
**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 January 27, 2018

OR

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

For the transition period from _____ to _____

Commission file number: 001-38291

Stitch Fix, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

1 Montgomery Street, Suite 1500
San Francisco, CA
(Address of Principal Executive Offices)

27-5026540
(I.R.S. Employer
Identification No.)

94104
(Zip Code)

(415) 882-7765

(Registrant's Telephone Number, Including Area Code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

As of March 9, 2018 the number of outstanding shares of the registrant's Class A common stock, par value \$0.00002 per share, was 17,256,799, and the number of outstanding shares of the registrant's Class B common stock, par value \$0.00002 per share, was 79,931,282.

STITCH FIX, INC.
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In this Quarterly Report on Form 10-Q, "we," "our," "us," "Stitch Fix," and "the Company" refer to Stitch Fix, Inc. The Stitch Fix logo and other trade names, trademarks or service marks of Stitch Fix are the property of Stitch Fix, Inc. This Quarterly Report on Form 10-Q contains references to our trademarks and to trademarks belonging to other entities. Trade names, trademarks and service marks of other companies appearing in this Quarterly Report on Form 10-Q are the property of their respective holders. We do not intend our use or display of other companies' trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Stitch Fix, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands, except share and per share amounts)

	January 27, 2018	July 29, 2017
Assets		
Current assets:		
Cash	\$ 266,374	\$ 110,608
Restricted cash	—	250
Inventory, net	80,094	67,592
Prepaid expenses and other current assets	11,653	19,312
Total current assets	358,121	197,762
Property and equipment, net	30,875	26,733
Deferred tax assets	14,493	19,991
Restricted cash, net of current portion	9,100	9,100
Other long-term assets	3,813	3,619
Total assets	\$ 416,402	\$ 257,205
Liabilities, Convertible Preferred Stock and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 55,145	\$ 44,238
Accrued liabilities	51,077	46,363
Preferred stock warrant liability	—	26,679
Gift card liability	8,151	5,190
Deferred revenue	10,433	7,150
Other current liabilities	4,953	4,298
Total current liabilities	129,759	133,918
Deferred rent, net of current portion	10,752	11,781
Other long-term liabilities	4,794	7,423
Total liabilities	145,305	153,122
Commitments and contingencies (Note 6)		
Convertible preferred stock, \$0.00002 par value – zero and 60,577,280 shares authorized as of January 27, 2018 and July 29, 2017, respectively; zero and 59,511,055 shares issued and outstanding as of January 27, 2018 and July 29, 2017, respectively; aggregate liquidation preference of \$42,389 as of July 29, 2017	—	42,222
Stockholders' equity:		
Preferred stock, \$0.00002 par value – 20,000,000 and zero shares authorized as of January 27, 2018 and July 29, 2017, respectively; zero shares issued and outstanding as of January 27, 2018 and July 29, 2017	—	—
Class A common stock, \$0.00002 par value – 2,000,000,000 and zero shares authorized as of January 27, 2018 and July 29, 2017, respectively; 9,175,557 and zero shares issued and outstanding as of January 27, 2018 and July 29, 2017, respectively	—	—
Class B common stock, \$0.00002 par value – 100,000,000 shares authorized as of January 27, 2018 and July 29, 2017; 87,885,193 and 26,834,535 shares issued and outstanding as of January 27, 2018 and July 29, 2017, respectively ⁽¹⁾	2	1
Additional paid-in capital	219,108	27,002
Retained earnings	51,987	34,858
Total stockholders' equity	271,097	61,861
Total liabilities, convertible preferred stock and stockholders' equity	\$ 416,402	\$ 257,205

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

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
(Unaudited)

(In thousands, except share and per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Revenue, net	\$ 295,906	\$ 237,775	\$ 591,469	\$ 473,779
Cost of goods sold	168,523	131,053	335,071	256,979
Gross profit	127,383	106,722	256,398	216,800
Selling, general and administrative expenses	111,771	105,835	231,242	189,385
Operating income	15,612	887	25,156	27,415
Remeasurement of preferred stock warrant liability	(1,614)	1,146	(10,685)	2,649
Other income, net	(18)	(6)	(35)	(13)
Income (loss) before income taxes	17,244	(253)	35,876	24,779
Provision for (benefit from) income taxes	13,603	(486)	18,747	11,303
Net income and comprehensive income	\$ 3,641	\$ 233	\$ 17,129	\$ 13,476
Earnings per share attributable to common stockholders:				
Basic	\$ 0.04	\$ —	\$ 0.18	\$ 0.14
Diluted	\$ 0.02	\$ —	\$ 0.06	\$ 0.14
Weighted-average shares used to compute earnings per share attributable to common stockholders:				
Basic	82,439,351	—	54,377,466	24,546,556
Diluted	87,954,656	—	60,599,568	29,134,729

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

Stitch Fix, Inc.
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity
(Unaudited)

(In thousands, except share amounts)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance as of July 29, 2017	59,511,055	\$ 42,222	26,834,535	\$ 1	\$ 27,002	\$ 34,858	\$ 61,861
Issuance of Class A common stock upon initial public offering, net of offering costs	—	—	9,175,557	—	127,033	—	127,033
Issuance of Class B common stock upon conversion of convertible preferred stock	(59,511,055)	(42,222)	59,511,055	1	42,221	—	42,222
Reclassification of warrant liability to additional paid-in capital upon the initial public offering	—	—	1,066,225	—	15,994	—	15,994
Issuance of Class B common stock upon exercise of stock options	—	—	492,857	—	1,006	—	1,006
Repurchase of Class B common stock related to early exercised options	—	—	(19,479)	—	—	—	—
Vesting of early exercised options	—	—	—	—	456	—	456
Stock-based compensation	—	—	—	—	5,396	—	5,396
Net income	—	—	—	—	—	17,129	17,129
Balance as of January 27, 2018	<u>—</u>	<u>\$ —</u>	<u>97,060,750</u>	<u>\$ 2</u>	<u>\$ 219,108</u>	<u>\$ 51,987</u>	<u>\$ 271,097</u>

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 Six Months Ended	
	January 27, 2018	January 28, 2017
Cash Flows from Operating Activities		
Net income	\$ 17,129	\$ 13,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	5,498	(847)
Remeasurement of preferred stock warrant liability	(10,685)	2,649
Inventory reserves	7,027	3,177
Compensation expense related to certain stock sales by current and former employees	—	9,699
Stock-based compensation expense	5,135	1,362
Depreciation and amortization	4,888	3,385
Loss on disposal of property and equipment	131	(7)
Change in operating assets and liabilities:		
Inventory	(19,529)	(10,470)
Prepaid expenses and other assets	5,078	(9,417)
Accounts payable	10,843	13,629
Accrued liabilities	4,484	14,914
Deferred revenue	3,283	1,321
Gift card liability	2,961	3,588
Other liabilities	(2,508)	3,073
Net cash provided by operating activities	<u>33,735</u>	<u>49,532</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(8,232)	(11,367)
Net cash used in investing activities	<u>(8,232)</u>	<u>(11,367)</u>
Cash Flows from Financing Activities		
Proceeds from initial public offering, net of underwriting discounts paid	129,046	—
Proceeds from the exercise of stock options	1,006	922
Repurchase of Class B common stock related to early exercised options	(39)	(3,557)
Net cash provided by (used in) financing activities	<u>130,013</u>	<u>(2,635)</u>
Net increase in cash and restricted cash	155,516	35,530
Cash and restricted cash at beginning of period	119,958	101,492
Cash and restricted cash at end of period	<u>\$ 275,474</u>	<u>\$ 137,022</u>
Components of cash and restricted cash		
Cash	\$ 266,374	\$ 127,672
Restricted cash – current portion	—	—
Restricted cash – long-term portion	9,100	9,350
Total cash and restricted cash	<u>\$ 275,474</u>	<u>\$ 137,022</u>
Supplemental Disclosure		
Cash paid for income taxes	<u>\$ 3,091</u>	<u>\$ 18,517</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	<u>\$ 780</u>	<u>\$ 208</u>
Capitalized stock-based compensation	<u>\$ 261</u>	<u>\$ 45</u>
Vesting of early exercised options	<u>\$ 456</u>	<u>\$ 488</u>
Deferred offering costs included in accounts payable and accrued liabilities	<u>\$ 134</u>	<u>\$ —</u>
Conversion of preferred stock upon initial public offering	<u>\$ 42,222</u>	<u>\$ —</u>
Reclassification of preferred stock warrant liability upon initial public offering	<u>\$ 15,994</u>	<u>\$ —</u>
Deferred offering costs paid in prior year	<u>\$ 1,879</u>	<u>\$ —</u>

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 one-to-one personalization to our clients through the combination of data science and human judgment. Our stylists hand select items from a broad selection of merchandise. Stylists pair their own judgment with our analysis of client and merchandise data to provide a personalized shipment of apparel, shoes and accessories suited to each client’s needs. We call each of these unique shipments a Fix. After receiving a Fix, our clients purchase the items they want to keep and return the other items. We are incorporated in Delaware and operate in the United States.

Initial Public Offering

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

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

2. 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 ended July 29, 2017 (“2017”) and July 28, 2018 (“2018”) each 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 following the requirements of the Securities and Exchange Commission (“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 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 28, 2018 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 and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the fiscal year ended July 29, 2017 contained in our prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the SEC on November 17, 2017.

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, common stock valuation preceding our IPO, remeasurement of preferred stock warrant liability preceding our IPO, revenue recognition and income taxes. Actual results could differ from those estimates and such differences may be material to the condensed consolidated financial statements.

Restricted Cash

Restricted cash represents cash balances held in segregated accounts collateralizing letters of credit for our leased properties as of January 27, 2018 and July 29, 2017.

Deferred Offering Costs

Deferred offering costs, which consist of direct incremental legal, consulting, banking and accounting fees relating to the IPO were capitalized and offset against proceeds upon the consummation of the IPO, which became effective on November 16, 2017 (See Note 1).

