

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

FORM 10-K

(Mark One)

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

For the fiscal year ended January 1, 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: 001-41032

Kidpik Corp.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

81-3640708

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

200 Park Avenue South, 3rd Floor

New York, New York

(Address of principal executive offices)

10003

(Zip Code)

Registrant's Telephone Number, Including Area Code: (212) 399-2323

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

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common Stock, par value \$0.001 per share

PIK

The Nasdaq Stock Market LLC

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 (the "Exchange Act") 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
Non-accelerated Filer

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.

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

As of July 3, 2021, which was the last business day of the registrant's most recently completed second fiscal quarter, the registrant's securities were not publicly traded. The registrant's common stock began trading on the Nasdaq Capital Market on November 11, 2021.

Number of shares of registrant's common stock outstanding as of April 1, 2022: 7,617,834.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2022 annual meeting of stockholders (the "2022 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2022 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K (this “Report”) contains forward-looking statements within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995, regarding future events and the future results of Kidpik Corp. (the “Company”) that are based on current expectations, estimates, forecasts, and projections about the industry in which the Company operates and the beliefs and assumptions of the management of the Company. In some cases, you can identify forward-looking statements by the following words: “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “plan,” “potential,” “predict,” “project,” “should,” or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made and involve known and unknown risks, uncertainties and other factors that may cause our results, levels of activity, performance or achievements to be materially different from the information expressed or implied by the forward-looking statements in this Report. Factors that might cause or contribute to such differences include, but are not limited to, those discussed elsewhere in this Report, including under, or incorporated by reference into, “Risk Factors”, which factors include:

- our ability to obtain additional funding;
- the continuing effect of COVID-19 on our operations, sales, and market for our products;
- our ability to build and maintain our brand;
- cybersecurity, information systems and fraud risks and problems with our websites;
- our ability to expand and grow our operations, and successfully market our products and services;
- changes in, and our compliance with, rules and regulations affecting our operations, sales, the internet in general and/or our products;
- shipping, production or manufacturing delays and/or tariffs on our products;
- our ability to increase members and sales;
- regulations we are required to comply with in connection with our operations, manufacturing, labeling and shipping;
- competition from existing competitors or new competitors or products that may emerge;
- rising inflation and our ability to control our costs, including employee wages and benefits and other operating expenses;
- our dependency on third-party manufacturers to supply or manufacture our products;
- our business, including our costs and supply chain, which is subject to risks associated with inflation;
- our ability and third parties’ abilities to protect intellectual property rights;
- our ability to adequately support future growth;
- our ability to attract and retain key personnel to manage our business effectively; and
- other risk factors included under “Risk Factors” below.

You should read the matters described in, and incorporated by reference in, “Risk Factors” and the other cautionary statements made in this Report, and incorporated by reference herein, as being applicable to all related forward-looking statements wherever they appear in this Report. We cannot assure you that the forward-looking statements in this Report will prove to be accurate and therefore prospective investors are encouraged not to place undue reliance on forward-looking statements. All forward-looking statements included herein speak only of the date of the filing of this Report. All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements above. Other than as required by law, we undertake no obligation to update or revise these forward-looking statements, even though our situation may change in the future.

PART I

Item 1. BUSINESS

Overview

We began operations in 2016 as a subscription-based e-commerce company. We make shopping easy, convenient, and accessible for parents by delivering, in a box, fashionable and personalized outfits for kids. kidpik provides kids clothing subscription boxes for boys and girls of varying sizes from toddler to youth that include *mix-&-match* coordinated outfits that are personalized based on each member's style preferences. We focus on providing entire outfits from head-to-toe (including shoes) by designing each seasonal collection in-house from concept to box.

Our mission statement is “To change the way parents shop for their kids by delivering outfits that make their kids confident and happy.”

We take a partially integrated approach allowing us to design, merchandise and procure each seasonal collections with outfit coordination in mind from the beginning of the process and to deliver what we believe is a beneficial customer experience in terms of style, quality, value, curation, and outfit coordination.

We save parents time by delivering personalized, *mix-&-match* outfits curated by our team of seasoned stylists, that are ready to wear right out-of-the-box. Members shop from the comfort of their home and have a week to decide what to keep, return or exchange.

Our growth has come mainly through social media marketing where we continuously explore new ads, new audiences, new channels, and by expanding into new product lines such as adding boys clothing and toddler sizes. We attribute our growth and positive member engagement to having solved the following two pain points for parents and kids:

Difficulty of selecting fashionable outfits that match: Parents do not always have the expertise to put together stylized, fashionable looks.

Avoiding challenging in-store shopping experiences: Shopping for children's clothing in stores and online can be challenging for parents. It can be time consuming, difficult, and require going to multiple stores and online ecommerce sites, which may result in additional challenges, including, but not limited to, parents being required to bring their children with them to go shopping.

Business Development

kidpik began operations in 2016, focused on personalized girls' fashions sizes 4-14, curated in a box. Our aim was to make it easy for parents and save time by doing the shopping and styling for them, delivering personalized coordinated outfits (which we call 'piks'), allowing them to try-on the clothing, shoes, and accessories in the comfort of their home, and within the context of their kids' closets. We built our subscription 'box' which currently contains seven or eight items — five or six pieces of clothing, a pair of shoes, and an accessory — to create *mix-&-match* personalized outfits. Our subscription boxes are available on kidpik.com.

After launching with our girls' subscription box for sizes 4-14 in 2016, we have continued to expand our product offering and marketing channels. We expanded into boys' clothes, added larger sizes up to 16 for apparel and 6 youth for shoes, added toddler sizes down to 2T and 3T for apparel and 7 and 8 toddler shoes, launched shop.kidpik.com, where we sell our seasonal collection individually including pre-styled outfit, pre-styled boxes and gift cards, and expanded to sell on Amazon.com as Fulfilled by Amazon (FBA) and Fulfilled by Merchant (FBM) for pre-packs and individual items.

We have also added new features and products to our core subscription service including add-on items, kidpik koins (our loyalty program), refer a friend, and on-demand boxes.

Initial Public Offering

In November 2021, the Company completed an initial public offering (the “IPO”), in which the Company issued and sold 2,117,647 shares of its authorized common stock for \$8.50 per share for net proceeds of \$16.1 million, after deducting underwriting discounts and commissions, and offering costs.

Products

We offer all apparel categories including tops, bottoms, cardigans, jackets, dresses, and swimwear, in knit and woven fabrications. Shoes are available from size 7 toddler to size 6 youth, including sneakers, boots, sandals, and dress shoes. Accessories include sunglasses, jewelry, bags, socks, hats, and hair goods, among other items.

We create coordinating and matching outfits from head-to-toe, providing parents a convenient, time saving, and stress-free shopping experience, while offering kids the excitement of unboxing and the opportunity to discover their own unique sense of style.

Our personalized service and fashion boxes are primarily marketed towards parents and grandparents for their children and grandchildren. Our in-house team designs, merchandises, and procures all of our apparel, shoes, and accessories to our specifications.

As of the date of this Report, we provide e-commerce services only throughout the contiguous United States and Army Post Offices (APOs) and Fleet Post Offices (FPOs).

Our Strengths

We believe that we have five core strengths that helped kidpik thrive in the still emerging subscription-based e-commerce industry and which give us a competitive advantage:

- kidpik CEO, Ezra Dabah, and his senior team led The Children’s Place retail stores for 17 years from 1990 to 2007
 - Ezra Dabah, as CEO of the Children’s Place retail stores, and key members of his current senior team at kidpik, led The Children’s Place growth from approximately 150 to 1,200 stores and revenue growth from approximately \$150 million to over \$2 billion. The executive team collectively have 150+ years of childrenswear experience across design, merchandising, procurement, retail, brand building, e-commerce, creative and marketing.
- Robust member and merchandising dataset
 - We believe that the combination of our robust member and merchandising data sets helps us to improve revenue and profit utilizing predictive proprietary information. This data set provides insights that allows us to refine and improve the personalized shopping experience.
- Highly adaptable proprietary technological infrastructure and algorithm
 - We believe that the combination of our robust member dataset and refined proprietary technology offers us a highly competitive advantage in a marketplace with considerable barriers to entry due to the complexity and length of time in building internal internet technology (IT) systems that can adequately support and scale our subscription growth.
- Deep expertise in the childrenswear industry leads to a superior subscription business model
 - We believe we have a competitive advantage over our subscription-based e-commerce clothing competitors based on our teams’ extensive knowledge and experience of the childrenswear market, and of implementing, optimizing, and executing, strong internal processes with our in-house design, merchandising, and procurement teams.
- Design and integration model
 - Our integration process allows us to control all style specifications, including stitching detail, findings, hardware, color, sizing and fit, across all our apparel, shoe, and accessory categories. This ensures fit and color consistency, complete outfit coordination, quality value equation and takes over the challenging aspects of the shopping experience from our members.

How kidpik Works

We are a “subscription” service with no monthly subscription or styling fees.

New members take a 3-minute style quiz which provides us information about silhouettes, colors, prints, fits, favorite looks, and other style preferences their kids like to wear. Members then select a box delivery frequency that works best for them – every 4, 6, or 12 weeks, and enter their shipping and payment information. In conjunction with our propriety algorithm, our stylists select three coordinating outfits personalized to each child’s style preferences. We send this information to our warehouse, where we pick and pack the order, ensuring that each box is packed consistently and in a manner that is intended to make opening the box an exciting event. The surprise box of personalized fashion is shipped and delivered to the member door. Members pay no styling, shipping, return or exchange fees, for their ‘boxes’ and only pay for what they keep.

What’s in a Box

Most kidpik fashion subscription box contains seven or eight items — five or six pieces of apparel, a pair of shoes and an accessory — which creates *mix-&-match* outfits. Members are informed they have one week to decide what to keep or return and complete the process by checking out online. If a member would like to return or exchange any item, it’s easy and free. They simply put the items into the provided pre-paid bag and drop it in a USPS mailbox.

Membership

We define active subscriptions as an individual child in a member’s account who is due to receive future boxes. One member can have multiple subscriptions.

Business Strategy

We seek to capitalize on the advantages of being a digital first subscription-ecommerce fashion brand. We plan to achieve this goal by executing our business strategy:

1. Creating a strong value equation for consumers of quality and price, our partial integration allows us to capitalize on what we believe is a significant price sensitive childrenswear market. Focusing on controlling the product and process from concept to box, which allows us to price competitively while having our products under our own kidpik label reinforces the value of our brand to consumers and gives us the opportunity to market our brand through other third-party platforms and retail outlets.
2. Delivering personalized and styled outfits directly to a member's door provides a seamless and easy experience for our members allowing us to connect with parents and kids emotionally, driving a stronger brand connection.
3. Investing in our data science and technology platforms to continuously drive a positive and frictionless member experience to increase lifetime value.

We believe effectively executing our business strategy will allow us to successfully pursue our goals to become one of the top players in the children's clothing subscription industry. We believe focusing on personalization of outfits at a value will set us apart from other children's clothing subscription players and drive growth. By delivering a consistent and seamless member experience it allows us to build trust and continue to expand our product lines into our members households. Below is a discussion of how we plan to capitalize upon our business strategy.

