UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended July 30, 2022

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	**27-5026540**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1 Montgomery Street, Suite 1100
San Francisco, California 94104

(Address of principal executive offices and zip code)

(415) 882-7765

Registrant's telephone number, including area code

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

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

As of January 29, 2022, the last day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of the registrant’s voting Class A common stock and Class B common stock held by non-affiliates of the registrant was approximately $1,206,335,204 and $1,324,337, respectively, based on a closing price of $14.87 per share of the registrant’s Class A common stock as reported on The Nasdaq Global Market on January 28, 2022.

As of September 16, 2022, the number of outstanding shares of the registrant’s Class A common stock, par value $0.00002 per share, was 85,402,027, and the number of outstanding shares of the registrant’s Class B common stock, par value $0.00002 per share, was 25,405,020.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for the 2022 Annual Meeting of Stockholders to be filed with the U.S. Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

Table of Contents

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

PART I
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Item 1. Business.

Overview

Stitch Fix is transforming the way people find what they love.

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

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

Stitch Fix was founded with a focus on Women's apparel. In our first few years, we were able to gain a deep understanding of our clients and merchandise and build the capability to listen to our clients, respond to feedback, and deliver the experience of personalization. We have since extended those capabilities into Men's, Kids, Petite, Maternity, and Plus apparel, as well as shoes and accessories.

We are successful when we are able to help clients find what they love again and again, creating long-term, trusted relationships. Our clients share personal information with us, including detailed style, size, fit, and price preferences, as well as unique inputs, such as how often they dress for certain occasions or which parts of their bodies they like to flaunt or cover up. Our clients are motivated to share these personal details with us and provide us with ongoing feedback because they recognize that doing so will result in more personalized and successful experiences. This feedback also creates a valuable network effect by helping us to better serve other clients. As of July 30, 2022, we had approximately 3,795,000 active clients. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial and Operating Metrics" for information on how we define and calculate active clients.

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

With a Fix, we leverage our data science through a custom-built, web-based styling application that provides recommendations to our stylists from our broad selection of merchandise. Our stylists then send the most relevant items from our merchandise to a client in their Fix. Our stylists provide a personal touch, offer styling advice and context to each item selected, and help us develop long-term relationships with our clients.

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

Industry Overview

Technology is Driving Transformation Across Industries

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

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

The apparel, shoes, and accessories market is large, but we believe many brick-and-mortar retailers have failed to adapt to evolving consumer preferences. Historically, brick-and-mortar retailers have been the primary source of apparel, shoes, and accessories sales. Over time, brick-and-mortar retail has changed and the era of salespersons who know each customer on a personal level has passed. We believe many of today’s consumers view the traditional retail experience as impersonal, time-consuming, and inconvenient. This has led to financial difficulties, bankruptcies, and store closures for many major department stores, specialty retailers, and retail chains.

eCommerce is Growing, but has Further Depersonalized the Shopping Experience

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

Personalization is the Next Wave

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

Competition

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

We compete primarily on the basis of client experience, brand, product selection, quality, convenience, and price. We believe that we are able to compete effectively because we offer clients a personalized and fun shopping experience that our competitors are unable to match. See Part I, Item1A “Risk Factors—Our industry is highly competitive and if we do not compete effectively our operating results could be adversely affected” for more information.

Our Service

We help millions of clients discover and buy what they love through personalized apparel, shoes, and accessories.

Our Data Science Advantage

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

Our data set is particularly powerful because:

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

On average, clients that complete our style profile provide us with over 100 meaningful data points, including detailed style, size, fit, and price preferences, as well as unique inputs such as how often they dress for certain occasions or which parts of their bodies the clients like to flaunt or cover up. Over time, through their feedback on Fixes they receive and Freestyle orders, clients share additional information about their preferences as well as detailed data about both the merchandise they keep and return. Historically, over 80% of our shipments have resulted in direct client feedback. This feedback loop drives important network effects, as our client-provided data informs not only our personalization capabilities for the specific client, but also helps us better serve other clients. In addition, Style Shuffle, an interactive mobile and web-based feature in which participants rate Stitch Fix merchandise and outfits, provides additional data to strengthen our understanding of client tastes and style preferences.

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

- basic data, such as brand, size, color, pattern, silhouette, and material;
- item measurements, such as length, width, diameter of sleeve opening, and distance from collar to first button;
- nuanced descriptors, such as how appropriate the piece is for a client that prefers preppy clothing or whether it is appropriate for a formal event; and
- client feedback, such as how the item fit a 5’7” client or how popular the piece is with young mothers.

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

Pairing Data Science and Human Judgment

The pairing of data science and human judgment drives a better client experience and a more powerful business model. Our advanced data science capabilities harness the power of our data for our stylists and clients by generating predictive recommendations to streamline the curation process, and in the case of Freestyle, generate highly personalized items and outfit recommendations in near real-time. For clients who prefer the assistance of a stylist, these stylists add a critical layer of contextual, human decision making that augments and improves our algorithms’ selections and creates the ultimate personalization experience.

Our Differentiated Value Proposition

Our Value Proposition to Clients

Our clients love our service for many reasons. We help clients find apparel, shoes, and accessories that they love in a way that is convenient and fun. We save our clients time by presenting them with a personalized shopping experience and expert styling advice they can trust, whether through Freestyle or a Fix. We believe our personalization capability removes the frustration of endlessly scrolling through hundreds of items that clients experience on other eCommerce platforms.

Clients also value the quality and diversity of our merchandise as we deliver the familiar brands they know, offer items they can’t find anywhere else, and expand their fashion palette by exposing them to new brands and styles they might not have tried. We proudly serve women, men, and kids across ages, sizes, tastes, geographies, and price preferences.

Our Value Proposition to Brand Partners

We believe that we are a preferred channel for our brand partners. By introducing our clients to brands they may not have shopped for, we help our brand partners reach clients they may not have otherwise reached. Further, we provide our brand partners with insights based on client feedback that help our brand partners improve and evolve their merchandise to better meet consumer demand.

Our Strengths

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

- our rich client and merchandise data;
- our expert data science team and proprietary and predictive algorithms; and
- our team of expert stylists.

Our Strategy

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

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

How it Works

Clients can engage with us in two ways that, when combined, form an ecosystem of personalized experiences across styling, shopping, and inspiration. The first is the "Fix," a personalized shipment of items informed by algorithms and sent by a Stitch Fix Stylist. The second is "Freestyle," an online assortment of apparel, shoes, and accessories personalized to each client from which the client can purchase.

A Fix is a Stitch Fix-branded box containing a personalized assortment of apparel, shoes, and accessories informed by our algorithms and sent by Stitch Fix stylists and delivered to the clients to try on in the comfort of their own homes. They can keep some, all, or none of the items in the Fix and easily return any items in a prepaid-postage bag provided in the Fix. In each Fix, a stylist sends a client items from a broad range of merchandise recommended for the client by our algorithms. These algorithmic recommendations are based on the clients' personal style profile, their own order behavior, the aggregate historical behavior of our client base, and the aggregate historical data we have collected on each item of merchandise we have available.

We have numerous touch points with our clients. Before clients receive their first Fix, they share the following information with us:

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

After completing their initial style profiles, clients choose their preferred order frequency and can select the exact date by which they want to receive their Fix. We currently offer two types of Fix scheduling:

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

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

We are investing in product experiences that we believe will drive greater personalization, such as Fix Preview. Fix Preview allows clients the opportunity to view proposed items for their next Fix before it ships, giving clients a chance to provide feedback to their stylists and have more control over the items they receive.

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

Once clients decide which items they wish to keep they can easily check out and pick the delivery date for their next Fix via our website or mobile application.

We charge clients a styling fee of $20 in the United States and £10 in the United Kingdom (“UK”) for each Fix, which is credited toward the merchandise purchased. For our Style Pass clients, we charge a $49 annual fee in the United States, the only country where Style Pass is offered, which provides unlimited styling for the year and is credited toward the merchandise purchased over the course of the year. If clients choose to keep all items chosen for them by their stylist, they receive a discount on the entire shipment, which is 25% in the United States and 20% in the UK. Clients can return the items they do not want or exchange items for a different size if available, using the prepaid-postage bag delivered in the Fix. We request that clients return items to us that they do not wish to purchase within three calendar days of receiving a Fix.

With Freestyle, a client can visit our website or mobile application and make direct purchases of apparel, shoes and accessories from a personalized set of recommended items and outfits. A client who onboards through Freestyle will complete a style quiz, which we use to build a personalized shop with curated items that will continue to evolve as we learn more about the client. For clients who have previously made purchases on our platform, our Freestyle algorithms utilize additional data points, including: a client’s style profile, past purchases, Style Shuffle responses, and our aggregate historical data with respect to clients and merchandise. Clients can engage with Freestyle through the following features:

- *Trending for You.* A client can discover and shop an array of trending looks, personalized for each client. These picks are based on their style profile, Style Shuffle responses, and trending styles.
- *Complete your Looks.* After a client has purchased at least one item from us, a client will be able to shop complete outfits that complement their Stitch Fix purchases.
- *Categories.* A client can find pieces curated by categories which are informed by their style quiz, style profile, and trending styles.
- *Buy It Again.* A client can shop new colors, prints, or sizes of any previously purchased items.

Freestyle purchases can be exchanged or returned using a prepaid-postage bag included in each shipment. No styling fee is charged for Freestyle purchases.

After clients receive their order, they are invited to provide feedback about the fit, price, style, and quality of the items. This feedback informs both our algorithms and stylists to improve each future order. We also gather feedback through Style Shuffle providing additional data to strengthen our understanding of client tastes and style preferences.

Our Merchandise, Brand Partners, and Exclusive Brands

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

Brand Partners

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

In 2020, we founded the Stitch Fix Elevate Grant & Mentorship Program (the “Elevate Program”), with the mission of helping to grow, mentor, and support apparel and accessories businesses owned by Black, Indigenous and People of Color and are including Elevate Program grantees as new brand partners on the Stitch Fix platform.

Exclusive Brands

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

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

Sourcing

We purchase substantially all of our merchandise directly from our brand partners or Exclusive Brands merchandise vendors, who are responsible for the entire manufacturing process.

For the production of our Exclusive Brands, we contract with merchandise vendors, some of whom operate their own manufacturing facilities and others subcontract the manufacturing to third parties. Our vendors generally agree to our standard vendor terms, which govern our business relationship. Although we do not have long-term agreements with our vendors, we have long-standing relationships with a diverse base of vendors that we believe to be mutually satisfactory.

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

Inventory Management and Fulfillment

We utilize seven fulfillment centers, six of which are in the United States (located in Arizona, Texas, Pennsylvania, Georgia, Utah, and Indiana), and one in the UK.

In our fulfillment centers, our algorithms increase efficiencies in processes such as allocation, batch picking, transportation, shipping, returns, and ongoing process improvement. We have a reverse logistics operation to manage returned merchandise. Our specialist returns teams in our dedicated return intake areas accept, process, and reallocate returns to our inventory so the merchandise can be offered for another Fix or Freestyle order.

Seasonality

Seasonality in our business does not follow that of traditional retailers, such as typical high concentration of revenue in the holiday quarter. Historically, our net sales have not been concentrated in a particular period or season, with 28%, 25%, 24%, and 23% of our annual net sales being recognized during the first, second, third, and fourth quarters of the fiscal year ended 2022, respectively.

Intellectual Property

We protect our intellectual property through a combination of trademarks, domain names, copyrights, trade secrets, and patents, as well as contractual provisions and restrictions on access to our proprietary technology. Our principal trademark assets include the trademarks “Stitch Fix” and “Fix,” which are registered in the United States and some foreign jurisdictions, our logos and taglines, and multiple private label apparel and accessory brand names. We have applied to register or registered many of our trademarks in the United States and other jurisdictions, and we will pursue additional trademark registrations to the extent we believe they would be beneficial and cost-effective.

We file patents in the United States and abroad and intend to pursue additional patent protection to the extent we believe it would be beneficial and cost-effective.

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

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

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

Government Regulation

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

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

Human Capital

Headcount

As of July 30, 2022, we had approximately 7,920 full-time and part-time employees, including over 3,430 stylists, 3,110 fulfillment center employees, 430 engineers and data scientists, 170 client experience employees, 190 merchandising employees, and 590 general and administrative employees. As of such date, 82% of our employees, 56% of our management team, and 44% of our Board of Directors identified as female.

Employee Relations

None of our employees is represented by a labor union. We have not experienced any work stoppages due to employee disputes, and we consider our relations with our employees to be good.

We value our employees' feedback and conduct anonymous employee engagement and satisfaction surveys at least annually, with quarterly pulse surveys, which we use to determine what is important to our employees and to evolve Company practices and policies.

Pay Equity

We believe pay equity is equal pay for work of equal value. By paying employees fairly and consistently based on the role they perform, location, and according to market data, companies can ensure that employees are not paid based on factors like gender, race, or ethnicity. We know these subjective factors can play a role in compensation, to the employee's disadvantage or to their advantage, and so our compensation philosophy is rooted in pay equity as a guiding principle.

We established a system of equal pay from Stitch Fix's inception. We believe a fair and unbiased compensation structure is a critical component to drive a more inclusive culture within our own walls and beyond—and ultimately helps us attract and retain the highest caliber talent. It also means that we can sustain a system that creates less motivation for self-serving politics or individual goals, and creates intrinsic motivation to drive toward collective success and the happiness of our clients.

On an annual basis, we retain a third party to audit our pay data. While we have confidence in our approach and philosophy, we want to ensure that our compensation system withstands external review by applying appropriate and accepted methods and standards. The results have continued to show there is no statistically significant difference in pay across gender, race or any other protected classes at Stitch Fix, and that women earn $1.00 for every $1.00 earned by comparable men and employees of color earn $1.00 for every $1.00 earned by comparable white employees.

We will continue to analyze these numbers each year to ensure we maintain pay equity. While we have equal pay for work of equal value, other biases can impact pay. With that in mind, we continue to be vigilant and review areas like leveling and promotions in our organization to ensure that we are working to identify and mitigate any biases in these processes.

Diversity, Equity, and Inclusion

The goal of our Diversity, Equity and Inclusion Strategy is to ensure that our people and business practices allow us to build a company, products, and experiences that reflect the richness of the communities in which we operate. We know that a diverse employee base makes Stitch Fix better, our ideas stronger, and our experience more broadly resonate with the clients we serve today, and will serve in the future. We work towards equitable practices to mitigate bias across areas like hiring, employee performance, evaluation, and promotion; our employee experience; and our vendor and brand engagement. We invest in spaces for employees to learn and grow so that they are equipped to design and uphold equitable systems and processes.

To ensure that our ongoing Diversity, Equity and Inclusion strategy is informed by and rooted in data, we set out to more deeply understand and share our company demography and define clear baselines to improve upon. Our goal in this work is to drive knowledge, precision, and transparency—not only for ourselves internally, but also to contribute to the dialogue and information sharing that is critical to chartering a path forward for the industry.

We also have established seven Employee Resource Groups, which we call Stitch Fix Communities. The goal of our Stitch Fix Communities is to create spaces that drive increased inclusion and belonging for individuals from underrepresented groups who have historically been marginalized in our broader society, build on our mission of inspiring people to be their best, authentic selves, and to create opportunities for employees to share their perspectives with our leaders and connect with each other on a deeper level. Each Stitch Fix Community is led by employees who are supported by an Executive Sponsor, recognized for their leadership, and compensated for their time with learning and development investments and annual special equity grants.

Corporate and Available Information

We were incorporated in Delaware in 2011 under the name rack habit inc. We changed our name to Stitch Fix, Inc. in October 2011. Our principal executive offices are located at 1 Montgomery Street, Suite 1100, San Francisco, California, 94104, and our telephone number is (415) 882-7765. Our website is located at www.stitchfix.com, and our investor relations website is located at https://investors.stitchfix.com.

We file or furnish electronically with the U.S. Securities and Exchange Commission (the “SEC”) annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We make copies of these reports available free of charge through our investor relations website as soon as reasonably practicable after we file or furnish them with the SEC. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding Stitch Fix and other issuers that file electronically with the SEC.

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

Item 1A. Risk Factors.

RISK FACTOR SUMMARY

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

Risks Relating to Our Business

- Our continued growth depends on attracting new clients.
- We may be unable to maintain a high level of engagement with our clients and increase their spending with us, which could harm our business, financial condition, or operating results.
- We rely on paid marketing to help grow our business, but these efforts may not be successful or cost effective, and such expenses may vary from period to period.
- If we are unable to manage our inventory effectively, our operating results could be adversely affected.
- The COVID-19 pandemic has caused significant disruption to our operations and impacted our business, key financial and operating metrics, and results of operations in numerous ways that remain unpredictable.
- Our failure to adequately and effectively staff our fulfillment centers and other operational constraints at our fulfillment centers could adversely affect our client experience and operating results.
- Shipping is a critical part of our business and any changes in our shipping arrangements or any interruptions in shipping could adversely affect our operating results.
- Our business, including our costs and supply chain, is subject to risks associated with the sourcing and pricing of merchandise and raw materials.
- We may not be able to return to or sustain our revenue growth rate and we may not be profitable in the future.
- If we fail to effectively manage our growth, our business, financial condition, and operating results could be harmed.
- If we are unable to develop and introduce new offerings or expand into new markets in a timely and cost-effective manner, our business, financial condition, and operating results could be negatively impacted.
- 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.
- Expansion of our operations internationally requires management attention and resources, involves additional risks, and may be unsuccessful.
- Our business depends on a strong brand and we may not be able to maintain our brand and reputation.
- If we fail to attract and retain key personnel, effectively manage succession, or hire, develop, and motivate our employees, our business, financial condition, and operating results could be adversely affected.
- If we fail to effectively manage our stylists, our business, financial condition and operating results could be adversely affected.
- If we are unable to acquire new merchandise vendors or retain existing merchandise vendors, our operating results may be harmed.
- We may incur significant losses from fraud.
- We are subject to payment-related risks.

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

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

Cybersecurity, Legal and Regulatory Risks

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

Risks Relating to Taxes

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

Risks Relating to Ownership of Our Class A Common Stock

- The market price of our Class A common stock may continue to be volatile or may decline steeply or suddenly regardless of our operating performance and we may not be able to meet investor or analyst expectations. You may lose all or part of your investment.
- We cannot guarantee that our share repurchase program will be fully consummated or that it will enhance long-term stockholder value. Share repurchases could also increase the volatility of the trading price of our stock and could diminish our cash reserves.
- Future sales of shares by existing stockholders could cause our stock price to decline.
- The dual class structure of our common stock concentrates voting control with our executive officers, directors and their affiliates, and may depress the trading price of our Class A common stock.
- We do not currently intend to pay dividends on our Class A common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation of the value of our Class A common stock.
- Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer, or proxy contest difficult, thereby depressing the trading price of our Class A common stock.
- Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware and the federal district courts of the United States are the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

General Risk Factors

- Future securities sales and issuances could result in significant dilution to our stockholders and impair the market price of our Class A common stock.
- If we are unable to maintain effective internal control over financial reporting, investors may lose confidence in the accuracy of our reported financial information and this may lead to a decline in our stock price.
- We may require additional capital to support business growth, and this capital might not be available or may be available only by diluting existing stockholders.
- If securities or industry analysts either do not publish research about us or publish inaccurate or unfavorable research about us, our business, or our market, or if they change their recommendations regarding our common stock adversely, the trading price or trading volume of our Class A common stock could decline.