Concentration of Credit Risks

The majority of our cash is held by three financial institutions within the United States. Our cash balances held by these institutions may exceed federally insured limits. The associated risk of concentration for cash is mitigated by banking with credit-worthy institutions. No client accounted for greater than 10% of total revenue, net for the three and six months ended January 27, 2018 and January 28, 2017.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, or ASU 2014-09, which amended the existing FASB Accounting Standards Codification. ASU 2014-09 establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services and also provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts. The new guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption (“modified retrospective method”). We plan to apply the modified retrospective method upon adoption in our first quarter of fiscal 2019. We do not anticipate the impact to be material to our consolidated financial statements.

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

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

3. Fair Value Measurements

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

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

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

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

Our financial instruments consist of cash, accounts payable, accrued liabilities and the preferred stock warrant liability. At January 27, 2018 and July 29, 2017, the carrying values of cash, accounts payable and accrued liabilities approximated fair value due to their short-term maturities. In November 2017, in connection with our IPO, all outstanding preferred stock warrants were automatically exercised into Class B common stock. As a result, we remeasured and reclassified the preferred stock warrant liability to additional paid-in capital upon the closing of the IPO. As of January 27, 2018, the Company did not have any financial instruments measured at fair value.

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

	July 29, 2017			Total
	Level 1	Level 2	Level 3	
Financial Liabilities:				
Preferred stock warrant liability	\$ —	\$ —	\$ 26,679	\$ 26,679
Total	\$ —	\$ —	\$ 26,679	\$ 26,679

There were no transfers of financial assets or liabilities into or out of Level 1, Level 2 or Level 3 for the three and six months ended January 27, 2018 and January 28, 2017. The key assumptions used in the Black-Scholes option-pricing model for the valuation of the preferred stock warrant liability upon remeasurement were as follows as of July 29, 2017:

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

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

	For the Six Months Ended January 27, 2018
Balance at July 29, 2017	\$ 26,679
Change in fair value	(10,685)
Reclassification of warrant liability to additional paid-in capital upon the initial public offering	(15,994)
Ending Balance at January 27, 2018	\$ —

4. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	January 27, 2018	July 29, 2017
Inventory purchases	\$ 12,633	\$ 11,186
Compensation and related benefits	9,615	9,632
Advertising	7,857	9,995
Shipping and freight	5,873	3,390
Sales taxes	4,786	3,702
Other	10,313	8,458
Total accrued liabilities	\$ 51,077	\$ 46,363

5. Preferred Stock Warrant Liability

In 2012 and 2013, in connection with financing arrangements, we issued warrants to purchase shares of our convertible preferred stock. For one of the financing arrangements, we issued warrants to purchase 375,230 shares of Series Seed convertible preferred

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

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.

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. 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 granting of stock-based awards to employees, including directors and non-employees 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. As of January 27, 2018, we had only granted incentive and nonqualified stock options under the 2011 Plan. Employee stock options generally vest 25% on the first anniversary of the grant date with the remaining vesting ratably over the next three years. Options generally expire after 10 years. Effective upon our IPO, the 2011 Equity Incentive Plan has been replaced by the 2017 Incentive Plan.

2017 Incentive Plan

In November 2017, our board of directors and stockholders adopted our 2017 Incentive Plan (the “2017 Plan”). The remaining shares available for issuance under the 2011 Plan became reserved for issuance under the 2017 Plan. 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 nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards and other forms of stock awards to employees, directors and consultants, including employees and consultants of our subsidiaries. The number of shares authorized for issuance under the 2017 Plan was 28,423,374 as of January 27, 2018, of which 6,038,778 were available for grant.

Stock option activity under the 2011 and 2017 Plans 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 29, 2017	10,218,912	\$ 7.12	8.53	\$ 166,670
Granted	1,608,698	\$ 20.81		
Exercised	(492,857)	\$ 2.04		
Cancelled	(824,629)	\$ 4.90		
Balance – January 27, 2018	<u>10,510,124</u>	\$ 9.63	8.35	\$ 128,355

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 restricted stock unit (RSU) award activity under the 2017 Incentive Plan:

	Class A Common Stock	Weighted-Average Grant Date Fair Value
Unvested at July 29, 2017	\$ —	\$ —
Granted	426,056	\$ 18.87
Forfeited	(6,000)	\$ 15.00
Unvested at January 27, 2018	<u>\$ 420,056</u>	\$ 18.92

Stock-Based Compensation Expense

Stock-based compensation expense for employees was \$3.1 million and \$5.1 million for the three and six months ended January 27, 2018, respectively and \$0.7 million and \$1.2 million for the three and six months ended January 28, 2017, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in our condensed consolidated statements of operations.

The weighted-average grant date fair value of options granted during the six months ended January 27, 2018 was \$7.65 per share. The weighted-average grant date fair value of options granted during the six months ended January 28, 2017 was \$2.84 per share. As of January 27, 2018, the total unrecognized compensation expense related to unvested options and RSU's, net of estimated forfeitures, was \$40.8 million which we expect to recognize over an estimated weighted average period of 3.49 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. 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		For the Six Months Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Expected term (in years)	5.4 - 6.6	5.5 - 6.1	5.4 - 6.6	5.4 - 6.5
Volatility	41.4 - 43.5%	42.7 - 42.8%	41.4 - 43.5%	44.4 - 46.0%
Risk free interest rate	2.1 - 2.5%	2.2 - 2.3%	1.9 - 2.5%	1.3 - 2.3%
Dividend yield	—%	—%	—%	—%

In July 2017, we granted options to certain members of our executive management team to purchase an aggregate of 1,097,463 shares of Class B common stock which had both a service-based condition and a liquidity event-related performance condition. Such options vest ratably over the 24-month period following the fourth anniversary of the grant date, subject to an IPO occurring within 12 months of the grant date and the option holder's continuous service through each vesting date. The aggregate grant-date fair value of such option awards was \$14.0 million.

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

8. Income Taxes

The following table summarizes our effective tax rate from income for the periods presented (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Income before income taxes	\$ 17,244	\$ (253)	\$ 35,876	\$ 24,779
Provisions for income taxes	13,603	(486)	18,747	11,303
Effective tax rate	78.9%	192.1%	52.3%	45.6%

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act ("Tax Act"), which significantly changed U.S. tax law. The Tax Act contains several key tax provisions including the reduction of the corporate income tax rate from 35% to 21%, as well as a variety of other changes including the acceleration of expensing of certain business assets and reductions in the amount of executive pay that could qualify as a tax deduction. The Federal statutory tax rate reduction is effective January 1, 2018. The Company has a fiscal year end which subjects us to transitional tax rate rules. In the three months ended January 27, 2018, we revised our estimated annual effective rate and applied a blended U.S. statutory rate of 26.96% due to the tax rate reduction. Additionally, income tax expense for the three and six months ended January 28, 2017 was adjusted to reflect the discrete effects of the Tax Act and resulted in an increase in income tax expense of \$4.7 million, related to the remeasurement of existing deferred tax balances. This discrete impact was considered a provisional amount under the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118.

The Company remeasured the deferred tax balances based on the tax rates at which they are expected to reverse in the future. The Company will continue to refine provisional balances and adjustments may be made under SAB 118 during the measurement period as a result of future changes in interpretation, information available, assumptions made by the Company and/or issuance of additional guidance.

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.

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

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

share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock is convertible at any time at the option of the stockholder into one share of Class A common stock.

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

For the calculation of diluted earnings per share ("EPS"), net income attributable to common stockholders for basic EPS is adjusted by the effect of dilutive securities. Diluted net income per share attributable to common stockholders is computed by dividing the net income 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 per share of Class A common stock assumes the conversion of Class B common stock, while diluted net income per share of Class B common stock does not assume the conversion of Class A common stock as Class A common stock is not convertible into Class B common stock.

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

	For the Three Months Ended			For the Six Months Ended		
	January 27, 2018		January 28, 2017	January 27, 2018		January 28, 2017
	Class A	Class B	Class B	Class A	Class B	Class B
Numerator:						
Net income	\$ 312	\$ 3,329	\$ 233	\$ 1,114	\$ 16,015	\$ 13,476
Less: noncumulative dividends to preferred stockholders	(11)	(122)	(233)	(50)	(718)	(1,270)
Less: undistributed earnings to participating securities	(41)	(431)	—	(427)	(6,140)	(8,701)
Net income attributable to common stockholders - basic	260	2,776	—	637	9,157	3,505
Less: change in fair value of preferred stock warrant liability (net of tax)	(1,614)	(1,614)	—	(10,685)	(10,685)	—
Add: adjustments to undistributed earnings to participating securities	231	211	—	4,421	4,133	443
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	2,776	—	—	9,157	—	—
Reallocation of undistributed earnings to Class B shares	—	147	—	—	719	—
Net income attributable to common stockholders - diluted	<u>1,653</u>	<u>1,520</u>	<u>—</u>	<u>3,530</u>	<u>3,324</u>	<u>3,948</u>
Denominator:						
Weighted-average shares of common stock - basic	7,075,605	75,363,746	24,742,682	3,537,803	50,839,664	24,546,556
Conversion of Class B to Class A common shares outstanding	75,363,746	—	—	50,839,664	—	—
Effect of dilutive stock options and restricted stock units	5,295,401	5,271,550	—	5,584,167	5,581,484	4,588,173
Effect of potentially dilutive preferred stock warrants	219,904	219,904	—	637,934	637,934	—
Weighted-average shares of common stock - diluted	<u>87,954,656</u>	<u>80,855,200</u>	<u>24,742,682</u>	<u>60,599,568</u>	<u>57,059,082</u>	<u>29,134,729</u>
Earnings per share attributable to common stockholders:						
Basic	\$ 0.04	\$ 0.04	0.00	\$ 0.18	\$ 0.18	\$ 0.14
Diluted	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>0.00</u>	<u>\$ 0.06</u>	<u>\$ 0.06</u>	<u>\$ 0.14</u>

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		For the Six Months Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Convertible preferred stock	—	59,511,055	—	59,511,055
Preferred stock warrants	—	1,066,225	—	1,066,225
Restricted stock units	177,180	—	276,769	—
Stock options to purchase Class B common stock	762,918	229,902	927,366	529,495
Total	<u>940,098</u>	<u>60,807,182</u>	<u>1,204,135</u>	<u>61,106,775</u>

10. Subsequent Events

On January 29, 2018, we executed an amendment to the lease on our corporate headquarters. Beginning June 1, 2018, the amendment adds two additional floors of office space, provides for a ten-year lease term for the additional space and extends our existing lease by four and a half years to be coterminous with the term of the additional space. The future minimum lease payments for our corporate headquarters increased from approximately \$43.8 million to approximately \$115.3 million over ten years. Our restricted cash balance increased by \$3.7 million, representing an increase in collateral for letters of credit on our leased properties.