Member Growth & Marketing Channels

Our first member was acquired on January 20, 2016, and we shipped our first curated girl's fashion box on March 18, 2016. We believe we drove many of our member acquisitions through Facebook and Instagram Ads, Google Ads, email, affiliates, public relations, influencer marketing and search engine optimization (SEO), along with referrals from current members, word of mouth, and through family, friends, and communities. Beginning in 2021, we expanded our advertising to include YouTube, Snapchat, TikTok, Pinterest, and digital co-branded collaborations.

In the age of digital ads and e-commerce, we believe that social proof (a psychological and social phenomenon wherein people copy the actions of others in an attempt to undertake behavior in a given situation) is an important factor for buying or signing up for a product and displaying user generated content (UGC) in our marketing ads has had a role in the increase of member acquisition. We believe that our commitment to growing new channels, together with public relations, influencer marketing, and brand ambassador programs will help drive our continued growth.

To continue to grow channels, we aggressively test different ad creatives, audiences' images, and landing pages to find what the most successful experience is for a given audience. This continuous testing provides us an opportunity to stay on top of the trends and adapt our strategy as the situation changes.

Add-on Items

In 2021 we launched add-on items, which allows members to add items to their next box. We remind members of this option before their box is styled, by sending an email featuring items available to be added. We have found that this increases the average transaction size and our average profit per box.

Member Referral Program

We incentivize active members to refer their family and friends to kidpik by extending a discount to their friends on their first box and awarding them a dollars-off credit when their friends make a purchase.

During certain promotional periods, kidpik will reward active members immediately after the friend subscribes to kidpik rather than waiting to reward them until the referred member makes a purchase, and offer additional incentives and rewards.

Member Loyalty Program

We offer the opportunity for members to earn 'kidpik koins,' which are part of our loyalty program. Koins are rewarded to members based on certain actions such as keeping the whole box, referring friends, and can be redeemed for free items in our online kidpik koin marketplace. Redeemed items are shipped for free in the member's next box. We launched this program in October 2020, and it has already been used by thousands of our members.

Brand Ambassador Program

In November 2020, we introduced our influencer ambassador program, whereby we have pre-selected ambassadors and have provided free seasonal boxes to said ambassadors in exchange for recurring seasonal social media posts about kidpik boxes and our products. Each influencer is assigned a unique promo code and affiliate link and earns a monetary commission when their followers subscribe to kidpik. In February of 2022, we scaled the program to recruit additional ambassadors, growing the network size, and including the ability for ambassadors to earn commission on individual items and pre-styled boxes available with no subscription required on shop.kidpik.com.

In addition to our influencer ambassador program, in February of 2022, we soft launched a consumer-facing brand ambassador program, supported by a third-party platform. Through this program, we can inspire everyday consumers to act as influencers and to create content promoting kidpik to be shared with their friends and followers. Each consumer brand ambassador is assigned a unique promo code and referral link and earns either monetary commission or store credit when their friends and followers subscribe to kidpik or make a purchase from shop.kidpik.com.

Blog

In addition to our subscription and e-commerce websites, we run and manage a brand blog, www.kidpik.com/blog, where we have built a lifestyle around the kidpik brand through articles, activities, and posts, which helps to establish a brand voice and attract new members. Consumers and members can discover more about the kidpik brand story, learn fashion and lifestyle tips, and are treated to virtual events and craft projects designed for our target audience that offer fun for the entire family. Our blog allows us to host long form content and share information about new launches, digital co-branded collaborations, and brand events. The blog also hosts a library of articles that is updated to enhance our brand and serve as a host to SEO keyword searches designed to strategically increase our SEO rankings.

Large Social Media Community

We have garnered a substantial number of social media followers across various platforms, particularly Facebook and Instagram. As of March 31, 2022, we had over 512,000 likes on Facebook and 124,000 followers on Instagram (a like and follow may be done by the same person). A consistent stream of user generated content, also known as UGC, is published to Facebook and Instagram by our members, which is then republished to our social media accounts, ads, emails, and more which we have found helps build social proof and trust for people to subscribe with kidpik. This UGC content accounts for some of our best performing brand assets in terms of conversion, engagement and also generates awareness through our members' respective channels when they share about their experience with kidpik. We believe our thoughtful unboxing experience inspires members to capture the moment and share it with us and their friends.

Design & Integration Model

We believe we have a competitive advantage over our subscription-based e-commerce clothing competitors based on our teams' extensive knowledge and experience of the childrenswear and footwear industries, and of implementing, optimizing, and executing in-house strong internal processes with our design, merchandising, and procurement teams.

All of our apparel and shoes are developed by our in-house design team in New York City. Seasonally, our design team develops a sample line, mostly created in our own sample room in China, allowing for style and trend flexibility, ensuring quality, consistency of fit, and outfit coordination. Our design, and merchandising teams continuously collaborate to ensure that the customer preferences, market trends, and product offerings are being met and we are maintaining our core fashion values. Our merchandising team also analyzes trends and feedback, as well as historical data to identify essential styles, replenishment, and quantities to support the business needs. Our design, merchandising, and styling teams work to build a collection where each style can be merchandised together to create beautiful mix-&-match outfits. Our production team works directly with suppliers and factories to produce our finalized styles, ensuring each style is made to all of our detailed specifications including quality, color, sizing, and fit. We rely on a limited number of suppliers and factories where we contract to manufacture our products and while we have long-standing relations with them, we do not have long-term contracts with these parties. For the year ended January 1, 2022, three vendors accounted for approximately 49% of inventory purchases. For the year ended January 2, 2021, four vendors accounted for approximately 60% of inventory purchases. Our production team also coordinates and provides specific instruction on all packing and shipping requirements to ensure efficiencies. Our products are shipped from our manufactures directly to our distribution center in California, which handles all our warehousing, fulfillment, packing, outbound shipping, returns, and exchanges.

This process ensures consistency of style, quality, fit, and color along with complete outfit coordination beginning with style development to final box coordination. The process also allows us to cater to each of our members' unique style, color, print, sparkle, fit, and other preferences as well as lifestyle categories including girly, active, classic, urban, and trendy across boys, girls, and toddlers since we design and merchandise these preferences.

Our internal design process allows us to control all style specifications, including color, sizing and fit, across all our apparel, shoe, and accessory categories. This ensures consistency, complete outfit coordination, and takes over the challenging aspects of the shopping experience from our members, as everything mixes and matches, from head-to-toe. Inconsistency of sizing and color differentiation is something we have found can be very frustrating when shopping for kids' clothes from different brands.

We contract to manufacture with vendors for the products we sell. As of January 1, 2022, we procured merchandise from more than 31 vendors. In the event these vendors decide to terminate their relationships with us or cease supplying products, such vendors may be difficult to replace and/or the products they supply us may be more expensive or of lesser quality. It can take a significant amount of time and resources to identify, develop and maintain relationships with vendors. The termination of, or material changes to, arrangements with key vendors, disagreements with key vendors as to payment or other terms, or the failure of a key supplier or vendor to meet its contractual obligations to us may require us to contract with alternative vendors. If we have to replace key vendors, we may be subject to pricing or other terms less favorable than those we currently enjoy, and it may be difficult to identify and secure relationships with alternative vendors that are able to meet our volume requirements and quality or other standards. If we cannot replace or engage vendors who meet our specifications and standards in a short period of time, we could encounter increased expenses, shortages of items, disruptions, or delays in customer shipments. If this were to occur, we could experience delays in shipments, cancellations, and a reduction in sales revenue, any of which could materially adversely affect our business, financial condition and operating results.

Pricing Strategy

The childrenswear apparel and footwear market is one of necessity, and therefore it is very price sensitive as kids regularly out-grow their clothes. Through our integration model, we control the entire process from design to merchandising, procurement and fulfillment, to offer a balanced value equation of price, quality, and fashion. This allows us to negotiate the costs directly with the suppliers, avoiding having to pay middlemen markups, enabling us to pass that savings along to our members in this very price sensitive childrenswear marketplace.

Technology Processes

We scale and do our best to stay ahead of the competition by putting technical innovation and execution at the heart of our business. Over the past six years, we have invested heavily in our proprietary technology and algorithm capabilities and built a robust infrastructure that we believe positioned accordingly to meet the thriving clothing subscription industry. Our model collects consumer data through an interactive quiz that allows us to deliver a unique and personalized experience in every box. As members keep and return items, our algorithm refines its understanding of individual preferences which improves personalization.

Our members provide us with dozens of initial data points that include sizes, style preferences, dislikes, and fits, that we use to personalize and style their boxes. This personalized data is refined over time by member feedback. This data is paired with our in-house algorithmic software to match members with the best combinations of outfits. The algorithm combines initial data from various sources including the style quiz, feedback given or received via product actions (i.e. returns), member box reviews, product and box-level data, target climate and seasonal information, price-related feedback, along with other proprietary information. It uses this data to generate outfit combinations designed to maximize keep rate results along several spectra including: member satisfaction, profit maximization and overall inventory optimization.

Most of our internal systems and development tools are fully custom-built and designed specifically for our unique business model. These systems allow us extensive flexibility and the ability to quickly and decisively respond to ever-changing business and technological needs. Building proprietary tools are necessary as the technical complexity of the clothing subscription business currently cannot be managed by off-the-shelf solutions. We believe that our years of proprietary technology development have only served to widen the gap between us and any potential competitors who may seek to enter the space.

Warehouse systems include features such as optimal pick path mapping and just-in-time replenishment of inventory from backstock, allowing pickers to operate with maximum efficiency and ensuring necessary inventory is always available in active picking locations. The system also manages a year-round cycle counting process, maintaining consistent inventory integrity which eliminates the need for an annual physical inventory.

Consumer facing applications include our website and mobile site, both built and managed internally. Members can interact with our service, update their style preferences, change payment methods, update delivery frequency, pause or skip a box, select add-ons, checkout for orders and seamlessly exchange items for different sizing. Multiple member retention and experience features have been built into the application as well, including refer-a-friend, loyalty (kidpik koins), add-on marketplace, and our influencer/ambassador gateways.

We have developed a powerful in-house application that affords our stylists and merchandising teams' complete visibility and control over our product line. This allows styling to occur virtually and efficiently. An intuitive, easy-to-use interface allows for millions of potential outfit combinations to be created and properly tagged with dozens of data markers for usage by our proprietary algorithm. The application is fully integrated with our customer relationship management (CRM) database and inventory system and provides up-to-date visibility to inventory levels and consumer feedback.

Subscription and Children's Apparel Industry Trends

According to 2022 estimates by Statista, in its *Children's Apparel Report 2021*, revenue in the children's apparel segment will total approximately \$263 billion in 2022, of which approximately \$52 billion is forecasted to be generated in the United States and is projected to grow at a compounded annual growth rate (CAGR) of 2.93% through 2026.