RISK FACTORS

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

Risks Relating to Our Business

Our continued growth depends on attracting new clients.

Our success depends on our ability to attract new clients in a cost-effective manner. To expand our client base, we must appeal to and acquire clients who have historically used other means to purchase apparel, shoes, and accessories, such as traditional brick-and-mortar apparel retailers or the websites of our competitors. We also face competition for clients from other retailers who offer or plan to offer similar services as ours. We 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, campaigns with celebrities and influencers, partnerships, display advertising, television, print, radio, video, content, direct mail, social media, email, mobile "push" communications, search engine optimization, and keyword search campaigns. The launch of Freestyle to new-to-Stitch Fix clients also opened up new marketing opportunities and channels with which we have less experience. Our marketing expenses have varied from period to period, and we expect this trend to continue as we test new channels and refine our marketing strategies. We may increase our marketing spend and cannot be certain that increases in marketing spend will yield more clients, achieve meaningful payback on our investments, or be cost effective. We may also adjust our marketing strategy or spend within a period if we are not achieving the intended results or if we believe the return-on-investment is not favorable, which may result in faster or slower rates of active client growth in any given period. For instance, in the fourth quarter of fiscal year 2021, we did not spend as much on marketing as anticipated as we waited to launch Freestyle to new-to-Stitch Fix customers. In the first and second fiscal quarters of fiscal year 2022, we spent less on marketing because we were experiencing weaker-than-expected conversion of new clients and decided to pull back to focus on evolving the Freestyle offering and refining the client onboarding experience. This negatively impacted our ability to acquire new clients, and in turn, our net revenue in subsequent quarters of fiscal year 2022. We also experienced weaker-than-expected conversion of new clients in the second and third quarters of fiscal 2022 driven by onboarding challenges and lower site traffic, due in part to the ongoing effects of Apple's iOS privacy changes that require apps to get a user's opt-in permission before tracking or sharing the user's data across apps or websites owned by companies other than the app's owner.

In addition, we seek to attract new clients by offering new products, services, and ways to engage with our platform, such as our Freestyle offering. If such new products or services are not timely or successfully launched or are not successful in attracting new clients, our revenue growth and results of operations may suffer. In fiscal year 2022, our results were below our expectations, in large part, because the initial launch of our Freestyle did not drive as much new client growth as we anticipated. Moreover, new clients may not purchase from us as frequently or spend as much with us as existing clients, and the revenue generated from new clients may not be as high as the revenue generated from our existing clients. These factors may harm our growth prospects and our business could be adversely affected.

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

A high proportion of our revenue comes from repeat purchases by existing clients, especially those existing clients who are highly engaged and purchase a significant amount of merchandise from us. If existing clients no longer find our service and merchandise appealing or appropriately priced, they may make fewer purchases and may stop using our service. Even if our existing clients continue to find our service and merchandise appealing, they may decide to receive fewer Fixes or purchase fewer items from their Fixes or through Freestyle over time as their demand for new apparel declines or due to macroeconomic conditions or uncertainty. In addition, as we expand our assortment to include more products with lower price points, the amount clients spend with us may decrease. If clients who receive Fixes most frequently or purchase a significant amount of merchandise from us were to make fewer or lower priced purchases or stop using our service, our financial results could be negatively affected. We seek to attract high-quality clients who will remain clients for the long term, but our efforts may not be successful or produce the results we anticipate. For example, if we are not able to engage new Fix clients effectively so they continue receiving Fixes after their first few tries, our active client growth will suffer. In addition, in the fall of 2021, we launched Freestyle to new-to-Stitch Fix clients. We did not acquire as many new clients through Freestyle as we had hoped and we have less experience engaging with this new client base and developing high-quality relationships outside of our Fix offering. Our inability to attract and keep high-quality clients engaged, a decrease in our number of clients, or a decrease in client spending on the merchandise we offer could negatively affect our operating results. Further, we believe that our future success will depend in part on our ability to increase sales to our existing clients over time and, if we are unable to do so, our business may suffer.

We rely on paid marketing to help grow our business, but these efforts may not be successful or cost effective, and such expenses may vary from period to period.

Promoting awareness of our service is important to our ability to grow our business, drive client engagement, and attract new clients. Our marketing efforts currently include client referrals, affiliate programs, campaigns with celebrities and influencers, partnerships, display advertising, television, print, radio, video, content, direct mail, social media, email, mobile "push" communications, search engine optimization, and keyword search campaigns. External factors beyond our control, including general economic conditions and decreased discretionary consumer spending, have impacted and may in the future impact the success of our marketing initiatives or how much we decide to spend on marketing in a given period. We also adjust our marketing activity from period to period or within a period as we launch new initiatives or offerings, such as Freestyle, run tests, or make decisions on marketing investments in response to anticipated rates of return, such as when we identify favorable cost per acquisition trends. For example, in the fourth quarter of fiscal year 2021, we did not spend as much on marketing as anticipated as we waited to launch Freestyle to new-to-Stitch Fix customers. In the first and second fiscal quarters of fiscal year 2022, we spent less on marketing because we were experiencing weaker-than-expected conversion of new clients and decided to pull back to focus on evolving the Freestyle offering and refining the client onboarding experience. This led to fewer clients being acquired, which negatively impacted our net revenue for the remainder of fiscal year 2022. We have seen increased costs in certain digital marketing channels and our marketing initiatives may become increasingly expensive; generating a meaningful return on those initiatives may be difficult. Even if we successfully increase revenue as a result of our paid marketing efforts, it may not offset the additional marketing expenses we incur**.**

We currently obtain a significant number of visits to our websites via organic search engine results. Search engines frequently change the algorithms that determine the ranking and display of results of a user's search, which could reduce the number of organic visits to our websites, in turn reducing new client acquisition and adversely affecting our operating results. Social networks are important as a source of new clients and as a means by which to connect with current clients, and their importance may be increasing. We may be unable to effectively maintain a presence within these networks, which could lead to lower than anticipated brand affinity and awareness, and in turn could adversely affect our operating results.

Further, mobile operating system and web browser providers, such as Apple and Google, have implemented product changes to limit the ability of advertisers to collect and use data to target and measure advertising. For example, Apple made a change in iOS 14 that required apps to get a user's opt-in permission before tracking or sharing the user's data across apps or websites owned by companies other than the app's owner. Google intends to further restrict the use of third-party cookies in its Chrome browser in 2023, consistent with similar actions taken by the owners of other browsers, such as Apple in its Safari browser, and Mozilla in its Firefox browser. These changes have reduced and will continue to reduce our ability to efficiently target and measure advertising, in particular through online social networks, making our advertising less cost effective and successful. We expect to continue to be impacted by these changes.

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

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

To ensure timely delivery of merchandise, we generally enter into purchase contracts well in advance of a particular season and often before apparel trends are confirmed by client purchases. As a result, we are vulnerable to demand and pricing shifts and to suboptimal selection and timing of merchandise purchases. For example, in response to the initial consumer reaction to COVID-19, we cancelled many inventory orders to be prepared for what we expected would be lower client demand. Consequently, when client demand increased, our inventory was not as optimized to meet the demand as we would have liked. Additionally, surges in cases of COVID-19 impacted some of our vendors, who had delays in producing our orders. Freight delays caused by lockdowns due to COVID-19, port closures, port congestion, and shipping container and ship shortages have affected us and caused us to experience delays in receiving inventory. Freight delays caused by these issues or new issues, including labor disruptions or shortages, may affect us in future quarters. Our inventory levels also may be affected by product launch delays, consumer demand fluctuations due to macroeconomic factors, uncertainty or otherwise, disruptions in our systems due to upgrades, launches or otherwise, and our inability to predict demand with respect to new categories or products. In the past, we have not always predicted our clients' preferences and acceptance levels of our trend items with accuracy, which has resulted in significant inventory write offs and lower gross margins. Furthermore, we have only recently begun using more traditional liquidation methods, such as sales, clearance events and markdowns, and only to a limited extent thus far. We rely on our merchandising team to order styles and products that our clients will purchase and we rely on our data science to inform the depth and breadth of inventory we purchase, including when to reorder items that are selling well and when to write off items that are not selling well. If we do not predict client demand and tastes well or if our algorithms do not help us reorder or write off the right products in a timely manner, we may not effectively manage our inventory and we may experience future significant inventory write-offs, which would adversely affect our operating results. For instance, in the fourth quarter of 2022, we experienced weaker consumer demand, which caused us to have higher inventory levels and increased inventory reserves that affected our financial results. Additionally, in the past we have experienced challenges managing our inventory within the fulfillment centers given storage capacity constraints and challenges hiring fulfillment center employees. Any future such challenges could affect, the amount and types of inventory we have available to offer to clients, and therefore our operating results.

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

Our business has been and may continue to be materially impacted by the effects of the ongoing COVID-19 pandemic. This pandemic and related measures taken to contain the spread of COVID-19, such as government-mandated business closures, office closures, state and local orders to "shelter in place," and travel and transportation restrictions, have negatively affected the U.S. and global economies and disrupted global supply chains. There continues to be uncertainty around the COVID-19 pandemic, its duration, and its impact on U.S. and global economic activity and consumer behavior.

The COVID-19 pandemic and related measures have resulted in significant disruption that has negatively impacted and may continue to negatively impact our business. We experienced temporary closures and reduced capacity in the third quarter of fiscal year 2020 as we temporarily closed three of our fulfillment centers as we responded to the pandemic. We allowed employees to opt-in to work, provided them with four weeks of flexible paid time off, and implemented additional safety protocols. These efforts resulted in significantly less capacity in our fulfillment centers during the third quarter of fiscal year 2020, which resulted in delayed Fix shipments, a significant Fix backlog, delayed inventory and return processing, extended wait times for clients, and inventory management challenges. We also experienced intermittent and temporary closures in fiscal year 2021 and increases of COVID-19 cases in our fulfillment centers in connection with the increases of cases caused by both the Delta and Omicron variants. These increases in cases negatively affected operations at our fulfillment centers and any future surges in cases may negatively affect our operations in the future. Additionally, in fiscal year 2021, we experienced difficulty hiring employees in our fulfillment centers, which we attributed to both COVID-19 concerns and to increased competition and rising wages for eCommerce fulfillment center workers. Future capacity constraints in our fulfillment centers could cause delayed Fix shipments, delayed inventory and return processing, and inventory management challenges.

The COVID-19 pandemic has, at times, negatively impacted our results of operations, and the future impact and duration of this impact remain uncertain. It will depend on factors such as the length of time the pandemic; the impact of variants that may emerge; the availability of vaccines in different parts of the world; the vaccine rates among the population; the efficacy of the COVID-19 vaccines against variants that may emerge; the response by governmental bodies to reinstate mandated business closures, orders to "shelter in place," and travel and transportation restrictions in the event of additional surges; the impact of the pandemic on the economy and consumer behavior, including the impacts of any recession or inflationary pressures resulting from the pandemic; and the effect on our clients, employees, vendors, and other partners. For example, we continue to work with our vendors to minimize inventory disruptions, but future delays and supply constraints may negatively affect our ability to obtain and manage inventory. We have experienced shipping delays to and from our customers as a result of our shipping vendors' challenges fulfilling higher eCommerce shipping demand, which has impacted our results of operations. We also have been affected by, and expect to continue to be affected by, COVID-related freight delays and difficulties sourcing materials. Additionally, we may be negatively impacted if consumers shift back to traditional brick-and-mortar apparel retailers following the pandemic.

We re-opened our headquarters to employees in the third quarter of 2022, but most employees to continue to work in a remote capacity or a hybrid of in-person and remote work. Remote working environments present additional risks, uncertainties and costs that could affect our performance, including increased operational risk, uncertainty regarding office space needs, heightened vulnerability to cyber attacks due to increased remote work, potential reduced productivity, changes to our Company culture, potential strains to our business continuity plans, and increased costs to ensure our offices are safe and functional as hybrid offices that enable effective collaboration of both remote and in-person colleagues.

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

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

Our failure to adequately and effectively staff our fulfillment centers and other operational constraints at our fulfillment centers could adversely affect our client experience and operating results.

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

Additionally, we recently experienced difficulty hiring employees in our fulfillment centers, which we attribute to COVID-19 concerns and to increased competition and rising wages for eCommerce fulfillment center workers. To address this, we increased wages in our fulfillment centers and implemented other policies in order to be more competitive in hiring employees. These wage increases impacted our operating results. We may in the future have difficulty hiring employees in fulfillment centers due to increased competition or otherwise and we may have to increase wages for our fulfillment center employees, which would impact our operating results. These hiring difficulties have caused in the past and could in the future cause additional capacity constraints in our fulfillment centers. Capacity constraints in our fulfillment centers could affect the amount and types of inventory we have available to offer to clients, which will affect our results of operations. Additionally, if we or our third-party partner are unable to adequately staff our fulfillment centers to meet demand, or if the cost of such staffing is higher than projected due to competition, mandated wage increases, regulatory changes, international expansion, or other factors, our operating results will be further harmed.

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

In addition, operating fulfillment centers comes with potential risks, such as workplace safety issues and employment claims for the failure or alleged failure to comply with labor laws or laws respecting union organizing activities. Furthermore, if we fail to comply with wage and hour laws for our nonexempt employees, many of whom work in our fulfillment centers, we could be subject to legal risk, including claims for back wages, unpaid overtime pay, and missed meal and rest periods, which could be on a class or representative basis. Any such issues may result in delays in shipping times, reduced packing quality, or costly litigation, and our reputation and operating results may be harmed.

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

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

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

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

We currently source nearly all of the merchandise that we offer from third-party vendors, many of whom use manufacturers in the same geographic region, and as a result we may be subject to price increases or fluctuations, inflationary pressures, tariffs, demand disruptions, increased shipping or freight costs, or shipping delays in connection with our merchandise. Increased shipping or freights costs or shipping and freight delays could be caused or exacerbated by labor disputes, shortages, or strikes, inclement weather, fire, flood, power loss, earthquakes, public health crises such as the COVID-19 pandemic, acts of war or terrorism, and periods of high e-commerce volume. Our operating results are and have been negatively impacted by increases in the cost of our merchandise, and we have no guarantees that costs will not rise further or at increasing rates. In addition, as we expand into new categories, product types, and geographies, we expect that we may not have strong purchasing power in these new areas, which could lead to higher costs than we have historically seen in our current categories. We may not be able to pass increased costs on to clients, which could adversely affect our operating results.

The fabrics used by our vendors are made of raw materials including, but not limited to, petroleum-based products and cotton. Significant price increases or fluctuations, currency volatility or fluctuation, tariffs, shortages, increases in shipping or freight costs, or shipping delays of petroleum, cotton, or other raw materials could significantly increase our cost of goods sold or affect our operating results. The COVID-19 pandemic caused delays in some shipments from our suppliers and we have experienced and are now experiencing delays in some shipments from our suppliers caused by lockdowns due to COVID-19, factory and port closures, port congestion, and shipping container and other shortages. Additionally, we have limited visibility into delays or control over shipping. We expect these delays to continue as long as COVID-19 continues to affect geographies around the world. We are also experiencing increased costs of goods due to these freight challenges, increases in the price of raw materials, inflationary pressures, rising fuel and other energy costs, and currency volatility, and we expect that prices may continue to increase in the near future and affect our operating results.

Other factors such as natural disasters have in the past increased raw material costs, impacted pricing with certain of our vendors, and caused shipping delays for certain of our merchandise. Also, the U.S. government’s ban on cotton imported from the Xinjiang region of China, the source of a large portion of the world’s cotton supply, may impact prices and the availability of cotton for our merchandise. Additionally, our products and materials (including potentially non-cotton materials) could be held for inspection by the United States Customs Border Protection (the “US CBP”), which would cause delays and unexpectedly affect our inventory levels. In addition, the labor costs to produce our products may fluctuate. In the event of a significant disruption in the supply of fabrics or raw materials used in the manufacture of the merchandise we offer, our vendors might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price. Any delays, interruption, damage to, or increased costs in raw materials or the manufacture of the merchandise we offer could result in higher prices to acquire the merchandise, or non-delivery of merchandise altogether, and could adversely affect our operating results.

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

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

Our past revenue growth and profitability should not be considered indicative of our future performance. Our revenue decreased by 1.4% in fiscal 2022 compared to 2021, increased by 22.8% in fiscal 2021 compared to fiscal 2020, and increased 8.5% in fiscal 2020 compared to fiscal 2019. In the third fiscal quarter of 2022 our revenue decreased by 8.0% as compared to the third fiscal quarter of 2021, and in the fourth quarter of 2022 our revenue decreased by 15.6% as compared to the fourth quarter of fiscal 2021. Our revenue growth rates may continue to decline in future periods due to a number of factors, which may include general economic conditions and decreased discretionary consumer spending, the short- and long-term impacts of the COVID-19 pandemic, decreases in marketing spend, slower client acquisition growth, slower demand for our merchandise and service, increased competition, decreases in the growth rate of our overall market, and our failure to capitalize on growth opportunities, as well as the maturation of our business.

We announced a restructuring plan on June 9, 2022, intended to reduce our future fixed and variable operating costs. However, our restructuring plan may not adequately reduce expenses or impact our results as we anticipate. Moreover, our expenses may increase, particularly as we expand our operations, infrastructure and geographic markets; develop and introduce new merchandise offerings; hire and retain personnel; and invest in our marketing initiatives. We may not always pursue short-term profits but are often focused on long-term growth, which may impact our financial results. If our revenue does not increase to offset increases in our operating expenses, we may not be profitable in future periods.

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 technology, and expand, train, and manage our employee base. To support continued growth, we must effectively recruit, hire, integrate, develop, and motivate new employees while maintaining our corporate culture, which is made more challenging due to our hybrid environment of in-person and remote work.

We are also required to manage numerous relationships with various vendors and other third parties. Further growth of our operations, vendor base, fulfillment centers, information technology systems, or internal controls and procedures may not be adequate to support our operations. Any change or upgrade to our systems to support the growth and increasing complexity of our business involves risk and we may experience problems or delays as we make upgrades or changes to our systems. For example, in the first quarter of fiscal year 2022, we experienced technical issues following a systems upgrade to our procure-to-pay processes which affected the transmission, receipt, and reconciliation of purchase orders and payments with many of our apparel and accessory vendors. Additionally, we continue to introduce new offerings such as Freestyle, as well as new business initiatives and inventory models. The roll-out of these new offerings and initiatives require investments of time and resources and may require changes in our website, mobile apps, information technology systems or processes, which involves inherent risk. These initiatives and changes also may not be rolled out as timely or effectively as we expect or may not produce the results we intend. If new offerings and initiatives are delayed, it could affect our inventory levels. If we are unable to manage the growth of our organization effectively, or if growth initiatives are not introduced timely, do not produce the anticipated results, or cause unanticipated issues, our business, financial condition, and operating results may be adversely affected.