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 financial statements and related notes thereto for the year ended July 29, 2017, included in the final prospectus for our initial public offering (“IPO”), dated as of November 16, 2017, and filed with the Securities and Exchange Commission (“SEC”) pursuant to Rule 424(b)(4) on November 17, 2017 (File No. 333-221014) (the “Final Prospectus”). We use a 52 or 53 week fiscal year, with our fiscal year ending each year on the Saturday that is closest to July 31 of that year. Each fiscal year generally consists of four 13-week fiscal quarters, with each fiscal quarter ending on the Saturday that is closest to the last day of the last month of the quarter. The years ended July 30, 2016 and July 29, 2017 included 52 weeks of operations. Throughout this Quarterly Report, all references to quarters and years are to our fiscal quarters and fiscal years unless otherwise noted.

Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this Quarterly Report, including without limitation, statements in the following discussion and analysis of our financial condition and results of operations regarding our projected financial position and results, [estimated quantities and net present values of reserves], business strategy, plans and objectives of our management for future operations are forward-looking statements. In some cases, forward-looking statements are identified by words such as “believe,” “will,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “could,” “potentially” or the negative of these terms or similar expressions. You should read these statements carefully because they discuss future expectations, contain projections of future results of operations or financial condition, or state other “forward-looking” information. These statements relate to our future plans, objectives, expectations, intentions and financial performance and the assumptions that underlie these statements. These forward-looking statements are subject to certain known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to differ materially from any future results, performances or achievements anticipated, expressed or implied by the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q in Part II, Item 1A — “Risk Factors,” and elsewhere in this Quarterly Report on Form 10-Q. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. These statements, like all statements in this Quarterly Report on Form 10-Q, speak only as of their date, and we undertake no obligation to update or revise these statements in light of future developments. We caution investors that our business and financial performance are subject to substantial risks and uncertainties.

Overview

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

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

In December 2017, we launched Style Pass to provide our clients with an alternative to paying a \$20 styling fee per Fix. With Style Pass, clients pay a \$49 annual fee for unlimited styling that is credited towards merchandise purchases. In February 2018, we launched Extras, a new feature that allows clients to select items such as socks, bras, underwear, and other intimates that are then added to the five items their stylist selects for their Fix.

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

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

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

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

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

We believe our success in serving clients has resulted in our rapid and profitable growth. We have achieved positive cash flows from operations on an annual basis since 2014, while continuing to make meaningful investments to drive growth. For the three and six months ended January 27, 2018 we reported \$295.9 million and \$591.5 million in net revenue, respectively, representing year-over-year growth of 24.4% and 24.8% from the three and six months ended January 28, 2017, respectively. As of January 27, 2018 and January 28, 2017, we had 2,508,000 active clients and 1,920,000 active clients, respectively, representing year-over-year growth of 30.6%.

Net income for the three and six months ended January 27, 2018 was \$3.6 million and \$17.1 million, respectively, an increase of \$3.4 million and \$3.6 million, respectively, from a year ago. Included in net income for the three and six months ended January 28, 2017 was a \$21.3 million compensation expense related to certain stock sales by current and former employees. Included in net income for the three and six months ended January 27, 2018 was a \$4.7 million remeasurement expense on our net deferred tax assets related to the Tax Cuts and Jobs Act ("Tax Act"), which was enacted on December 22, 2017.

Key Metrics

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

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

- our non-GAAP net income, adjusted EBITDA and non-GAAP EPS – diluted measures exclude compensation expense that we recognized related to certain stock sales by current and former employees;
- our non-GAAP net income and non-GAAP EPS – diluted measures exclude the impact of the remeasurement of our net deferred tax assets following the adoption of the Tax Act;
- our non-GAAP net income, adjusted EBITDA and non-GAAP EPS – diluted measures exclude the remeasurement of the preferred stock warrant liability, which is a non-cash expense incurred in the periods prior to the completion of our IPO;

- adjusted EBITDA also excludes the recurring, non-cash expenses of depreciation and amortization of property and equipment and, although these are non-cash expenses, the assets being depreciated and amortized may have to be replaced in the future;
- adjusted EBITDA does not reflect our tax provision, which reduces cash available to us; and
- free cash flow does not represent the total residual cash flow available for discretionary purposes and does not reflect our future contractual commitments.

Adjusted EBITDA

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

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>January 27, 2018</u>	<u>January 28, 2017</u>	<u>January 27, 2018</u>	<u>January 28, 2017</u>
Adjusted EBITDA reconciliation:				
Net income	\$ 3,641	\$ 233	\$ 17,129	\$ 13,476
Add (deduct):				
Other income, net	(18)	(6)	(35)	(13)
Provision for income taxes	13,603	(486)	18,747	11,303
Depreciation and amortization	2,618	1,924	4,888	3,385
Remeasurement of preferred stock warrant liability	(1,614)	1,146	(10,685)	2,649
Compensation expense related to certain stock sales by current and former employees	—	21,283	—	21,283
Adjusted EBITDA	\$ 18,230	\$ 24,094	\$ 30,044	\$ 52,083

Non-GAAP Net Income

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

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>January 27, 2018</u>	<u>January 28, 2017</u>	<u>January 27, 2018</u>	<u>January 28, 2017</u>
Non-GAAP net income (loss) reconciliation:				
Net income	\$ 3,641	\$ 233	\$ 17,129	\$ 13,476
Add (deduct):				
Remeasurement of preferred stock warrant liability	(1,614)	1,146	(10,685)	2,649
Compensation expense related to certain stock sales by current and former employees	—	21,283	—	21,283
Tax impact of non-GAAP adjustments	—	(8,890)	—	(8,890)
Impact of Tax Act ⁽¹⁾	4,730	-	4,730	—
Non-GAAP net income	\$ 6,757	\$ 13,772	\$ 11,174	\$ 28,518

¹⁾ As discussed in Note 8 to the condensed consolidated financial statements included in this Quarterly Report, the U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a net charge of \$4.7 million for the three and six months ended January 27, 2018, due to the remeasurement of our net deferred tax assets for the reduction in tax rate from 35% to 21%. The adjustment to non-GAAP net income only includes this transitional impact. It does not include the ongoing impacts of the lower U.S. statutory rate on current year earnings.

Non-GAAP Earnings Per Share - Diluted

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

	For the Three Months Ended		For the Six Months Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Non-GAAP earnings per share - diluted reconciliation:				
Earnings per share attributable to common stockholders - diluted	\$ 0.02	\$ —	\$ 0.06	\$ 0.14
Per share impact of the remeasurement of preferred stock warrant liability ⁽¹⁾	\$ —	\$ 0.04	\$ —	\$ 0.08
Per share impact of compensation expense related to certain stock sales by current and former employees	\$ —	\$ 0.66	\$ —	\$ 0.61
Per share impact from tax effect of non-GAAP adjustments	\$ —	\$ (0.28)	\$ —	\$ (0.26)
Per share impact from Tax Act ⁽²⁾	\$ 0.05	\$ —	\$ 0.08	\$ —
Non-GAAP earnings per share attributable to common stockholders - diluted	\$ 0.07	\$ 0.42	\$ 0.14	\$ 0.57

1) For the three and six months ended January 27, 2018, the preferred stock warrant liability was dilutive and included in earnings per share attributable to common stockholders - diluted. Therefore, it is not an adjustment to arrive at non-GAAP EPS - diluted.

2) As discussed in Note 8 to the condensed consolidated financial statements included in this Quarterly Report, the U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a net charge of \$4.7 million for the three and six months ended January 27, 2018, due to the remeasurement of our net deferred tax assets for the reduction in tax rate from 35% to 21%. The adjustment to non-GAAP earnings per share attributable to common stockholders - diluted only includes this transitional impact. It does not include the ongoing impacts of the lower U.S. statutory rate on current year earnings.

Free Cash Flow

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

	For the Six Months Ended	
	January 27, 2018	January 28, 2017
Free cash flow reconciliation:		
Cash flows from operating activities	\$ 33,735	\$ 49,532
Deduct:		
Purchase of property and equipment	(8,232)	(11,367)
Free cash flow	\$ 25,503	\$ 38,165
Cash flows from investing activities	\$ (8,232)	\$ (11,367)
Cash flows from financing activities	\$ 130,013	\$ (2,635)

Active Clients

We believe that the number of active clients is a key indicator of our growth and the overall health of our business. We define an active client as a client who checked out a Fix in the preceding 12-month period, measured as of the last date of that period. A client checks out a Fix when she indicates what items she is keeping through our mobile application or on our website. We had 2,508,000 and 1,920,000 active clients as of January 27, 2018 and January 28, 2017, respectively, representing year-over-year growth of 30.6%.

Factors Affecting Our Performance

Client Acquisition and Engagement

To grow our business, we must continue to acquire clients and successfully engage them. We believe that implementing broad-based marketing strategies that increase our brand awareness has the potential to strengthen Stitch Fix as a national consumer brand, help us acquire new clients and drive revenue growth. As our business has achieved a greater scale and we are able to support a large and growing client base, we have increased our investments in marketing to take advantage of more marketing channels to profitably acquire clients. For example, we recently significantly increased our advertising spend, from \$10.2 million and \$25.5 million for the three and six months ended January 28, 2017 to \$19.8 million and \$48.0 million for the three and six months ended January 27, 2018, respectively, to support the growth of our business. We expect to continue to make significant marketing investments to grow our business. We currently utilize both digital and offline channels to attract new visitors to our website or mobile app and subsequently convert them into clients. Our current marketing efforts include client referrals, affiliate programs, partnerships, display advertising, television, print, radio, video, content, direct mail, social media, email, mobile “push” communications, search engine optimization and keyword search campaigns.

To successfully acquire clients and increase engagement, we must also continue to improve the diversity of our offering. These efforts may include broadening our brand partnerships and expanding into new categories, product types, price points and geographies.

