consumer behavior, the amount or accuracy of internet user information we collect would decrease, which could harm our business and operating results.
- If we cannot successfully protect our intellectual property, our business would suffer.
- We may be accused of infringing intellectual property rights of third parties.

Risks Relating to Taxes

- Changes in U.S. tax or tariff policy regarding apparel produced in other countries could adversely affect our business.
- 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.
- Federal income tax reform could have unforeseen effects on our financial condition and results of operations.
- We may be subject to additional tax liabilities, which could adversely affect our operating results.
- Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

Risks Relating to Ownership of Our Class A Common Stock

- The market price of our Class A common stock may continue to 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.
- Future sales of shares by existing stockholders could cause our stock price to 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.
- 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.
- 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 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.

General Risk Factors

- If we are unable to maintain effective internal control over financial reporting, investors may lose confidence in the accuracy of our reported financial information and this may lead to a decline in our stock price.
- 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.
- 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.
- Future securities sales and issuances could result in significant dilution to our stockholders and impair the market price of our Class A common stock.

RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. You should consider and read carefully all of the risks and uncertainties described below, as well as other information included in this Quarterly Report on Form 10-Q (this “Quarterly Report”), and in our other public filings. The risks described below are not the only ones facing us. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could materially and adversely affect our business, financial condition, or results of operations. In such case, the trading price of our Class A common stock could decline, and you may lose all or part of your investment. This Quarterly Report also contains forward-looking statements and estimates that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks and uncertainties described below.

Risks Relating to Our Business

The COVID-19 pandemic has caused significant disruption to our operations and impacted our business, key financial and operating metrics, and results of operations in numerous ways that remain unpredictable.

Our business has been and may continue to be materially impacted by the effects of the ongoing COVID-19 pandemic. This pandemic and related measures taken to contain the spread of COVID-19, such as government-mandated business closures, office closures, state and local orders to “shelter in place,” and travel and transportation restrictions, have negatively affected the U.S. and global economies, disrupted global supply chains, and led to unprecedented levels of unemployment.

There continues to be uncertainty around the COVID-19 pandemic, its duration, and its impact on U.S. and global economic activity and consumer behavior. The Delta variant of COVID-19, which appears to be the most transmissible and contagious variant to date, has caused an increase in COVID-19 cases globally, and a new variant, the Omicron variant, has recently emerged. The impact of the Delta variant, the Omicron variant or other variants that may emerge, cannot be predicted at this time, and could depend on numerous factors, including the availability of vaccines in different parts of the world, vaccination rates among the population, the effectiveness of COVID-19 vaccines against the Delta variant, the Omicron variant, and other variants, and the response by governmental bodies to reinstate mandated business closures, orders to “shelter in place,” and travel and transportation restrictions.

The COVID-19 pandemic and related measures have resulted in significant disruption that has negatively impacted and may continue to negatively impact our business, including our operational capacity and results of operations. We experienced temporary closures and reduced capacity in the third quarter of fiscal year 2020 as we temporarily closed three of our fulfillment centers as we responded to the pandemic. We allowed employees to opt-in to work, provided them with four weeks of flexible paid time off, and implemented additional safety protocols. These efforts resulted in significantly less capacity in our fulfillment centers during the third quarter of fiscal year 2020, which resulted in delayed Fix shipments, a significant Fix backlog, delayed inventory and return processing, extended wait times for clients, and inventory management challenges. While we only experienced intermittent and temporary closures in fiscal year 2021, we have more recently experienced an increase of COVID-19 cases in our fulfillment centers in connection with the Delta variant. This recent increase in cases has negatively affected, and may continue to negatively affect, operations at our fulfillment centers. Additionally, we have experienced difficulty hiring employees in our fulfillment centers, which we attribute to COVID-19 concerns and to increased competition and rising wages for eCommerce fulfillment center workers as eCommerce demand accelerates. Capacity constraints in our fulfillment centers could cause delayed Fix shipments, delayed inventory and return processing, and inventory management challenges.

The COVID-19 pandemic has, at times, negatively impacted our results of operations, and the future impact and duration of this impact remain uncertain. It will depend on factors such as the length of time the pandemic; how national, state and local governments are responding; the impact of the Delta variant, the Omicron variant, and other variants that may emerge; the vaccine rates among the population; the efficacy of the COVID-19 vaccines against the Delta variant, the Omicron variant, and other variants that may emerge; the longer-term impact of the pandemic on the economy and consumer behavior; and the effect on our clients, employees, vendors, and other partners. For example, we continue to work with our vendors to minimize inventory disruptions, but future delays and supply constraints may negatively affect our ability to obtain and manage inventory. We have experienced shipping delays to and from our customers as a result of our shipping vendors' challenges fulfilling higher eCommerce shipping demand, which has impacted our results of operations. We also have been affected by, and expect to continue to be affected by, COVID-related freight delays and difficulties sourcing materials. Additionally, we may be negatively impacted if consumers shift back to traditional brick-and-mortar apparel retailers following the pandemic.

Our corporate headquarters remains closed to the majority of employees. While we expect many employees to return to our office later this fiscal year, the expected timing of such a return has been affected by the Delta variant and related surge in Covid cases and could be further delayed by this resurgence of COVID-19 or additional resurgences. Additionally, when we return to our office, we expect many employees to continue to work in a remote capacity or a hybrid of in-person and remote work. These changes to our operations going forward present additional risks, uncertainties and costs that could affect our performance, including increased operational risk, uncertainty regarding office space needs, heightened vulnerability to cyber attacks due to increased remote work, potential reduced productivity, changes to our Company culture, potential strains to our business continuity plans, and increased costs to ensure our offices are safe and functional as hybrid offices that enable effective collaboration of both remote and in-person colleagues.