Pursuant to a March 2021 study by The Subscribed Institute, subscription businesses have consistently outperformed sales revenue growth of non-subscription businesses. Zuora, Inc., a leading subscription management platform provider, in its March 2021, bi-annual Subscription Economy Index™ (SEI), noted that subscription businesses have grown by 437%, nearly 6x faster than the S&P 500 over the last 9 years, driven by an increase in consumer demand for the use of subscription services. The childrenswear apparel market is one of necessity, and consequently is very price sensitive as children regularly out-grow their clothes and shoes. Through our integration model, we control the majority of the process from design to merchandising, procurement and fulfillment. This allows us to negotiate the costs directly with the suppliers, avoiding having to pay middlemen markups. We believe that this integration process allows us to offer lower prices and obtain higher margins resulting in a strong value equation of price, quality and fashion.

We are devoted to improving personalization and experience aspects for our members and plan to continue to develop new technologies and implement new marketing strategies to stay at the forefront of subscription personalization.

Competition

The childrenswear market is highly competitive and price sensitive. We compete directly with other subscription clothing services. We also compete with department stores, mass merchants, discount stores, specialty chains and other retail stores, including their online platforms, brick-and-mortar locations, and other e-commerce companies selling children's apparel.

Competitive Advantage

We believe we have a competitive advantage over online and brick-and-mortar sellers who do not offer curated, personalized fashion, fully coordinated outfits delivered free, and do not offer the convenience that our subscription service provides.

We further believe that the combination of our robust client dataset and refined proprietary technology offers us a competitive advantage in a market place with considerable barriers to entry, due to the complexity of building IT systems that can adequately support this type of clothing subscription process and the algorithm involved in yielding member personalization and satisfaction.

Sourcing

Our clothing, shoes and accessories are manufactured under our own kidpik brand name and are produced according to our own specifications. We have long-standing relationships with our manufacturers; however, we have no long-term contractual agreements. We currently produce our goods in two countries, China and Turkey. In 2020 and 2021, we experienced delivery delays due to COVID-19 and stay-at-home orders. Our supply chain has been impacted by the COVID-19 pandemic. Initially, the impact was largely isolated to production and shipping delays in China. As COVID-19 spread worldwide and other factors emerged, including shipping constraints, port congestion and labor shortages, the impact to our supply chain became more broad-based. Our top seven factories account for over 73% of our production and, combined, have been with us for over four years on average, despite the fact that we have only been in operations for only a little over six years. We look at various points of criteria before choosing factories - cost, product quality, social and safety conditions, reliability, minimum order quantity, technical skills, and lead times (order to delivery). We test each style with a third party to ensure that it is compliant with the Consumer Product Safety Improvement Act (CPSIA) requirements. As the goods arrive at our warehouse, we inspect each style, color, and size to make sure that all products meet our standards and specifications, prior to shipping to customers.

We have a team of product buyers with over 50 years of combined years of experience. We have the knowledge and expertise in building each style's cost from the bottom up and negotiating towards confirming each style at a fair price.

Organizational History

We were formed as "ER18 LLC", a Delaware limited liability company on April 16, 2015, in connection with the filing of a Certificate of Formation with the Secretary of State of Delaware. On August 24, 2015, we filed a Certificate of Amendment to our Certificate of Formation with the Secretary of State of Delaware, changing our name to Kidpik LLC. On August 18, 2016, pursuant to the filing of a Certificate of Conversion from a Limited Liability Company to a Corporation pursuant to Section 265 of the Delaware General Corporation Law, we converted from a Delaware limited liability company to a Delaware corporation (the "Conversion"). Immediately prior to the Conversion, Ezra Dabah (our current Chief Executive Officer and Chairman), his wife and their children owned 100% of the limited liability company interests. Immediately subsequent to the Conversion, Mr. and Mrs. Dabah and their children owned 671,000 shares of common stock.

On January 14, 2019, we filed an Amended and Restated Certificate of Incorporation with the Secretary of State of Delaware, which had been approved by the stockholders, which among other things, affected a 10-for-1 forward stock split of our outstanding common stock and increased our authorized common stock from 1,500 shares of common stock no par value per share, to 10,000 shares of common stock, no par value per share.

On May 9, 2021, the stockholders approved the filing of a Second Amended and Restated Certificate of Incorporation, which was subsequently filed with the Secretary of State of Delaware on May 10, 2021, which, among other things, effected a 671-for-1 forward split of our outstanding common stock, increased our authorized common stock to 75 million shares of common stock, \$0.001 par value per share, and authorized 25 million shares of "blank check" preferred stock, with a par value of \$0.001 per share.

Each of the forward stock splits discussed above have been retroactively reflected throughout this Report.

Government Regulation

We are subject to numerous U.S. federal and state and foreign laws and regulations that affect companies conducting business on the internet. Many of these laws and regulations are still evolving and being tested in courts, and could be interpreted in ways that could harm our business. These may involve user privacy, data protection and personal information, the privacy of consumer information and other laws regarding unfair and deceptive trade practices.

U.S. federal and state and foreign laws and regulations, which in some cases can be enforced by private parties in addition to government entities, are constantly evolving and can be subject to significant change. As a result, the application, interpretation, and enforcement of these laws

and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate, and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices.

Our sales of apparel, shoes and accessories, are also subject to regulation, including in the United States by the Federal Trade Commission and the Consumer Products Safety Commission (CPSC), as well as various other federal, state, local and foreign regulatory authorities. These laws and regulations principally relate to the proper labeling, advertising, marketing, manufacture, safety, shipment and disposal of our products. Because we import our products from abroad, we are also subject to import regulations and regulations relating to trade. For example, the California Transparency in Supply Chains Act, which became effective on January 1, 2012, requires us to provide certain information about our efforts to eradicate human trafficking from our supply chain.

Because we sell children's products, we are also subject to the Consumer Product Safety Improvement Act, which requires that children's products: (a) comply with all applicable children's product safety rules; (b) be tested for compliance by a CPSC-accepted accredited laboratory, unless subject to an exception; (c) have a written Children's Product Certificate that provides evidence of the product's compliance; and (d) have permanent tracking information affixed to the product and its packaging where practicable.

To the best of our knowledge, all of our suppliers and manufacturer adhere to labor and workplace standards and operate in compliance with all applicable laws, including laws prohibiting child labor, forced labor and unsafe working conditions.

We, as are many other companies, are also subject to environmental laws, rules and regulations which could affect our operations.

Proposed or new legislation and regulations could also significantly affect our business. There currently are a number of proposals pending before federal, state, and foreign legislative and regulatory bodies.

For more information about laws and regulations applicable to our business, see "Risks Related to Government Regulation."

Intellectual Property

Our intellectual property includes the content of our websites, our registered domain names, our registered and unregistered trademarks, and certain trade secrets. We believe that our intellectual property is an essential asset of our business and that our registered domain name and our technology infrastructure will give us a competitive advantage in the marketplace. We plan to rely on a combination of patent (where applicable), trademark, copyright, trade secret, including federal, state and common law rights in the United States and other countries, nondisclosure agreements, and other measures to protect our intellectual property. Despite any measures taken to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Our business is affected by our ability to protect against misappropriation and infringement of our intellectual property and other proprietary rights.

Trademarks and Copyrights

We maintain various U.S. federal and foreign (China, Canada, Mexico, the European Union and the United Kingdom) trademarks for our trademarks and also rely on federal or statutory common law copyright and trade secret protections in relation to our brand name.

Employees

As of the date of the filing of this Report, we had 31 full-time employees, located in New York and California. Marketing has six employees, merchandising has five employees, design has five employees, production has four employees, customer service has four employees, IT has three employees, finance has two employees, and the warehouse has two employees. On a limited basis, we may use temporary personnel to supplement our workforce as business needs arise. None of our employees are represented by a labor union or covered by a collective bargaining agreement.

We are focused on the safety, retention and development of our existing employees and the recruitment of new employees. We promote a holistic approach to building our team and have created a culture that is inclusive, diverse and high performing. We seek out and hire team members who bring specialized, functional expertise while able to collaborate effectively across functions. We believe our compensation programs are competitive relative to others in our industry and are designed to attract, retain and reward personnel through the combination of cash-based compensation, equity-based compensation and benefits.

Novel Coronavirus (COVID-19)

In December 2019, a novel strain of coronavirus, which causes the infectious disease known as COVID-19, was reported in Wuhan, China. The World Health Organization declared COVID-19 a "Public Health Emergency of International Concern" on January 30, 2020 and a global pandemic on March 11, 2020. In March and April 2020, many U.S. states and local jurisdictions began issuing 'stay-at-home' orders. The U.S. has recently seen decreases in total new COVID-19 infections; however, it is unknown whether such decreases will continue, new strains of the virus will cause numbers to increase, currently projected vaccine efficacy numbers will hold, or new strains of the virus will become dominant in the future, and/or whether jurisdictions in which we operate, will issue new or expanded 'stay-at-home' orders, or how those orders, or others, may affect our operations.

During the majority of March and April 2020, we closed our California warehouse and were not able to ship products due to stay-at-home orders which were issued in the State of California. We resumed shipping April 17, 2020, following safety protocols and Centers for Disease Control and Prevention (CDC) guidelines. On aggregate basis we lost about two weeks of potential revenue during this period where we were unable to ship products. For the months of March and April 2020, our new member acquisitions were reduced dramatically. Beginning in early May 2020 through the month of June 2020, our new member acquisitions grew significantly, most likely due to stay-at-home orders when consumers shifted to shopping online, before leveling off to expected growth numbers. The full extent of the impact of COVID-19 on our business and operations currently cannot be estimated and will depend on several factors including the scope and duration of the global pandemic.

Since the start of the pandemic, we have taken steps to prioritize the health and safety of our employees. Some of our employees continue to work remotely as a result of the COVID-19 pandemic. Currently we believe that we will have sufficient cash through funds raised in the offering to support our operations for the near term; however, we will continue to evaluate our business operations based on new information as it becomes available and will make changes that we consider necessary in light of any new developments regarding the ongoing pandemic.

Although COVID-19 has had a major impact on businesses around the world, to date, we have only experienced negative impacts regarding our warehouse shutdown from March and April 2020, and disruption in delayed arrival of our merchandise due to the pandemic. Since then, our warehouse returned to working at a full capacity; however, the full extent to which COVID-19 will ultimately impact us depends on future unknowable developments, including the duration and spread of the virus, as well as potential new seasonal outbreaks, the efficacy of vaccines, and the willingness of individuals to take such vaccines, all of which are uncertain and cannot be predicted.

Emerging Growth Company under the JOBS Act

As a company with less than \$1.07 billion in revenue during our last fiscal year, we qualify as an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As an emerging growth company, we have elected to take advantage of reduced reporting requirements and are relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company:

- we may present only two years of audited financial statements and only two years of related Management’s Discussion and Analysis of Financial Condition and Results of Operations;
- we are exempt from the requirement to obtain an attestation and report from our auditors on whether we maintained effective internal control over financial reporting under the Sarbanes-Oxley Act;
- we are permitted to provide less extensive disclosure about our executive compensation arrangements; and
- we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements.