Investment in our Operations and Infrastructure

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

Inventory Management

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

Merchandise Mix

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

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

Components of Results of Operations

Revenue

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

Cost of Goods Sold

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

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of compensation and benefits costs, including stock-based compensation expense, for our employees including our stylist, fulfillment center operations, data analytics, merchandising, engineering, client experience, marketing and corporate personnel. Selling, general and administrative expenses also include marketing and advertising costs, third-party logistics costs, facility costs for our fulfillment centers and offices, professional service fees, information technology costs and depreciation and amortization expense. We expect our selling, general and administrative expenses to increase in absolute dollars and to fluctuate as a percentage of revenue due to the anticipated growth of our business, increased marketing investments and additional costs associated with being a public company. Our classification of selling, general and administrative expenses may vary from other companies in our industry and may not be comparable.

Remeasurement of Preferred Stock Warrant Liability

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

Provision for Income Taxes

Our provision for income taxes consists of an estimate of federal and state income taxes based on enacted federal and state tax rates, as adjusted for allowable credits, deductions and the valuation allowance against deferred tax assets, as applicable.

Results of Operations

Comparison of the Three and Six Months Ended January 27, 2018 and January 28, 2017

The following table sets forth our results of operations for the periods indicated (in thousands):

	For the Three Months Ended		%	For the Six Months Ended		%
	January 27, 2018	January 28, 2017		Change	January 27, 2018	
Revenue, net	\$ 295,906	\$ 237,775	24.4%	\$ 591,469	\$ 473,779	24.8%
Cost of goods sold	168,523	131,053	28.6%	335,071	256,979	30.4%
Gross profit	127,383	106,722	19.4%	256,398	216,800	18.3%
Selling, general and administrative expenses	111,771	105,835	5.6%	231,242	189,385	22.1%
Operating income	15,612	887	1,660.1%	25,156	27,415	(8.2)%
Remeasurement of preferred stock warrant liability	(1,614)	1,146	(240.8)%	(10,685)	2,649	(503.4)%
Other income, net	(18)	(6)	200.0%	(35)	(13)	169.2%
Income (loss) before income taxes	17,244	(253)	(6,915.8)%	35,876	24,779	44.8%
Provision for income taxes	13,603	(486)	(2,899.0)%	18,747	11,303	65.9%
Net income	\$ 3,641	\$ 233	1,462.7%	\$ 17,129	\$ 13,476	27.1%

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

	For the Three Months Ended		For the Six Months Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Revenue, net	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	57.0%	55.1%	56.7%	54.2%
Gross margin	43.0%	44.9%	43.3%	45.8%
Selling, general and administrative expenses	37.8%	44.5%	39.1%	40.0%
Operating income	5.2%	0.4%	4.2%	5.8%
Remeasurement of preferred stock warrant liability	(0.6)%	0.5%	(1.8)%	0.6%
Other income, net	0.0%	0.0%	0.0%	0.0%
Income before income taxes	5.8%	(0.1)%	6.0%	5.2%
Provision for income taxes	4.6%	(0.2)%	3.1%	2.4%
Net income	1.2%	0.1%	2.9%	2.8%

Revenue and Gross Margin

Revenue increased by \$58.1 million and \$117.7 million, or 24.4% and 24.8% during the three and six months ended January 27, 2018 compared with the same periods last year. The increase in revenue was primarily attributable to a 30.6% increase in active clients from January 28, 2017 to January 27, 2018, which drove increased sales of merchandise.

Gross margin for the three months ended January 27, 2018 decreased by 1.9% compared with the same period last year. The decrease was primarily attributable to investments in inventory and expansion into new categories, as well as an increase in inventory shrink. The gross margin for the six months ended January 27, 2018 decreased by 2.5% compared with the same period last year. The decrease was primarily attributable to higher clearance and inventory shrink as well as an increase in merchandise costs, as we expanded into new categories, and inventory obsolescence reserves.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$5.9 million and \$41.9 million for the three and six months ended January 27, 2018, respectively, compared with the same periods in 2017. The increase in both periods was primarily due to an increase in advertising spend of \$9.6 million and \$22.5 million for the three and six months ended January 27, 2018, respectively, as we expanded

our television and online advertising initiatives. The increases were also due to higher compensation and benefits expense as we increased our headcount over the last year, partially offset by \$21.3 million in compensation costs incurred in 2017 in connection with certain stock sales by current and former employees.

Remeasurement of Preferred Stock Warrant Liability

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

Provision for Income Taxes

The following table summarizes our effective tax rate from income for the periods presented (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Income before income taxes	\$ 17,244	\$ (253)	\$ 35,876	\$ 24,779
Provisions for income taxes	13,603	(486)	18,747	11,303
Effective tax rate	78.9%	192.1%	52.3%	45.6%

We are subject to income taxes in the United States. Our effective tax rate for the three and six months ended January 28, 2017 differs from the federal statutory income tax rate primarily due to accounting for the effects of enactment of the Tax Act, certain nondeductible expenses, effect of state taxes, partially offset by the benefit from the non-includible gain on remeasurement of the preferred stock warrant liability.

In the three months ended January 27, 2018, we revised our estimated annual effective rate to reflect a change in the federal statutory rate from 35% to 21%, as a result of the enactment of the Tax Act on December 22, 2017. The Company has a fiscal year end which subjects us to transitional tax rate rules. Therefore, a blended U.S. statutory rate of 26.96% was computed for our fiscal year 2018. Income tax expense for the three and six months ended January 28, 2017 was adjusted to reflect the discrete effects of the Tax Act and resulted in an increase in income tax expense of \$4.7 million related to the remeasurement of existing deferred tax balances. This discrete impact was considered a provisional amount under the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118.

Our effective tax rate for the three and six months ended January 28, 2017 was based on the historic statutory tax rate of 35%. Our effective tax rate for the three and nine months ended January 28, 2017 differs from the federal statutory income tax rate primarily due to nondeductible loss on remeasurement of the preferred stock warrant liability, effect of state taxes, certain other nondeductible expenses, partially offset by the benefits on certain stock-based compensation deductions.

Liquidity and Capital Resources

Sources of Liquidity

Our principal sources of liquidity since inception have been our cash flows from operations, as well as the net proceeds we received through private sales of equity securities and our IPO. We have had positive and growing cash flows from operations since 2014. As of January 27, 2018, we had raised an aggregate of \$169.6 million of equity capital including proceeds from our IPO. We had \$266.4 million of cash and \$9.1 million of restricted cash as of January 27, 2018.

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

Cash Flows

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

	For the Six Months Ended	
	January 27, 2018	January 28, 2017
Net cash provided by operating activities	\$ 33,735	\$ 49,532
Net cash used in investing activities	(8,232)	(11,367)
Net cash provided by (used in) financing activities	130,013	(2,635)
Net increase in cash and restricted cash	\$ 155,516	\$ 35,530

Cash provided by operating activities

During the six months ended January 27, 2018, cash provided by operating activities was \$33.7 million, which consisted of net income of \$17.1 million, adjusted by non-cash charges of \$12.0 million and a change of \$4.6 million in our net operating assets and liabilities. The non-cash charges were largely driven by \$7.0 million increase in our inventory reserve, a \$5.5 million increase in deferred tax expense primarily related to a \$4.7 million remeasurement of our net deferred tax assets under the Tax Act, \$5.1 million of stock-based compensation expense, and \$4.9 million of depreciation and amortization, partially offset by \$10.7 million related to the remeasurement of the preferred stock warrant liability. The change in our net operating assets and liabilities was primarily due to an increase of \$15.3 million in accounts payable and accrued liabilities related to the increased business activity, and a decrease of \$5.1 million in prepaid and other assets due to timing of payments substantially all offset by an increase of \$19.5 million in our inventory balance due to increased inventory purchases to support our growth.

During the six months ended January 28, 2017, cash provided by operating activities was \$49.5 million, which consisted of net income of \$13.5 million, adjusted by non-cash charges of \$19.4 million and a change of \$16.6 million in our net operating assets and liabilities. The non-cash charges were largely driven by \$9.7 million in compensation expense related to certain stock sales by current and former employees, \$3.4 million of depreciation and amortization, a \$3.2 million increase in our inventory reserve, and \$2.6 million related to the remeasurement of the preferred stock warrant liability. The change in our net operating assets and liabilities was primarily due to an increase of \$28.5 million in accounts payable and accrued liabilities, an increase of \$3.6 million in gift card liability, and an increase of \$3.1 million in other liabilities, primarily offset by an increase of \$10.5 million in inventory and \$9.4 million in prepaid expenses and other assets.

Cash used in investing activities

During the six months ended January 27, 2018 and January 28, 2017, cash used in investing activities was \$8.2 million and \$11.4 million, respectively, due to the purchase of property and equipment primarily related to the expansion of our fulfillment centers and offices as well as continued investment in our proprietary systems.

Cash (used in) provided by financing activities

During the six months ended January 27, 2018, cash provided by financing activities was \$130.0 million, which was primarily due to the net proceeds from our IPO.

During the six months ended January 28, 2017, cash used in financing activities was \$2.6 million, which was primarily related to the repurchase of Class B common stock related to early exercised options.

Contractual Obligations and Other Commitments

On January 29, 2018, subsequent to our quarter-end, we executed an amendment to the lease on our corporate headquarters, which increased the future minimum lease payments on our corporate headquarters to approximately \$115.3 million over ten years.

There have been no other material changes to our contractual obligations and other commitments as disclosed in the Final Prospectus.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

Our 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. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting policies as compared to the critical accounting policies and significant judgments and estimates as compared to the critical accounting policies and significant judgments and estimates disclosed in the Final Prospectus. For additional information, please refer to Note 2 of our condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Our cash is deposited in checking and savings accounts; therefore, we believe we are relatively insensitive to interest rate changes.

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 on Form 10-Q.

Based on the evaluation of our disclosure controls and procedures as of January 27, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as a result of a material weakness in our internal control over financial reporting as previously disclosed in our Final Prospectus, our disclosure controls and procedures were not effective as of January 27, 2018.