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

Our initial merchandise offering was Women's apparel, but since our inception we expanded our merchandise offerings to include Petite, Maternity, Men's, Plus, Premium Brands, and Kids and launched our service in the UK market. In June 2019, we introduced our direct-buy functionality (now called "Freestyle") with Buy It Again allowing clients in the United States to buy previously purchased items in new colors, prints, and sizes. We expanded direct buy with Complete Your Looks, which allows clients to discover and shop personalized outfits with new items that complement their prior purchases, Trending For You, which allows clients to shop personalized looks based on their style profiles, and Categories, a new way for clients to easily discover pieces within a range of categories based on occasion, brand, or item type. And, in August 2021, we opened up Freestyle to new-to-Stitch Fix clients who had never received a Fix from us previously. We continue to explore additional offerings to serve our existing clients, attract new clients, and expand our geographic scope.

New offerings may not have the same success, or gain traction as quickly, as our current offerings. If our new offerings are not accepted by our clients or do not attract new clients, or if we are not able to attract clients in new markets, our sales may fall short of expectations, our brand and reputation could be adversely affected, and we may incur expenses that are not offset by sales. Developing new offerings requires significant investments of resources and time, and if a new offering is not successful, our business may not grow as anticipated. If the launch of a new category or offering or in a new geography requires investments greater than we expect, is delayed or is not executed well, our operating results could be negatively impacted. For example, in launching Freestyle to new customers during our fiscal 2022, we implemented client on-boarding changes in an effort to drive new clients to Freestyle. These changes resulted in lower conversion of new clients to our Fix offering, which impacted our operating results. Also, our business may be adversely affected if we are unable to attract brands and other merchandise vendors that produce sufficient high-quality, appropriately priced, and on-trend merchandise. For example, vendors in the UK may not be familiar with our company or brand, which may make it difficult for us to obtain the merchandise we seek or be able to purchase products at an appropriate price.

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

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 and retain existing clients;
- overcome the impacts of the ongoing COVID-19 pandemic;
- adequately and effectively staff our fulfillment centers;
- manage our inventory effectively;
- anticipate and respond to macroeconomic changes;
- increase our market share;
- increase consumer awareness of our brand and maintain our reputation;
- successfully expand our offering and geographic reach;
- anticipate and respond to changing style trends and consumer preferences;
- compete effectively;
- avoid interruptions in our business from information technology downtime, cybersecurity breaches, or labor stoppages;
- effectively manage our growth;
- continue to enhance our personalization capabilities;
- hire, integrate, and retain talented people at all levels of our organization;
- maintain the quality of our technology infrastructure;
- develop new features to enhance the client experience; and
- retain our existing merchandise vendors and attract new vendors.

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

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

In May 2019, we launched our service in the UK market, and we may choose to expand to other international markets in the future. Prior to launching in the UK, we had no experience operating internationally or selling our merchandise outside of the United States, and if we continue to expand internationally, we need to adapt to different local cultures, standards, laws, and policies. The business model we employ may not appeal as strongly to consumers in international markets. Furthermore, to succeed with clients in international locations, such as the UK, we will need to locate fulfillment centers in foreign markets and hire local employees, and we will have to invest in these facilities and employees before proving we can successfully run foreign operations. We may not be successful in expanding into additional international markets or in generating revenue from foreign operations for a variety of reasons, including:

- the need to localize our merchandise offerings, including translation into foreign languages and adaptation for local practices;
- different consumer demand dynamics, which may make our model and the merchandise we offer less successful compared to the United States;
- competition from local incumbents that understand the local market and may operate more effectively;
- regulatory requirements, taxes, trade laws, trade sanctions and economic embargoes, tariffs, export quotas, custom duties, or other trade restrictions;
- differing laws and regulations, including with respect to anti-bribery and anti-corruption compliance;
- differing labor regulations where labor laws may be more advantageous to employees as compared to the United States and result in increased labor costs;
- more stringent or differing regulations relating to privacy and data security and access to, or use of, commercial and personal information, particularly in Europe;
- differing payment requirements and customer behavior relating to payments and fraud;
- changes in a specific country's or region's political, economic, and public health conditions, or any geopolitical instability or threats or acts of war, such as the ongoing conflict between Ukraine and Russia; and
- risks resulting from changes in currency exchange rates.

For example, clients in the UK are accustomed to more return shipping options than are typically offered in the United States, which required us to increase the number of shipping vendors we use in that market, increasing our costs. If we continue to invest substantial time and resources to establish and expand our operations internationally and are unable to do so successfully and in a timely manner, our operating results would suffer.

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

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

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

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

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

Our success, including our ability to anticipate and effectively respond to changing style trends and deliver a personalized styling experience, depends in part on our ability to attract and retain key personnel on our executive team and in our merchandising, algorithms, engineering, marketing, styling, and other organizations. We do not currently maintain key-person life insurance policies on any member of our senior management team or other key employees.

We do not have long-term employment or non-competition agreements with any of our personnel. We have had senior employees leave Stitch Fix and cannot necessarily anticipate when this will happen and whether we will be able to promptly replace exiting employees. 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.

Additionally, we have experienced increased employee turnover as a result of the general market conditions and a competitive talent market within the U.S., as well as Company-specific factors, such as share price decline, business performance, and leadership changes, and we expect to continue to experience increased employee turnover in the future. We announced a restructuring plan on June 9, 2022 that reduced our workforce by 15% of salaried positions and represents 4% of our roles in total. This reduction in workforce may cause additional attrition.

We also face significant competition for personnel, particularly in our technology and product organizations. 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 also have in the past had difficulty hiring employees in fulfillment centers due to increased competition for distribution workers and rising wages and have increased our employee compensation levels in response to competition, as necessary.

We cannot be sure that we will be able to attract, retain, and motivate a sufficient number of qualified personnel in the future, or that the compensation costs of doing so will not adversely affect our operating results. Additionally, we may not be able to hire and train new employees quickly enough to meet our needs. If we fail to retain employees and effectively manage our hiring needs, our efficiency, ability to meet forecasts, employee morale, productivity, and the success of our strategic plans and product roadmap could suffer, which may have an adverse effect on our business, financial condition, and operating results.

Elizabeth Spaulding was named to the role of Chief Executive Officer on August 1, 2021, and Katrina Lake, our Founder, transitioned to the role of Executive Chairperson of the Board of Directors on August 1, 2021, and remains an employee of ours. If Ms. Spaulding's succession to Chief Executive Officer is not managed successfully, including her ability to grow and lead a team that can navigate Stitch Fix's evolution and growth, it could disrupt our business, affect our Company culture, cause retention concerns with respect to our colleagues, and affect our financial condition and operating results.

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

As of July 30, 2022, approximately 3,430 of our employees were stylists, most of whom work on a part-time basis for us and are paid hourly. The stylists track and report the time they spend working for us. These employees are classified as nonexempt under federal and state law. If we fail to effectively manage our stylists, including by ensuring accurate tracking and reporting of their hours worked and proper processing of their hourly wages, then we may face claims alleging violations of wage and hour employment laws, including, without limitation, claims of back wages, unpaid overtime pay, and missed meal and rest periods. Any such employee litigation could be attempted on a class or representative basis. For example, in August 2020, a representative action under California's Private Attorneys General Act was filed against us alleging various violations of California's wage and hour laws relating to our current and former non-exempt stylist employees. While we were able to settle this matter, future litigation concerning our styling employees could be expensive and time-consuming regardless of whether the claims against us are valid or whether we are ultimately determined to be liable, and could divert management's attention from our business. We could also be adversely affected by negative publicity, litigation costs resulting from the defense of these claims, and the diversion of time and resources from our operations.

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

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

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

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

We may incur significant losses from fraud.

We have in the past incurred and may in the future incur losses from various types of fraud, including stolen credit card numbers, claims that a client did not authorize a purchase, merchant fraud, and clients who have closed bank accounts or have insufficient funds in open bank accounts to satisfy payments. Our clients may re-use their login information (i.e., username and password combination) across multiple websites and, therefore, when a third-party website experiences a data breach, that information could be exposed to bad actors and be used to fraudulently access our clients' accounts. In addition to the direct costs of such losses, if the fraud is related to credit card transactions and becomes excessive, it could result in us paying higher fees or losing the right to accept credit cards for payment. In addition, under current credit card practices, we are typically liable for fraudulent credit card transactions. Our failure to adequately prevent fraudulent transactions could damage our reputation, result in litigation or regulatory action, and lead to expenses that could substantially impact our operating results.

We are subject to payment-related risks.

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

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

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

Our business and operating results are subject to national and global economic conditions and their impact on consumer discretionary spending. Some of the factors that may negatively influence consumer spending include high levels of unemployment; higher consumer debt levels; reductions in net worth, declines in asset values, and related market and macroeconomic uncertainty; home foreclosures and reductions in home values; fluctuating interest rates, increased inflationary pressures and credit availability; rising fuel and other energy costs; rising commodity prices; and general uncertainty regarding the overall future political and economic environment. We have experienced many of these factors, including current inflationary pressures and have seen negative impacts on client demand as a result. Furthermore, any increases in consumer discretionary spending during times of crisis may be temporary, such as those related to government stimulus programs. Economic conditions in certain regions may also be affected by natural disasters, such as hurricanes, tropical storms, earthquakes, and wildfires; public health crises; and other major unforeseen events.

Consumer purchases of discretionary items, including the merchandise that we offer, generally decline during recessionary periods or periods of economic uncertainty, when disposable income is reduced or when there is a reduction in consumer confidence.

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

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

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

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

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

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

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

Cybersecurity, Legal and Regulatory Risks

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

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

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

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

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

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

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

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

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

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

The merchandise we sell to our clients is subject to regulation by the Federal Consumer Product Safety Commission, the Federal Trade Commission, and similar state and international regulatory authorities. As a result, such merchandise could in the future be subject to recalls and other remedial actions. Product safety, labeling, and licensing concerns may result in us voluntarily removing selected merchandise from our inventory. Such recalls or voluntary removal of merchandise can result in, among other things, lost sales, diverted resources, potential harm to our reputation, and increased client service costs and legal expenses, which could have a material adverse effect on our operating results.

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

We purchase our merchandise from numerous domestic and international vendors. Our standard vendor terms and conditions require vendors to comply with applicable laws. We have hired independent firms that conduct audits of the working conditions at the factories producing our Exclusive Brand products. If an audit reveals potential problems, we require that the vendor institute corrective action plans to bring the factory into compliance with our standards, or we may discontinue our relationship with the vendor. The loss of an Exclusive Brand vendor due to failure to comply with our standards could cause inventory delays, impact our clients’ experiences, and otherwise harm our operating results. In addition, failure of our vendors to comply with applicable laws and regulations and contractual requirements could lead to litigation against us, resulting in increased legal expenses and costs. Furthermore, the failure of any such vendors to provide safe and humane factory conditions and oversight at their facilities could damage our reputation with clients or result in legal claims against us.

China’s Xinjiang Uyghur Autonomous Region (the “XUAR”) is the source of large amounts of cotton and textiles for the global apparel supply chain. The United States Treasury Department placed sanctions on China’s Xinjiang Production and Construction Corporation (“XPCC”) for serious human rights abuses against ethnic minorities in XUAR. Additionally, the US’s Uyghur Forced Labor Prevention Act (“UFLPA”), empowers the US Customs and Border Protection Agency (the “US CBP”) to withhold release of items produced in whole or in part in the XUAR, or produced by companies included on a government-created UFLPA entity list, creating a presumption that such goods were produced using forced labor. XPCC controls many of the cotton farms and much of the textile industry in the region, and many large factories in XUAR product fabrics and yarn for apparel. Although we do not intentionally source any products or materials from the XUAR (either directly or indirectly through our suppliers), we have no known involvement with XPCC or its subsidiaries and affiliates, and we prohibit our apparel vendors from doing business with XPCC or using forced labor, we do not have the ability to completely map our product supply chain, and we could be subject to penalties, fines or sanctions if any of the vendors from which we purchase goods is found to have dealings, directly or indirectly, with XPCC or entities it controls. Additionally, our products or materials (including potentially non-cotton materials) could be held or delayed by the US CBP, which would cause delays and unexpectedly affect our inventory levels. Even if we were not subject to penalties, fines or sanctions, if products we source are linked in any way to XPCC, the XUAR, or an entity on the UFLPA entity list, our reputation could be damaged.

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

We collect and maintain significant amounts of personal information and other data relating to our clients and employees. Numerous laws, rules, and regulations in the United States and internationally, including the European Union's ("EU") General Data Protection Regulation (the "GDPR"), California's Consumer Privacy Act (the "CCPA") and the UK's Data Protection Act (the "UK GDPR"), govern privacy and the collection, use, and protection of personal information. These laws, rules, and regulations evolve frequently and may be inconsistent from one jurisdiction to another or may be interpreted to conflict with our practices. Any failure or perceived failure by us or any third parties with which we do business to comply with these laws, rules, and regulations, or with other obligations to which we may be or become subject, may result in actions against us by governmental entities, private claims and litigation, fines, penalties, or other liabilities. Any such action would be expensive to defend, damage our reputation, and adversely affect our business and operating results. For example, the GDPR imposes more stringent data protection requirements and provides greater penalties for noncompliance than previous data protection laws. Further, the UK withdrew from the EU on January 31, 2020, subject to a transition period that ended on December 31, 2020 ("Brexit"). The UK GDPR, which regulates data protection in the UK since Brexit, has remained consistent with the EU GDPR in effect since 2018, but it may evolve and it is uncertain whether our operations in, and data transfers to and from, the UK can comply with any future changes in the law. Similarly, the State of California legislature passed the CCPA, which became effective on January 1, 2020. The CCPA requires us to make new disclosures to consumers about our data collection, use, and sharing practices. The CCPA also allows consumers to opt out of certain data sharing with third parties, and provides a new cause of action for data breaches with the possibility of significant statutory damage awards. The CCPA prohibits discrimination against individuals who exercise their privacy rights, provides for civil penalties for violations, and creates a private right of action for data breaches that is expected to increase data breach litigation. The CCPA itself will expand substantially when the California Privacy Rights Act of 2020 (the "CPRA"), which takes effect on January 1, 2023. The CPRA will, among other things, restrict use of certain categories of sensitive personal information that we handle; further restrict the sharing of personal information; establish restrictions on the retention of personal information; expand the types of data breaches subject to the private right of action; and establish the California Privacy Protection Agency to implement and enforce the new law, as well as impose administrative fines. Since the enactment of the CCPA, new privacy and data security laws have been proposed in more than half of the U.S. states and in the U.S. Congress, reflecting a trend toward more stringent privacy legislation in the U.S. Additionally, the Federal Trade Commission and many state attorneys general are interpreting federal and state consumer protection laws as imposing standards for the online collection, use, dissemination, and security of data.

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

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

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

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

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

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

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

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

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

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

The patents we own in the United States and those that may be issued in the United States, in the UK, in Europe and in the People's Republic of China 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 accused of infringing intellectual property rights of third parties.

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

Risks Relating to Taxes

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

A predominant portion of the apparel we sell is originally manufactured in countries other than the United States. International trade disputes that result in tariffs and other protectionist measures could adversely affect our business, including disruption and cost increases in our established patterns for sourcing our merchandise and increased uncertainties in planning our sourcing strategies and forecasting our margins. For example, in recent years, the U.S. government imposed significant new tariffs on China related to the importation of certain product categories, including apparel, footwear, and other goods. A substantial portion of our products are manufactured in China. As a result of these tariffs, our cost of goods imported from China increased slightly. Although we continue to work with our vendors to mitigate our exposure to current or potential tariffs, there can be no assurance that we will be able to offset any increased costs. Other changes in U.S. tariffs, quotas, trade relationships, or tax provisions could also reduce the supply of goods available to us or increase our cost of goods. Although such changes would have implications across the entire industry, we may fail to effectively adapt to and manage the adjustments in strategy that would be necessary in response to those changes. In addition to the general uncertainty and overall risk from potential changes in U.S. laws and policies, as we make business decisions in the face of such uncertainty, we may incorrectly anticipate the outcomes, miss out on business opportunities, or fail to effectively adapt our business strategies and manage the adjustments that are necessary in response to those changes. These risks could adversely affect our revenues, reduce our profitability, and negatively impact our business.

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

In general, we have not historically collected state or local sales, use, or other similar taxes in any jurisdictions in which we do not have a tax nexus, in reliance on court decisions and/or applicable exemptions that restrict or preclude the imposition of obligations to collect such taxes with respect to the online sales of our products. In addition, we have not historically collected state or local sales, use, or other similar taxes in certain jurisdictions in which we do have a physical presence, in reliance on applicable exemptions. On June 21, 2018, the U.S. Supreme Court decided, in *South Dakota v. Wayfair, Inc.*, that state and local jurisdictions may, at least in certain circumstances, enforce a sales and use tax collection obligation on remote vendors that have no physical presence in such jurisdiction. As of June 30, 2021, all states have enacted legislation to begin, requiring sales and use tax collection by remote vendors and/or by online marketplaces. The details and effective dates of these collection requirements vary from state to state. While we now collect, remit, and report sales tax in all states that impose a sales tax, it is still possible that one or more jurisdictions may assert that we have liability from previous periods for which we did not collect sales, use, or other similar taxes, and if such an assertion or assertions were successful it could result in substantial tax liabilities, including for past sales taxes and penalties and interest, which could materially adversely affect our business, financial condition, and operating results.

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

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

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

We are subject to income- and non-income-based taxes in the United States under federal, state, and local jurisdictions and in the UK. The governing tax laws and applicable tax rates vary by jurisdiction and are subject to interpretation. Various tax authorities may disagree with tax positions we take and if any such tax authorities were to successfully challenge one or more of our tax positions, the results could have a material effect on our operating results. Further, the ultimate amount of tax payable in a given financial statement period may be materially impacted by sudden or unforeseen changes in tax laws, changes in the mix and level of earnings by taxing jurisdictions, or changes to existing accounting rules or regulations. The determination of our overall provision for income and other taxes is inherently uncertain as it requires significant judgment around complex transactions and calculations. As a result, fluctuations in our ultimate tax obligations may differ materially from amounts recorded in our financial statements and could adversely affect our business, financial condition, and operating results in the periods for which such determination is made.

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

As of July 30, 2022, we had federal and state net operating loss carryforwards of $165.3 million and $256.0 million, respectively. The federal net operating loss carryforwards may be carried forward indefinitely; state net operating loss carryforwards will expire, if not utilized, beginning in 2025. The ability to use our net operating loss carryforwards depends on the availability of future taxable income. In addition, as of July 30, 2022, we had federal and California research and development tax credit carryforwards of $38.7 million and $21.4 million, respectively. The federal research and development credits will begin to expire in 2036, if not utilized; California research and development credits do not have an expiration date. A portion of our tax attributes are subject to Sections 382 and 383 of the Internal Revenue Code and similar state provisions, which sets limitations arising from ownership changes. Any potential limitations on our ability to offset future income with our tax attributes could result in increased future tax liability to us.