We may take advantage of these provisions until January 2, 2027 (the last day of the fiscal year following the fifth anniversary of our initial public offering) if we continue to be an emerging growth company. We would cease to be an emerging growth company if we have more than \$1.07 billion in annual revenue, have more than \$700 million in market value of our shares held by non-affiliates or issue more than \$1.0 billion of non-convertible debt over a three-year period. We may choose to take advantage of some but not all of these reduced burdens. We have elected to provide two years of audited financial statements. Additionally, we have elected to take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act, for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act.

Controlled Company

Ezra Dabah, our Chief Executive Officer and Chairman, our principal stockholder, currently controls approximately 67.7% of the voting power of our capital stock (based on shares of common stock outstanding as of April 1, 2022), and we are therefore a “controlled company” as defined under Nasdaq Marketplace Rules. We currently intend to rely on the controlled company exemptions provided under Nasdaq Marketplace Rules, which permit us to rely on certain exemptions from corporate governance rules, including: (a) an exemption from the rule that a majority of our board of directors must be independent directors; (b) an exemption from the rule that the compensation of our chief executive officer must be determined or recommended solely by independent directors; and (c) an exemption from the rule that our director nominees must be selected or recommended solely by independent directors. Separately, we plan to rely on a “phase-in” schedule allowed pursuant to applicable Nasdaq rules which allows us to have (1) one independent audit committee member at the time of our listing on Nasdaq (which independent member is already serving on the committee), (2) a majority of independent audit committee members within 90 days of listing and (3) all independent audit committee members within one year of listing.

Available Information

The Company makes available free of charge through its internet website, <https://investor.kidpik.com/sec-filings>, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section or 15(d) of the Exchange Act, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. Our

SEC filings are also available to the public at the SEC's web site at <http://www.sec.gov>. Information contained in, or that can be accessed through, our website is not a part of, and is not incorporated into, this Report. Further, the Company's references to website URLs are intended to be inactive textual references only.

Item 1A. Risk Factors

Summary Risk Factors

Our business is subject to numerous risks and uncertainties, including those highlighted in the section titled “Risk Factors” immediately following this summary. These risks include, among others, the following:

- Our history of losses, our ability to achieve profitability, our potential need for additional funding and the availability and terms of such funding;
- Our ability to execute our growth strategy and scale our operations and risks associated with such growth, our ability to maintain current members and customers and grow our members and customers;
- Risks associated with the effect of the COVID-19 pandemic, and governmental responses thereto on our operations, those of our vendors, our customers and members and the economy in general;
- Risks associated with our supply chain and third-party service providers, interruptions in the supply of raw materials and merchandise, increased costs of raw materials, products and shipping costs due to inflation, disruptions at our warehouse facility and/or of our data or information services, issues affecting our shipping providers, and disruptions to the internet, any of which may have a material adverse effect on our operations;
- Risks that effect our ability to successfully market our products to key demographics;
- The effect of data security breaches, malicious code and/or hackers;
- Increased competition and our ability to maintain and strengthen our brand name;
- Changes in consumer tastes and preferences and changing fashion trends;
- Material changes and/or terminations of our relationships with key vendors;
- Significant product returns from customers, excess inventory and our ability to manage our inventory;
- The effect of trade restrictions and tariffs, increased costs associated therewith and/or decreased availability of products;
- Our ability to innovate, expand our offerings and compete against competitors which may have greater resources;
- Certain anti-dilutive, drag-along and tag-along rights which may be deemed to be held by a former minority stockholder;
- Our significant reliance on related party transactions and loans;
- The fact that our Chief Executive Officer, Ezra Dabah has majority voting control over the Company;
- 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 would decrease, which could harm our business and operating results;
- Our ability to comply with the covenants of our loan and lending agreements and future loan covenants, and the fact that our lending facilities are secured by substantially all of our assets;
- Our ability to prevent credit card and payment fraud;
- The risk of unauthorized access to confidential information;
- Our ability to protect our intellectual property and trade secrets, claims from third-parties that we have violated their intellectual property or trade secrets and potential lawsuits in connection therewith;
- Our ability to comply with changing regulations and laws, penalties associated with any non-compliance (inadvertent or otherwise), the effect of new laws or regulations, our ability to comply with such new laws or regulations, changes in tax rates;
- Our reliance and retention of our current management, who are not party to any employment agreements with us;
- The outcome of future lawsuits, litigation, regulatory matters or claims;

- Certain terms and provisions of our governing documents which may prevent a change of control, and which provide for indemnification of officers and directors, limit the liability of officers or directors, and provide for the board of director's ability to issue blank check preferred stock;

- The fact that we have a limited operating history; the effect of future acquisitions on our operations and expenses;
- Our significant indebtedness;
- The anticipated volatile nature of the trading prices of our common stock and dilution which may be caused by future sales of securities; and
- Risks associated with our status as an “emerging growth company”.

Risk Factors

Our business involves significant risks. You should carefully consider the following risk factors, in addition to the other information contained in this Report, including the section of this report captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes. If any of the events described in the following risk factors or the risks described elsewhere in this Report occurs, our business, operating results and financial condition could be seriously harmed. This Report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this Report. The risks and uncertainties described below are not the only ones we face. Additional risk and uncertainties that we are unaware of or that we deem immaterial may also become important factors that adversely affect our business. The realization of any of these risks and uncertainties could have a material adverse effect on our reputation, business, financial condition, results of operations, growth and future prospects as well as our ability to accomplish our strategic objectives. In that event, the market price of our common stock could decline and you could lose part or all of your investment. 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 Related to Our Business and Industry

We have a history of losses, and we may be unable to achieve or sustain profitability.

We have experienced net losses in each year since our inception. In the years ended January 1, 2022 and January 2, 2021, we incurred net losses of \$5,947,547 and \$4,188,360, respectively. We anticipate that we will continue to incur substantial operating expenses in the foreseeable future as we continue to invest to attract new and retain existing members and attract new customers, invest to further optimize and drive efficiency in our distribution and fulfillment capabilities, expand our product offerings, and enhance our technology and infrastructure. These efforts may prove more expensive than we anticipate, and we may not succeed in increasing our net revenue and margins sufficiently to offset these expenses or at all, which may require us to reduce certain expenditures that could be important to maintaining or increasing our net revenue and margins. We incur significant expenses in operating our fulfillment center, including personnel costs, obtaining and storing inventory, and developing our technology. In addition, many of our expenses, including the costs associated with our fulfillment center, are fixed. We also incur significant expenses associated with the production of merchandise and the shipping of such merchandise to our warehouse and to members and customers. Accordingly, we may not be able to achieve or maintain profitability, and we may incur significant losses for the foreseeable future.

We may be unable to successfully execute our growth strategy. If we fail to retain our existing subscription members and traditional point-of-purchase e-commerce customers or cost effectively acquire new members and customers or if we fail to achieve profitability, our business would be materially adversely affected.

Our growth strategy, and our ability to grow net revenue and operate profitably, may require additional financing and, together with cost optimization initiatives, will depend largely on our ability to retain existing members (i.e., those persons who have signed up for our subscription services) and customers (i.e., those persons who have not signed up for subscription services, but who purchase our merchandise directly from our website or through other e-commerce sites where we offer items for sale (for example, through Amazon.com), to cost effectively acquire new members and customers, and to keep members and customers engaged so that they continue to purchase products from us. If we are unable to retain our existing members and customers, cost effectively acquire new members and customers, or keep members and customers engaged, our business, financial condition and operating results would be materially adversely affected. While our revenues for the year ended January 1, 2022, increased by 28.9% to \$21,834,518, compared to \$16,936,387 for the year ended January 1, 2021, an increase of \$4,898,131 from the prior year, we cannot assure you that our number of members, or the revenues generated thereby, will further increase in the future. While we have experienced an increase in demand which we believe is due, in part, to the impact the COVID-19 pandemic has had on consumer behaviors such increased demand may not continue as restrictions on consumer behavior continue to be lifted, as COVID-19 vaccines and boosters continue to be widely available in the United States, or if consumer spending habits are negatively impacted by worsening economic conditions, including increases in inflation or declines in market activity. In addition, if, as a result of the COVID-19 pandemic, we face significant disruptions in our supply chain, are unable to continue to operate our fulfillment center (whether as a result of production holds to implement some of our enhanced sanitation measures as we have done at times or otherwise), similar to in March and April 2020, when we were forced to shut down our warehouse due to safety protocols, or are unable to timely deliver orders to our members and customers, we may not be able to retain our members and customers or attract new members and customers.

We have historically spent significant amounts on advertising and other marketing activities. The majority of our advertisements to date have been on Facebook Ads and Google Ads. For the years ended January 1, 2022 and January 2, 2021, our marketing expenses were approximately \$3.1 million and \$2.6 million, representing approximately 14.4% and 15.6% of each year's net revenue, respectively, and are included in general and administrative expenses. We may, however, choose to increase or decrease such spending in the future, which could have a material adverse effect on our results of operations.

As we continue to refine our marketing strategy to strategically prioritize customer acquisition channels that we believe will be more successful at attracting customers and members, we may fail to identify channels that accomplish this objective or fail to understand or mitigate continuing and new negative effects of reducing our marketing expenses or of limiting our investment in historical marketing channels. Any of these failures may adversely impact our ability to attract or retain potential members and customers, including by making us less competitive relative to competitors who spend a larger portion of their revenue on marketing.

Our net revenue in any period is essentially a function of our ability to attract and retain members and customers and the frequency and size of the orders purchased or placed by those members and customers. If members and customers do not perceive our product offerings to be of sufficient value and quality, or if we fail to offer new and relevant product offerings, we may not be able to attract or retain members and customers or engage existing members and customers so that they continue to purchase products from us, which could have a material adverse effect on our results of operations.

We will need additional capital which may not be available on commercially acceptable terms, if at all.

We had accumulated deficits of \$33,919,184 and \$27,971,637 as of January 1, 2022 and January 2, 2021, respectively. We had a net loss of \$5,947,547 and \$4,188,360 for the years ended January 1, 2022 and January 2, 2021, respectively. Based on our recent financing activity we believe that our existing cash and cash equivalents will enable us to fund our operating expenses and capital expenditure requirements for more than one year. Consequently, our financial statements have been prepared under the assumption that we will continue as a going concern. However, we have based this estimate on assumptions that may prove to be wrong, and we could exhaust our available capital resources sooner than we expect. In the future, if we are unable to obtain sufficient funding to expand or complete acquisitions and anticipate needing to support our operations, we could be forced to delay, reduce or eliminate some or all of our growth initiatives, and our financial condition and results of operations will be materially and adversely affected. If we seek additional financing to fund our business activities in the future, investors or other financing sources may be unwilling to provide additional funding to us on commercially reasonable terms or at all. We may raise such additional funding through the sale of debt or equity, which may not be available on favorable terms, if at all, and may, if sold, cause significant dilution to existing stockholders. If we are unable to access additional capital moving forward, it may hurt our ability to grow and to generate future revenues, or may force us to seek bankruptcy protection.

The children of our current and future customers and members will likely age out of our product offerings.