The COVID-19 pandemic and resulting economic disruption has also led to significant volatility in the capital markets. And while we have taken measures to preserve our access to liquidity, our cash generated from operations has been negatively impacted and future cash flows may be impacted by the development of the pandemic.

The impact of the COVID-19 pandemic may also exacerbate other risks discussed below, any of which could have a material effect on us. Though we continue to monitor the COVID-19 pandemic closely, the situation is changing rapidly, and additional impacts may arise that we are not aware of currently. In addition, if there are future resurgences of COVID-19, including of new strains or variants, the negative impacts on our business may be exacerbated.

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

We currently receive and distribute merchandise at six fulfillment centers in the United States. We are in the process of building out another fulfillment center in the United States and we closed our South San Francisco fulfillment center in the third quarter of fiscal year 2021. We also have a fulfillment center in the UK, which is operated by a third party. During the third quarter of our 2020 fiscal year, in response to the COVID-19 pandemic, we temporarily closed three of our fulfillment centers, offered our fulfillment center employees four weeks of paid time off, and reduced the maximum number of employees in each fulfillment center in order to implement social distancing protocols. These changes resulted in operational constraints, which in turn temporarily reduced our ability to ship merchandise to clients and earn revenue during the third quarter of our 2020 fiscal year. In fiscal year 2021, we experienced smaller, intermittent interruptions in connection with temporary closures of fulfillment centers. We have recently also experienced an increase of COVID-19 cases in our fulfillment centers in connection with the Delta variant, which has negatively affected and may continue to negatively affect capacity at our fulfillment centers.

Additionally, we have experienced difficulty hiring employees in our fulfillment centers, which we attribute to COVID-19 concerns and to increased competition and rising wages for eCommerce fulfillment center workers as eCommerce demand accelerates. To address this, we have increased wages in our fulfillment centers and implemented other policies in order to be more competitive in hiring employees. These wage increases impacted our operating results. We are likely to continue to have difficulty hiring employees in fulfillment centers due to increased competition and we expect to continue to increase wages for our fulfillment center employees, as necessary, which would impact our operating results. These hiring difficulties, and our closure of one fulfillment center while in the process of building out a new one which is not yet operational, have caused and may in the future cause additional capacity constraints in our fulfillment centers. Capacity constraints in our fulfillment centers could affect the amount and types of inventory we have available to offer to clients, which will affect our results of operations. Surges in COVID-19 cases among fulfillment center employees could also affect the capacity of our fulfillment centers, and therefore our operating results. Additionally, 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 projected due to competition, mandated wage increases, regulatory changes, international expansion, or other factors, our operating results will be further harmed.

Severe weather events, including earthquakes, hurricanes, tornadoes, floods, fires, storms, and other adverse weather events and climate conditions could also cause operational constraints or temporarily reduce our ability to ship merchandise to clients. For instance, the severe winter weather and temperatures experienced in Texas and other parts of the country in February 2021 caused us to temporarily close two of our fulfillment centers and affected the shipping of merchandise in and out of fulfillment centers. Future weather events, which we expect to become more frequent and more severe with the increasing effects of climate change, could have a significant impact on our operations and results of operations.

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.

Finally, by using a third-party operator for one of our fulfillment centers, we also face additional risks associated with not having complete control over operations at our UK fulfillment center. Any deterioration in the financial condition or operations of that third party, or the loss of the relationship with that third party, or any event or crisis that impacts the UK generally or the specific area where our fulfillment center is located, would have a significant impact on our operations.

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. For example, in response to the initial consumer reaction to COVID-19, we cancelled many inventory orders to be prepared for what we expected would be lower client demand. Consequently, when client demand increased, our inventory was not as optimized to meet the demand as we would have liked. During the COVID-19 pandemic, we sought to rapidly shift elements of our inventory away from office attire and towards athleisure to accommodate consumer demand changes caused by the COVID-19 pandemic. Additionally, the surge in the Delta variant of COVID-19 has impacted some of our vendors, who have had delays in producing our orders. Shipping and freight delays have also been increasing as port closures, port congestion, and shipping container and ship shortages have increased over the last several months. Our inventory levels also may be affected by product launch delays, demand fluctuations, disruptions in our systems due to upgrades, launches or otherwise, and our inability to predict demand with respect to new categories or products. 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 depth and breadth 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 in a timely manner, we may not effectively manage our inventory and we may experience future significant inventory write-offs, which will adversely affect our operating results. Additionally, we have experienced challenges managing our inventory within the fulfillment centers given storage capacity constraints and challenges hiring fulfillment center employees. These constraints have affected, and may continue to affect, the amount and types of inventory we have available to offer to clients, which could affect our operating results.