Risks Relating to Ownership of Our Class A Common Stock

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

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

- actual or anticipated fluctuations in our client base, the level of client engagement and client acquisition, revenue, or other operating results;
- variations between our actual operating results and the expectations of securities analysts, investors, and the financial community;

- any forward-looking financial or operating information we may provide to the public or securities analysts, any changes in this information, or our failure to meet expectations based on this information;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- repurchases of our Class A common stock pursuant to our share repurchase program, which could also cause our stock price to be higher that it would be in the absence of such a program and could potentially reduce the market liquidity for our stock;
- whether investors or securities analysts view our stock structure unfavorably, particularly our dual-class structure and the significant voting control of our directors, executive officers, and their affiliates;
- additional shares of our Class A common stock being sold into the market by us or our existing stockholders, or the anticipation of such sales;
- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- changes in operating performance and stock market valuations of companies in our industry, including our vendors and competitors;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- targeted efforts of social media or other groups to transact in and affect the price of Stitch Fix stock, such as the activity in early 2021 targeting GameStop Corp and others;
- lawsuits threatened or filed against us;
- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies; and
- other events or factors, including those resulting from war or incidents of terrorism, public health crises such as the COVID-19 pandemic, or responses to these events.

In addition, extreme price and volume fluctuations in the stock markets have affected and continue to affect many eCommerce and other technology companies' stock prices. Often, their stock prices have fluctuated in ways unrelated or disproportionate to the companies' operating performance. In the past, stockholders have filed securities class action litigation following periods of market volatility. For example, beginning in October 2018, we and certain of our directors and officers were sued in putative class action and derivative lawsuits alleging violations of the federal securities laws for allegedly making materially false and misleading statements. And on August 26, 2022, a class action lawsuit alleging violations of federal securities laws was filed by certain of our stockholders naming as defendants us, certain of our officers and directors and certain of our affiliated stockholders for allegedly making materially false and misleading statements regarding our Freestyle offering. We may be the target of additional litigation of this type in the future as well. Such securities litigation could subject us to substantial costs, divert resources and the attention of management from our business, and seriously harm our business.

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

We cannot guarantee that our share repurchase program will be fully consummated or that it will enhance long-term stockholder value. Share repurchases could also increase the volatility of the trading price of our stock and could diminish our cash reserves.

In January 2022, our Board of Directors authorized a share repurchase program to repurchase up to $150.0 million of our outstanding Class A common stock, with no expiration date. Although our Board of Directors has authorized this repurchase program, the program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The actual timing and amount of repurchases remain subject to a variety of factors, including stock price, trading volume, market conditions and other general business considerations. In addition, the terms of our amended and restated credit agreement with Silicon Valley Bank and other lenders impose limitations on our ability to repurchase shares. The share repurchase program may be modified, suspended, or terminated at any time, and we cannot guarantee that the program will be fully consummated or that it will enhance long-term stockholder value. The program could affect the trading price of our stock and increase volatility, and any announcement of a termination of this program may result in a decrease in the trading price of our stock. In addition, this program could diminish our cash and cash equivalents and marketable securities.

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

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our Class A common stock in the public market, then the trading price of our Class A common stock could decline. In addition, shares underlying any outstanding options and restricted stock units will become eligible for sale if exercised or settled, as applicable, and to the extent permitted by the provisions of various vesting agreements and Rule 144 of the Securities Act. All the shares of Class A and Class B common stock subject to stock options and restricted stock units outstanding and reserved for issuance under our 2011 Equity Incentive Plan, as amended, our 2017 Incentive Plan, and our 2019 Inducement Plan (our "Incentive Plans") have been registered on Form S-8 under the Securities Act and such shares are eligible for sale in the public markets, subject to Rule 144 limitations applicable to affiliates. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our Class A common stock could decline.

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

Our Class B common stock has ten votes per share and our Class A common stock has one vote per share. As a result, the holders of our Class B common stock, including our directors, executive officers, and their affiliates, are able to exercise considerable influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or our assets, even if their stock holdings represent less than 50% of the outstanding shares of our capital stock. As of September 16, 2022, 29,182,102 of our 110,807,047 shares outstanding were held by our directors, executive officers, and their affiliates, and 25,397,274 of such shares held by our directors, executive officers, and their affiliates were shares of Class B common stock. This concentration of ownership will limit the ability of other stockholders to influence corporate matters and may cause us to make strategic decisions that could involve risks to you or that may not be aligned with your interests. This control may adversely affect the market price of our Class A common stock.

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

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

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

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

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

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

- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

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

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

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for the following types of actions or proceedings under Delaware statutory or common law:

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

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

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

General Risk Factors

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

We may issue additional equity securities in the future. We also issue awards for Class A common stock to our existing and new employees and others under our Incentive Plans. The number of shares subject to such awards is typically based on target dollar values, and therefore the number of shares increases as our stock price decreases. 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 shares of our Class A common stock 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 and our stock price. 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.

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

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”). Specifically, the Sarbanes-Oxley Act requires management to assess the effectiveness of our internal controls over financial reporting and to report any material weaknesses in such internal control. We have experienced material weaknesses and significant deficiencies in our internal controls, including for our fiscal year ended August 3, 2019. Management has concluded that our internal control over financial reporting was effective as of July 30, 2022. However, our testing, or the subsequent testing by our independent public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. If we or our accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, it could harm our operating results, adversely affect our reputation, or result in inaccurate financial reporting. Furthermore, should any such deficiencies arise we could be subject to lawsuits, sanctions or investigations by regulatory authorities, including SEC enforcement actions and we could be required to restate our financial results, any of which would require additional financial and management resources.

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

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

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

We intend to continue making investments to support our business growth and may require additional funds to support this growth and respond to business challenges, including the need to develop our services, expand our inventory, enhance our operating infrastructure, expand the markets in which we operate, and potentially acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to those of holders of our Class A common stock. We are also party to an amended and restated credit agreement with Silicon Valley Bank and other lenders that contains covenants limiting our ability to, among other things, dispose of assets, undergo a change in control, merge or consolidate, make acquisitions, incur debt, incur liens, pay dividends, repurchase stock, and make investments, in each case subject to certain exceptions, and contains financial covenants requiring us to maintain minimum free cash flow and an adjusted current ratio above specified levels, measured in each case at the end of each fiscal quarter. The restrictive covenants of this or any future debt financing secured may make it more difficult for us to obtain additional capital and to pursue business opportunities. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, and our business and prospects could fail or be adversely affected.

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal physical properties are located in the United States and UK. Our corporate headquarters are located in San Francisco, California, and comprise approximately 134,000 square feet of space. Given our commitment to a more distributed workforce, and our recent reduction in headcount, we are actively marketing a portion of this space for sublease.

We also lease and operate six fulfillment centers in the United States. We currently utilize a total of approximately 3,755,000 square feet, at which we receive merchandise from vendors, ship products to clients and receive and process returns from clients. These facilities are located in Arizona, Texas, Pennsylvania, Indiana, Utah, and Georgia. In addition, we have one fulfillment center that is leased and operated by a third-party logistics contractor in the UK.

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

Item 3. Legal Proceedings.

The information contained in Note 8 “Commitments and Contingencies” under the heading “Contingencies” in the Notes to the Consolidated Financial Statements included within this Annual Report on Form 10-K is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

None.

PART II

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

Market Information for Common Stock

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

Holders of Record

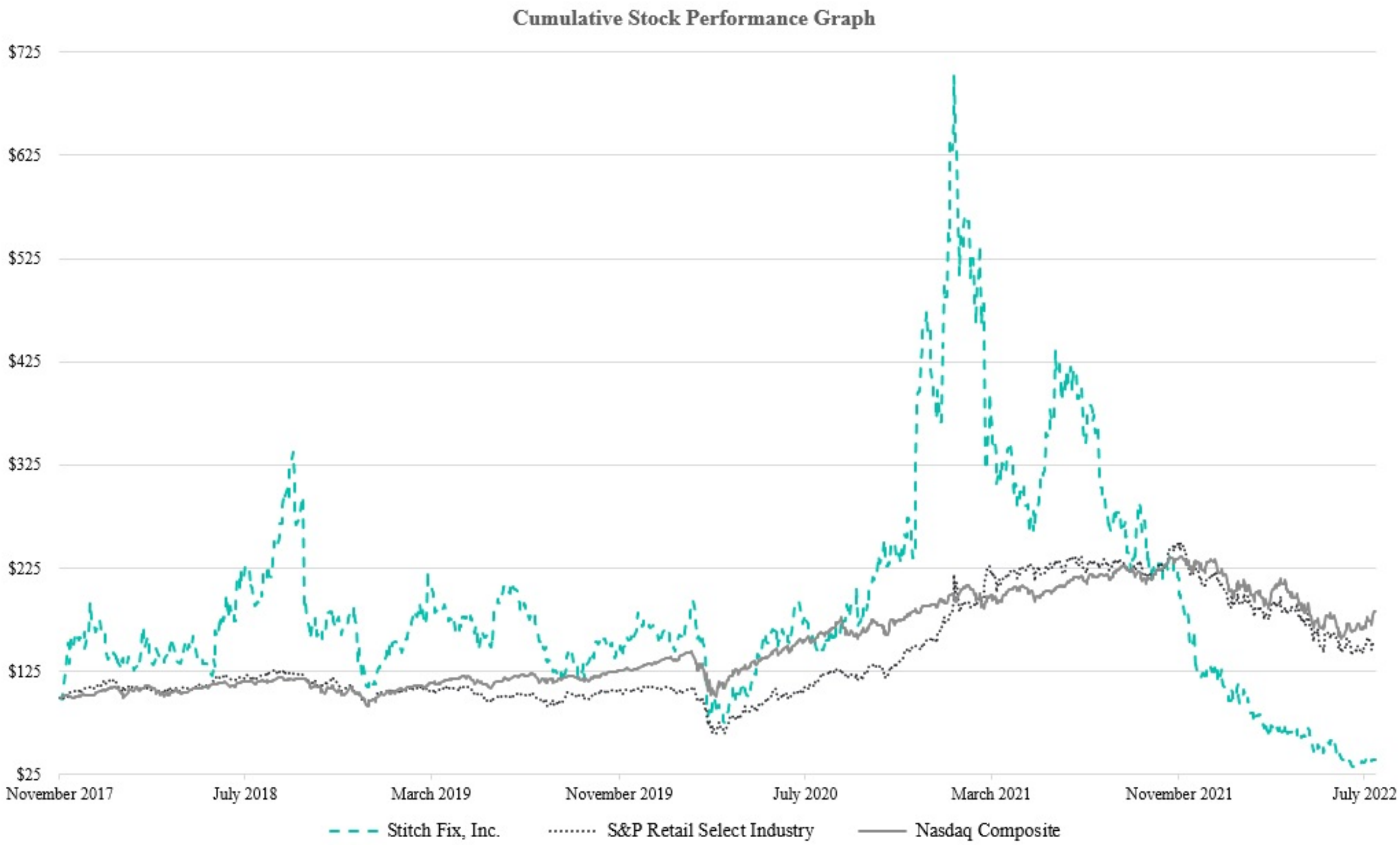
As of the close of business on September 16, 2022, there were 40 stockholders of record of our Class A common stock and 14 stockholders of record of our Class B common stock. The actual number of holders of our Class A and Class B common stock is greater than the number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers or other nominees. The number of holders of record presented here also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

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

Cumulative Stock Performance Graph

The following graph compares the cumulative total return to stockholders on our Class A common stock relative to the cumulative total returns of the Standard and Poor’s Retail Select Industry Index (S&P Retail Select Industry) and Nasdaq Composite Index (Nasdaq Composite). An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our Class A common stock and in each index on November 17, 2017, the date our Class A common stock began trading on the Nasdaq, and its relative performance is tracked through July 30, 2022. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our Class A common stock.



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

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

In January 2022, our Board of Directors authorized a share repurchase program to repurchase up to $150.0 million of our outstanding Class A common stock, with no expiration date (the "2022 Repurchase Program"). We may repurchase shares from time to time through open market repurchases, privately negotiated transactions, or other means, including through Rule 10b5-1 trading plans. The actual timing, number and value of shares repurchased in the future will be determined by the Company in its discretion and will depend on a number of factors, including price, trading volume, market conditions, and other general business conditions. During the fourth quarter of 2022, we did not repurchase any shares of our common stock and we had $120.0 million remaining in share repurchase capacity as of July 30, 2022.

Item 6. Selected Financial Data.

No disclosure required by Item 301 of Regulation S-K as in effect on the date of this Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our audited consolidated financial statements and related notes thereto included in Part II, Item 8 of this Annual Report on Form 10-K, or Annual Report. We use a 52- or 53-week fiscal year, with our fiscal year ending on the Saturday that is closest to July 31 of that year. Each fiscal year generally consists of four 13-week fiscal quarters, with each fiscal quarter ending on the Saturday that is closest to the last day of the last month of the quarter. The fiscal years ended July 30, 2022 ("2022") and July 31, 2021 ("2021") consisted of 52 weeks. The fiscal year ended August 1, 2020 ("2020") consisted of 53 weeks. Throughout this Annual Report, all references to quarters and years are to our fiscal quarters and fiscal years unless otherwise noted.

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

A discussion regarding our financial condition and results of operation for the fiscal year ended July 30, 2022, compared to the fiscal year ended July 31, 2021, is presented below. A discussion regarding our financial condition and results of operations for fiscal year ended July 31, 2021, compared to the fiscal year ended August 1, 2020, can be found under Item 7 in our Annual Report on Form 10-K for the fiscal year ended July 31, 2021, filed with the SEC on September 27, 2021, which is available on the SEC's website at www.sec.gov and on the SEC Filings section of the Investor Relations section of our website at: https://investors.stitchfix.com.

Overview

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

For the fiscal year ended July 30, 2022, we reported $2.1 billion of revenue representing a year-over-year decline of 1.4% from the fiscal year ended July 31, 2021. As of July 30, 2022, and July 31, 2021, we had approximately 3,795,000 and 4,165,000 active clients, respectively, representing a year-over-year decline of 8.9%.

During the first half of fiscal 2022, our year-over-year net revenue growth rate was lower than it had historically been, and during the third and fourth quarters of fiscal 2022, we experienced a decline in net revenue year-over-year. This revenue trend is primarily due to our challenges in acquiring new clients during fiscal 2022, which has had and will continue to have a negative compounding effect on net revenue in fiscal 2023. We are continuing to navigate the uncertainties presented by the current macroeconomic environment and remain focused on improving the conversion of new clients and our overall client experience.

Net loss for the fiscal year ended July 30, 2022, was $207.1 million, compared to net loss of $8.9 million for the fiscal year ended July 31, 2021.

In light of our recent business momentum and an uncertain macroeconomic environment, we announced a restructuring plan on June 9, 2022, that reduces our future fixed and variable operating costs and allows us to centralize key capabilities, strengthen decision-making to drive efficiencies, and ensure we are allocating resources to our most critical priorities. This restructuring plan reduced our workforce by approximately 15% of salaried positions and represented approximately 4% of our roles in total.

We are continuing to evaluate other fixed and variable operating costs, including rationalizing our real estate footprint, to position ourselves for profitable growth in the future. However, our future results of operations will depend on our ability to successfully navigate current business challenges and the overall macroeconomic environment. Notwithstanding this restructuring plan, we will continue to invest strategically in both product and technology, while remaining financially disciplined. In connection with the restructuring plan, we incurred $10.9 million in cash expenses related to termination benefits, $6.2 million in non-cash asset impairment charges, and $0.7 million of other non-cash costs which were recognized in the fourth quarter of fiscal 2022. We also incurred other one-time cash charges of $8.5 million related to retention bonuses for continuing employees which was recognized in the fourth quarter of fiscal 2022.

For more information on the components of net loss, refer to the section titled "Results of Operations" below.

Key Financial and Operating Metrics

Non-GAAP Financial Measures

We report our financial results in accordance with generally accepted accounting principles in the United States ("GAAP"). However, management believes that certain non-GAAP financial measures provide users of our financial information with additional useful information in evaluating our performance. We believe that adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, and that this supplemental measure facilitates comparisons between companies. We believe free cash flow is an important metric because it represents a measure of how much cash from operations we have available for discretionary and non-discretionary items after the deduction of capital expenditures. These non-GAAP financial measures may be different than similarly titled measures used by other companies.

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

- adjusted EBITDA excludes interest income and other expense, net, as these items are not components of our core business;
- adjusted EBITDA does not reflect our income tax provision (benefit), which may increase or decrease cash available to us;
- adjusted EBITDA excludes the recurring, non-cash expenses of depreciation and amortization of property and equipment and, although these are non-cash expenses, the assets being depreciated and amortized may have to be replaced in the future;
- adjusted EBITDA excludes the non-cash expense of stock-based compensation, which has been, and will continue to be for the foreseeable future, an important part of how we attract and retain our employees and a significant recurring expense in our business; and
- adjusted EBITDA excludes costs incurred related to discrete restructuring plans and other one-time costs that are fundamentally different in strategic nature and frequency from ongoing initiatives. We believe exclusion of these items facilitates a more consistent comparison of operating performance over time, however these costs do include cash outflows;
- 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 loss excluding interest income, other expense, net, income tax provision (benefit), depreciation and amortization, stock-based compensation expense, and restructuring and other one-time costs. The following table presents a reconciliation of net loss, the most comparable GAAP financial measure, to adjusted EBITDA for each of the periods presented:

	For the Fiscal Year Ended		
(in thousands)	**July 30, 2022**	**July 31, 2021**	**August 1, 2020**
Adjusted EBITDA:			
Net loss	$ (207,121)	$ (8,876)	$ (67,117)
Add (deduct):			
Interest income	(930)	(2,610)	(5,535)
Other expense, net	2,355	366	1,593
Income tax provision (benefit)	(2,349)	(52,241)	19,395
Depreciation and amortization	35,011	27,610	22,562
Stock-based compensation expense[(1)]	127,373	100,696	67,530
Restructuring and other one-time costs[(2)]	26,206	—	—
Adjusted EBITDA	**$ (19,455)**	**$ 64,945**	**$ 38,428**

[(1)]Excludes $1.1 million of stock-based compensation expense reflected in "Restructuring and other one-time costs" for the year ended July 30, 2022.
[(2)]Restructuring charges consist of $17.7 million in cash and noncash charges primarily related to termination benefits and asset impairment charges in connection with our June 9, 2022, restructuring plan. Other one-time costs primarily consists of $8.5 million in retention bonuses for continuing employees and we expect to incur an additional $5.4 million in retention bonuses during the first quarter of fiscal 2023 in connection with our one-time retention program.