Material Weakness in Internal Control Over Financial Reporting

In connection with the audit of our consolidated financial statements for the year ended July 29, 2017, we identified a material weakness in our internal control over financial reporting, as defined in the standards established by the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Our management has determined that we had a material weakness in our internal control over financial reporting as of July 29, 2017, relating to the accounting and proprietary systems used in our financial reporting process not having the proper level of controls. Specifically, our systems lacked controls over access, program change management and computer operations that are needed to ensure access to financial data is adequately restricted to appropriate personnel.

Management's Plan to Remediate the Material Weakness

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

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

Notwithstanding the material weakness, our management has concluded that the financial statements included elsewhere in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows in conformity with GAAP.

If we fail to fully remediate this material weakness or fail to maintain effective internal controls in the future, it could result in a material misstatement of our financial statements that would not be prevented or detected on a timely basis, which could cause investors to lose confidence in our financial information or cause our stock price to decline. Our independent registered public accounting firm has not assessed the effectiveness of our internal control over financial reporting and, under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, will not be required to provide an attestation report on the effectiveness of our internal control over financial reporting so long as we qualify as an “emerging growth company,” which may increase the risk that weaknesses or deficiencies in our internal control over financial reporting go undetected.

Changes in Internal Control

Other than the changes intended to remediate the material weakness noted above, there were no changes in our internal control over financial reporting during the quarter ended January 27, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Investing in our 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, 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 common stock could decline, and you may lose all or part of your original investment. This Quarterly Report on Form 10-Q 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. The risks relating to our business set forth in our Final Prospectus, are set forth below and are unchanged substantively as of January 27, 2018, except for those risks designated by an asterisk ().*

Risks Related to our Business

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

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

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

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

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

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

To effectively manage our growth, we must continue to implement our operational plans and strategies, improve and expand our infrastructure of people and information systems and expand, train and manage our employee base. Since our inception, we have rapidly increased our employee headcount to support the growth of our business. We expect to add a significant number of employees during 2018. We have expanded across all areas of our business. To support continued growth, we must effectively integrate, develop and motivate a large number of new employees while maintaining our corporate culture. We face significant competition for personnel, particularly in the San Francisco Bay Area where our headquarters are located. To attract top talent, we have had to offer, and believe we will need to continue to offer, competitive compensation and benefits packages before we can validate the productivity of those employees. We may also need to increase our employee compensation levels in response to competition. The risks associated with a rapidly growing workforce will be particularly acute if we choose to expand into new merchandise categories and internationally.

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 our employee morale, productivity and retention could suffer, which may have an adverse effect on our business, financial condition and operating results.

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. If we are unable to manage the growth of our organization effectively, our business, financial condition and operating results may be adversely affected.

Our continued growth depends on attracting new clients.

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

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

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

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

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

If our marketing efforts are not successful in promoting awareness of our services, driving client engagement or attracting new clients, or if we are not able to cost-effectively manage our marketing expenses, our operating results will be adversely affected.

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

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

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 merchandise that satisfies client demand in a timely manner. However, lead times for many of our purchasing decisions may make it difficult for us to respond rapidly to new or changing apparel trends or client acceptance of merchandise chosen by our merchandising buyers. We generally enter into purchase contracts significantly in advance of anticipated sales and frequently before apparel trends are confirmed by client purchases. In the past, we have not always predicted our clients' preferences and acceptance levels of our merchandise with accuracy. Further, we use our data science to predict our clients' preferences and gauge demand for our merchandise, and there is no guarantee that our data science and algorithms will accurately anticipate client demand and tastes. To the extent we misjudge the market for the merchandise we offer or fail to execute on trends and deliver attractive merchandise to clients, our sales will decline and our operating results will be adversely affected.

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

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

Our inability to develop and introduce new merchandise offerings in a timely and cost-effective manner may damage our business, financial condition and operating results.

The largest portion of our revenue today comes from the sale of Women's apparel. From 2015 to 2017, we expanded our merchandise offering into categories including Petite, Maternity, Men's and Plus, began offering different product types including shoes and accessories and expanded the number of brands we offer. In 2018, we also launched our Premium Brand and Extras offerings. We continue to explore additional offerings to serve our existing clients and to attract new clients. However, any 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, 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 requires investments greater than we expect, our operating results could be adversely affected. Also, our business may be adversely affected if we are unable to attract brands and other merchandise vendors that produce sufficient high quality, appropriately priced and on-trend merchandise. 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.

For example, to date, our Exclusive Brands have generally contributed higher margins and shoes, Men's and Plus have generally contributed lower margins. Additionally, as we enter into new categories, we may not have as high of purchasing power as we do in our current offerings, which could increase our costs of goods sold and further reduce our margins. Expansion of our merchandise offerings 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 from companies that are more focused on these new areas. If any of these were to occur, it could damage our reputation, limit our growth and have an adverse effect on our operating results.

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

The retail apparel industry is highly competitive. We compete with department stores, specialty retailers, discount chains, independent retail stores, the online offerings of these traditional retail competitors and eCommerce companies that market the same or similar merchandise and services that we offer. We believe our ability to compete depends on many factors within and beyond our control, including:

- 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, greater financial, marketing, institutional and other resources and larger customer bases than we do. These factors may allow our competitors to derive greater revenue and profits from their existing customer bases, acquire customers at lower costs or respond more quickly than we can to new or emerging technologies and changes in apparel trends and consumer shopping behavior. 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.

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

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

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

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

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

Our recent revenue growth and past profitability should not be considered indicative of our future performance. Our rate of revenue growth has slowed in recent periods. Specifically, our revenue increased by 24.4% and 24.8% for the three and six months ended January 27, 2018 compared to the three and six months ended January 28, 2017 which was significantly lower than our 35.3% and 42.8% revenue growth for the three and six months ended January 28, 2017 compared to the three and six months ended January 30, 2016. As we grow our business, we expect our revenue growth rates may continue to slow in future periods due to a number of reasons, which may include slowing demand for our merchandise and service, increasing competition, a decrease in the growth rate of our overall market, and our failure to capitalize on growth opportunities, as well as the maturation of our business.

Moreover, our expenses have increased in recent periods, and we expect expenses to increase substantially in the near term, particularly as we make significant investments in our marketing initiatives, expand our 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 adversely impact our financial results. In addition, in connection with operating as a public company, we are incurring additional significant legal, accounting and other expenses that we did not incur as a private company. If our revenue does not increase to offset increases in our operating expenses, we may not be profitable in future periods.

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

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

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

If we fail to attract and retain key personnel, or effectively manage succession, 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. Competition for key personnel is strong, especially in the San Francisco Bay Area where our headquarters are located, and we cannot be sure that we will be able to attract and retain a sufficient number of qualified personnel in the future, or that the compensation costs of doing so will not adversely affect our operating results. 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 may not be able to promptly replace. If we are unable to retain, attract and motivate talented employees with the appropriate skills at cost-effective compensation levels, or if changes to our business adversely affect morale or retention, we may not achieve our objectives and our business and operating results could be adversely affected. In addition, the loss of one or more of our key personnel or the inability to promptly identify a suitable successor to a key role could have an adverse effect on our business. In particular, our Founder and Chief Executive Officer has unique and valuable experience leading our company from its inception through today. If she were to depart or otherwise reduce her focus on Stitch Fix, our business may be disrupted. We do not currently maintain key-person life insurance policies on any member of our senior management team and other key employees.

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

More than 3,500 of our employees are stylists, who work remotely and on a part-time basis for us and are paid hourly. They track and report the time they spend working for us. These employees are classified as nonexempt under federal and state law. If we fail to effectively manage our stylists, including by ensuring accurate tracking and reporting of their hours worked and proper processing of their hourly wages, then we may face claims alleging violations of wage and hour employment laws, including, without limitation, claims of back wages, unpaid overtime pay and missed meal and rest periods. Any such employee litigation could be attempted on a

class or representative basis. Such litigation can be expensive and time-consuming regardless of whether the claims against us are valid or whether we are ultimately determined to be liable, and could divert management's attention from our business. We could also be adversely affected by negative publicity, litigation costs resulting from the defense of these claims and the diversion of time and resources from our operations.

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

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

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

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

We collect and maintain significant amounts of personal information and other data relating to our clients and employees. Numerous laws, rules and regulations in the United States and internationally govern privacy and the collection, use and protection of personal information, the scope of which is continually changing. 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 may become subject, may result in actions against us by governmental entities, private claims and litigations, fines, penalties or other liabilities. Any such action would be expensive to defend, would damage our reputation and adversely affect our business and operating results.

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

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

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

In connection with the audit of our 2017 consolidated financial statements, we identified control deficiencies in the design and operation of our internal control over financial reporting that constituted a material weakness. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis.

The material weakness identified in our internal control over financial reporting in 2017 primarily related to our accounting and proprietary systems used in our financial reporting process not having the proper level of controls. Specifically, our systems lacked controls over access, program change management and computer operations that are needed to ensure access to financial data is adequately restricted to appropriate personnel. As a result of this material weakness, we have initiated and will continue to implement remediation measures including, but not limited to, engaging external consultants to conduct a review of processes that involve financial data within our accounting and proprietary systems. This review, which is ongoing, includes the identification of potential risks, documentation of processes and recommendations for improvements.

We are still in the process of completing the remediation of the 2017 material weakness related to our accounting and proprietary systems. However, we cannot assure you that the steps we are taking will be sufficient to remediate our material weakness or prevent future material weaknesses or significant deficiencies from occurring.

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

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

We have no experience with operating internationally or selling our merchandise outside of the United States, and if we choose to expand internationally we would need to adapt to different local cultures, standards and policies. The business model we employ and the merchandise we currently offer may not appeal to consumers outside of the United States. Furthermore, to succeed with clients in international locations, it likely will be necessary to locate fulfillment centers in foreign markets and hire local employees in those international centers, and we may have to invest in these facilities before proving we can successfully run foreign operations. We may not be successful in expanding into international markets or in generating revenue from foreign operations for a variety of reasons, including:

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

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

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

We currently source nearly all of the merchandise we offer from third-party vendors, and as a result we may be subject to price fluctuations or demand disruptions. Our operating results would be negatively impacted by increases in the prices of our merchandise, and we have no guarantees that prices will not rise. In addition, as we expand into new categories and product types, we expect that we may not have strong purchasing power in these new areas, which could lead to higher prices than we have historically seen in our current categories. We may not be able to pass increased prices on to clients, which could adversely affect our operating results. Moreover, in the event of a significant disruption in the supply of the fabrics or raw materials used in the manufacture of the merchandise we offer, the vendors that we work with might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price. For example, natural disasters have in the past increased raw material costs, impacting pricing with certain of our vendors, and caused shipping delays for certain of our merchandise. Any delays, interruption, damage to or increased costs in the manufacture of the merchandise we offer could result in higher prices to acquire the merchandise or non-delivery of merchandise altogether, and could adversely affect our operating results.