We sell our fashion subscription boxes (which we call 'piks') for boys and girls, sizes 2T-16. We also sell shoes, from size 7 toddler to size 6 youth, including sneakers, boots, sandals, and dress shoes. Because we do not currently offer sizing above 16 in our clothing lines and/or above 6 youth in our shoes, it is likely that the children of our current members and customers, and future customers and members, will age out of our product offerings. For example, the children of any current members or customers, who fit into the merchandise sizing that we currently offer as of the date of this Report, will likely grow too big for such sizing in the future. We believe that a size 16 will fit the average child, ages 11-13; however, each child is different. Because children age/size out of our offerings over time, we are constantly needing to find new members and customers to maintain and expand our revenues.

A significant portion of our marketing is dependent upon advertisements placed on Facebook, Instagram and other social media platforms and changes to such social media platforms terms of use, or changes that limit the ability of advertisers to collect and use data to target and measure advertising, similar to those already adopted, are expected to have a negative impact on our advertising costs and marketing efforts in the future.

Historically, we have acquired a significant portion of new members and subscribers through advertisements placed on the Facebook, Instagram and other social media platforms. In connection therewith we are subject to the terms and conditions of Facebook, Instagram and such other platforms, which may be changed by such platforms at their sole discretion at any time. If these social media platforms change their standard terms and conditions in a way that is detrimental to us, our business would be harmed and our operating results would be adversely affected.

Furthermore, our business may be harmed if any of the social media platforms we advertise on:

- discontinue or limit our access to their platform;
- modify their terms of service or other policies which limit our ability to advertise on their platforms;
- change how the personal information of its users is made available to advertisers or is able to be shared by users, in furtherance of similar changes discussed below;
- establish more favorable relationships with one or more of our competitors; or

- develop or acquire its own competitive offerings.

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.

Finally, 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.

Our results of operations and future revenues could be materially and adversely affected by the impact of the COVID-19 pandemic and future pandemics and diseases.

The continuing spread of COVID-19 and its variants, globally and, in particular, across the United States could materially and adversely impact our business, causing supply chain or carrier interruptions or delays. During the majority of March and April 2020, we closed our California warehouse due to stay-at-home orders which were issued in the State of California. We resumed shipping on April 17, 2020, following safety protocols and Centers for Disease Control and Prevention (CDC) guidelines, which we strictly adhered to. On an aggregate basis we lost about two weeks of potential revenue during this period where we were unable to ship products. For the months of March and April 2020, our new member acquisitions were reduced dramatically. Beginning in early May 2020, and through the month of June 2020, our new member acquisitions grew significantly, most likely due to stay-at-home orders when consumers shifted to shopping online, before leveling off to expected growth numbers. Furthermore, the COVID-19 pandemic has had, and could continue to have, a negative impact on economic conditions, which may adversely impact consumer demand for our product offerings, which may have a material adverse effect on our business, financial condition and operating results. The extent to which the COVID-19 pandemic impacts our business will depend on future developments, including the duration and severity of the COVID-19 pandemic, the continued timing of widespread availability of COVID-19 vaccines and boosters, the willingness of individuals to become vaccinated, and the efficacy thereof, virus mutations and variants, the length of time COVID-19 related restrictions continue to stay in place or are reinstated and for economic and operating conditions to return to prior levels, together with resulting consumer behaviors, and numerous other uncertainties, all of which remain uncertain. In addition to COVID-19, our operations and results may be affected by other future pandemics or diseases which have similar impacts as, and/or result in stay-at-home and similar restrictions on customers as, COVID-19 has had and continues to have.

We continue to monitor our operations and government recommendations and we have made modifications to our normal operations as a result of the COVID-19 pandemic, which although it has not to date negatively affected, may have a negative effect on our operations and results of operations in the future.

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. Some of our third parties, collect data via cookies that are used to track the behavior of visitors to our sites, provide a more personal and interactive experience and 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 and policies by device operating systems, such as iOS or Android, 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. 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 consumers' behavior, customize their online experience or efficiently market to them if consumers block cookies or regulations introduce additional barriers to collecting cookie data.

We will require additional capital to fund our existing operations and grow, and our inability to obtain such capital, or to adequately manage our existing capital resources, could materially adversely affect our business, financial condition and operating results.

To support our existing operations or any future expansion of our business, including our ability to continue to execute our growth strategy, we must have sufficient capital to continue to make investments and to fund our operations. Although based on our recent financing activity we believe that our existing cash and cash equivalents will enable us to fund our operating expenses and capital expenditure requirements for more than one year. If we fail to maintain our revenues, adequately manage our available cash and working capital, or sufficiently manage expenses, we may need additional equity or debt financing to provide the funds required to operate our business and we will also need additional capital to fund future expansion of our business. If required financing is not available, on favorable terms or at all, we may be unable to operate our business, develop new business or execute on our strategic plan to sustain net revenue growth, in each case at the rate desired or at all, and our operating results would suffer. Our inability to obtain adequate capital resources, whether in the form of equity or debt, to adequately manage our existing capital resources,

or to fund our business and strategies would require us to delay, scale back or eliminate some or all of our operations or any future expansion of our business, which could materially adversely affect our business, financial condition and operating results.

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

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

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 our distribution center or when returned by customers. While we take measures to ensure merchandise quality and avoid damage, including evaluating vendor product samples, conducting inventory inspections and inspecting returned product, we cannot control merchandise while it is out of our possession. We may incur additional expenses and our reputation could be harmed if members and potential members believe that our merchandise is not of high-quality or may be damaged.

Increased competition presents an ongoing threat to the success of our business.

We expect competition for our services to increase in the future. We compete with other clothing subscription delivery companies, online clothing stores and traditional brick and mortar clothing stores. We believe that our ability to compete depends upon many factors both within and beyond our control, including:

- our marketing efforts;
- the flexibility and variety of our product offerings relative to our competitors, and our ability to timely launch new product initiatives;
- the quality and price of products offered by us and our competitors;
- our reputation and brand strength relative to our competitors;
- customer satisfaction;
- consumer tastes and preferences, which change from time to time;
- the size and composition of our customer base;
- the convenience of the experience that we provide;
- our ability to comply with, and manage the costs of complying with, laws and regulations applicable to our business, including the enhanced regulations relating to COVID-19;
- our ability to cost-effectively source and distribute the products we offer and to manage our operations;
- the styling of our products; and
- the coordination of items we ship in each box.

Some of our current competitors have, and potential competitors may have, longer operating histories, larger or more efficient fulfillment infrastructures, greater technical capabilities, significantly greater financial, marketing and other resources and larger customer bases than we do. In addition, business combinations and consolidation in and across the industries in which we compete could further increase the competition we face and result in competitors with significantly greater resources and customer bases than us. Further, some of our other current or potential competitors may be smaller, less regulated, and have a greater ability to reposition their product offerings than we do. These factors may allow our competitors to derive greater sales and profits from their existing customer base, acquire members and customers at lower costs, respond more quickly than we can to changes in consumer demand and tastes, or otherwise compete with us effectively, which may adversely affect our business, financial condition and operating results. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies, which may allow them to build larger customer bases or generate additional sales more effectively than we do.

Furthermore, companies with greater resources or more well-known brand names may attempt to compete with us, and as a result, we may lose current or potential members and customers and may be unable to generate sufficient revenues to support our operations, any one of which could have a material adverse effect on our ability to grow and our results of operations.

If we fail to successfully improve our customer experience, including by continuing to develop new product offerings and enhancing our existing product offerings, our ability to retain existing members and customers and attract new members and customers, may be materially adversely affected.

Our members and customers have a wide variety of options for purchasing clothes, and consumer tastes and preferences may change from time to time, including as a result of the COVID-19 pandemic and the resulting restrictions that continue throughout much of the United States and which have limited, and continue to limit to varying degrees, some of these clothing purchasing options for consumers. Our ability to retain existing members and customers, attract new members and customers and increase customer engagement with us will depend in part on our ability to successfully improve our customer experience, including by continuing to create and introduce new product offerings, improving upon and enhancing our existing product offerings and strengthening our members' interactions with our brand and products. If new or enhanced product offerings are unsuccessful, we may be unable to attract or retain members and customers and our operating results could be materially adversely affected. Furthermore, new or shifting customer demands, tastes or interests, superior competitive offerings or a deterioration in our product offering quality or our ability to bring new or enhanced product offerings to market quickly and efficiently could negatively affect the attractiveness of our products and the economics of our business and require us to make substantial changes to and additional investments in our product offerings or business model.

Our business depends on our brand, and any failure to maintain, protect or enhance our brand, including as a result of events outside our control, could materially adversely affect our business.

We believe that we have developed a strong and trusted brand, and we believe our future success depends on our ability to maintain and grow the value of the "kidpik" brand. Maintaining, promoting and positioning our brand and reputation will depend on, among other factors, the success of our marketing and merchandising efforts and our ability to provide a consistent, high-quality customer experience. Any negative publicity, regardless of its accuracy, could materially adversely affect our business. Brand value is based in large part on perceptions of subjective qualities, and any incident that erodes the loyalty of our members and customers or suppliers, including adverse publicity or a governmental investigation or litigation, could significantly reduce the value of our brand and significantly damage our business.

The value of our brand also depends on effective customer support to provide a high-quality customer experience, which requires significant personnel expense. If not managed properly, this expense could impact our profitability. Failure to manage or train our own or outsourced customer support representatives properly, or our inability to hire sufficient customer support representatives could result in lower-quality customer support and/or increased customer response times, compromising our ability to handle customer complaints effectively.

Changes in consumer tastes and preferences or in consumer spending and other economic or financial market conditions could materially adversely affect our business and our inability to develop and introduce new merchandise offerings in a timely and cost-effective manner may damage our business, financial condition and operating results.

The largest portion of our revenue today comes from the sale of girls' apparel. In Summer 2020 we expanded our merchandise offering to boys and in Spring of 2021 introduced Toddler for boys and girls in sizes 2T and 3T. We continue to explore additional offerings to serve our existing members and to attract new members. However, any new offerings may not have the same success, or gain traction as quickly, as our current offerings. Our operating results may be materially adversely affected by changes in consumer tastes and preferences. Our future success depends in part on our ability to anticipate the tastes, shopping habits, trends and lifestyle preferences of consumers and to offer products that appeal to consumer tastes and preferences. Consumer tastes and preferences may change from time to time and can be affected by a number of different trends and other factors that are beyond our control. Our competitors may react more efficiently and effectively to these changes than we can. If we fail to anticipate, identify or react to changes and trends, or to introduce new and improved product offerings on a timely basis, we may experience reduced demand for our product offerings, which could materially adversely affect our business, financial condition and operating results.

In addition, the business of selling clothing products over the internet, and more specifically, selling such products as part of a subscription model, is dynamic and continues to evolve. Our market segment has grown significantly, and this growth may not continue or may decline, including specifically with respect to the subscription model portion of the industry. If members and customers cease to find value in this model or otherwise lose interest in our product offerings or our business model generally, we may not acquire new members and customers in numbers sufficient to sustain growth in our business or retain existing members and customers at rates consistent with our business model, our business, financial condition and operating results could be materially adversely affected.