Free Cash Flow

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

	For the Fiscal Year Ended		
(in thousands)	**July 30, 2022**	**July 31, 2021**	**August 1, 2020**
Free cash flow reconciliation:			
Cash flows provided by (used in) operating activities	$ 55,395	$ (15,675)	$ 42,877
Deduct:			
Purchases of property and equipment	(46,351)	(35,256)	(30,207)
Free cash flow	**$ 9,044**	**$ (50,931)**	**$ 12,670**
Cash flows provided by (used in) investing activities	$ 10,233	$ 39,093	$ (70,461)
Cash flows provided by (used in) financing activities	$ (60,250)	$ (38,885)	$ (1,435)

Operating Metrics

	July 30, 2022	**July 31, 2021**	**August 1, 2020**
Active clients (in thousands)	3,795	4,165	3,522

Active Clients

We believe that the number of active clients is a key indicator of our growth and the overall health of our business. We define an active client as a client who checked out a Fix or was shipped an item via Freestyle in the preceding 52 weeks, measured as of the last day of that period. A client checks out a Fix when she indicates what items she is keeping through our mobile application or on our website. We consider each Women's, Men's, or Kids account as a client, even if they share the same household. We had 3,795,000 and 4,165,000 active clients as of July 30, 2022, and July 31, 2021, respectively, representing a year-over-year decline of 8.9%. The decline in active clients was driven by client conversion challenges, lower site traffic, and the lapping of our high-dollar value referral program which ended in fiscal 2021.

Net Revenue per Active Client

We believe that net revenue per active client is an indicator of client engagement and satisfaction. We calculate net revenue per active client based on net revenue over the preceding four fiscal quarters divided by the number of active clients, measured as of the last day of the period. Net revenue per active client was $546 and $505 as of July 30, 2022, and July 31, 2021, respectively, representing a year-over-year increase of 8.1%.

Factors Affecting Our Performance

Inventory Management

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

During the first six months of fiscal 2022, we experienced lower than expected inventory receipts largely due to global supply chain delays. We worked to mitigate these delays by ordering product in advance of our typical timelines. During the second half of fiscal 2022, we experienced slight easing of these supply chain delays, and coupled with our mitigating strategies, inventory receipts were less severely impacted, a trend we expect to continue in fiscal 2023. We will continue to actively manage global supply chain delays and plan to mitigate the impact of any anticipated delays on future inventory receipts.

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. 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, campaigns with celebrities and influencers, display advertising, television, print, radio, video, content, direct mail, social media, email, mobile "push" communications, search engine optimization, and keyword search campaigns. The launch of Freestyle to new-to-Stitch Fix clients has opened up new marketing opportunities and channels with which we have less experience. Our marketing expenses have varied from period to period, and we expect this trend to continue as we test new channels and refine our marketing strategies.

The largest component of our marketing spend is advertising, which was $183.8 million for the fiscal year ended July 30, 2022, compared to $174.7 million for the fiscal year ended July 31, 2021.

We must also continue to improve the diversity of our offerings to successfully acquire clients and increase engagement. 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 make targeted investments in technology and product.

Merchandise Mix

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

Generally, changes in our merchandise mix have not caused significant fluctuations in our gross margin to date; however, categories, brands, product types, and price points do have a range of margin profiles. For example, our Exclusive Brands have generally contributed higher margins than our third-party brands, which have generally contributed lower margins. We continue to analyze and evolve our merchandise mix and may increase or add third-party brands to improve the client experience and attract new active clients. Shifts in merchandise mix, particularly if we increase the number of third-party brands we offer, may affect or result in fluctuations in our gross margin from period to period.

Components of Results of Operations

Revenue

We generate revenue from the sale of merchandise, either through our Fix or Freestyle offerings. With our Fix offering, we charge a nonrefundable upfront fee, referred to as a "styling fee," that is credited towards any merchandise purchased. We offer Style Pass to provide select U.S. clients with an alternative to paying a styling fee per Fix. Style Pass clients pay a nonrefundable annual fee for unlimited styling that is credited towards merchandise purchases. We deduct discounts, sales tax, and estimated refunds to arrive at net revenue, which we refer to as revenue throughout this Annual Report. We also recognize revenue resulting from estimated breakage income on gift cards.

Cost of Goods Sold

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

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses ("SG&A") consist primarily of compensation and benefits costs, including stock-based compensation expense, for our employees including our stylists, fulfillment center operations, data analytics, merchandising, engineering, marketing, client experience, and corporate personnel. Selling, general, and administrative expenses also include marketing and advertising costs, third-party logistics costs, facility costs for our fulfillment centers and offices, professional service fees, information technology costs, and depreciation and amortization expense. As a result of our restructuring and cost reduction actions, we expect SG&A in fiscal 2023 to decrease year over year. Our classification of selling, general, and administrative expenses may vary from other companies in our industry and may not be comparable.

Interest Income

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

Income Tax Provision (Benefit)

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

Results of Operations

Comparison of the Fiscal Years Ended July 30, 2022, July 31, 2021, and August 1, 2020

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

	For the Fiscal Year Ended			2022 vs. 2021	2021 vs. 2020
(in thousands)	**July 30, 2022**	**July 31, 2021**	**August 1, 2020**	**% Change**	**% Change**
Revenue, net	$ 2,072,812	$ 2,101,258	$ 1,711,733	(1.4)%	22.8 %
Cost of goods sold	1,164,338	1,153,622	957,523	0.9 %	20.5 %
Gross profit	908,474	947,636	754,210	(4.1)%	25.6 %
Selling, general, and administrative expenses	1,116,519	1,010,997	805,874	10.4 %	25.5 %
Operating loss	(208,045)	(63,361)	(51,664)	228.3 %	22.6 %
Interest income	930	2,610	5,535	(64.4)%	(52.8)%
Other expense, net	(2,355)	(366)	(1,593)	543.4 %	(77.0)%
Loss before income taxes	(209,470)	(61,117)	(47,722)	242.7 %	28.1 %
Income tax provision (benefit)	(2,349)	$ (52,241)	$ 19,395	(95.5)%	(369.4)%
Net loss	$ (207,121)	$ (8,876)	$ (67,117)	*	(86.8)%

* Not meaningful

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

	For the Fiscal Year Ended		
	July 30, 2022	**July 31, 2021**	**August 1, 2020**
Revenue, net	100.0 %	100.0 %	100.0 %
Cost of goods sold	56.2 %	54.9 %	55.9 %
Gross margin	43.8 %	45.1 %	44.1 %
Selling, general, and administrative expenses	53.9 %	48.1 %	47.1 %
Operating loss	(10.0)%	(3.0)%	(3.0)%
Interest income	— %	0.1 %	0.3 %
Other expense, net	(0.1)%	— %	(0.1)%
Loss before income taxes	(10.1)%	(2.9)%	(2.8)%
Income tax provision (benefit)	(0.1)%	(2.5)%	1.1 %
Net loss	(10.0)%	(0.4)%	(3.9)%

Note: Due to rounding, percentages in this table may not sum to totals.

Revenue and Gross Margin

Revenue in the fiscal year ended July 30, 2022 decreased by $28.4 million, or 1.4%, from revenue in the fiscal year ended July 31, 2021. The decline in revenue was primarily attributable to a 8.9% decline in active clients from July 31, 2021 to July 30, 2022, and what we believe was a slowdown in consumer discretionary spending during our fourth quarter of fiscal 2022. The decline in active clients was primarily driven by client conversion challenges and lower site traffic, as we experienced weaker-than-expected conversion of new clients due to onboarding friction, and we experienced traffic-related challenges due in part to the ongoing effects of Apple's iOS privacy changes. The decline in active clients was also attributable to higher attrition of clients obtained through our high-dollar value referral program that ended in fiscal 2021.

Gross margin for the fiscal year ended July 30, 2022, decreased by 130 basis points compared with the fiscal year ended July 31, 2021. The decrease was primarily attributable to an increase in inventory charges for excess spring and summer inventory in the current year.

Selling, General, and Administrative Expenses

SG&A expenses in the fiscal year ended July 30, 2022, increased by $105.5 million, compared with the fiscal year ended July 31, 2021. As a percentage of revenue, SG&A expenses increased to 53.9% for the fiscal year ended July 30, 2022, compared with 48.1% for the fiscal year ended July 31, 2021. The increase was primarily related to higher compensation and benefits expenses, including an increase in stock-based compensation of $27.8 million in fiscal 2022, primarily due to investments in technology talent. The increase was also related to restructuring and other one-time costs of $26.2 million recorded in the fourth quarter of fiscal 2022.

Income Tax Provision (Benefit)

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

	For the Fiscal Year Ended		
(in thousands)	**July 30, 2022**	**July 31, 2021**	**August 1, 2020**
Loss before income taxes	$ (209,470)	$ (61,117)	$ (47,722)
Income tax provision (benefit)	(2,349)	(52,241)	19,395
Effective tax rate	1.1 %	85.5 %	(40.6)%

We are subject to income taxes in the United States and the UK. Our effective tax rate and benefit for income taxes decreased from the fiscal year ended July 31, 2021, to the fiscal year ended July 30, 2022, primarily due to the reversal of stock-based compensation expenses and the absence of the prior year net operating loss carryback provisions of the CARES Act that were not in effect for the current year.

Liquidity and Capital Resources

Sources of Liquidity

Our principal source of liquidity is our cash flow from operations.

As of July 30, 2022, we had $130.9 million of cash and cash equivalents and $99.8 million of investments. Our investment balance includes $82.0 million of short-term investments with contractual maturities of 12 months or less as of July 30, 2022.

We are party to a $100.0 million amended and restated credit agreement, entered into June 2, 2021 and amended on July 29, 2022 (the "Amended Credit Agreement") with Silicon Valley Bank and other lenders. The Amended Credit Agreement includes a letter of credit sub-facility of $30.0 million and a swingline sub-facility of up to $40.0 million. As of July 30, 2022, we did not have any borrowings outstanding under the Credit Agreement.

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

For information on the terms of the Amended Credit Agreement, please see "Credit Agreement" in Note 7 to the Consolidated Financial Statements included in this Annual Report.

Uses of Cash

Our primary use of cash includes operating costs such as merchandise purchases, lease obligations, compensation and benefits, marketing, and other expenditures necessary to support our business. We may also use cash to repurchase shares of our common stock.

We believe our existing cash, cash equivalents, investment balances, and the borrowing available under our Amended Credit Agreement, if needed, will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months and beyond.

Share Repurchases

In January 2022, our Board of Directors authorized a share repurchase program to repurchase up to $150.0 million of our outstanding Class A common stock, with no expiration date (the "2022 Repurchase Program"). We may repurchase shares from time to time through open market repurchases, privately negotiated transactions, or other means, including through Rule 10b5-1 trading plans. The actual timing, number and value of shares repurchased in the future will be determined by the Company in its discretion and will depend on a number of factors, including price, trading volume, market conditions, and other general business conditions. Repurchases will be funded from the Company's existing cash and cash equivalents or future cash flow. The repurchase program may be modified, suspended, or terminated at any time. During the three months ended July 30, 2022, the Company made no repurchases of Class A common stock. As of July 30, 2022, the Company has repurchased 2,302,141 shares of Class A common stock for approximately $30.0 million under the 2022 Repurchase Program. We had $120.0 million remaining in share repurchase capacity as of July 30, 2022.

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

(in thousands)	For the Fiscal Year Ended July 30, 2022	July 31, 2021	August 1, 2020
Net cash provided by (used in) operating activities	$ 55,395	$ (15,675)	$ 42,877
Net cash provided by (used in) investing activities	10,233	39,093	(70,461)
Net cash used in financing activities	(60,250)	(38,885)	(1,435)
Effect of exchange rate changes on cash and cash equivalents	(4,228)	1,797	1,542
Net increase (decrease) in cash and cash equivalents	$ 1,150	$ (13,670)	$ (27,477)

Cash provided (used in) by operating activities

During the fiscal year ended July 30, 2022, cash provided by operating activities was $55.4 million, which consisted of a net loss of $207.1 million, adjusted by non-cash charges of $188.1 million and a change of $74.4 million in our net operating assets and liabilities. The non-cash charges were largely driven by $128.5 million of stock-based compensation expense, $37.2 million of depreciation, amortization, and accretion, $16.6 million in inventory reserves, and $6.2 million in asset impairment charges. The change in our net operating assets and liabilities was primarily due to an increase of $71.3 million in our accounts payable balance due to timing of inventory receipts and payments, as well as increased efficiency in the management of our working capital.

During the fiscal year ended July 31, 2021, cash used in operating activities was $15.7 million, which consisted of a net loss of $8.9 million, adjusted by non-cash charges of $135.9 million and a change of $142.7 million in our net operating assets and liabilities. The non-cash charges were largely driven by $100.7 million of stock-based compensation expense, and $29.9 million of depreciation, amortization, and accretion. The change in our net operating assets and liabilities was primarily due to an increase of $96.1 million in our inventory balance due to increased inventory purchases to support growth and selection, and a change of $31.7 million in income tax receivables primarily due to the net operating loss carryback provisions of the CARES Act.

Cash provided by (used in) investing activities

During the fiscal year ended July 30, 2022, cash provided by investing activities was $10.2 million, primarily related to net cash flow from purchases, sales, and maturities of $56.6 million in highly rated available-for-sale securities, partially offset by $46.4 million in purchases of property and equipment.

During the fiscal year ended July 31, 2021, cash provided by investing activities was $39.1 million, primarily related to net cash flow from purchases, sales, and maturities of $74.4 million in highly rated available-for-sale securities, partially offset by $35.3 million in purchases of property and equipment.

Cash used in financing activities

During the fiscal year ended July 30, 2022, cash used in financing activities was $60.3 million, which was primarily due to payments for tax withholding related to vesting of restricted stock units of $31.7 million and repurchases of common stock of $30.0 million, partially offset by proceeds from the exercise of stock options of $1.5 million.

During the fiscal year ended July 31, 2021, cash used in financing activities was $38.9 million, which was primarily due to payments for tax withholding related to vesting of restricted stock units of $64.3 million, partially offset by proceeds from the exercise of stock options of $25.9 million.

Effect of exchange rate changes on cash and cash equivalents

Foreign currency exchange rates for the fiscal year ended July 30, 2022, had a negative impact of $4.2 million on cash and cash equivalents. The negative impact on cash and cash equivalents was primarily due to the unfavorable impact of fluctuations in the exchange rate of the British pound sterling to the U.S. dollar.

Contractual Obligations and Other Commitments

Our most significant contractual obligations relate to purchase commitments of inventory and operating lease obligations on our fulfillment centers and corporate offices. As of July 30, 2022, we had $235.0 million of enforceable and legally binding inventory purchase commitments predominantly due within one year. For information on our contractual obligations for operating leases, please see “Leases” in Note 4 of the Notes to Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data” to this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

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

The critical accounting policies, estimates, and judgments that we believe to have the most significant impacts to our consolidated financial statements are described below.

Inventory, net

Inventory, net consists of finished goods which are recorded at the lower of cost or net realizable value using the first-in-first-out (FIFO) method. We establish a reserve for excess and slow-moving inventory we expect to write off based on historical trends, which consider factors such as the age of the inventory and sell through rate for a particular item. In addition, we estimate and accrue shrinkage as a percentage of inventory out to the client and damaged items at 100% of cost. Inventory shrinkage and damage estimates are made to reduce the inventory value for lost, stolen, or damaged items. If actual experience differs significantly from our estimates due to changes in client merchandise preferences, client demand, or economic conditions, additional merchandise inventory write-downs may be required which could adversely affect our operating results. A 10% change in our inventory reserves estimate as of July 30, 2022, would result in a change in reserves of approximately $6.0 million.

In fiscal 2022, we recorded additional reserves related to excess spring and summer inventory. Aside from these specific reserves, we have not made any material changes to our assumptions included in the calculations of the lower of cost or net realizable value reserves during the fiscal year ended July 30, 2022.

Stock-Based Compensation

We grant stock options and restricted stock units ("RSUs") to our employees and members of our Board of Directors, and recognize stock-based compensation expense based on the fair value of such awards at grant date. We estimate the fair value of stock options using the Black-Scholes option-pricing model. This model requires us to use certain estimates and assumptions such as:

- Expected volatility of our common stock—based on an even blend of historical and implied volatility;
- Expected term of our stock options—the period that our stock options are expected to be outstanding based on historical averages.
- Expected dividend yield—as we have not paid and do not anticipate paying dividends on our common stock, our expected dividend yield is 0%; and
- Risk-free interest rates—based on the U.S. Treasury zero coupon notes in effect at the grant date with maturities equal to the expected terms of the options granted.

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

We will continue to use judgment in evaluating assumptions related to our stock-based compensation expense. As we continue to accumulate data related to our common stock, we may have refinements to our estimates and assumptions which could impact our future stock-based compensation expense. During fiscal 2022, we updated our volatility and expected term assumptions to move away from using peer based volatility and the simplified method, respectively, and began using our own historical data for these assumptions.

Income Taxes

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

Deferred tax assets are evaluated for future realization and reduced by a valuation allowance to the amount that is more likely than not to be realized. We consider many factors when assessing the likelihood of future realization, including our recent cumulative loss, earnings expectations in earlier future years, and other relevant factors.

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

Revenue Recognition

Revenue is recognized net of sales taxes, discounts, and estimated refunds. We record a refund reserve based on our historical refund patterns. The impact of our refund reserve on our operating results may fluctuate based on changes in client refund activity over time.

We also sell gift cards to clients and establish a liability based on the face value of such gift cards. If a gift card is not used, we will recognize estimated gift card breakage revenue proportionately to customer usage of gift cards over the expected gift card usage period, subject to requirements to remit balances to governmental agencies.

We have not made any material changes to our revenue recognition accounting policies during the fiscal year ended July 30, 2022.

Recent Accounting Pronouncements

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

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

Interest Rate Risk

We are primarily exposed to market risks through interest rate risk on our investments. As of July 30, 2022, we had $99.8 million in highly rated investments accounted for as available-for-sale securities, which are presented on our balance sheet at their fair market value. These interest-earning instruments carry a degree of interest rate risk; however, for the fiscal year ended July 30, 2022, a hypothetical 10% change in interest rates would not have had a material impact on our consolidated financial statements.

Foreign Currency Risk

As of July 30, 2022, our revenue was earned in U.S. dollars and British pound sterling. Our expansion into the UK exposes us to fluctuations in foreign currency exchange rates on our operating expenses. Fluctuations in foreign currency exchange rates may also result in transaction gains or losses on transactions in currencies other than the U.S. dollar or British pound sterling. For the fiscal year ended July 30, 2022, a hypothetical 10% increase or decrease in current exchange rates would not have had a material impact on our consolidated financial results.

Inflation Risk

The primary inflationary factors affecting our business are merchandise costs, shipping and freight costs, and labor costs. We do not believe that inflation had a material effect on our business, financial condition, or results of operations for the fiscal year ended July 30, 2022. Nonetheless, our costs are subject to inflationary pressures, which we expect to continue, and if those pressures become significant, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, and results of operations.