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 three major vendors for our shipping. If we are not able to negotiate acceptable pricing and other terms with these entities, shipping prices increase at unexpected levels, or our vendors 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, ship merchandise to clients, and receive returned merchandise from clients may be negatively affected by inclement weather, fire, flood, power loss, earthquakes, public health crises such as the ongoing COVID-19 pandemic, labor disputes, acts of war or terrorism, periods of high e-commerce volume, such as holiday seasons, and similar factors. Due to our business model and the fact that we recognize revenue from Fixes when a client checks out items, rather than when Fixes are shipped, we may be impacted by shipping delays to a greater extent than our competitors. Additionally, delays in shipping may cause an auto-ship client's subsequent Fixes to be scheduled for a later date, as their next Fix is not scheduled until their checkout is complete. In the second quarter of our 2021 fiscal year, we experienced carrier and client shipping delays due to the ongoing COVID-19 pandemic and the increased strain on our shipping partners during the holiday season. These delays affected our ability to recognize revenue within the quarter, and we may in the future experience these delays and the resulting impact to our financial results, including potentially during the current and future holiday seasons. With the emergence of the Delta variant and related surge in COVID-19 cases, we have experienced an increase in the number of COVID-19 cases among fulfillment center employees, which is affecting the capacity of our fulfillment centers and is likely to continue to do so. In the past, strikes at major international shipping ports have impacted our supply of inventory from our vendors and severe weather events have resulted in long delivery delays and Fix cancellations. Some of our merchandise may be damaged or lost during transit with our shipping vendors. If a greater portion of our merchandise is not delivered in a timely fashion or is damaged or lost during transit, it could adversely affect our operating results or could cause our clients to become dissatisfied and cease using our services, which would adversely affect our business.

Our business, including our costs and supply chain, is subject to risks associated with sourcing of merchandise and raw materials and manufacturing.

We currently source nearly all of the merchandise that 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 increases or fluctuations, tariffs, demand disruptions, increased shipping or freight costs, or shipping delays in connection with our merchandise. 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, but not limited to, petroleum-based products and cotton. Significant price increases or fluctuations, currency volatility or fluctuation, tariffs, shortages, increases in shipping or freight costs, or shipping delays of petroleum, cotton, or other raw materials could significantly increase our cost of goods sold or affect our operating results. The COVID-19 pandemic caused delays in some shipments from our suppliers, and as the Delta variant causes a resurgence of COVID-19, we are again experiencing delays in some shipments from our suppliers caused by factory and port closures, port congestion, and shipping container and other shortages. Additionally, we have limited visibility into delays or control over shipping. We expect these delays to continue as long as COVID-19 continues to affect geographies around the world. We are also experiencing increased costs of goods, due to these freight challenges, increases in the price of raw materials, and currency volatility, and we expect that prices may continue to increase in the near future.

Other factors such as natural disasters have in the past increased raw material costs, impacted pricing with certain of our vendors, and caused shipping delays for certain of our merchandise. Also, the U.S. government's recent ban on cotton imported from the Xinjiang region of China, the source of a large portion of the world's cotton supply, may impact prices and the availability of cotton for our merchandise. Additionally, our products and materials (including potentially non-cotton materials) could be held for inspection by the United States Customs & Border Patrol (the "US CBP"), which would cause delays and unexpectedly affect our inventory levels. In addition, the labor costs to produce our products may fluctuate. In the event of a significant disruption in the supply of 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. Any delays, interruption, damage to, or increased costs in raw materials or 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.

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;
- overcome the impacts of the ongoing COVID-19 pandemic;
- adequately and effectively staff our fulfillment centers;
- manage our inventory effectively;
- increase our market share;
- increase consumer awareness of our brand and maintain our reputation;
- anticipate and respond to macroeconomic changes;
- successfully expand our offering and geographic reach;
- anticipate and respond to changing style trends and consumer preferences;

- 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. From inception to date, we have rapidly and significantly increased our employee headcount to support the growth of our business. We added a significant number of employees over the last several years and plan to continue to do so. To support continued growth, we must effectively integrate, develop, and motivate a large number of new employees while maintaining our corporate culture, which is made more challenging due to (i) the COVID-19 pandemic, which has required us to transition to a more remote working environment, and (ii) our expected future hybrid environment of in-person and remote work. 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. Any change or upgrade to our systems to support the growth and increasing complexity of our business involves risk and we may experience problems or delays as we make upgrades or changes to our systems. For example, in the first quarter of fiscal 2022, we experienced technical issues following a systems upgrade to our procure-to-pay processes which affected the transmission, receipt and reconciliation of purchase orders and payments with many of our apparel and accessory vendors. Additionally, we continue to introduce new offerings such as, Freestyle and Fix Preview, as well as new business initiatives and inventory models. The roll-out of these new offerings and initiatives require investments of time and resources and may require changes in our website, mobile apps, information technology systems or processes, which involves inherent risk. These initiatives and changes also may not be rolled out as timely or effectively as we expect or may not produce the results we intend. If new offerings and initiatives are delayed, it could affect our inventory levels. If we are unable to manage the growth of our organization effectively, or if growth initiatives are not introduced timely, do not produce the anticipated results, or cause unanticipated issues, 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 also face competition for clients from other retailers who offer or plan to offer similar services as ours. 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. Although we have reduced our marketing spend at times, we expect to continue to increase our marketing spend, which may include increased spending on digital, television, radio and other paid marketing channels, and cannot be certain that these efforts will yield more clients, continue to achieve meaningful payback on our investments, or be as cost effective. Our marketing activity and spend may vary from period to period and we may adjust our marketing strategy or spend within a period if we are not achieving the intended results or if we believe the return-on-investment is not favorable, which may result in faster or slower rates of active client growth in any given period. For instance, while we expected to spend a certain amount on marketing in the second quarter of fiscal year 2021, we experienced higher costs per acquisition than expected and, therefore, did not spend as much on marketing as anticipated. Also in the fourth quarter of fiscal year 2021, we did not spend as much on marketing as anticipated as we waited to launch Freestyle to new-to-Stitch Fix customers. Consequently, now that we have launched Freestyle in the first quarter of fiscal year 2022, we may increase marketing spend as we market this new offering. In addition, we seek to attract new clients by offering new products, services, and ways to engage with our platform, such as our Freestyle offering. If such new products or services are not timely launched or are not successful in attracting new clients, our revenue growth and results of operations may suffer. 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 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. The large majority of our clients choose to receive Fixes on a recurring basis, which we call “auto-ship.” In the third quarter of fiscal year 2020, we saw a temporary increase in the rate of auto-ship cancellations. If the ongoing COVID-19 pandemic and related economic impact worsen or continue for longer than anticipated, auto-ship cancellations may increase again, negatively impacting our business.