Furthermore, preferences and overall economic conditions that impact consumer confidence and spending, including discretionary spending, could have a material impact on our business. Economic conditions affecting disposable consumer income such as employment levels, business conditions, slower growth or recession, market volatility and related uncertainty, negative financial news, changes in housing market conditions, the availability of credit, interest rates, tax rates, new or increased tariffs, fuel and energy costs, the effect of natural disasters or acts of terrorism, and other matters, including as a result of the continued COVID-19 pandemic and its impact on economic conditions, could reduce consumer spending or cause consumers to shift their spending to lower-priced alternatives, each of which could materially adversely affect our business, financial condition and operating results.

In addition to an adverse impact on demand for our products, uncertainty about, or a decline in, economic conditions, whether as a result of the continuing COVID-19 pandemic or otherwise, could have a significant impact on our suppliers, logistics providers and other business partners, including resulting in financial instability, inability to obtain credit to finance operations and insolvency. Our vendors and their manufacturing and

assembly activities are located outside the United States, and as a result our operations and performance depend on both global and regional economic conditions. These and other economic factors could materially adversely affect our business, financial condition and operating results.

Changes in clothing and footwear costs and availability could materially adversely affect our business.

The future success of our business depends in part on our ability to anticipate and react to changes in clothing and footwear costs and availability. We are susceptible to increases in clothing costs as a result of factors beyond our control, such as general economic conditions, market changes, increased competition, general risk of inflation, exchange rate fluctuations, seasonal fluctuations, shortages or interruptions, weather conditions, changes in global climates, shipping delays, global demand, public health crises, such as pandemics and epidemics, generalized infectious diseases, changes in law or policy, declines in fertile or arable lands suitable for growing textiles, the availability of synthetic fabrics, product recalls and government regulations. For example, any prolonged negative impact of the COVID-19 pandemic on the availability of natural or man-made fabrics and other clothing or footwear materials could materially and adversely affect our business, financial condition and operating results. We generally do not have long-term supply contracts or guaranteed purchase commitments with our suppliers. Additionally, inflation can have both a short-term and a long-term impact on us because of increasing costs of materials, shipping and labor, which may impact our ability to maintain satisfactory margins. We have recently experienced increases in our product manufacturing costs and other expenses due to inflation. Increases in inflation may not be matched by rises in income, which also could have a negative impact on spending by our customers. Increases in manufacturing and other product and shipping costs due to inflation, like those currently being experienced, will require us to raise prices or cut other expenses to maintain current margins, and any required increase in the pricing of our products may be met with decreased demand, which could materially adversely affect our margins, revenues and results of operations.

The termination of, or material changes to, our relationships with key vendors could materially adversely affect our business, financial condition and operating results, which could be exacerbated due to our reliance on a small number of vendors for a significant portion of our inventory.

We contract to manufacture with vendors for the products we sell. For the year ended January 1, 2022, three vendors accounted for approximately 49% of inventory purchases. For the year ended January 2, 2021, four vendors accounted for approximately 60% of inventory purchases. In the event these vendors decide to terminate their relationships with us or cease supplying products, such vendors may be difficult to replace and/or the products they supply us may be more expensive or of lesser quality. It can take a significant amount of time and resources to identify, develop and maintain relationships with vendors. The termination of, or material changes to, arrangements with key vendors, disagreements with key vendors as to payment or other terms, or the failure of a key supplier or vendor to meet its contractual obligations to us may require us to contract with alternative vendors. If we have to replace key vendors, we may be subject to pricing or other terms less favorable than those we currently enjoy, and it may be difficult to identify and secure relationships with alternative vendors that are able to meet our volume requirements and quality or other standards. If we cannot replace or engage vendors who meet our specifications and standards in a short period of time, we could encounter increased expenses, shortages of items, disruptions or delays in customer shipments. Such affects could be further exacerbated due to our reliance on a small number of vendors for the majority of our inventory purchases. If any of the above were to occur, we could experience delays in shipments, cancellations and a reduction in sales revenue, any of which could materially adversely affect our business, financial condition and operating results.

We may be unable to scale our operations fast enough to bring down our cost of sales and generate revenues sufficient to support our operations.

We believe that in general, the faster we are able to scale up our operations, the lower our cost of sales, as a percentage of revenue, will be, as we believe that certain economics of scale exist with our operations. If we are unable to grow our business fast enough to take advantage of these economies of scale, our operations may suffer, and we may not be profitable.

Our acquisition, sales and shipping operations require us to manage and communicate with vendors, partners and third parties all over the world.

Our operations require us to keep in contact with, and communicate with, vendors, partners and third parties all over the world. Our failure to effectively communicate with such parties, either due to issues with connectivity, communication issues, or changes in time zones, among others, could have a material adverse effect on our ability to complete our business plan, expand our operations, manage our sales and growth, and meet customer needs. As a result, such failure could have a material adverse effect on our operations, revenues and future growth.

Disruptions in our warehouse operations could adversely affect sales and customer satisfaction.

We currently receive, package and ship merchandise at our warehouse located in Southern California. We depend on the orderly operation of our warehouse, and will in the future depend on additional warehouses, to distribute our products. Although we believe that our receiving and distribution process is efficient, unforeseen disruptions in operations due to fires, hurricanes, earthquakes or other catastrophic events, labor issues or other shipping problems may result in delays in the delivery of products to our warehouse(s), delays in shipping products to members and customers, or delays in such members and customers receiving products on a timely basis, which could adversely affect sales and the satisfaction of our members and customers. Separately, if we are unable to adequately staff our warehouse(s) or if the cost of such staffing is higher than historical or projected costs, our margins may be negatively affected. In addition, warehousing comes with potential risks, such as workplace safety issues and employment claims for the failure or alleged failure to comply with labor laws or laws respecting union organizing activities. Any such issues may result in delays in shipping times or packing quality, and our reputation and operating results may be harmed.

We have recently 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.

Natural disasters or other catastrophic events could negatively affect our business, financial condition, and results of operations.

Natural disasters, such as hurricanes, typhoons or earthquakes, could negatively affect our operations and financial performance. Such events could result in physical damage to our warehouse or future warehouses, the temporary closure of our warehouse or future warehouses, the temporary lack of an adequate work force at a warehouse, the temporary or long-term disruption in the supply of products from some local or overseas suppliers, the temporary disruption in the transport of goods to or from overseas, delays in the delivery of goods to our warehouse or future warehouses, and the temporary reduction in the availability of products in our warehouse or future warehouses. Public health issues, whether occurring in the U.S. or abroad, could disrupt our operations, disrupt the operations of suppliers or have an adverse impact on consumer spending and confidence levels. These events could also reduce demand for our products or make it difficult or impossible to receive products from suppliers or ship products to members and customers. We may be required to suspend operations in some or all of our locations, which could have a material adverse effect on our business, financial condition and results of operations.

We face risks associated with product returns and the costs of such returns which could reduce our net revenues and results of operations.

Our members and customers are able to return products which we ship to them for free. If we do not do a good job anticipating the upcoming trends or ship items to members that do not fit their style and receive a higher return rate than expected, we could lose money on shipping costs and could have to find ways to unload excess inventory at prices below those anticipated. Although we maintain a reserve for returns, we could be forced to accept substantial product returns beyond such reserve in the future, which would be costly, not just due to the excess inventory that would create, but because we have to pay the costs of shipping and returns. Product returns that exceed our reserves could harm our business and financial results. From time to time our products are damaged in transit, which can increase return rates and harm our brand.

We rely upon independent third-party transportation providers for substantially all of our product shipments and are subject to increased shipping costs as well as the potential inability of our third-party transportation providers to deliver on a timely basis.

We currently rely upon independent third-party transportation providers for substantially all of our product shipments, including shipments to and from all of members and customers, and currently rely on FedEx SmartPost shipping in connection with U.S. Postal Service for substantially all of our shipping needs. Our utilization of these delivery services (and more specifically, FedEx via the U.S. Post Office) for shipments is subject to risks which may impact a shipping company's ability to provide delivery services that adequately meet our shipping needs, including risks related to employee strikes, labor and capacity constraints, port security considerations, trade policy changes or restrictions, military conflicts, acts of terrorism, accidents, natural disasters and inclement weather. In addition, our clothing, shoes and accessories are currently manufactured under our own brand name in only two countries, China and Turkey. Accordingly, any delays in production and added costs in China or Turkey could have a more significant impact on our results of operations. Any interruption in service provided by our shipping companies could cause temporary disruptions in our business, a loss of sales and profits, and other material adverse effects. In addition, we are subject to increased shipping costs when fuel prices increase, as we use expedited means of transportation such as air freight. If we change the shipping company we use, we could face logistical difficulties that could adversely affect deliveries, and we would incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those received from our current independent third-party transportation provider which, in turn, would increase our costs.

Our gross margins could be adversely affected if we are unable to manage our inventory effectively.

The nature of the apparel and footwear industry requires us to carry a significant amount of inventory. Merchandise usually must be ordered well in advance of the season and frequently before apparel trends are confirmed by customer purchases. We must enter into contracts for the purchase and manufacture of merchandise well in advance of the applicable selling season. As a result, we are vulnerable to demand and pricing shifts and to sub-optimal selection and timing of merchandise purchases. If sales do not meet expectations (for example, because of the continuing and unknown aggregate duration and impact of the COVID-19 pandemic on inventory supply and consumer demand), too much inventory may cause excessive markdowns and, therefore, lower-than-planned margins.

Our ability to source our merchandise could be negatively impacted if new trade restrictions are imposed or existing trade restrictions become more burdensome.

The United States and China and Turkey, where our products are manufactured, may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty, or tariff levels. These restrictions or regulations could have an adverse effect on our financial statements for the period or periods for which the applicable final determinations are made. Countries impose, modify, and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions, which make it impossible for us to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards, and customs restrictions, could increase the cost or reduce the supply of products available to us or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition, and results of

operations. We are dependent on international trade agreements and regulations. If the United States were to withdraw from or materially modify certain international trade agreements, our business could be adversely affected.

In recent years, the U.S. government has imposed increased tariffs on certain imports from China. Additional tariffs may be imposed on other imports from China in the future, including on items that we import. While it is too early to predict how the recently enacted and proposed tariffs on items imported from China will impact our business, such tariffs could require us to increase prices, which could reduce the competitiveness of our products or, if we do not increase prices, result in lower gross margin on products sold. In either case, increased tariffs or trade restrictions implemented by the United States or other countries in connection with a global trade war could have a material adverse effect on our business, financial condition and results of operations.

Our business is highly dependent upon our ability to identify and respond to new and changing fashion trends, customer preferences, and other related factors. Our inability to identify and respond to these new trends may lead to inventory markdowns and write-offs, which could adversely affect us and our brand image.

Our success depends in large part upon our ability to effectively identify and respond to changing fashion trends and consumer demands and to translate market trends into desired product offerings. Our failure to identify and react appropriately to new and changing fashion trends or tastes, to accurately forecast demand for certain product offerings, could lead to, among other things, excess or insufficient amounts of inventory, markdowns, write-offs, and lower product margins, any of which could materially adversely affect our business. Because our success depends significantly on our brand image, damage to our brand image as a result of our failure to identify and respond to changing fashion trends could have a material negative impact on us. We often place orders for products ahead of when the product will be sold. Therefore, we are vulnerable to changes in consumer preference and demand, and pricing shifts, between the time we design and order our products and when the merchandise will be sold. There can be no assurance that we will be able to adequately and timely respond to the preferences of our members and customers. The failure of any of our product offerings to appeal to our members and customers could have a material adverse effect on our business, results of operations, and financial condition.