Item 8. Financial Statements and Supplementary Data.

STITCH FIX, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Stitch Fix, Inc. and subsidiaries (the "Company") as of July 30, 2022, and July 31, 2021, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended July 30, 2022, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of July 30, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of July 30, 2022 and July 31, 2021, and the results of its operations and its cash flows for each of the fiscal years ended July 30, 2022, July 31, 2021 and August 1, 2020, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Inventory - Excess and Slow-Moving Inventory Reserves - Refer to Note 2 to the financial statements

Critical Audit Matter Description

The Company establishes inventory reserves to record its inventory at the lower of cost or net realizable value, which primarily includes a reserve for excess and slow-moving inventory on hand that is expected to be written-off or otherwise disposed of at a future date. The Company's estimate of the appropriate amount of the excess and slow-moving inventory reserve utilizes certain inputs and involves judgment. Such inputs include data associated with historical trends, historical inventory write-off activity, and the on-hand inventory aging. The calculation and analysis of historical trend data, historical write-off activity, and the application of this analysis to on-hand inventory involves complex calculations. The excess and slow-moving inventory reserve as of July 30, 2022, totaled $45.0 million. Net inventory as of July 30, 2022, totaled $197.3 million.

We identified the estimated inventory reserve for excess and slow-moving inventory as a critical audit matter given the estimation uncertainty is impacted by a number of subjective factors including current and future customer merchandise preference, consumer spending trends and economic conditions. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the methodology and the reasonableness of these subjective factors in combination with assumptions and inputs including historical inventory trends, historical inventory write-off activity, and the on-hand inventory aging used to determine excess and slow-moving inventory.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the excess and slow-moving inventory reserve included the following, among others:

- We tested the effectiveness of controls over management's excess and slow moving inventory reserve estimate.
- We compared actual write-off activity in the current year to the excess and slow-moving reserve estimated by the Company in the prior year to evaluate management's ability to accurately estimate the reserve.
- We evaluated the appropriateness of and performed audit procedures over specified inputs supporting management's estimate, including the age of on-hand inventory, historical inventory trends, and historical write-off activity.
- We evaluated the appropriateness and consistency of management's methods and assumptions used in developing their estimate of the excess and slow-moving inventory reserve, which included consideration of write-off trends by merchandise category, on-hand inventory aging distribution and the impact of current and future customer merchandise preference, consumer spending trends and economic conditions.
- We reperformed the calculation of the excess and slow-moving inventory reserve using the inputs, assumptions, and methodology consistent with management's estimate.
- We looked for indications that the reserve for excess and slow-moving inventory may be understated by evaluating write-off activity of inventory subsequent to July 30, 2022.

/s/ Deloitte & Touche LLP

San Francisco, California

September 21, 2022

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

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

	July 30, 2022	July 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 130,935	$ 129,785
Short-term investments	82,049	101,546
Inventory, net	197,251	212,294
Prepaid expenses and other current assets	39,456	50,512
Income tax receivable	27,561	27,667
Total current assets	477,252	521,804
Long-term investments	17,713	59,035
Income tax receivable, net of current portion	26,091	27,054
Property and equipment, net	103,375	86,959
Operating lease right-of-use assets	132,179	118,565
Other long-term assets	7,925	5,732
Total assets	$ 764,535	$ 819,149
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 143,934	$ 73,499
Operating lease liabilities	29,014	25,702
Accrued liabilities	94,416	99,028
Gift card liability	10,551	9,903
Deferred revenue	14,441	18,154
Other current liabilities	3,214	2,027
Total current liabilities	295,570	228,313
Operating lease liabilities, net of current portion	141,334	121,623
Other long-term liabilities	4,980	8,364
Total liabilities	441,884	358,300
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Class A common stock, $0.00002 par value –2,000,000,000 shares authorized as of July 30, 2022, and July 31, 2021; 86,187,911 and 76,780,570 shares issued and outstanding as of July 30, 2022, and July 31, 2021, respectively	1	1
Class B common stock, $0.00002 par value – 100,000,000 shares authorized as of July 30, 2022, and July 31, 2021; 25,405,020 and 31,175,418 shares issued and outstanding as of July 30, 2022, and July 31, 2021, respectively	1	1
Additional paid-in capital	522,658	416,755
Accumulated other comprehensive (loss) income	(3,527)	3,411
Retained earnings (accumulated deficit)	(166,440)	40,681
Treasury stock at cost (2,302,141 and 0 shares)	(30,042)	—
Total stockholders' equity	322,651	460,849
Total liabilities and stockholders' equity	$ 764,535	$ 819,149

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

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

	For the Fiscal Year Ended		
	July 30, 2022	July 31, 2021	August 1, 2020
Revenue, net	$ 2,072,812	$ 2,101,258	$ 1,711,733
Cost of goods sold	1,164,338	1,153,622	957,523
Gross profit	908,474	947,636	754,210
Selling, general, and administrative expenses	1,116,519	1,010,997	805,874
Operating loss	(208,045)	(63,361)	(51,664)
Interest income	930	2,610	5,535
Other expense, net	(2,355)	(366)	(1,593)
Loss before income taxes	(209,470)	(61,117)	(47,722)
Income tax provision (benefit)	(2,349)	(52,241)	19,395
Net loss	$ (207,121)	$ (8,876)	$ (67,117)
Other comprehensive income (loss):			
Change in unrealized gain (loss) on available-for-sale securities, net of tax	(2,050)	(1,503)	822
Foreign currency translation	(4,888)	2,186	2,093
Total other comprehensive income (loss), net of tax	(6,938)	683	2,915
Comprehensive loss	$ (214,059)	$ (8,193)	$ (64,202)
Net loss attributable to common stockholders:			
Basic	$ (207,121)	$ (8,876)	$ (67,117)
Diluted	$ (207,121)	$ (8,876)	$ (67,117)
Loss per share attributable to common stockholders:			
Basic	$ (1.90)	$ (0.08)	$ (0.66)
Diluted	$ (1.90)	$ (0.08)	$ (0.66)
Weighted-average shares used to compute loss per share attributable to common stockholders:			
Basic	108,762,589	105,975,403	102,383,282
Diluted	108,762,589	105,975,403	102,383,282

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

Stitch Fix, Inc.
Consolidated Statements of Stockholders' Equity
(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance as of August 3, 2019	101,397,480	$ 2	$ 279,511	$ (187)	$ 116,674	—	$ —	$ 396,000
Issuance of common stock upon exercise of stock options	1,278,894	—	12,078	—	—	—	—	12,078
Issuance of restricted stock units, net of tax withholdings	1,079,133	—	(12,819)	—	—	—	—	(12,819)
Stock-based compensation	—	—	69,980	—	—	—	—	69,980
Net loss	—	—	—	—	(67,117)	—	—	(67,117)
Other comprehensive income, net of tax	—	—	—	2,915	—	—	—	2,915
Balance as of August 1, 2020	103,755,507	$ 2	$ 348,750	$ 2,728	$ 49,557	—	$ —	$ 401,037
Issuance of common stock upon exercise of stock options	2,067,751	—	25,932	—	—	—	—	25,932
Issuance of restricted stock units, net of tax withholdings	2,132,730	—	(64,316)	—	—	—	—	(64,316)
Stock-based compensation	—	—	106,389	—	—	—	—	106,389
Net loss	—	—	—	—	(8,876)	—	—	(8,876)
Other comprehensive income, net of tax	—	—	—	683	—	—	—	683
Balance as of July 31, 2021	107,955,988	$ 2	$ 416,755	$ 3,411	$ 40,681	—	$ —	$ 460,849
Issuance of common stock upon exercise of stock options	176,977	—	1,534	—	—	—	—	1,534
Issuance of restricted stock units, net of tax withholdings	3,459,966	—	(31,742)	—	—	—	—	(31,742)
Stock-based compensation	—	—	136,111	—	—	—	—	136,111
Repurchase of common stock	—	—	—	—	—	(2,302,141)	(30,042)	(30,042)
Net loss	—	—	—	—	(207,121)	—	—	(207,121)
Other comprehensive loss, net of tax	—	—	—	(6,938)	—	—	—	(6,938)
Balance as of July 30, 2022	111,592,931	$ 2	$ 522,658	$ (3,527)	$ (166,440)	(2,302,141)	$(30,042)	$ 322,651

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

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

	For the Fiscal Year Ended		
	July 30, 2022	**July 31, 2021**	**August 1, 2020**
Cash Flows from Operating Activities			
Net loss	$ (207,121)	$ (8,876)	$ (67,117)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Deferred income taxes and valuation allowance	(535)	64	22,880
Change in inventory reserves	16,552	8,875	8,828
Stock-based compensation expense	128,485	100,696	67,530
Depreciation, amortization, and accretion	37,185	29,929	22,617
Asset impairment	6,154	—	—
Other	300	(3,632)	882
Change in operating assets and liabilities:			
Inventory	(2,594)	(96,056)	(15,222)
Prepaid expenses and other assets	8,110	(20,096)	(140)
Income tax receivables	1,069	(31,700)	(6,543)
Operating lease right-of-use assets and liabilities	4,301	(1,818)	394
Accounts payable	71,349	(12,385)	(5,520)
Accrued liabilities	(2,641)	22,011	8,297
Deferred revenue	(3,679)	5,082	1,054
Gift card liability	649	1,313	1,357
Other liabilities	(2,189)	(9,082)	3,580
Net cash provided by (used in) operating activities	55,395	(15,675)	42,877
Cash Flows from Investing Activities			
Purchases of property and equipment	(46,351)	(35,256)	(30,207)
Purchases of securities available-for-sale	(94,420)	(173,726)	(248,318)
Sales of securities available-for-sale	45,351	104,501	36,587
Maturities of securities available-for-sale	105,653	143,574	171,477
Net cash provided by (used in) investing activities	10,233	39,093	(70,461)
Cash Flows from Financing Activities			
Proceeds from the exercise of stock options, net	1,534	25,932	12,078
Payments for tax withholdings related to vesting of restricted stock units	(31,742)	(64,316)	(12,819)
Issuance costs on revolving credit facility	—	(501)	(694)
Repurchase of common stock	(30,042)	—	—
Net cash used in financing activities	(60,250)	(38,885)	(1,435)
Net increase (decrease) in cash and cash equivalents	5,378	(15,467)	(29,019)
Effect of exchange rate changes on cash and cash equivalents	(4,228)	1,797	1,542
Cash and cash equivalents at beginning of period	129,785	143,455	170,932
Cash and cash equivalents at end of period	$ 130,935	$ 129,785	$ 143,455
Supplemental Disclosure			
Cash paid for income taxes	$ 868	461	365
Supplemental Disclosure of Non-Cash Investing and Financing Activities:			
Purchases of property and equipment included in accounts payable and accrued liabilities	$ 2,443	$ 3,803	$ 4,088
Capitalized stock-based compensation	$ 7,626	$ 5,693	$ 2,450
Leasehold improvements paid by landlord	$ —	$ —	$ 7,406

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

STITCH FIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

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

2. Significant Accounting Policies

Basis of Presentation

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

Our fiscal year is a 52-week or 53-week period ending on the Saturday closest to July 31. The fiscal years ended July 30, 2022 ("2022") and August 1, 2020 ("2020") consisted of 52 weeks. The fiscal year ended July 31, 2021 ("2021") consisted of 53 weeks.

Segment Information

We have one operating segment and one reportable segment as our chief operating decision maker, who is our Chief Executive Officer, reviews financial information on a consolidated basis for purposes of allocating resources and evaluating financial performance.

Use of Estimates

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

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

Change in Accounting Principle

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

Cash and Cash Equivalents

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

Short-Term and Long-Term Investments

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

For debt securities with an amortized cost basis in excess of estimated fair value, we determine what amount of that deficit, if any, is caused by expected credit losses. The portion of the deficit attributable to expected credit losses is recognized in other expense, net on our consolidated statements of income. During the twelve months ended July 30, 2022, we did not record any expected credit losses on our available-for-sale debt securities.

We have elected to present accrued interest receivable separately from short-term and long-term investments on our consolidated balance sheets. Accrued interest receivable was $0.3 million and $1.0 million as of July 30, 2022, and July 31, 2021, respectively, and was recorded in prepaid expenses and other current assets in the consolidated balance sheets. We have also elected to exclude accrued interest receivable from the estimation of expected credit losses on our available-for-sale securities and reverse accrued interest receivable through interest income when amounts are determined to be uncollectible. We did not write off any accrued interest receivable during the twelve months ended July 30, 2022.

Foreign Currency

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

Inventory, net

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

Our total inventory reserves, which reduce inventory in our consolidated balance sheets, were $59.6 million and $43.4 million as of July 30, 2022, and July 31, 2021, respectively. In the period ended July 30, 2022, we recorded additional reserves related to excess spring and summer inventory, which are reflected in the $59.6 million of inventory reserves. Aside from these specific reserves, we have not made any material changes to our assumptions included in the calculations of the lower of cost or net realizable value reserves during the fiscal year ended July 30, 2022.

Property and Equipment, net

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

The estimated useful lives of our assets are as follows:

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

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

Leases

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

Impairment of Long-Lived Assets

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

In the fourth quarter of 2022, in connection with our June 9, 2022, restructuring plan, we recorded an impairment charge of $6.2 million related to a change in our use of corporate office space, and the current and anticipated future market conditions for sublease income in San Francisco, California. Refer to Note 4 “Leases” for further information.

Revenue Recognition

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

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

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

Our styling fee and Style Pass arrangements represent the option to purchase merchandise. These fees and arrangements are not distinct within the context of the contract with our Fix customers and therefore do not give rise to separate performance obligations. Both the upfront styling fee and Style Pass annual fee are included in deferred revenue until the performance obligation is satisfied when the client exercises his or her option to purchase merchandise (i.e., upon checkout of a Fix) or when the option(s) to purchase merchandise expire(s).

Revenue is recognized when control of the promised goods is transferred to the client. For a Fix, control is transferred when the client accepts or rejects the offer to purchase merchandise. Upon acceptance by purchasing one or more items within the Fix at checkout, the total amount of the order, including the upfront styling fee, is recognized as revenue. If none of the items within the Fix are accepted at checkout, the upfront styling fee is recognized as revenue at that time. The Style Pass annual fee is recognized at the earlier of (i) the time at which a client accepts and applies the Style Pass fee to an offer to purchase merchandise or (ii) upon expiry of the annual period. Under Style Pass arrangements, if a client does not accept any items within the Fix, the annual fee will continue to be deferred until it is applied to a future purchase or upon expiry of the annual period. If a client would like to exchange an item, we recognize revenue at the time the exchanged item is shipped, which coincides with the transfer of control to the customer. For a Freestyle purchase, control is transferred and revenue is recognized upon shipment to the client.

We deduct discounts, sales tax, and estimated refunds to arrive at net revenue. Sales tax collected from clients is not considered revenue and is included in accrued liabilities until remitted to the taxing authorities. All shipping costs are accounted for in cost of goods sold and all handling costs are accounted for as fulfillment costs within selling, general, and administrative expense (“SG&A”), and are therefore not evaluated as a separate performance obligation. Discounts are recorded as a reduction to revenue when the order is accepted. We record a refund reserve based on our historical refund patterns. Our refund reserve, which is included in accrued liabilities in the consolidated balance sheets, was $10.3 million and $11.7 million as of July 30, 2022, and July 31, 2021, respectively.

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

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

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

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

(in thousands)	July 30, 2022	July 31, 2021
Deferred revenue		
Upfront styling fees	$ 8,422	$ 11,989
Style Pass annual fees	4,337	3,474
Freestyle orders	1,682	2,691
Total deferred revenue	$ 14,441	$ 18,154
Gift card liability	$ 10,551	$ 9,903
Other current liabilities		
Referral credits	$ 684	$ 1,231

The following table summarizes revenue recognized during the twelve months ended July 30, 2022, that was previously included in deferred revenue, gift card liability, and other current liabilities at July 31, 2021:

(in thousands)	Revenue Recognized From Amounts Previously Included in Deferred Balances at July 31, 2021
Upfront styling fees	$ 11,767
Style Pass annual fees	3,474
Freestyle orders	2,341
Gift card liability	2,661
Referral credits	794

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, offset by the recoverable cost of merchandise estimated to be returned.

Selling, General, and Administrative Expenses

SG&A 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. SG&A expenses also include marketing and advertising, third-party logistics costs, facility costs for our fulfillment centers and offices, professional services fees, information technology, and depreciation and amortization.

Advertising Expenses

Costs associated with the production of advertising, such as writing, copy, printing, and other production costs are expensed as incurred. Costs associated with communicating advertising on television and radio are expensed the first time the advertisement is run. Online advertising costs are expensed as incurred. Advertising costs totaled $183.8 million, $174.7 million, and $167.8 million for 2022, 2021, and 2020, respectively, and are included within selling, general, and administrative expenses in the consolidated statements of operations and comprehensive loss.

Marketing Programs

We have a client referral program under which we issue credits for future purchases to clients when the referral results in a new client who has ordered a Fix or made a purchase on Freestyle. We record a liability at the time of issuing the credit and reduce the liability upon application of the credit to a client’s purchase. We also have an affiliate program under which we make cash payments to lifestyle or fashion bloggers or others who refer clients in high volumes. Amounts related to both of these programs are included within selling, general, and administrative expenses in the consolidated statements of operations and comprehensive loss.

Income Taxes

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

Deferred tax assets are evaluated for future realization and reduced by a valuation allowance to the amount that is more likely than not to be realized. We consider many factors when assessing the likelihood of future realization, including our recent cumulative loss, earnings expectations in earlier future years, unsettled economic disruption of the COVID-19 pandemic, and other relevant factors.

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

Stock-Based Compensation Expense

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

Comprehensive Income (Loss)

Comprehensive income (loss) represents all changes in stockholders' equity during a period from sources other than transactions with stockholders. Comprehensive income (loss) includes the net income (loss) for the period, the gain (loss) due to foreign currency translation, and the change in unrealized gain (loss) on available-for-sale securities.

Concentration of Credit Risks

We are subject to concentrations of credit risk principally from cash and cash equivalents and investment securities. The majority of our cash is held by two financial institutions within the United States. Our cash balances held by these institutions may exceed federally insured limits. The associated risk of concentration for cash is mitigated by banking with credit-worthy institutions. The associated risk of concentration for cash equivalents and investments is mitigated by maintaining a diversified portfolio of highly rated instruments.

No client accounted for greater than 10% of total revenue, net for the twelve months ended 2022, 2021, and 2020, respectively.