If existing clients no longer find our service and merchandise appealing or appropriately priced, 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 or purchase fewer items from their Fixes or through Freestyle over time as their demand for new apparel declines. For example, as a result of changes to daily life due to the ongoing COVID-19 pandemic, including increased rates of working remotely from home, many clients’ demand for new apparel may be reduced or eliminated. In addition, as we expand our assortment to include more products with lower price points, the amount clients spend with us may decrease. If clients who receive Fixes most frequently or purchase a significant amount of merchandise from us were to make fewer or lower priced purchases or stop using our service, our financial results could be negatively affected. In addition, we seek to attract high-quality clients who will remain clients for the long term, but our efforts may not be successful or produce the results we anticipate. A decrease in the number of clients, a decrease in client spending on the merchandise we offer, or our inability to attract high-quality clients could negatively affect 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.

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. In recent years, 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. External factors beyond our control, including general economic conditions and decreased discretionary consumer spending, may impact the success of our marketing initiatives or how much we decide to spend on marketing in a given period. For example, in response to the ongoing COVID-19 pandemic, we reduced our marketing expenditures in the third quarter of our fiscal year 2020. This led to fewer new clients being acquired in the third quarter, which we anticipate may impact demand for several subsequent quarters.

Our marketing initiatives may become increasingly expensive and generating a meaningful return on those initiatives may be difficult, such as the increased costs we have seen in certain digital marketing channels. We may also adjust our marketing activity from period to period or within a period as we launch new initiatives or offerings, such as Freestyle, run tests, or make decisions on marketing investments in response to anticipated rates of return, such as when we identify favorable cost per acquisition trends. For example, although we have historically reduced our advertising during the holiday season, when many other retailers compete for marketing opportunities, we had planned for more robust advertising during our second fiscal quarter of fiscal year 2021. However, as we experienced higher costs per acquisition than we expected, we did not spend as much on marketing during the quarter as we anticipated. And in the fourth quarter 2021, we did not spend as much on marketing as anticipated as we waited to launch Freestyle to new-to-Stitch Fix customers, and may increase marketing spend as we continue to market this new offering. 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.

Further, mobile operating system and web browser providers, such as Apple and Google, have announced or recently implemented product changes to limit the ability of advertisers to collect and use data to target and measure advertising. For example, Apple recently made a change to iOS 14 to require apps to get a user's opt-in permission before tracking or sharing the user's data across apps or websites owned by companies other than the app's owner. Google intends to further restrict the use of third-party cookies in its Chrome browser in 2022, consistent with similar actions taken by the owners of other browsers, such as Apple in its Safari browser, and Mozilla in its Firefox browser. These changes are expected to reduce our ability to efficiently target and measure advertising, in particular through online social networks, making our advertising less cost effective and successful.

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.

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 2018, we expanded our merchandise offering into categories including Petite, Maternity, Men's, Plus, Premium Brands, and Kids; began offering different product types including accessories and Extras; and expanded the number of brands we offer. In May 2019, we launched our service in the UK market. In June 2019, we introduced our direct-buy functionality (now called "Freestyle") with Buy It Again allowing clients in the United States to buy previously purchased items in new colors, prints, and sizes. We expanded direct buy in February 2020, with Complete Your Looks, which allows clients to discover and shop personalized outfits with new items that complement their prior purchases. In addition, in early June 2020, we introduced Trending For You, which allows clients to shop personalized looks based on their style profiles. In May 2021, we introduced Categories, a new way for clients to easily discover pieces within a range of categories based on occasion, brand, or item type. And, in August 2021, we opened up Freestyle to new-to-Stitch Fix clients who have never received a Fix from us previously. We continue to explore additional offerings to serve our existing clients, attract new clients, and expand our geographic scope. Developing new offerings requires significant investments of resources and time, and if a new offering, such as Freestyle, does not appeal to new clients as we expect, our business may not grow as anticipated.

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, 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 offering or in a new geography requires investments greater than we expect or is delayed, our operating results could be negatively impacted. 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 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, now that we have launched in the UK, we 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 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 requires management attention and resources, involves additional risks, and may be unsuccessful.