Our business is sensitive to overall levels of consumer spending, particularly in the children's apparel market.

Both retail and wholesale consumer demand for children apparel and accessories, is affected by the overall level of consumer spending. Overall spending in the market is affected by a number of factors, including birth rate fluctuations and general economic conditions. In addition, discretionary consumer spending is affected by a number of factors, such as the weather, the overall economy and employment levels, stock market returns, uncertainty in the political climate, gasoline and utility costs, business conditions, availability of consumer credit, tax rates, the availability of tax credits, interest rates, levels of consumer indebtedness, foreign currency exchange rates, and overall levels of consumer confidence. Reductions, or lower-than-expected growth, in the level of discretionary or overall end consumer spending may have a material adverse effect on our sales and results of operations. Furthermore, any increases in consumer discretionary spending during times of crisis may be temporary, such as those related to government stimulus programs. Economic conditions in certain regions may also be affected by natural disasters, such as hurricanes, tropical storms, earthquakes, and wildfires; other public health crises; and other major unforeseen events. These and other social, political and economic factors could adversely affect demand for our products, which would negatively impact our business, results of operations and financial condition.

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

Most of our revenue comes from repeat purchases by active members and subscribers. If existing members and customers no longer find our service and products appealing or appropriately priced, they may make fewer purchases and may stop using our service. Even if our existing members and customers continue to find our service and products appealing, they may decide to reduce the frequency of shipments and purchase fewer products over time as their demand for new apparel declines. A decrease in the number of members and customers, a decrease in customer spending on the products we offer, or our inability to attract high-quality members and customers 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 members and customers over time and, if we are unable to do so, our business may suffer.

Our ability to grow our operations and revenues depends on our ability to attract new members and customers.

Our ability to grow our operations and revenues depends on our ability to cost-effectively attract new members and customers. To do that, we must appeal to and acquire members and customers who have historically used other means to purchase children's apparel, shoes, and accessories, such as traditional brick-and-mortar apparel retailers or the websites of our competitors. We also face competition for members and customers from other retailers who offer or plan to offer similar services as ours. We reach new members and customers through paid marketing, referral programs, organic word of mouth, email, and other methods of discovery, such as mentions in the press or internet search engine results. Although we expect to increase marketing spend over time, our marketing activity and spend may vary from period to period and we may adjust our marketing strategy or spend within a period if we are not achieving the intended results or if we believe the return-on-investment is not favorable, which may result in faster or slower rates of active client growth in any given period. Moreover, new members and customers may not purchase from us as frequently or spend as much with us as existing members and customers, and the revenue generated from new members and customers may not be as high as the revenue generated from our existing members and customers.

We have historically been significantly reliant on related party relationships and loans.

Prior to our IPO, our operating expenses were significantly supplemented by related party loans from Ezra Dabah, our Chief Executive Officer and Chairman and his family, all of which have since been converted into equity or repaid. We also sublease our corporate office and our California fulfillment center from Nina Footwear Corp., which is 86.36% owned by Ezra Dabah and his family including Moshe Dabah, our Vice President, Chief Operating Officer and Chief Technology Officer, and Secretary, and which entity Mr. Ezra Dabah serves as Chief Executive Officer and member of the Board of Directors of ("Nina Footwear"). Nina Footwear also provides us administrative and executive support services under a Management Services Agreement in consideration for 0.75% of our monthly net sales. For the years ended January 1, 2022 and January 2, 2021, the total fees payable to Nina Footwear pursuant to the Management Services Agreement were \$150,697 and \$115,725, respectively, and are included in general and administrative expenses. In the event the sublease agreements were terminated, we may not be able to find comparable office and fulfillment center arrangements and/or the costs of such arrangements may be significantly higher than those charged by Nina Footwear. Furthermore, we may be unable to support our operations if Ezra Dabah and his family members stop loaning us money. As of January 1, 2022 and January 2, 2021, there was \$913,708 and \$599,811 due to Nina Footwear, respectively. Additionally, in the event the Management Services Agreement were terminated, our costs may increase, and we may be unable to cost effectively obtain the services currently provided by Nina Footwear. While we believe that all related party agreements are on terms similar to, or more favorable to, the Company than we would obtain from third parties, such significant related party relationships may be perceived negatively by potential stockholders or investors. Our significant related party relationships and transactions, the terms of such relationships and transactions, and/or the termination of any such relationships or transactions, may have a material adverse effect on our results of operations moving forward.

We have one former minority stockholder of the Company, who may be deemed to hold anti-dilution, drag-along and tag-along rights, which have no termination date.

Pursuant to certain prior Investment Agreements and Conversion Agreements entered into with the majority of our current stockholders prior to our IPO, such stockholders were granted preemptive, anti-dilution, drag-along and tag-along rights. On May 12, 2021, the Company and each then stockholder of the Company, except for one minority stockholder, entered into a Covenant Termination and Release Agreement, whereby each executing stockholder, in consideration for \$10, agreed to terminate any and all preemptive rights, anti-dilutive rights, tag-along, drag-along or other special stockholder rights which they held as a result of the terms of any prior Investment Agreements or Conversion Agreements, and release the Company from any and all liability or obligations in connection with any such rights. However, one non-related stockholder of the Company who then held 147,620 shares of common stock (2.7% of the Company's current outstanding common stock), pursuant to a January 14, 2019 Conversion Agreement, did not execute such Covenant Termination and Release Agreement. Although the shares originally held by such stockholder were subsequently transferred, the language regarding the termination of anti-dilution, drag-along and tag-along rights is not. As such, although the Company believes that all rights were terminated upon the transfer of the shares originally held by such minority stockholder, it is possible that such minority stockholder continues to hold contractual drag-along rights (providing for rights to be dragged along in any transaction relating to the sale of a majority of the Company's outstanding shares or assets, or the sale of 50% or more of the outstanding common stock of the Company, or any merger or consolidation of the Company, on the same terms, and subject to the same conditions, as other sellers) and tag-along rights (to tag-along with any transaction proposed by Ezra Dabah, our Chief Executive Officer and Chairman, or his affiliates with a third party, on the same terms and in the same proportion, as Ezra Dabah and his affiliates), as well as stockholder adjustment rights, whereby if the Company ever issues shares of capital stock (or any securities convertible into or exchangeable or exercisable for capital stock, or any options, warrants or other rights to purchase, subscribe for or otherwise acquire capital stock), at a price per share less than \$3.3870749 per share, the Company is required to issue such stockholder a number of additional shares of common stock equal to the difference between (i) 147,620 shares of common stock and (ii) \$500,000, divided by the dilutive price. Such anti-dilutive rights, drag-along and tag-along rights, to the extent they continue to apply, will have no expiration date. As discussed above, it is the Company's belief that such rights expired automatically upon the transfer of the shares of stock originally held by such stockholder, however, in the event such anti-dilutive rights are deemed to apply and triggered, it could cause significant dilution to existing stockholders. Furthermore, such anti-dilution, tag-along and drag-along rights, or the risk that such rights continue to apply, may make the Company less desirable for an acquisition, which may otherwise be beneficial to stockholders, may complicate future offerings and/or may result in the value of the Company's securities having trading prices less than a similarly situated company which did not have outstanding anti-dilution, tag-along and drag-along rights, or risks that such rights apply.

The ability of certain key employees to devote adequate time to us are critical to the success of our business, and failure to do so may adversely affect our revenues and as a result could materially adversely affect our business, financial condition and results of operations.

We must retain the services of our key employees and strategically recruit and hire new talented employees to obtain customer transactions that generate most of our revenues. Mr. Ezra Dabah also serves as the Chief Executive Officer and director of our Company since April 2015 (and Chairman since October 2021). Ezra Dabah also serves as the Chief Executive Officer and member of the Board of Directors of Nina Footwear, a wholesaler of women's and kids' shoes and accessories (a position he has held since 2012). Mr. Moshe Dabah is currently Chief Operating Officer and Chief Technology Officer of the Company and has served as Vice President of the Company since July 2019. Since January 2021, Moshe Dabah has served as the Secretary of Nina Footwear. Nina Footwear is 86.36% owned by Ezra Dabah and his family. Ezra Dabah spends approximately 80% of his time on Company matters and approximately 20% of his time as Chief Executive Officer and director of Nina Footwear and Moshe Dabah spends approximately 90% of his time on Company matters and approximately 10% of his time as the Secretary of Nina Footwear. As a result, these key employees dedicate only a portion of their professional efforts to our business and operations, and there is no contractual obligation for them to spend a specific amount of their time with us. These key employees may not be able to dedicate adequate time to our business and operations and we could experience an adverse effect on our operations due to the demands placed on our management team by their other professional obligations. In addition, these key employees' other responsibilities could cause conflicts of interest with us.

Our failure to comply with the covenants in the documents governing our existing and future indebtedness could materially adversely affect our financial condition and liquidity.

In connection with our outstanding debt agreements, we agree to meet certain financial covenants. Such agreements also include customary events of default. If technical defaults or other events of default occur under our cash advance agreements, or other outstanding debt obligations in the future, and such defaults are not waived, we would face penalties and damages, and our lenders will be able to accelerate the amounts due under such agreements, which could force us to liquidate assets and/or seek bankruptcy protection. Additionally, a breach of any of the covenants of the cash advance agreements or any future agreements, if uncured or unwaived, could lead to an event of default under any such document, which in some circumstances could give our creditors the right to demand that we accelerate repayment of amounts due and/or enforce their security interests over substantially all of our assets. This would likely in turn trigger cross-acceleration or cross-default rights in other documents governing our indebtedness. Therefore, in the event of any such breach, we may need to seek covenant waivers or amendments from our creditors or seek alternative or additional sources of financing, and we may not be able to obtain any such waivers or amendments or alternative or additional financing on acceptable terms, if at all. In addition, any covenant breach or event of default could harm our credit rating and our ability to obtain additional financing on acceptable terms. The occurrence of any of these events could have a material adverse effect on our financial condition and liquidity and/or cause our lenders to enforce their security interests which could ultimately result in the foreclosure of our assets, which would have a material adverse effect on our operations and the value of our securities.

Risks Relating to Data and Information Systems

Disruptions in our data and information systems could harm our reputation and our ability to run our business.