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes*. This update amends and simplifies the accounting for income taxes by eliminating certain exceptions in existing guidance related to performing intraperiod tax allocation, calculating interim period taxes, and recognizing deferred taxes for investments. The update also provides new guidance to reduce complexity in certain areas. The Company adopted this guidance on August 1, 2021. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

3. Fair Value Measurements

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

> *Level 1*: Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;
>
> *Level 2*: Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and
>
> *Level 3*: Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

Our financial instruments consist of cash and cash equivalents, short-term and long-term investments, accounts payable, and accrued liabilities. At July 30, 2022, and July 31, 2021, the carrying values of cash and cash equivalents, accounts payable, and accrued liabilities approximated fair value due to their short-term maturities.

The following table sets forth our cash equivalents and short-term and long-term investments accounted for as available-for-sale securities that were measured at fair value on a recurring basis based on the fair value hierarchy as of July 30, 2022, and July 31, 2021:

	July 30, 2022				July 31, 2021			
(in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Assets:								
Cash equivalents:								
Money market funds	$ 16,267	$ —	$ —	$ 16,267	$ 10,728	$ —	$ —	$ 10,728
Commercial paper	—	—	—	—	—	—	—	—
Investments:								
U.S. Treasury securities	42,260	—	—	42,260	42,044	—	—	42,044
Certificates of deposit	—	—	—	—	—	1,500	—	1,500
Commercial paper	—	2,985	—	2,985	—	10,192	—	10,192
Asset-backed securities	—	—	—	—	—	10,402	—	10,402
Corporate bonds	—	54,517	—	54,517	—	96,443	—	96,443
Total	$ 58,527	$ 57,502	$ —	$ 116,029	$ 52,772	$ 118,537	$ —	$ 171,309

There were no transfers of financial assets or liabilities into or out of Level 1, Level 2, or Level 3 for the fiscal years ended July 30, 2022, and July 31, 2021.

The following table sets forth the amortized cost, gross unrealized gains, gross unrealized losses and fair values of our short-term and long-term investments accounted for as available-for-sale securities as of July 30, 2022, and July 31, 2021:

	July 30, 2022				July 31, 2021			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Financial Assets:								
Investments:								
U.S. Treasury securities	$ 43,163	$ —	$ (903)	$ 42,260	$ 42,009	$ 35	$ —	$ 42,044
Certificates of deposit	—	—	—	—	1,500	—	—	1,500
Commercial paper	2,985	—	—	2,985	10,192	—	—	10,192
Asset-backed securities	—	—	—	—	10,393	18	(9)	10,402
Corporate bonds	55,526	—	(1,009)	54,517	96,347	103	(7)	96,443
Total	$ 101,674	$ —	$ (1,912)	$ 99,762	$ 160,441	$ 156	$ (16)	$ 160,581

The following table shows fair value and gross unrealized losses, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at July 30, 2022:

	Less Than 12 Months		More Than 12 Months		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Financial Assets:						
Investments:						
U.S. Treasury securities	$ 42,260	$ (903)	$ —	$ —	$ 42,260	$ (903)
Corporate bonds	24,940	(547)	29,577	(462)	54,517	(1,009)
Total	$ 67,200	$ (1,450)	$ 29,577	$ (462)	$ 96,777	$ (1,912)

Due to the increasing interest rate environment during fiscal 2022, gross unrealized losses on our available-for-sale securities have increased significantly. We evaluate securities for expected credit losses on a quarterly basis with consideration given to the financial condition and near-term prospects of the issuer; whether we intend to sell the securities, and whether it is more likely than not that we will be required to sell the securities before recovery of their amortized cost basis.

As of July 30, 2022, the losses on our available-for-sale securities were considered to be a direct effect of the increase in interest rates and not the creditworthiness of the issuers. We have the current intent and ability to retain these securities until maturity or recovery of the amortized cost basis. Therefore, we did not recognize any expected credit losses as of July 30, 2022.

The following table sets forth the fair value of available-for-sale securities by contractual maturity as of July 30, 2022, and July 31, 2021:

	July 30, 2022				July 31, 2021			
(in thousands)	One Year or Less	Over One Year Through Five Years	Over Five Years	Total	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
Financial Assets:								
Investments:								
U.S. Treasury securities	$ 35,473	$ 6,787	$ —	$ 42,260	$ 41,633	$ 411	$ —	$ 42,044
Certificates of deposit	—	—	—	—	1,500	—	—	1,500
Commercial paper	2,985	—	—	2,985	10,192	—	—	10,192
Asset-backed securities	—	—	—	—	29	10,373	—	10,402
Corporate bonds	43,591	10,926	—	54,517	48,192	48,251	—	96,443
Total	$ 82,049	$ 17,713	$ —	$ 99,762	$ 101,546	$ 59,035	$ —	$ 160,581

4. Leases

Our leasing portfolio includes lease arrangements for our corporate offices, fulfillment centers, and, to a lesser extent, equipment. Such leases generally have original lease terms between five and eight years, and often include one or more options to renew. We have not considered any of our renewal options reasonably certain to be exercised at lease commencement and do not have residual value guarantees associated with our leases.

Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of future minimum lease payments at lease commencement. Certain adjustments to our operating lease right-of-use assets may be required for items such as initial direct costs paid or incentives received. The Company calculates the present value of its leases using an estimated incremental borrowing rate, which requires judgment. Our incremental borrowing rate is determined for each lease using a peer group of companies with similar credit profiles, adjusted for the impact of collateralization and lease term.

The following is a schedule by year of the maturities of operating lease liabilities with original terms in excess of one year, as of July 30, 2022:

(in thousands)	July 30, 2022
2023	$ 37,448
2024	34,424
2025	29,135
2026	28,124
2027	22,271
Thereafter	48,521
Total undiscounted future minimum lease payments	199,923
Less imputed interest	(29,575)
Total discounted future minimum lease payments	$ 170,348

The weighted average remaining term for our leases as of July 30, 2022 and July 31, 2021 was 6.3 years and 6.0 years, respectively. The weighted average discount rate for our leases as of July 30, 2022 and July 31, 2021 was 4.7% and 4.9%, respectively.

Supplemental cash flow information related to our leases is as follows:

	For the Fiscal Year Ended	
(in thousands)	July 30, 2022	July 31, 2021
Cash paid for amounts included in the measurement of operating lease liabilities	$ 34,261	$ 33,061
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	40,067	8,766

Operating Lease Cost

Operating lease cost is recorded on a straight-line basis over the lease term. Certain leases contain variable payments, which are expensed as incurred and not included in our operating lease right-of-use assets and operating lease liabilities. These amounts primarily include payments for maintenance, utilities, taxes, and insurance on our office and fulfillment center leases.

The following table includes the components of our rent expense recorded in selling, general, and administrative expense in the consolidated statement of operations and comprehensive loss:

	For the Fiscal Year Ended	
(in thousands)	**July 30, 2022**	**July 31, 2021**
Operating lease cost	$ 33,615	$ 31,231
Variable lease costs	8,009	6,236
Short-term lease costs	354	2,016
Operating lease impairment	5,428	—
Sublease income	(4,230)	(876)
Total	$ 43,176	$ 38,607

During fiscal 2022, we entered into subleases for certain portions of our corporate offices and fulfillment centers due to our recent commitment to a more distributed workforce for corporate employees and a reduction in square footage needs for current operations. We may continue to seek sublease arrangements in fiscal 2023 for certain corporate offices and fulfillment centers as needed.

Impairment

In the fourth quarter of 2022, in connection with our June 9, 2022 restructuring plan, we recorded $6.2 million of impairment related to a change in our use of corporate office space, and the current and anticipated future market conditions for sublease income in San Francisco, California. This charge was allocated between operating lease right-of-use assets and property and equipment, net on the consolidated balance sheets to record the corresponding assets at their estimated fair market value, with the expense being recorded within selling, general, and administrative on the consolidated statements of operations and comprehensive loss.

5. Property and Equipment, net

Property and equipment, net consisted of the following:

(in thousands)	**July 30, 2022**	**July 31, 2021**
Computer equipment	$ 9,281	$ 7,637
Office furniture and equipment	53,999	37,454
Leasehold improvements	54,247	44,118
Capitalized software	84,605	66,656
Construction in progress	2,573	9,254
Building and land	430	430
Total property and equipment	205,135	165,549
Less: accumulated depreciation and amortization	(101,760)	(78,590)
Property and equipment, net	$ 103,375	$ 86,959

Depreciation and amortization expense for 2022, 2021, and 2020 was $35.0 million, $27.6 million, and $22.6 million, respectively.

6. Accrued Liabilities

Accrued liabilities consisted of the following:

(in thousands)	July 30, 2022	July 31, 2021
Compensation and related benefits	$ 11,319	$ 13,645
Advertising	15,579	12,649
Sales taxes	7,136	9,937
Shipping and freight	10,304	6,209
Accrued accounts payable	5,814	5,804
Inventory purchases	24,712	30,384
Sales refund reserve	10,314	11,704
Other	9,238	8,696
Total accrued liabilities	$ 94,416	$ 99,028

7. Credit Agreement

We are party to an amended and restated credit agreement, entered into June 2, 2021 and amended on July 29, 2022 (the "Amended Credit Agreement") with Silicon Valley Bank and other lenders, to provide a revolving line of credit of up to $100.0 million, including a letter of credit sub-facility in the aggregate amount of $30.0 million, and a swingline sub-facility in the aggregate amount of $40.0 million. We also have the option to request an incremental facility of up to an additional $150.0 million from one or more of the lenders under the Amended Credit Agreement.

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

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

As of July 30, 2022, we did not have any borrowings outstanding under the Amended Credit Agreement and we were in compliance with all financial covenants.

8. Commitments and Contingencies

Contingencies

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

On August 26, 2022, a class action lawsuit alleging violations of federal securities laws was filed by certain of our stockholders in the U.S. District Court for the Northern District of California, naming as defendants us, certain of our officers and directors and certain of our affiliated stockholders. The lawsuit alleges violations of the Securities Exchange Act of 1934, as amended, by us and our officers for allegedly making materially false and misleading statements regarding our Freestyle offering between December 2020 and December 2021. The plaintiffs seek unspecified monetary damages and other relief.

On October 11, 2018, October 26, 2018, November 16, 2018, and December 10, 2018, four putative class action lawsuits alleging violations of the federal securities laws were filed by certain of our stockholders in the U.S. District Court for the Northern District of California, naming as defendants us and certain of our officers. The four lawsuits each make the same allegations of violations of the

Securities Exchange Act of 1934, as amended, by us and our officers for allegedly making materially false and misleading statements regarding our active client growth and strategy with respect to television advertising between June 2018 and October 2018. The plaintiffs seek unspecified monetary damages and other relief. The four lawsuits have been consolidated and a lead plaintiff has been appointed. On September 18, 2019, the lead plaintiff in the consolidated class action lawsuits (the "Class Action") filed a consolidated complaint for violation of the federal securities laws. On October 28, 2019, we and other defendants filed a motion to dismiss the consolidated complaint. The lead plaintiff filed an opposition to the motion to dismiss on December 9, 2019, and we and the other defendants filed our reply in support of our motion to dismiss on December 30, 2019. The court granted our motion to dismiss on September 30, 2020 but allowed the lead plaintiff to file an amended complaint. On November 6, 2020, the lead plaintiff filed his amended complaint. We filed a motion to dismiss the amended complaint on December 7, 2020. The lead plaintiff filed an opposition to the motion to dismiss on January 8, 2021, and we filed our reply in support of our motion to dismiss on January 22, 2021. The court granted our motion to dismiss on October 1, 2021. On October 29, 2021, the plaintiffs filed a notice of appeal to the Ninth Circuit Court of Appeals. No hearing date has been set.

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

Indemnifications

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

9. Accumulated Other Comprehensive Income (Loss)

The table below presents the changes in AOCI by component and the reclassifications out of AOCI:

	Changes in Accumulated Other Comprehensive Income (Loss)		
(in thousands)	**Available-for-sale Securities**	**Foreign Currency Translation**	**Total**
Balance at July 31, 2021	$ (290)	$ 3,701	$ 3,411
Other comprehensive loss before reclassifications[1]	(1,873)	(4,888)	(6,761)
Amounts reclassified from AOCI	(177)	—	(177)
Net change in AOCI	(2,050)	(4,888)	(6,938)
Balance at July 30, 2022	$ (2,340)	$ (1,187)	$ (3,527)

	Changes in Accumulated Other Comprehensive Income (Loss)		
(in thousands)	**Available-for-sale Securities**	**Foreign Currency Translation**	**Total**
Balance at August 1, 2020	$ 1,213	$ 1,515	$ 2,728
Other comprehensive income (loss) before reclassifications[1]	(1,358)	2,186	828
Amounts reclassified from AOCI	(145)	—	(145)
Net change in AOCI	(1,503)	2,186	683
Balance at July 31, 2021	$ (290)	$ 3,701	$ 3,411

[1]There was no associated income tax effect for gains / losses on available-for-sale securities for the twelve months ended July 30, 2022 and July 31, 2021, as we have recorded a valuation allowance against these deferred tax balances.

10. Stock-Based Compensation

2011 Equity Incentive Plan

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

The 2011 Plan allowed for the grant of incentive stock options or nonqualified stock options as well as restricted stock units, restricted stock, and stock appreciation rights. Only incentive and nonqualified stock options were granted under the 2011 Plan. Employee stock option awards generally vested 25% on the first anniversary of the grant date with the remaining shares subject to the option vesting ratably over the next three years subject to the employee's continued service with the Company. Options generally expire after 10 years. Effective upon our initial public offering in 2017, the 2011 Plan was replaced by the 2017 Incentive Plan.

2017 Incentive Plan

In November 2017, our Board of Directors and stockholders adopted our 2017 Incentive Plan (the "2017 Plan"). The remaining shares available for issuance under our 2011 Plan became reserved for issuance under the 2017 Plan. Our 2017 Plan provides for the grant of Class A incentive stock options to employees, including employees of our subsidiary, and for the grant of nonqualified stock options, stock appreciation rights, restricted stock awards, RSU 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. Employee stock option awards generally begin to vest six months after the grant date with the remaining shares subject to the option vesting ratably over the next 30 months. Options generally expire after 10 years. RSU awards made to employees generally vest ratably on a quarterly basis subject to the employee's continued service with the Company. The number of shares authorized for issuance under the 2017 Plan was 32,793,232 shares of Class A common stock as of July 30, 2022.

The following table summarizes the shares available for grant under the 2017 Plan:

	Shares Available for Grant
Balance – July 31, 2021	4,167,716
Authorized	5,397,777
Granted	(11,897,733)
Forfeited	6,794,038
Balance – July 30, 2022	4,461,798

2019 Inducement Plan

In October 2019, our Board of Directors adopted our 2019 Inducement Plan (the "2019 Plan"). Our 2019 Plan provides for the grant of Class A nonqualified stock options and RSU awards to individuals who satisfy the standards for inducement grants under the relevant Nasdaq Stock Market rules. On April 7, 2022, the Board of Directors approved a 6,000,000 increase in the number of shares authorized for issuance under the 2019 Plan. The number of shares authorized for issuance under the 2019 Plan was 10,750,000 shares of Class A common stock as of July 30, 2022.

Stock Options

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

	Options Outstanding			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in thousands)
Balance – July 31, 2021	3,650,482	$ 25.47	7.40	$ 106,490
Granted	1,688,495	12.32		
Exercised	(176,977)	8.83		
Forfeited	(458,436)	28.59		
Balance – July 30, 2022	4,703,564	$ 21.07	7.58	$ 638
Options vested and exercisable - July 30, 2022	2,467,313	$ 21.58	6.46	$ 638
Options vested and expected to vest - July 30, 2022	4,652,886	$ 21.16	7.52	$ 638

The weighted-average grant date fair value of options granted during 2022, 2021, and 2020 was $6.26, $29.07, and $11.35 per share, respectively. The total grant date fair value of options that vested during 2022, 2021, and 2020 was $14.0 million, $13.3 million, and $15.3 million, respectively. The aggregate intrinsic value of options exercised during 2022, 2021, and 2020 was $3.5 million, $78.3 million, and $19.1 million, respectively. The aggregate intrinsic value of options exercised is the difference between the fair value of the underlying common stock on the date of exercise and the exercise price for in-the-money stock options.

Restricted Stock Units

Employee RSUs are granted under the 2017 Plan and 2019 Plan, settle into Class A common stock, and generally vest ratably on a quarterly basis subject to the employee's continued service with the Company.

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

	Unvested RSUs	
	Class A Common Stock	Weighted-Average Grant Date Fair Value
Unvested at July 31, 2021	10,264,925	$ 31.35
Granted	19,459,115	13.25
Vested	(3,459,966)	24.78
Forfeited	(7,046,452)	26.21
Unvested at July 30, 2022	19,217,622	$ 16.09

Stock-Based Compensation Expense

Stock-based compensation expense for options and RSUs granted to employees was $128.5 million, $100.7 million, and $67.5 million for fiscal years 2022, 2021, and 2020, respectively. Stock-based compensation expense is included in selling, general, and administrative expenses in our consolidated statements of operations and comprehensive loss.

The Company recognized no income tax benefit from stock-based compensation expense during fiscal year 2022 as the Company currently maintains a full valuation allowance against its net deferred tax assets in jurisdictions where material stock-based compensation expense is incurred. During fiscal years 2021 and 2020, the Company recognized a material income tax benefit from stock-based compensation expense due to the net operating loss carryback provisions of the CARES Act.

As of July 30, 2022, the total unrecognized compensation expense related to unvested options and RSUs, net of estimated forfeitures, was $291.0 million, which we expect to recognize over an estimated weighted average period of 2.6 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:

***Fair Value of Common Stock* -** The fair value of the shares of common stock underlying our stock options has been determined based on market prices.

***Expected Term* -** The expected term represents the period that our stock options are expected to be outstanding and is determined for the vast majority of our awards using historical averages.

***Expected Volatility* -** The expected volatility was estimated based on an even blend of our historical volatility since IPO and the implied volatility of Stitch Fix call options in the 30 days preceding a stock option grant.