In May 2019, we launched our service in the UK market, and we may choose to expand to other international markets in the future. Prior to launching in the UK, we had no experience operating internationally or selling our merchandise outside of the United States, and if we continue to expand internationally, we will need to adapt to different local cultures, standards, laws, and policies. The business model we employ may not appeal as strongly to consumers in international markets. 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 additional international markets or in generating revenue from foreign operations for a variety of reasons, including:

- the need to localize 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 such as Brexit (as defined below);
- differing laws and regulations, including with respect to 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 or differing regulations relating to privacy and data security and access to, or use of, commercial and personal information, particularly in Europe;
- differing payment requirements and customer behavior relating to payments and fraud;
- changes in a specific country's or region's political, economic, and public health conditions; and
- risks resulting from changes in currency exchange rates.

For example, clients in the UK are accustomed to more return shipping options than are typically offered in the United States, which required us to increase the number of shipping vendors we use in that market, increasing our costs. If we continue to 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 past revenue growth and profitability should not be considered indicative of our future performance. Our revenue increased by 22.8% in fiscal 2021 compared to 2020, 8.5% in fiscal 2020 compared to fiscal 2019, and 28.6% in fiscal 2019 compared to fiscal 2018. As we grow our business, our revenue growth rates may slow in future periods or decline due to a number of reasons, which may include the short- and long-term impacts of the COVID-19 pandemic, 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. If our revenue does not increase to offset increases in our operating expenses, we may not be profitable in future periods.

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 an engaging and personalized client experience, including valued personal styling services, high-quality merchandise, and appropriate price points, 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. For example, after our former Chief Financial Officer left in December 2019, we conducted a search for a candidate to replace him that did not conclude until we announced the hiring of Dan Jemma as our Chief Financial Officer in December 2020. Additionally, our former President, Chief Operating Officer and Interim Chief Financial Officer, Mike Smith, resigned as an employee of the Company in January 2021. 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. We do not currently maintain key-person life insurance policies on any member of our senior management team or other key employees.

Elizabeth Spaulding was named to the role of Chief Executive Officer on August 1, 2021, and Katrina Lake, our Founder, transitioned to the role of Executive Chairperson of the Board on August 1, 2021. Currently, Ms. Lake remains an employee of ours. Ms. Lake has unique and valuable experience leading our company from its inception through August 1, 2021. If we do not continue to manage the transition of Ms. Lake to her new role and Ms. Spaulding's succession to Chief Executive Officer successfully, it could disrupt our business, affect our Company culture, or cause retention concerns with respect to our colleagues, all of which could affect our financial condition and operating results.

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. Recently, we also have had difficulty hiring employees in fulfillment centers due to increased competition for distribution workers and rising wages. We have increased, and expect to continue to increase, our employee compensation levels in response to competition, as necessary. 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 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.

As of October 30, 2021, approximately 3,700 of our employees were stylists, most of whom work remotely and on a part-time basis for us and are paid hourly. The stylists 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. For example, in August 2020, a representative action under California's Private Attorneys General Act was filed against us alleging various violations of California's wage and hour laws relating to our current and former non-exempt stylist employees. While we were able to settle this matter, future litigation concerning our styling employees could 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.

In August 2021, we introduced changes to work schedules for our stylists to better align with when and how clients will most likely want to connect with their stylist. We anticipated that many of our stylists would find the new schedule challenging and may not want to continue their employment, so we offered a voluntary exit package to help ease job transitions. As expected, some stylists did accept this offer, which decreased our total number of stylists. We may experience some capacity constraints, morale issues or other unintended effects that could negatively affect our operations as we transition to these new scheduling practices.

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 for any reason, 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.

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. Our clients may re-use their login information (i.e., username and password combination) across multiple websites and, therefore, when a third-party website experiences a data breach, that information could be exposed to bad actors and be used to fraudulently access our clients' accounts. 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 and online payment systems such as PayPal, which subjects us to certain regulations and fraud. 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.

Risks Relating to our Industry, the Market, and the Economy

We rely on consumer discretionary spending and have been, and may in the future 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, declines in asset values, and related market uncertainty; home foreclosures and reductions in home values; fluctuating interest rates, increased inflationary pressures and credit availability; fluctuating fuel and other energy costs; fluctuating commodity prices; and general uncertainty regarding the overall future political and economic environment. We have experienced many of these factors due to the ongoing COVID-19 pandemic and the related responses of national, state and local government and public health officials and have, at times, seen negative impacts on client demand as a result. Furthermore, any increases in consumer discretionary spending during times of crisis may be temporary, such as those related to government stimulus programs. Economic conditions in certain regions may also be affected by natural disasters, such as hurricanes, tropical storms, earthquakes, and wildfires; other public health crises; and other major unforeseen events. Consumer purchases of discretionary items, including the merchandise that we offer, generally decline during recessionary periods or 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 could thereby 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.

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. Mergers and acquisitions by these companies may lead to even larger competitors with more resources. 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.

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. In addition, external events may disrupt or change client preferences and behaviors in ways we are not able to anticipate. For example, the COVID-19 pandemic has resulted in significant changes to daily life, working arrangements, travel, and social events, which has impacted the type of apparel our clients seek to purchase. 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 entry into the UK also requires 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, which could be further complicated by any future expansion into additional geographic markets. 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.

Our operating results have been, and could be in the future, adversely affected by natural disasters, public health crises, political crises, or other catastrophic events.