In addition, we cannot guarantee that merchandise we receive from vendors will be of sufficient quality or free from damage, or that such merchandise will not be damaged during shipping, while stored in one of our distribution 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 distribution centers. We may incur additional expenses and our reputation could be harmed if clients and potential clients believe that our merchandise is not of high quality or may be damaged.

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

We offer merchandise from hundreds of established and emerging brands. In order to continue to attract and retain quality merchandise brands, we must help merchandise vendors increase their sales and offer merchandise vendors 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 merchandise, 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 could require us to source Exclusive Brand merchandise from another vendor or manufacturer, which could cause inventory delays, impact our clients' experiences, and otherwise harm our operating results.

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

The merchandise we sell to our clients is subject to regulation by the Federal Consumer Product Safety Commission, the Federal Trade Commission and similar state and international regulatory authorities. As a result, such merchandise could be in the future subject to recalls and other remedial actions. Product safety, labeling and licensing concerns may require us to voluntarily remove 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 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 social audits of the working conditions at the factories producing our Exclusive Brands. If an audit reveals potential problems, we require that the vendor institute corrective action plans to bring the factory into compliance with our standards, or we may discontinue our relationship with the vendor. Failure of our vendors to comply with applicable laws and regulations and contractual requirements could lead to litigation against us, resulting in increased legal expenses and costs. In addition, the failure of any such vendors to provide safe and humane factory conditions and oversight at their facilities could damage our reputation with clients or result in legal claims against us.

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

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

We are subject to payment-related risks.

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

We may incur significant losses from fraud.

We have in the past incurred and may in the future incur losses from various types of fraud, including stolen credit card numbers, claims that a client did not authorize a purchase, merchant fraud and clients who have closed bank accounts or have insufficient funds in open bank accounts to satisfy payments. In addition to the direct costs of such losses, if the fraud is related to credit card transactions and becomes excessive, it could potentially 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 liable for fraudulent credit card transactions because we do not obtain a cardholder's signature. 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.

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

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

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 or in other jurisdictions in which we may ultimately operate, our brand recognition and reputation would suffer, we would incur significant expense establishing new brands and our operating results would be adversely impacted.

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

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

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

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

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

An increasing number of states have considered or adopted laws that attempt to impose tax collection obligations on out-of-state retailers. A successful assertion by one or more states requiring us to collect taxes where we presently do not do so, or to collect more taxes in a jurisdiction in which we currently do collect some taxes, could result in substantial tax liabilities, including taxes on past sales, as well as penalties and interest. The imposition by state governments of sales tax collection obligations on out-of-state retailers could also create additional administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on our competitors and decrease our future sales, which could have a material adverse impact on our business and operating results.

Changes in U.S. tax laws could impact our business

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

We may experience fluctuations in our tax obligations and effective tax rate, which could adversely affect our operating results.

We are subject to taxes in the United States. We record tax expense based on current tax liabilities and our estimates of future tax liabilities, which may include reserves for estimates of probable settlements of tax audits. At any one time, multiple tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. As a result, we expect that throughout the year there could be ongoing variability in our quarterly tax rates as taxable events occur and exposures are re-evaluated. Further, our effective tax rate in a given financial statement period may be materially impacted by changes in tax laws, changes in the mix and level of earnings by taxing jurisdictions, or changes to existing accounting rules or regulations. Fluctuations in our tax obligations and effective tax rate could adversely affect our business, financial condition and operating results.

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

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

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

We currently receive and distribute merchandise at five fulfillment centers in the United States, one of which is operated by a third party. If we or our third-party partner are unable to adequately staff our fulfillment centers to meet demand or if the cost of such staffing is higher than historical or projected costs due to mandated wage increases, regulatory changes, international expansion or other factors, our operating results could be harmed. In addition, operating fulfillment centers comes with potential risks, such as workplace safety issues and employment claims for the failure or alleged failure to comply with labor laws or laws respecting union organizing activities. Any such issues may result in delays in shipping times or packing quality, and our reputation and operating results may be harmed.

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 that fulfillment center. Any deterioration in the financial condition or operations of that operator, or the loss of that operator, would have significant impact on our operations.

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

We use open source software in the applications we have developed to operate our business and will use open source software in the future. We may face claims from third parties demanding the release or license of the open source software or derivative works that we developed from such software (which could include our proprietary source code) or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to purchase a costly license, publicly release the affected portions of our source code, or cease offering the implicated solutions unless and until we can re-engineer them to avoid infringement. In addition, our use of open source software may also present additional security risks because the source code for open source software is publicly available, which may make it easier for hackers and other third parties to determine how to breach our website and systems that rely on open source software. Any of these risks could be difficult to eliminate or manage and, if not addressed, could have an adverse effect on our business and operating results.

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

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

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

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

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

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

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

Risks Relating to Ownership of Our Class A Common Stock

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

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

- actual or anticipated fluctuations in our client base, the level of client engagement, revenue or other operating results;
- variations between our actual operating results and the expectations of securities analysts, investors and the financial community;
- any forward-looking financial or operating information we may provide to the public or securities analysts, any changes in this information or our failure to meet expectations based on this information;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- whether investors or securities analysts view our stock structure unfavorably, particularly our dual-class structure and the significant voting control of our executive officers, directors and their affiliates;

- additional shares of our Class A common stock being sold into the market by us or our existing stockholders, or the anticipation of such sales, including if existing stockholders sell shares into the market when applicable “lock-up” periods end;
- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in operating performance and stock market valuations of companies in our industry, including our vendors and competitors;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- lawsuits threatened or filed against us;
- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

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

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

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

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

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

If our existing stockholders, including employees and service providers who obtain equity, sell or indicate an intention to sell, substantial amounts of our Class A common stock in the public market after the lock-up and other legal restrictions on resale lapse, the trading price of our Class A common stock could decline. As of March 9, 2018, we had outstanding a total of 17,256,799 shares of Class A common stock and 79,931,282 shares of Class B common stock. Each of our directors, executive officers and other holders of substantially all our outstanding shares have entered into lock-up agreements with the underwriters that restrict their ability to sell or transfer their shares for a period of 180 days after November 16, 2017; provided that such restricted period will end with respect to 35% of the shares subject to each lock-up agreement if at any time beginning 90 days after November 16, 2017 (i) we have filed at least one quarterly report on Form 10-Q or annual report on Form 10-K and (ii) the last reported closing price of our Class A common stock is at least 25% greater than the initial public offering price of our Class A common stock for 10 out of any 15 consecutive trading days, including the last day, ending on or after the 90th day after November 16, 2017 (the “Early Release Conditions”); provided, further that if such restricted period ends during a trading black-out period, the restricted period will end one business day following the date that we announce our earnings results for the previous quarter. On February 14, 2018, the Early Release Conditions were satisfied and, in accordance with the lock-up agreements, the restricted period for the eligible 35% of the shares subject to each lock-up agreement will end and up to approximately 37.7 million shares of Class A common stock and Class B common stock will become eligible for immediate sale in the public market at the open of trading on March 14, 2018 (subject to trading limitations on shares held by affiliates of the Company and subject to continued vesting of any unvested equity awards as of such date). In addition, Goldman Sachs & Co. LLC and J.P. Morgan Securities LLC may, in their sole discretion, waive the contractual lock-up restrictions with respect to the remaining shares before the lock-up agreements expire. After the lock-up agreements expire, all 97,188,081 shares outstanding as of March 9, 2018 will be eligible for sale in the public market, of which 62,907,703 shares are held by directors, executive officers and other affiliates and will be subject to volume limitations under Rule 144 of the Securities Act of 1933, as

amended, or the Securities Act, and various vesting agreements. Sales of a substantial number of such shares upon expiration of the lock-up and market stand-off agreements, the perception that such sales may occur or early release of these agreements, could cause our market price to fall or make it more difficult for you to sell your Class A common stock at a time and price that you deem appropriate.

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, the lock-up 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 Plan and 2017 Plan have been registered on Form S-8 under the Securities Act and such shares will be eligible for sale in the public markets, subject to Rule 144 limitations applicable to affiliates and the lock-up agreement described above. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our Class A common stock could decline.

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

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

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

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

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

We are an emerging growth company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our Class A common stock less attractive to investors.

We are an emerging growth company and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies," including:

- not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act;
- reduced disclosure obligations regarding executive compensation in our periodic reports and annual report on Form 10-K; and
- exemptions from the requirements of holding non-binding advisory votes on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We could be an emerging growth company for up to five years following the completion of our initial public offering, although we expect to not be an emerging growth company sooner. Our status as an emerging growth company will end as soon as any of the following takes place:

- the last day of the fiscal year in which we have more than \$1.07 billion in annual revenue;
- the date we qualify as a “large accelerated filer,” with at least \$700 million of equity securities held by non-affiliates;
- the date on which we have issued, in any three-year period, more than \$1.0 billion in non-convertible debt securities; or
- the last day of the fiscal year ending after the fifth anniversary of the completion of our initial public offering.

We cannot predict if investors will find our Class A common stock less attractive if we choose to rely on any of the exemptions afforded emerging growth companies. If some investors find our Class A common stock less attractive because we rely on any of these exemptions, there may be a less active trading market for our Class A common stock and the market price of our Class A common stock may be more volatile.

Under the JOBS Act, “emerging growth companies” can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this accommodation and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

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.