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

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

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

	For the Fiscal Year Ended		
	July 30, 2022	July 31, 2021	August 1, 2020
Expected term (in years)	3.1 - 5.5	5.3 - 6.3	5.5 - 6.2
Volatility	62.1 - 79.2%	55.5 - 55.9%	50.1 - 51.2%
Risk free interest rate	0.8 - 2.9%	0.3 - 1.1%	1.4 - 1.7%
Dividend yield	— %	— %	— %

11. Income Taxes

The components of loss before income taxes are as follows:

(in thousands)	For the Fiscal Year Ended July 30, 2022	July 31, 2021	August 1, 2020
Loss before income taxes			
United States	$ (210,852)	$ (62,341)	$ (48,302)
Foreign	1,382	1,224	580
Total	$ (209,470)	$ (61,117)	$ (47,722)

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

(in thousands)	For the Fiscal Year Ended July 30, 2022	July 31, 2021	August 1, 2020
Current:			
Federal	$ 88	$ (49,552)	$ (5,528)
State	(2,472)	(2,562)	1,768
Foreign	570	(191)	275
Total current	(1,814)	(52,305)	(3,485)
Deferred:			
Federal	—	—	17,367
State	—	—	5,773
Foreign	(535)	64	(260)
Total deferred	(535)	64	22,880
Income tax provision (benefit)	$ (2,349)	$ (52,241)	$ 19,395

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

(in thousands, except percentages)	For the Fiscal Year Ended July 30, 2022		July 31, 2021		August 1, 2020	
Taxes at federal statutory rate	$ (43,989)	21.0 %	$ (12,835)	21.0 %	$ (10,022)	21.0 %
State taxes, net of federal effect	(2,731)	1.3 %	(2,417)	4.0 %	(4,868)	10.2 %
Stock-based compensation	8,909	(4.3)%	(34,314)	56.1 %	(2,047)	4.3 %
CARES Act carryback benefit	—	0.0 %	(13,571)	22.2 %	(3,070)	6.4 %
Change in valuation allowance	41,262	(19.7)%	21,789	(35.7)%	43,153	(90.4)%
R&D credits	(7,921)	3.8 %	(13,582)	22.2 %	(6,536)	13.7 %
Uncertain tax positions	18	0.0 %	(40)	0.1 %	2,343	(4.9)%
Return to provision	(208)	0.1 %	783	(1.3)%	(777)	1.6 %
Other	2,311	(1.1)%	1,946	(3.1)%	1,219	(2.5)%
Effective tax rate	$ (2,349)	1.1 %	$ (52,241)	85.5 %	$ 19,395	(40.6)%

The components of net deferred tax assets are as follows:

(in thousands)	July 30, 2022	July 31, 2021	August 1, 2020
Deferred tax assets:			
Inventory reserve and UNICAP	$ 25,867	$ 23,007	$ 17,015
Accruals and reserves	5,180	5,997	4,632
Research and development credits	35,843	27,964	11,611
Stock-based compensation	16,487	17,062	11,717
Deferred revenue	390	276	435
Operating lease liability	43,280	35,969	39,380
Net operating losses	52,751	10,136	739
Other	2,001	1,105	349
Gross deferred tax assets	181,799	121,516	85,878
Less: valuation allowance	(126,463)	(77,604)	(43,153)
Deferred tax assets, net of valuation allowance	55,336	43,912	42,725
Deferred tax liabilities:			
Depreciation and amortization	(20,221)	(13,110)	(11,044)
Operating lease right-of-use assets	(33,254)	(28,607)	(31,267)
Other	(1,110)	(1,907)	(81)
Gross deferred tax liabilities	(54,585)	(43,624)	(42,392)
Net deferred tax assets, net of valuation allowance	$ 751	$ 288	$ 333

Our effective tax rate and provision for income taxes decreased from the fiscal year ended July 31, 2021, to the fiscal year ended July 30, 2022, primarily due to the reversal of stock-based compensation expenses and the absence of the prior year net operating loss carryback provisions of the CARES Act that were not in effect for the current year.

Our effective tax rate and provision for income taxes increased from the fiscal year ended August 1, 2020, to the fiscal year ended July 31, 2021, primarily due to the net operating loss carryback provisions of the CARES Act and excess tax benefits from stock-based compensation, partially offset by the change in valuation allowance and certain nondeductible expenses.

As of July 30, 2022, we continue to consider all undistributed earnings of foreign subsidiaries indefinitely reinvested outside the U.S. Even if, however, all or a portion of these funds were to be repatriated to the U.S., we would not expect to accrue and pay U.S. or foreign taxes on the repatriation.

As of July 30, 2022, we had federal net operating loss carryforwards of $165.3 million which will be carried forward indefinitely. As of July 30, 2022 and July 31, 2021, we had federal research and development tax credit carryforwards of $38.7 million and $30.1 million respectively. The research and development tax credits will expire beginning in 2036 if not utilized.

As of July 30, 2022, and July 31, 2021, we had state net operating loss carryforwards of $256.0 million and $142.0 million, respectively. The state net operating loss carryforwards will expire, if not utilized, beginning in 2025. As of July 30, 2022, and July 31, 2021, we had California research and development tax credit carryforwards of $21.4 million and $17.0 million, respectively, which are not subject to expiration. Utilization of the net operating loss carryforwards, tax credits and other tax attributes may be subject to various limitations due to the ownership change limitations provided by Internal Revenue Code (IRC) Section 382 and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before their utilization and our ability to offset future income with our tax attributes.

Uncertain Tax Positions

A reconciliation of our unrecognized tax benefits is as follows:

(in thousands)	July 30, 2022	July 31, 2021	August 1, 2020
Balance at the beginning of the year	$ 23,625	$ 16,693	$ 10,995
Lapse of statute of limitations	(2,191)	(1,909)	(939)
Increase related to prior period tax positions	309	495	1,074
Decrease related to prior period tax positions	(12)	—	—
Increase related to current year tax positions	4,375	8,346	5,563
Balance at the end of the year	$ 26,106	$ 23,625	$ 16,693

The amount of unrecognized tax benefits relating to our tax positions is subject to change based on future events including, but not limited to, the settlements of ongoing audits and/or the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, we anticipate that the balance of the liability for unrecognized tax benefits and related deferred tax assets will decrease by $0.5 million during the next 12 months due to lapses of applicable statutes of limitation. Our liability for uncertain tax positions as of July 30, 2022, includes $1.8 million related to amounts that would impact our current and future tax expense.

We recognize interest related to uncertain tax positions in our provision for income taxes. The Company files income tax returns in the U.S. federal and various state and local jurisdictions and in the UK. As of July 30, 2022, the fiscal year 2016 through 2020 tax returns are subject to potential examination in one or more jurisdictions.

We regularly assess whether it is more likely than not that we will realize our deferred tax assets in each taxing jurisdiction in which we operate. We consider many factors when assessing the likelihood of future realization, including our recent cumulative loss, earnings expectations in earlier future years, unsettled economic disruption of the COVID-19 pandemic, and other relevant factors. We continue to record a full valuation allowance on our US and state net deferred tax assets due to cumulative historical losses. The valuation allowance primarily relates to federal and state deferred tax assets, including unrealized credit carryforwards and net operating losses. The valuation allowance increased by $48.9 million in the year ended July 30, 2022, and by $34.5 million in the year ended July 31, 2021.

A reconciliation of our valuation allowance is as follows:

(in thousands)	July 30, 2022	July 31, 2021
Beginning of year valuation allowance	$ 77,604	$ 43,153
Valuation allowance charged / (credited) to expense	54,383	40,995
Valuation allowance charged / (credited) to other accounts	(5,524)	(6,544)
End of year valuation allowance	$ 126,463	$ 77,604

12. Loss Per Share Attributable to Common Stockholders

Basic and diluted loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities: Class A and Class B common stock. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting, conversion, and transfer rights. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock is convertible at any time at the option of the stockholder into one share of Class A common stock.

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period.

For the calculation of diluted loss per share, net loss attributable to common stockholders for basic loss per share is adjusted by the effect of dilutive securities. Diluted net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding, including all potentially dilutive common shares. In periods of loss, there are no potentially dilutive common shares to add to the weighted-average number of common shares outstanding. The undistributed losses are allocated based on the contractual participation rights of the Class A and Class B common shares as if the losses for the year have been distributed. As the liquidation and dividend rights are identical, the undistributed loss is allocated on a proportionate basis.

In January 2022, the Company's Board of Directors authorized a share repurchase program to repurchase up to $150.0 million of our outstanding Class A common stock, with no expiration date (the “2022 Repurchase Program”). The actual timing, number, and value of shares repurchased in the future will be determined by the Company in its discretion and will depend on a number of factors, including market conditions, applicable legal requirements, our capital needs, and whether there is a better alternative use of capital.

Repurchases during any given fiscal period under the 2022 Repurchase Program will reduce the number of weighted-average common shares outstanding for the period.

A reconciliation of the numerator and denominator used in the calculation of basic and diluted loss per share attributable to Class A and Class B common stockholders is as follows:

(in thousands except share and per share amounts)	July 30, 2022	July 31, 2021	August 1, 2020
Numerator:			
Net loss attributable to Class A and Class B common stockholders	$ (207,121)	$ (8,876)	$ (67,117)
Denominator:			
Weighted-average shares of common stock – basic	108,762,589	105,975,403	102,383,282
Effect of dilutive stock options and restricted stock units	—	—	—
Weighted-average shares of common stock – diluted	108,762.589	105,975.403	102,383.282
Loss per share attributable to Class A and Class B common stockholders:			
Basic	$ (1.90)	$ (0.08)	$ (0.66)
Diluted	$ (1.90)	$ (0.08)	$ (0.66)

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

	July 30, 2022	July 31, 2021	August 1, 2020
Restricted stock units that settle into Class A common stock	19,217,622	10,264,925	7,965,447
Stock options to purchase Class A common stock	3,629,617	2,361,055	2,924,512
Stock options to purchase Class B common stock	1,073,947	1,289,427	3,540,414
Total	23,921,186	13,915,407	14,430,373

13. Restructuring

In light of our recent business momentum and an uncertain macroeconomic environment, we announced a restructuring plan on June 9, 2022, that will reduce our future fixed and variable operating costs and allow us to centralize key capabilities, strengthen decision-making to drive efficiencies, and ensure we are allocating resources to our most critical priorities. This restructuring plan reduced our workforce by approximately 15% of salaried positions and represented approximately 4% of our roles in total.

The components of the restructuring charges are as follows:

	For the Fiscal Year Ended
(in thousands)	July 30, 2022
Severance and employee-related benefits[1]	$ 10,869
Asset impairments[2]	6,154
Other[3]	719
Total restructuring	$ 17,742

[1] Recognized in selling, general, and administrative expenses.

[2] Asset impairment charges relate to certain operating lease assets and leasehold improvements on our corporate offices. These charges were recognized within selling, general, and administrative expenses. For more information on asset impairments, please see "Leases" in Note 4 of the Notes to the Consolidated Financial Statements included in this Annual Report.

[3] Recognized in cost of goods sold.

The following table provides the components of and changes in the Company's restructuring and related charges, included in accrued liabilities on the consolidated balance sheets:

(in thousands)	Severance and Employee Related Benefits
Balance at July 31, 2021	$ —
Charges incurred	9,758
Cash payments	(9,468)
Balance at July 30, 2022	$ 290

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Based on the evaluation of our disclosure controls and procedures as of July 30, 2022, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 30, 2022.

Management's Report on Internal Control Over Financial Reporting

Management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. GAAP.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on evaluation under these criteria, management determined that our internal control over financial reporting was effective as of July 30, 2022.

Deloitte & Touche LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting and, as part of the audit, has issued a report on the effectiveness of our internal control over financial reporting as of July 30, 2022, which is included in Part II, "Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

During the quarter ended October 30, 2021, we enhanced our procure-to-pay processes, which included the implementation of a new inventory management system. As part of these changes, we modified certain existing internal controls and implemented new internal controls over financial reporting. There were no other changes during the fiscal year ended July 30, 2022, in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this item regarding directors and director nominees, executive officers, the Board of Directors and its committees, certain corporate governance matters, and compliance with Section 16(a) of the Exchange Act is incorporated by reference to the information set forth under the captions "Proposal 1: Election of Directors," "Executive Officers," and "Delinquent Section 16(a) Reports" in the definitive proxy statement for our 2022 Annual Meeting of Stockholders (the "2022 Proxy Statement").

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

Item 11. Executive Compensation.

Information required by this item regarding executive compensation is incorporated by reference to the information set forth under the captions "Executive Compensation" and "Director Compensation" in our 2022 Proxy Statement.

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

Information required by this item regarding security ownership of certain beneficial owners and management and securities authorized for issuance under our equity compensation plans is incorporated by reference to the information set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Executive Compensation—Equity Compensation Plan Information" in our 2022 Proxy Statement.

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

Information required by this item regarding certain relationships and related transactions and director independence is incorporated by reference to the information set forth under the captions "Transactions with Related Persons and Indemnification" and "Proposal 1: Election of Directors—Independence of the Board" in our 2022 Proxy Statement.

Item 14. Principal Accounting Fees and Services.

Information required by this item regarding principal accounting fees and services is incorporated by reference to the information set forth under the caption "Proposal 3: Ratification of Selection of Independent Registered Public Accounting Firm" in our 2022 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

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

(1) The financial statements are filed as part of this Annual Report under “Item 8. Financial Statements and Supplementary Data.”

(2) The financial statement schedules are omitted because they are either not applicable or the information required is presented in the financial statements and notes thereto under “Item 8. Financial Statements and Supplementary Data.”

(3) The exhibits listed in the following Exhibit Index are filed, furnished, or incorporated by reference as part of this Annual Report.

Exhibit Index

Exhibit Number	Description	Incorporation by Reference: Form	File No.	Exhibit	Filing Date	Filed or Furnished Herewith
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	
4.3*	Description of Class A Common Stock.	10-K	001-38291	4.3	9/25/2020	
10.1*	Amended and Restated Investor Rights Agreement, dated April 10, 2014.	S-1	333-221014	10.1	10/19/2017	
10.2*+	Stitch Fix, Inc. 2011 Equity Incentive Plan, as amended.	S-1	333-221014	10.2	10/19/2017	
10.3*+	Forms of grant notice, stock option agreement, notice of exercise and early exercise stock purchase agreement under the Stitch Fix, Inc. 2011 Equity Incentive Plan, as amended.	S-1	333-221014	10.3	10/19/2017	
10.4*+	Stitch Fix, Inc. 2017 Incentive Plan.	10-K	001-38291	10.4	10/3/2018	
10.5*+	Forms of stock option grant notice, stock option agreement and notice of exercise under the Stitch Fix, Inc. 2017 Incentive Plan.	S-1/A	333-221014	10.5	11/6/2017	
10.6*+	Forms of restricted stock unit grant notice and award agreement under the Stitch Fix, Inc. 2017 Incentive Plan.	S-1/A	333-221014	10.6	11/6/2017	
10.7*+	Stitch Fix, Inc. 2019 Inducement Plan, as amended.	S-8	333-234323	99.4	8/14/2020	
10.8*+	Forms of stock option grant notice, stock option agreement and notice of exercise under the Stitch Fix, Inc. 2019 Inducement Plan.	S-8	333-234323	99.2	10/25/2019	
10.9*+	Forms of restricted stock unit grant notice and award agreement under the Stitch Fix, Inc. 2019 Inducement Plan.	S-8	333-234323	99.3	10/25/2019	
10.10*+	Form of Indemnity Agreement entered into by and between Stitch Fix, Inc. and each director and executive officer.	S-1	333-221014	10.7	10/19/2017	
10.11*+	Independent Director Compensation Policy	10-Q	001-38291	10.1	3/9/2021	
10.12*+	Offer Letter, by and between Stitch Fix, Inc. and Katrina Lake, dated September 5, 2017.	S-1	333-221014	10.8	10/19/2017	
10.13*+	Amended and Restated Offer Letter, by and between Stitch Fix, Inc. and Scott Darling, dated September 5, 2017.	S-1	333-221014	10.11	10/19/2017	
10.14*+	Amended and Restated Offer Letter, by and between Stitch Fix, Inc. and Mike Smith, dated September 25, 2017.	S-1	333-221014	10.16	10/19/2017	
10.15*+	Transition Letter, by and between Stitch Fix, Inc. and Mike Smith, dated January 7, 2021.	10-Q	001-38291	10.2	3/9/2021	
10.16*+	Offer Letter, by and between Stitch Fix, Inc. and Elizabeth Spaulding, dated November 7, 2019.	10-Q	001-38291	10.4	12/10/2019	
10.17+	Offer Letter, by and between Stitch Fix, Inc. and Elizabeth Spaulding, dated June 23, 2021.	10-K	001-38291	10.18	9/27/2021	
10.18*+	Offer Letter, by and between Stitch Fix, Inc. and Dan Jedda, dated October 29, 2020.	10-Q	001-38291	10.1	12/8/2020	
10.19+	Offer Letter, by and between Sachin Dhawan and Stitch Fix, Inc., dated December 20, 2021.					X

10.20*	Office Lease, by and between Stitch Fix, Inc. and Post-Montgomery Associates, dated as of November 10, 2015, as amended.	S-1/A	333-221014	10.12	11/6/2017	
10.21*	First Amendment to Original Office Lease, executed February 22, 2016, between Stitch Fix, Inc. and Post-Montgomery Associates.	10-Q	001-38291	10.1	3/13/2018	
10.22*	Second Amendment to Original Office Lease, executed September 6, 2017, between Stitch Fix, Inc. and Post-Montgomery Associates.	10-Q	001-38291	10.2	3/13/2018	
10.23*	Third Amendment to the Office Lease, by and between Stitch Fix, Inc. and Post-Montgomery Associates, dated as of January 29, 2018.	8-K	001-38291	10.1	2/2/2018	
10.24*	Fourth Amendment to the Office Lease, by and between Stitch Fix, Inc. and Post-Montgomery Associates, dated as of June 4, 2018.	10-Q	001-38291	10.2	6/8/2018	
10.25*	Amended and Restated Credit Agreement by and between, Stitch Fix, Inc. and Silicon Valley Bank, dated June 2, 2021.	10-Q	001-38291	10.1	6/8/2021	
10.26	First Amendment to Amended and Restated Credit Agreement by and between, Stitch Fix, Inc. and Silicon Valley Bank, dated July 29, 2022.					X
21.1	List of Subsidiaries of Stitch Fix, Inc.					X
23.1	Consent of Deloitte & Touche LLP, independent registered public accounting firm.					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1†	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).					

+ Indicates management contract or compensatory plan.

* Document has been previously filed with the Securities and Exchange Commission and is incorporated herein by reference herein.

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

Item 16. Form 10-K Summary.

None.

SIGNATURES

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

	Stitch Fix, Inc.
Date: September 21, 2022	By: /s/ Dan Jedda
	Dan Jedda
	Chief Financial Officer
	(Principal Financial Officer)
	By: /s/ Sarah Barkema
	Sarah Barkema
	Chief Accounting Officer
	(Principal Accounting Officer)

POWER OF ATTORNEY

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

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

Name	Title	Date
/s/ Elizabeth Spaulding Elizabeth Spaulding	Chief Executive Officer and Director (*Principal Executive Officer*)	September 21, 2022
/s/ Dan Jedda Dan Jedda	Chief Financial Officer (*Principal Financial Officer*)	September 21, 2022
/s/ Sarah Barkema Sarah Barkema	Chief Accounting Officer (*Principal Accounting Officer*)	September 21, 2022
/s/ Steven Anderson Steven Anderson	Director	September 21, 2022
/s/ J. William Gurley J. William Gurley	Director	September 21, 2022
/s/ Katrina Lake Katrina Lake	Founder and Director	September 21, 2022
/s/ Sharon McCollam Sharon McCollam	Director	September 21, 2022
/s/ Neal Mohan Neal Mohan	Director	September 21, 2022
/s/ Michael Smith Michael Smith	Director	September 21, 2022
/s/ Mikkel Svane Mikkel Svane	Director	September 21, 2022
/s/ Elizabeth Williams Elizabeth Williams	Director	September 21, 2022