Natural disasters, such as earthquakes, hurricanes, tornadoes, floods, fires, and other adverse weather events and climate conditions, which may become more frequent and more severe with the increasing effects of climate change; unforeseen public health crises, such as the ongoing COVID-19 pandemic or other 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 or cause us to close one or more of our offices and fulfillment centers or could disrupt, delay, or otherwise negatively impact the operations of one or more of our third-party providers or vendors. For instance, the severe winter weather and temperatures experienced in Texas and other parts of the country in February 2021 caused us to temporarily close two of our fulfillment centers and affected the shipping of merchandise in and out of fulfillment centers. Furthermore, these types of events could impact our merchandise supply chain, including our ability to ship merchandise to or receive returned merchandise from clients in 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. In fact, the COVID-19 pandemic has: disrupted our operations in and caused us to close our offices and require that most of our employees work from home; disrupted our operations in and caused us to close three of our fulfillment centers; required us to implement various operational changes to ensure the health and safety of our employees; had a range of negative effects on the operations of our third-party providers and vendors, including our merchandise supply chain and shipping partners; and negatively impacted consumer spending and the economy generally. Because the COVID-19 pandemic has caused many of these factors to materialize, as described above and throughout these risk factors, it has adversely affected our business and operating results. The ongoing COVID-19 pandemic (including future resurgences of COVID-19 or new variants in the United States or internationally) or the occurrence of another natural disaster, pandemic, or crisis could recreate and/or exacerbate these effects.

Cybersecurity, Legal and Regulatory Risks

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. Additionally, the launch of a new category or new product offering requires investments in and the development of new technology, which may be more susceptible to performance issues or interruptions. Interruptions may also be caused by a variety of incidents, including human error, our failure to update or improve our proprietary systems, cyber attacks, fire, flood, earthquake, power loss, or telecommunications failures. These risks are exacerbated by our move to a more remote workforce in response to the COVID-19 pandemic. 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.

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, which may include 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 unauthorized 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. As we have significantly increased the number of employees and contractors working remotely due to the COVID-19 pandemic and expect to continue to have a more remote and hybrid work force, and as our vendors and other business partners move to permanent or hybrid remote work as well, we and our partners may be more vulnerable to cyber attacks. 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.

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 are or may be involved could expose us to monetary damages or limit our ability to operate our business.

Currently, we are involved in various legal proceedings, including the securities litigation and other matters described elsewhere herein. We have in the past and may in the future become involved in other private actions, collective actions, investigations, and various other legal proceedings by clients, employees, suppliers, competitors, government agencies, stockholders, or others. In addition, the COVID-19 pandemic could give rise to new types of claims or lawsuits, including, without limitation, workers compensation claims for employees that contracted the COVID-19 virus. 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.

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.

Some of the merchandise we sell, including the children's merchandise sold through Stitch Fix Kids, 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. The loss of an Exclusive Brand vendor due to failure to comply with our standards could cause inventory delays, impact our clients' experiences, and otherwise harm our operating results. In addition, 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. Furthermore, 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.

The United States Treasury Department placed sanctions on China's Xinjiang Production and Construction Corporation ("XPCC") for serious human rights abuses against ethnic minorities in China's Xinjiang Uyghur Autonomous Region (the "XUAR"). Additionally, the US CBP issued a withhold release order (the "WRO") on all products containing cotton from the XUAR. The XUAR is the source of large amounts of cotton and textiles for the global apparel supply chain and XPCC controls many of the cotton farms and much of the textile industry in the region. Although we do not knowingly source any products or materials from the XUAR (either directly or indirectly through our suppliers), we have no known involvement with XPCC or its subsidiaries and affiliates, and we prohibit our apparel vendors from doing business with XPCC, we could be subject to penalties, fines or sanctions if any of the vendors from which we purchase goods is found to have dealings, directly or indirectly, with XPCC or entities it controls. Additionally, our products or materials (including potentially non-cotton materials) could be held or delayed by the US CBP under the WRO, which would cause delays and unexpectedly affect our inventory levels. Even if we were not subject to penalties, fines or sanctions, if products we source are linked in any way to XPCC or the XUAR, our reputation could be damaged.

Our use of personal information and other data subjects us to privacy laws and obligations, and our compliance with or 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 European Union's ("EU") General Data Protection Regulation (the "GDPR"), California's Consumer Privacy Act (the "CCPA") and the UK's Data Protection Act (the "UK 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, the GDPR imposes more stringent data protection requirements and provides greater penalties for noncompliance than previous data protection laws. Further, the UK withdrew from the EU on January 31, 2020, subject to a transition period that ended on December 31, 2020 ("Brexit"). The regulation of data protection in the UK after December 31, 2020 is still uncertain and depends on ongoing negotiations between the UK and the EU. The UK GDPR is currently consistent with the GDPR in effect since 2018, but it may evolve following the end of the transition period and it is uncertain whether our operations in, and data transfers to and from, the UK can comply with any future changes in the law. Similarly, the State of California legislature passed the CCPA, which became effective on January 1, 2020. The CCPA requires 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 with the possibility of significant statutory damage awards. The CCPA prohibits discrimination against individuals who exercise their privacy rights, provides for civil penalties for violations, and creates a private right of action for data breaches that is expected to increase data breach litigation. The CCPA itself will expand substantially when the California Privacy Rights Act of 2020 (the "CPRA"), which California voters approved in November 2020, takes effect on January 1, 2023. The CPRA will, among other things, restrict use of certain categories of sensitive personal information that we handle; further restrict the sharing of personal information; establish restrictions on the retention of personal information; expand the types of data breaches subject to the private right of action; and establish the California Privacy Protection Agency to implement and enforce the new law, as well as impose administrative fines. Since the enactment of the CCPA, new privacy and data security laws have been proposed in more than half of the U.S. states and in the U.S. Congress, reflecting a trend toward more stringent privacy legislation in the U.S. 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.