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

Future issuances of shares of our Class A common stock or the conversion of a substantial number of shares of our Class B common stock, or the perception that these sales or conversions may occur, could depress the market price of our Class A common stock and result in dilution to existing holders of our Class A common stock. Also, to the extent outstanding options to purchase our shares of our Class A or Class B common stock are exercised or options or other stock-based awards are issued or become vested, there will be further dilution. The amount of dilution could be substantial depending upon the size of the issuances or exercises. Furthermore, we may issue additional equity securities that could have rights senior to those of our Class A common stock. As a result, holders of our Class A common stock bear the risk that future issuances of debt or equity securities may reduce the value of our Class A common stock and further dilute their ownership interest.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Recent Sales of Unregistered Securities

The following sets forth information regarding all unregistered securities sold from July 30, 2017 through January 27, 2018:

- (1) From October 29, 2017 through January 27, 2018, we granted to our directors, employees, consultants and other service providers options to purchase 1,166,869 shares of our Class A common stock with a per share exercise price ranging from \$15.00 to \$23.34 and granted 426,056 restricted stock units under our 2017 Plan.
- (2) From October 29, 2017 through January 27, 2018, we issued to our directors, employees, consultants and other service providers an aggregate of 280,138 shares of our Class B common stock at per share purchase prices ranging from \$0.064 to \$16.98 pursuant to exercises of options granted under our 2011 Plan.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering. Unless otherwise specified above, we believe these transactions were exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act (and Regulation D or Regulation S promulgated thereunder) or Rule 701 promulgated under Section 3(b) of the Securities Act as transactions by an issuer not involving any public offering or under benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed on the share certificates issued in these transactions. All recipients had adequate access, through their relationships with us, to information about us. The sales of these securities were made without any general solicitation or advertising.

(b) Use of Proceeds from Registered Securities

On November 16, 2017, our registration statement on Form S-1 (File No. 333-221014) relating to our IPO of Class A common stock became effective. We received net proceeds from the IPO of \$127.1 million, after deducting the underwriting discount and offering-related expenses. There has been no material change in the planned use of proceeds from the IPO from that described in the Final Prospectus.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description of Document	Incorporation By Reference				Filed 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	
4.1	Form of Class A Common Stock Certificate	S-1/A	333-221014	4.1	11/6/2017	
4.2	Form of Class B Common Stock Certificate	S-8	333-221650	4.6	11/17/2017	
10.1	First Amendment to Original Office Lease, executed February 22, 2016, between Stitch Fix, Inc. and Post-Montgomery Associates					X
10.2	Second Amendment to Original Office Lease, executed September 6, 2017, between Stitch Fix, Inc. and Post-Montgomery Associates					X
10.3	Third Amendment to Original Office Lease, executed January 29, 2018, between the Company and Post-Montgomery Associates	8-K	001-38291	10.1	2/2/2018	
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	XBRL Instance Document					

Exhibit Number	Description of Document	Incorporation By Reference				Filed Herewith
		Form	Sec File No.	Exhibit	Filing Date	
101.SCH	XBRL Taxonomy Extension Schema Document					
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					

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

SIGNATURES

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

Stitch Fix, Inc.

Date: 13 March, 2018

By: /s/ Katrina Lake
Katrina Lake
Founder, Chief Executive Officer and Director
(Principal Executive Officer)

Stitch Fix, Inc.

Date: 13 March, 2018

By: /s/ Paul Yee
Paul Yee
Chief Financial Officer
(Principal Financial and Accounting Officer)

FIRST AMENDMENT

THIS FIRST AMENDMENT (the “Amendment”) is made and entered into as of February 22, 2016, by and between POST-MONTGOMERY ASSOCIATES, a California general partnership (“Landlord”), and STITCH FIX, INC., a Delaware corporation (“Tenant”).

RECITALS

- A. Landlord and Tenant are parties to that certain Office Lease dated November 10, 2015 (the “Lease”). Pursuant to the Lease, Landlord has leased to Tenant certain space (as more particularly described in the Lease, the “Premises”) in the building located at One Montgomery Street, San Francisco, California (the “Building”).
- B. Tenant and Landlord mutually desire that the Lease be amended on and subject to the following terms and conditions.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

- 1. **Amendment.** Landlord and Tenant acknowledge and agree that the Lease contains a mutual mistake in the calculation of the total dollar amount of the Allowance (as defined in Section 3.2 of Exhibit “C” to the Lease). Landlord and Tenant further acknowledge and agree that the rentable square footage of the Initial Premises (as defined in the Basic Lease Information of the Lease) is approximately 38,127 square feet of rentable area and that, in connection with the performance by Tenant of the Tenant Improvements (as defined in Section 1 of Exhibit “C” to the Lease) in preparation of Tenant’s occupancy of the Initial Premises, Landlord has agreed to contribute a sum of up to \$25.00 per rentable square foot of the Initial Premises. Accordingly, effective as of the date hereof, the reference to “\$1,429,775.00 (representing \$25.00) per rentable square foot of the Initial Premises)” set forth in Section 3.2 of Exhibit “C” to the Lease is hereby deleted in its entirety and replaced with “\$953,175.00 (representing \$25.00 per rentable square foot of the Initial Premises)”.
- 2. **Miscellaneous.**
 - 2.1 This Amendment sets forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Under no circumstances shall Tenant be entitled to any rent abatement, improvement allowance, leasehold improvements, or other work to the Premises, or any similar economic incentives that may have been provided Tenant in connection with entering into the Lease, unless specifically set forth in the Lease, as amended hereby, or this Amendment. Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect. In the case of any inconsistency between the provisions of the Lease and this Amendment, the provisions of this Amendment shall govern and control. The capitalized terms used in this Amendment shall have the same definitions as set forth in the Lease to the extent that such capitalized terms are defined therein and not redefined in this Amendment.

- 2.2 Submission of this Amendment by Landlord is not an offer to enter into this Amendment. Neither Landlord nor Tenant shall be bound by this Amendment until Landlord and Tenant have mutually executed and delivered the same. Tenant hereby represents to Landlord that Tenant has dealt with no broker in connection with this Amendment. Tenant agrees to indemnify and hold Landlord and the other Indemnitees harmless from all claims of any brokers claiming to have represented Tenant in connection with this Amendment. Landlord hereby represents to Tenant that Landlord has dealt with no broker in connection with this Amendment other than Jones Lang LaSalle. Landlord agrees to indemnify and hold Tenant harmless from all claims of any brokers claiming to have represented Landlord in connection with this Amendment.
- 2.3 Pursuant to California Civil Code Section 1938, Landlord hereby notifies Tenant that as of the date of this Amendment, the Premises have not undergone inspection by a "Certified Access Specialist" to determine whether the Premises meet all applicable construction-related accessibility standards under California Civil Code Section 55.53.

[Signature Page Follows]

IN WITNESS WHEREOF, Landlord and Tenant have entered into and executed this Amendment as of the date first written above.

LANDLORD

**POST-MONTGOMERY ASSOCIATES,
a California general partnership**

By: PR Post Montgomery LLC,
a Delaware limited liability company
Its: Partner

By: PRISA LHC, LLC,
a Delaware limited liability company
Its: Managing Member

By: /s/ Kristin Paul
Name: Kristin Paul
Title: Vice President
Dated: ,2016

By: The Prudential Insurance Company of America, a New
Jersey corporation, acting solely on behalf of and for the
benefit of, and with its liability limited to the assets of, its
insurance company separate account, PRISA
Its: Partner

By: /s/ Kristin Paul
Name: Kristin Paul
Title: Vice President
Dated: 2016

TENANT:

**STITCH FIX, INC.,
a Delaware corporation**

By: /s/ Michelle Weaver
Name: Michelle Weaver
Title: CFO
Dated: February 23, 2016

SECOND AMENDMENT

THIS SECOND AMENDMENT (the “**Amendment**”) is made and entered into as of September 6, 2017 by and between **POST-MONTGOMERY ASSOCIATES, a California general partnership (“Landlord”)**, and **STITCH FIX, INC., a Delaware corporation (“Tenant”)**.

RECITALS

A. Landlord and Tenant are parties to that certain Office Lease dated November 10, 2015 (the “**Original Lease**”), which Original Lease has been previously amended by that certain First Amendment dated February 22, 2016 (collectively, the “**Lease**”). Pursuant to the Lease, Landlord has leased to Tenant space (as more particularly described in the Lease, the “**Premises**”) in the building located at One Montgomery Street, San Francisco, California (the “**Building**”).

B. Tenant and Landlord mutually desire that the Lease be amended on and subject to the following terms and conditions.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

1. **Amendment.** Effective as of the date hereof, Landlord and Tenant agree that the Lease shall be amended in accordance with the following terms and conditions:
 - 1.1 **Second Must-Take Effective Date.** All references in the Lease, as amended hereby, to the “Second Must-Take Effective Date” are hereby amended to mean and refer to “the date that is the earlier of (i) November 7, 2017; or (ii) the date on which Tenant first commences business operations in the Second Must-Take Space”.
 - 1.2 **Second Must-Take Term.** All references in the Lease, as amended hereby, to the “Second Must-Take Term” are hereby amended to mean and refer to “the period commencing on the Second Must-Take Effective Date and ending, unless sooner terminated pursuant to the terms of the Lease, on November 30, 2023”.
 - 1.3 **Rentable Square Footage of the Premises.** Effective as of the Second Must-Take Effective Date, the Premises, as defined in the Lease, shall be increased to approximately **95,250** square feet of rentable area in the Building, comprised of (i) approximately 19,063 square feet of rentable area located on the eleventh (11th) floor of the Building and commonly referred to as Suite 1100; (ii) approximately 19,064 square feet of rentable area located on the twelfth (12th) floor of the Building and commonly referred to as Suite 1200; (iii) approximately 18,953 square feet of rentable area located on the fourteenth (14th) floor of the Building and commonly referred to as Suite 1400; (iv) approximately 19,102 square feet of rentable area located on the fifteenth (15th) floor of the Building and commonly referred to as Suite 1500; and (v) approximately 19,068 square feet of rentable area located on the thirteenth (13th) floor of the Building and commonly referred to as Suite 1300.
 - 1.4 **Second Must-Take Construction Period.** Tenant acknowledges and agrees that the Second Must-Take Construction Period has expired and that, notwithstanding anything to the contrary contained in the Lease, as amended hereby, Tenant’s obligation to pay Base Rent and Escalation Rent for the Second Must-Take Space shall occur on the Second Must-Take Effective Date (it being agreed, for the avoidance of doubt, that, notwithstanding anything to the contrary contained in Section 35.1 of the Original Lease, such obligation shall commence on the Second Must-Take Effective Date and not as of the date that is one hundred fifty-seven (157) days following the Second Must-Take Effective Date).
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- 1.5 **Base Rent for the Second Must-Take Space.** Notwithstanding anything to the contrary contained in the Lease, as amended hereby, the schedule of Base Rent payable for the Second Must-Take Space during the Second Must-Take Term is as follows:

<u>Period of Term</u>	<u>Rentable Square Feet</u>	<u>Annual Per Square Foot Base Rent Rate</u>	<u>Annual Base Rent</u>	<u>Monthly Base Rent</u>
Second Must-Take Effective Date – 6/30/18	19,068	\$72.10	\$1,374,802.80	\$114,566.90
7/1/18-6/30/19	19,068	\$74.26	\$1,415,989.68	\$117,999.14
7/1/19-6/30/20	19,068	\$76.49	\$1,458,511.32	\$121,542.61
7/1/20-6/30/21	19,068	\$78.79	\$1,502,367.72	\$125,197.31
7/1/21 -6/30/22	19,068	\$81.15	\$1,547,368.20	\$128,947.35
7/1/22-6/30/23	19,068	\$83.58	\$1,593,703.44	\$132,808.62
7/1/23-11/30/23	19,068	\$86.09	\$1,641,564.12	\$136,797.01

All such Base Rent shall be payable by Tenant in accordance with the terms of the Lease, as amended hereby.

- 1.6 **Escalation Rent.** Notwithstanding anything to the contrary contained in the Lease, as amended hereby, Tenant’s obligation to pay Escalation Rent with respect to the Second Must-Take Space shall commence on the Second Must-Take Effective Date. The Base Year for the computation of Escalation Rent applicable to the Second Must-Take Space is 2016.
- 1.7 **Construction Obligations.** Tenant hereby acknowledges and agrees that Landlord has fulfilled all of its obligations pursuant to Section 32.5 of the Original Lease, Section 35.5 of the Original Lease and Exhibit “C” to the Original Lease.
- 1.8 **Letter of Credit.** Landlord is currently holding a Letter of Credit in the amount of \$8,200,184.00 as collateral for Tenant’s performance of its obligations under the Lease, as amended hereby. No additional letter of credit shall be required in connection with this Amendment.

2. Miscellaneous.

- 2.1 Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect. In the case of any inconsistency between the provisions of the Lease and this Amendment, the provisions of this Amendment shall govern and control. The capitalized terms used in this Amendment shall have the same definitions as set forth in the Lease to the extent that such capitalized terms are defined therein and not redefined in this Amendment.
- 2.2 Submission of this Amendment by Landlord is not an offer to enter into this Amendment but rather is a solicitation for such an offer by Tenant. Landlord shall not be bound by this Amendment until Landlord has executed and delivered the same to Tenant.
- 2.3 Tenant hereby represents to Landlord that Tenant has dealt with no broker in connection with this Amendment. Tenant agrees to indemnify and hold Landlord and the other Indemnitees harmless from all claims of any brokers claiming to have represented Tenant in connection with this Amendment.
- 2.4 Each signatory of this Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.
- 2.5 It is understood that from time to time during the Term of the Lease, Landlord may be subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”)
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and as a result may be prohibited by law from engaging in certain transactions. Tenant represents and warrants after due inquiry that at the time the Lease was entered into and at any time thereafter when its terms are amended or modified, neither Tenant nor its “affiliates” (as defined in Part VII of Prohibited Transaction Exemption 84-14 (“**PTE 84-14**”), as amended) has the authority to appoint or terminate The Prudential Insurance Company of America (“**Prudential**”) as an investment manager to any employee benefit plan invested in the Prudential separate account PRISA, nor the authority to negotiate the terms of any management agreement between Prudential and any such employee benefit plan for its investment in PRISA. Further, Tenant is not “related” to Prudential within the meaning of Part VI(h) of PTE 84-14.

- 2.6 Tenant represents to Landlord that Tenant is not in violation of any Anti-Terrorism Law (defined below), and that Tenant is not, as of the date hereof: (i) conducting any business or engaging in any transaction or dealing with any Prohibited Person (defined below), including the making or receiving of any contribution of funds, goods or services to or for the benefit of any Prohibited Person; (ii) dealing in, or otherwise engaging in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 13224; or (iii) engaging in or conspiring to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate any of the prohibitions set forth in, any Anti-Terrorism Law. In addition, Tenant represents that neither Tenant nor any of its affiliates, officers, directors, shareholders, members or lease guarantor, as applicable, is a Prohibited Person. If the foregoing representation is untrue at any time during the Term (as the same may be extended), an Event of Default under the Lease will be deemed to have occurred, without the necessity of notice to Tenant. As used herein, the term “**Anti-Terrorism Law**” shall mean any laws relating to terrorism, anti-terrorism, money-laundering or anti-money laundering activities, including without limitation the United States Bank Secrecy Act, the United States Money Laundering Control Act of 1986, Executive Order No. 13224, and Title 3 of the USA Patriot Act, and any regulations promulgated under any of them. As used herein, the term “**Prohibited Person**” shall mean (i) A person or entity that is listed in the Annex to Executive Order No. 13224, or a person or entity owned or controlled by an entity that is listed in the Annex to Executive Order No. 13224; (ii) a person or entity with whom Landlord is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law; or (iii) a person or entity that is named as a “specially designated national and blocked person” on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, <http://www.treas.gov/ofac/tllsdn.pdf>, or at any replacement website or other official publication of such list.
- 2.7 Pursuant to California Civil Code Section 1938, Landlord hereby notifies Tenant that as of the date of this Amendment, the Premises have not undergone inspection by a “Certified Access Specialist” (“**CASp**”) to determine whether the Premises meet all applicable construction-related accessibility standards under California Civil Code Section 55.53. Landlord hereby discloses pursuant to California Civil Code Section 1938 as follows: “A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises.” Landlord and Tenant hereby acknowledge and agree that in the event that Tenant elects to perform a CASp inspection of the Premises hereunder (the “**Inspection**”), such Inspection shall be (a) performed at Tenant’s sole cost and expense, (b) limited to the Premises and (c) performed by a CASp who has been approved or designated by Landlord prior to the Inspection. Any Inspection must be performed in a manner which minimizes the disruption of business activities in the Building, and at a time reasonably approved by Landlord. Landlord reserves the right to be present during the Inspection. Tenant agrees to: (i) promptly provide to Landlord a copy of the report or certification prepared by the CASp inspector upon request (the “**Report**”), (ii) keep the information contained
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in the Report confidential, except to the extent required by Requirements, or to the extent disclosure is needed in order to complete any necessary modifications or improvements required to comply with all applicable accessibility standards under state or federal Requirements, as well as any other repairs, upgrades, improvements, modifications or alterations required by the Report or that may be otherwise required to comply with applicable Requirements or accessibility requirements (the “**Access Improvements**”). Tenant shall be solely responsible for the cost of Access Improvements to the Premises or the Building necessary to correct any such violations of construction-related accessibility standards identified by such Inspection as required by Requirements, which Access Improvements may, at Landlord’s option, be performed in whole or in part by Landlord at Tenant’s expense, payable as additional rent within ten (10) days following Landlord’s demand. The terms of this Section 2.7 with respect to CASp inspections shall only apply in the event Tenant exercises its right to perform a CASp inspection of the Premises. Otherwise, the terms of the Lease, as amended hereby, with respect to compliance, repairs and maintenance obligations of the parties shall apply.

- 2.8 Redress for any claim against Landlord under the Lease and this Amendment shall be limited to and enforceable only against and to the extent of Landlord’s interest in the Building. The obligations of Landlord under the Lease are not intended to and shall not be personally binding on, nor shall any resort be had to the private properties of, any of its trustees or board of directors and officers, as the case may be, its investment manager, the general partners thereof, or any beneficiaries, stockholders, employees, or agents of Landlord or the investment manager, and in no case shall Landlord be liable to Tenant hereunder for any lost profits, damage to business, or any form of special, indirect or consequential damage.

[Signature Page Follows]

IN WITNESS WHEREOF, Landlord and Tenant have entered into and executed this Amendment as of the date first written above.

LANDLORD:

**POST-MONTGOMERY ASSOCIATES,
a California general partnership**

By: PR Post Montgomery LLC,
a Delaware limited liability company
Its: Partner

By: PRISA LHC, LLC,
a Delaware limited liability company
Its: Managing Member

By: /s/ Kristin Paul
Name: Kristin Paul
Title: Vice President
Dated: _____, 2017

By: The Prudential Insurance Company of America, a New Jersey corporation, acting solely on behalf of and for the benefit of, and with its liability limited to the assets of, its insurance company separate account, PRISA
Its: Partner

By: /s/ Kristin Paul
Name: Kristin Paul
Title: Vice President
Dated: _____, 2017

TENANT:

**STITCH FIX, INC.,
a Delaware corporation**

By: /s/Paul Yee
Name: Paul Yee
Title: CFO
Dated: September 7, 2017

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Katrina Lake, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2018

/s/ Katrina Lake

Katrina Lake

Founder, Chief Executive Officer and Director
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul Yee, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2018

/s/ Paul Yee

Paul Yee

Chief Financial Officer

(Principal Financial and Accounting Officer)

CERTIFICATION

Pursuant to the requirements set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code ("18 U.S.C. 1350"), Katrina Lake, Chief Executive Officer of Stitch Fix, Inc. (the "Company"), and Paul Yee, Chief Financial Officer of the Company, each hereby certifies that, to the best of his or her knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended January 27, 2018 to which this certification is attached as Exhibit 32.1 (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.

Dated: March 13, 2018

/s/ Katrina Lake

Katrina Lake

Founder, Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Paul Yee

Paul Yee

Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification accompanies this Quarterly Report on Form 10-Q. The certification 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 Exchange Act, whether made before or after the date of this Quarterly Report on Form 10-Q and irrespective of any general incorporation language contained in any such filing.