The costs of compliance with and other burdens imposed by privacy and data security laws and regulations may reduce the efficiency of our marketing, lead to negative publicity, make it more difficult or more costly to meet expectations of or commitments to clients, or lead to significant fines, penalties or liabilities for noncompliance, any of which could harm our business. These laws could also impact our ability to offer our products in certain locations. The costs, burdens, and potential liabilities imposed by existing privacy laws could be compounded if other jurisdictions in the U.S. or abroad begin to adopt similar or more restrictive laws.

Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit clients' use of our service or harm our brand and reputation.

Any of these matters could materially adversely affect our business, financial condition, or operating results.

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, California's Automatic Renewal Law requires 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.

If the use of “cookie” tracking technologies is further restricted, regulated, or blocked, or if changes in technology cause cookies to become less reliable or acceptable as a means of tracking consumer behavior, the amount or accuracy of internet user information we collect would decrease, which could harm our business and operating results.

Cookies are small data files that are sent by websites and stored locally on an internet user's computer or mobile device. We, and third parties who work on our behalf, collect data via cookies that is used to track the behavior of visitors to our sites, to provide a more personal and interactive experience, and to increase the effectiveness of our marketing. However, internet users can easily disable, delete, and block cookies directly through browser settings or through other software, browser extensions, or hardware platforms that physically block cookies from being created and stored.

Privacy regulations restrict how we deploy our cookies and this could potentially increase the number of internet users that choose to proactively disable cookies on their systems. In the EU, the Directive on Privacy and Electronic Communications requires users to give their consent before cookie data can be stored on their local computer or mobile device. Users can decide to opt out of nearly all cookie data creation, which could negatively impact our operating results. We may have to develop alternative systems to determine our clients' behavior, customize their online experience, or efficiently market to them if clients block cookies or regulations introduce additional barriers to collecting cookie data.

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 nine patents issued and a number of additional patent applications pending in the United States. We have also filed patent applications in Europe and the People's Republic of China. The patents 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.

Risks Relating to Taxes

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. International trade disputes that result in tariffs and other protectionist measures could adversely affect our business, including disruption and cost increases in our established patterns for sourcing our merchandise and increased uncertainties in planning our sourcing strategies and forecasting our margins. For example, in recent years, the U.S. government imposed significant new tariffs on China related to the importation of certain product categories, including apparel, footwear, and other goods. A substantial portion of our products are manufactured in China. As a result of these tariffs, our cost of goods imported from China increased slightly. Although we continue to work with our vendors to mitigate our exposure to current or potential tariffs, there can be no assurance that we will be able to offset any increased costs. Other changes in U.S. tariffs, quotas, trade relationships, or tax provisions could also 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 to and 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 such uncertainty, 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 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 and/or applicable exemptions that restrict or preclude the imposition of obligations to collect such taxes with respect to the 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. As of June 30, 2021, all states have enacted legislation 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. While we now collect, remit, and report sales tax in all states that impose a sales tax, it is still possible that one or more jurisdictions may assert that we have liability from previous periods for which we did not collect 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.

New income or other tax laws or regulations could be enacted at any time, which could adversely affect our business operations and financial performance. Further, existing tax laws and regulations could be interpreted, modified, or applied adversely to us. For example, the Tax Cuts and Jobs Act (the "Tax Act") and CARES Act enacted many significant changes to the U.S. tax laws. Future guidance from the IRS and other tax authorities with respect to the Tax Act and CARES Act may affect us, and certain aspects of the Tax Act and CARES Act could be repealed or modified in future legislation. Further regulatory or legislative developments may also arise. We are currently unable to predict whether such changes will occur and, if so, the ultimate impact on our business. To the extent that such changes have a negative impact on us, our suppliers or our customers, including as a result of related uncertainty, these changes may materially and adversely impact our business, financial condition, results of operations and cash flows.

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 and in the UK. The governing tax laws and applicable tax rates vary by jurisdiction and are subject to interpretation. Various tax authorities may disagree with tax positions we take and if any such tax authorities 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. 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.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of July 31, 2021, we had state net operating loss carryforwards of \$142.0 million, which begin to expire in 2025, if not utilized. The ability to use our net operating loss carryforwards depends on the availability of future taxable income. In addition, as of July 31, 2021, we had federal and California research and development tax credit carryforwards of \$30.1 million and \$17.0 million, respectively. The federal research and development credits will begin to expire in 2036, if not utilized; California research and development credits do not have an expiration date. A portion of our tax attributes are subject to Section 382 and 383 of the Internal Revenue Code and similar state provisions, which sets limitations arising from ownership changes. Any potential limitations on our ability to offset future income with our tax attributes could result in increased future tax liability to us.

Risks Relating to Ownership of Our Class A Common Stock

The market price of our Class A common stock may continue to 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 and client acquisition, 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;
- targeted efforts of social media or other groups to transact in and affect the price of Stitch Fix stock, such as the activity in early 2021 targeting GameStop Corp and others;
- 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, public health crises such as the COVID-19 pandemic, 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. For example, beginning in October 2018, we and certain of our directors and officers were sued in putative class action and derivative lawsuits alleging violations of the federal securities laws for allegedly making materially false and misleading statements. We may be the target of additional litigation of this type in the future as well. Such securities litigation 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.

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, then 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, our 2017 Incentive Plan, and our 2019 Inducement 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, executive officers, and their affiliates, are 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. As of December 3, 2021, 27,851,283 of our 108,799,813 shares outstanding were held by our directors, executive officers, and their affiliates, and 25,397,274 of such shares held by our directors, executive officers, and their affiliates were shares of Class B common 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 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 currently makes us ineligible for inclusion in Standard & Poor's indices and, as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track the S&P indices will not be investing in our stock. It is unclear what effect, if any, these policies have had or may 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.

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 our Class A common stock will depend upon increases in the value for our Class A common stock, which is not certain.

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 the following types of actions or proceedings under Delaware statutory or common law:

- 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.

This provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated certificate of incorporation further provides that the federal district courts of the United States are the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

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. 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.

General Risk Factors

If we are unable to maintain effective internal control over financial reporting, investors may lose confidence in the accuracy of our reported financial information and this may lead to a decline in our stock price.

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”). Specifically, the Sarbanes-Oxley Act requires management to assess the effectiveness of our internal controls over financial reporting and to report any material weaknesses in such internal control. We have experienced material weaknesses and significant deficiencies in our internal controls, including for our fiscal year ended August 3, 2019. Management has concluded that our internal control over financial reporting was effective as of July 31, 2021. However, our testing, or the subsequent testing by our independent public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. If we or our accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, it could harm our operating results, adversely affect our reputation, or result in inaccurate financial reporting. Furthermore, should any such deficiencies arise we could be subject to lawsuits, sanctions or investigations by regulatory authorities, including SEC enforcement actions and we could be required to restate our financial results, any of which would require additional financial and management resources.

Even if we do not detect deficiencies, our internal control over financial reporting will not prevent or detect all errors and fraud, and individuals, including employees and contractors, could circumvent such controls. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

In addition, we may encounter difficulties in the timely and accurate reporting of our financial results, which would impact our ability to provide our investors with information in a timely manner. Should we encounter such difficulties, our investors could lose confidence in the reliability of our reported financial information and trading price of our common stock. could be negatively impacted.

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. We are also party to an amended and restated credit agreement with Silicon Valley Bank and other lenders that contains covenants limiting our ability to, among other things, dispose of assets, undergo a change in control, merge or consolidate, make acquisitions, incur debt, incur liens, pay dividends, repurchase stock, and make investments, in each case subject to certain exceptions, and contains financial covenants requiring us to maintain minimum free cash flow and an adjusted current ratio above specified levels, measured in each case at the end of each fiscal quarter. The restrictive covenants of this or any future debt financing secured may make it more difficult for us to obtain additional capital and to pursue business opportunities. 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.

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.

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. 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporation By Reference				Filed or Furnished Herewith
		Form	SEC File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of Stitch Fix, Inc.	8-K	001-38291	3.1	11/21/2017	
3.2	Amended and Restated Bylaws of Stitch Fix, Inc.	8-K	001-38291	3.2	11/21/2017	
18.1	Preferability Letter provided by Deloitte & Touche LLP, the Registrant's independent registered public accounting firm, for change in accounting principle					X
31.1	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.					X
31.2	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.					X
32.1*	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.					X
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).					

* The certification attached as Exhibit 32.1 accompanying this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

Date: December 8, 2021

Stitch Fix, Inc.

By: /s/ Dan Jedda

Dan Jedda

Chief Financial Officer

(Principal Financial Officer)

December 8, 2021

Stitch Fix, Inc.
1 Montgomery Street, Suite 1500
San Francisco, California 94104

Dear Sirs/Madams:

At your request, we have read the description included in your Quarterly Report on Form 10-Q to the Securities and Exchange Commission for the quarter ended October 30, 2021, of the facts relating to the change in the method of determining inventory cost from specific-identification to first-in-first-out (FIFO). We believe, on the basis of the facts so set forth and other information furnished to us by appropriate officials of Stitch Fix, Inc., that the accounting change described in your Form 10-Q is to an alternative accounting principle that is preferable under the circumstances.

We have not audited any consolidated financial statements of Stitch Fix, Inc. and its subsidiaries as of any date or for any period subsequent to July 31, 2021. Therefore, we are unable to express, and we do not express, an opinion on the facts set forth in the above-mentioned Form 10-Q, on the related information furnished to us by officials of Stitch Fix, Inc., or on the financial position, results of operations, or cash flows of Stitch Fix, Inc. and its subsidiaries as of any date or for any period subsequent to July 31, 2021.

Yours truly,
/s/ DELOITTE & TOUCHE LLP

CERTIFICATION

I, Elizabeth Spaulding, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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: December 8, 2021

/s/ Elizabeth Spaulding

Elizabeth Spaulding
Chief Executive Officer and Director
(Principal Executive Officer)

CERTIFICATION

I, Dan Jedda, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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: December 8, 2021

/s/ Dan Jedda

Dan Jedda

Chief Financial Officer

(Principal Financial Officer)

CERTIFICATION

In connection with the Quarterly Report of Stitch Fix, Inc. (the "Company") on Form 10-Q for the period ended October 30, 2021, as filed with the Securities and Exchange Commission (the "Periodic Report"), we, Elizabeth Spaulding, Chief Executive Officer of the Company, and Dan Jedda, 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 Periodic 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 Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 8, 2021

/s/ Elizabeth Spaulding

Elizabeth Spaulding
Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Dan Jedda

Dan Jedda
Chief Financial Officer
(Principal Financial Officer)