We rely extensively on data and information systems for our supply chain, order processing algorithm, fulfillment operations, financial reporting, human resources and various other operations, processes and transactions. Furthermore, a significant portion of the communications between, and storage of personal data of, our personnel, members, customers and suppliers depend on information technology. Our data and information systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches (including breaches of our transaction processing or other systems that could result in the compromise of confidential customer data), catastrophic events, data breaches and usage errors by our employees or third-party service providers. Our data and information technology systems may also fail to perform as we anticipate, and we may encounter difficulties in adapting these systems to changing technologies or expanding them to meet the future needs of our business. If our systems are breached, damaged or cease to function properly, we may have to make significant investments to fix or replace them, suffer interruptions in our operations, incur liability to our members, customers and others or face costly litigation, and our reputation with our members and customers may be harmed. We also rely on third parties for a majority of our data and information systems, including for third-party hosting and payment processing. If these facilities fail, or if they suffer a security breach or interruption or degradation of service, a significant amount of our data could be lost or compromised and our ability to operate our business and deliver our product offerings could be materially impaired. In addition, various third parties, such as our suppliers and payment processors, also rely heavily on information technology systems, and any failure of these systems could also cause loss of sales, transactional or other data and significant interruptions to our business. Any material interruption in the data and information technology systems we rely on, including the data or information technology systems of third parties, could materially adversely affect our business, financial condition and operating results.

Our business has in the past been, and may in the future be, subject to data security risks, including security breaches.

We, or our third-party vendors on our behalf, collect, process, store and transmit substantial amounts of information, including information about our members and customers. We take steps to protect the security and integrity of the information we collect, process, store or transmit, but there is no guarantee that inadvertent or unauthorized use or disclosure will not occur or that third parties will not gain unauthorized access to this information despite such efforts. Security breaches, computer malware, computer hacking attacks and other compromises of information security measures have become more prevalent in the business world and may occur on our systems or those of our vendors in the future. We were subject to a ransomware attack in July 2020. The attack was exacted on equipment located at our executive offices located at 200 Park Avenue South, New York, New York 10003. The attackers gained access to the network via virtual private network (VPN) and proceeded to encrypt local desktop computers and servers connected to that domain. There was no exposure of our customer database or primary system servers which host our website in the attack, as they are not located at our corporate offices. By the following day, the threat had been mitigated and office systems were decrypted a few days later. Large internet companies and websites have from time to time disclosed sophisticated and targeted attacks on portions of their websites, and an increasing number have reported such attacks resulting in breaches of their information security. We and our third-party vendors are at risk of suffering from similar attacks and breaches (similar to the July 2020 breach described above). Although we take steps to maintain confidential and proprietary information on our information systems, these measures and technology may not adequately prevent security breaches and we rely on our third-party vendors to take appropriate measures to protect the security and integrity of the information on those information systems. Because techniques used to obtain unauthorized access to or to sabotage information systems change frequently and may not be known until launched against us, we may be unable to anticipate or prevent these attacks. In addition, a party who is able to illicitly obtain a customer's identification and password credentials may be able to access the customer's account and certain account data.

Any actual (similar to the attack described above) or suspected security breach or other compromise of our security measures or those of our third-party vendors, whether as a result of hacking efforts, denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering or otherwise, could harm our reputation and business, damage our brand and make it harder to retain existing members and customers or acquire new ones, require us to expend significant capital and other resources to address the breach, and result in a violation of applicable laws, regulations or other legal obligations. Our insurance policies may not cover, or may not be adequate to reimburse us for, losses caused by any such security breach.

We rely on email and other messaging services to connect with our existing and potential members and customers. Our members and customers may be targeted by parties using fraudulent spoofing and phishing emails to misappropriate passwords, payment information or other personal information or to introduce viruses through Trojan horse programs or otherwise through our members' and customers' computers, smartphones, tablets or other devices. Despite our efforts to mitigate the effectiveness of such malicious email campaigns through product improvements, spoofing and phishing may damage our brand and increase our costs. Any of these events or circumstances could materially adversely affect our business, financial condition and operating results.

Our websites have in the past encountered, and may in the future encounter, technical problems and service interruptions.

Our websites have in the past encountered, and may in the future experience, slower response times or interruptions as a result of increased traffic or other reasons. These delays and interruptions resulting from failure to maintain internet service connections to our site have in the past and may in the future frustrate visitors and reduce our future web site traffic, which could have a material adverse effect on our business.

Our business is exposed to risks associated with credit card and other online payment chargebacks and fraud.

A majority of our revenue is processed through credit cards and other online payments (including PayPal). If our refunds or chargebacks increase, our processors could require us to create reserves, increase fees or terminate their contracts with us, which would have an adverse effect on our financial condition. Our failure to limit fraudulent transactions conducted on our websites, such as through the use of stolen credit card numbers, could also subject us to liability and adversely impact our reputation. Under credit card association rules, penalties may be imposed at the discretion of the association for inadequate fraud protection. Any such potential penalties would be imposed on our credit card processor by the association. However, we face the risk that we may fail to maintain an adequate level of fraud protection and that one or more credit card associations or other processors may, at any time, assess penalties against us or terminate our ability to accept credit card payments or other form of online payments from members and customers, which would have a material adverse effect on our business, financial condition and operating results.

We could also incur significant fines or lose our ability to give members and customers the option of using credit cards to pay for our products if we fail to follow payment card industry data security standards, even if there is no compromise of customer information. Although we believe we are in compliance with payment card industry data security standards and do not believe there has been a compromise of customer information, it is possible that at times we have not, or may not be, in full compliance with these standards. Accordingly, we could be fined, which could impact our financial condition, or our ability to accept credit and debit cards as payment could be suspended, which would cause us to be unable to process payments using credit cards. If we are unable to accept credit card payments, our business, financial condition and operating results may be adversely affected.

In addition, we could be liable if there is a breach of the payment information. Online commerce and communications depend on the secure transmission of confidential information over public networks. We rely on encryption and authentication technology to authenticate and secure the transmission of confidential information, including cardholder information. However, this technology may not prevent breaches of the systems we use to protect cardholder information. In addition, some of our partners also collect or possess information about our members and customers, and we may be subject to litigation or our reputation may be harmed if our partners fail to protect our members' and customers' information or if they use it in a manner inconsistent with our policies and practices. Data breaches can also occur as a result of non-technical issues. Under our contracts with our processors, if there is unauthorized access to, or disclosure of, credit card information we store, we could be liable to the credit card issuing banks for their cost of issuing new cards and related expenses.

There may be losses or unauthorized access to or releases of confidential information, including personally identifiable information, that could subject the Company to significant reputational, financial, legal and operational consequences.

The Company's business requires it to use, transmit and store confidential information including, among other things, personally identifiable information ("PII") with respect to the Company's members, customers and employees. The Company devotes significant resources to network and data security, including through the use of encryption and other security measures intended to protect its systems and data. But these measures cannot provide absolute security, and losses or unauthorized access to or releases of confidential information could occur and could materially adversely affect the Company's reputation, financial condition and operating results. The Company's business also requires it to share confidential information with third parties. Although the Company takes steps to secure confidential information that is provided to third parties, such measures are not always effective and losses or unauthorized access to or releases of confidential information occur and could materially adversely affect the Company's reputation, financial condition and operating results.

For example, the Company may experience a security breach impacting the Company's information technology systems that compromises the confidentiality, integrity or availability of confidential information. Such an incident could, among other things, impair the Company's ability to

attract and retain members and customers for its products and services, impact the Company's stock price, materially damage supplier relationships, and expose the Company to litigation or government investigations, which could result in penalties, fines or judgments against the Company.

Under payment card rules and obligations, if cardholder information is potentially compromised, the Company could be liable for associated investigatory expenses and could also incur significant fees or fines if the Company fails to follow payment card industry data security standards. The Company could also experience a significant increase in payment card transaction costs or lose the ability to process payment cards if it fails to follow payment card industry data security standards, which would materially adversely affect the Company's reputation, financial condition and operating results.

Risks Related to Government Regulation

Our business is subject to a wide variety of U.S. and foreign government laws and regulations. These laws and regulations, as well as any new or changed laws or regulations, could disrupt our operations or increase our compliance costs. Failure to comply with such laws and regulations could have a further adverse impact on our business.

We are subject to a wide variety of laws and regulations relating to the markets in which we operate or to various aspects of our business. Laws and regulations at the foreign, federal, state and local levels frequently change, and we cannot always reasonably predict the impact from, or the ultimate cost of compliance with, future regulatory or administrative changes. Changes in law, the imposition of new or additional regulations or the enactment of any new or more stringent legislation that impacts employment and labor, trade, advertising and marketing practices, pricing, consumer credit offerings, product testing and safety, transportation and logistics, health care, tax, accounting, privacy and data security, health and safety, financial crimes and sanctions or environmental issues, among others, could require us to change the way we do business and could have a material adverse impact on our sales, profitability, cash flows and financial condition. Moreover, our production, marketing, advertising and other business practices could become the subject of proceedings before regulatory authorities or the subject of claims by other parties that could require us to alter or end those practices or adopt new practices that are not as effective or are more expensive.

In addition, our operations are subject to federal, state, provincial and local laws and regulations relating to pollution, environmental protection, occupational health and safety and labor and employee relations. New or different laws or regulations could increase direct compliance costs for us or may cause our vendors to raise the prices they charge us because of increased compliance costs. Further, the adoption of a multi-layered regulatory approach to any one of the state or federal laws or regulations to which we are currently subject, particularly where the layers are in conflict, could require alteration of our processes which may adversely impact our business. We may not be in complete compliance with all such requirements at all times and, even when we believe that we are in complete compliance, a regulatory agency may determine that we are not. Our operations could also be impacted by a number of pending legislative and regulatory proposals in the United States and other countries to address global climate change. These actions could increase costs associated with our operations, including costs for raw materials, pollution control equipment and transportation. Because it is uncertain what laws will be enacted, we cannot predict the potential impact of such laws on our business, financial condition, and results of operations. Additionally, our operations and those of our suppliers are subject to foreign exchange, tariff, environmental, tax and regulatory compliance risks, among others, which could have a material adverse effect on our business, financial condition, and results of operations.

As a distributor of consumer products, we are subject to the Consumer Products Safety Act, which empowers the Consumer Products Safety Commission (CPSC) to exclude from the market products that are found to be unsafe or hazardous. We are also subject to the Consumer Product Safety Improvement Act, which requires that children's products: (a) comply with all applicable children's product safety rules; (b) be tested for compliance by a CPSC-accepted accredited laboratory, unless subject to an exception; (c) have a written Children's Product Certificate that provides evidence of the product's compliance; and (d) have permanent tracking information affixed to the product and its packaging where practicable. Under certain circumstances, the Consumer Products Safety Commission could require us to repurchase or recall one or more of our products. In addition, laws regulating certain consumer products exist in some cities and states in which we sell our products, and more restrictive laws and regulations may be adopted in the future. Any repurchase or recall of our products could be costly to us and could damage our reputation. If we were required to remove, or we voluntarily removed, our products from the market, our reputation could be tarnished and we could have large quantities of products that we are unable to sell.

Several states currently have laws in effect that are similar to, and, in certain cases, more restrictive than, these federal laws. Compliance with all of these regulations is costly and time-consuming. Inadvertent violation of any of these regulations could cause us to incur fines and penalties and may also lead to restrictions on our ability to manufacture and sell our products and services and to import or export the products we sell. All of which could have a negative effect on revenues or gross profit.

Government regulation of the internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business and results of operations.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the internet and e-commerce. Existing and future regulations and laws could impede the growth of the internet, e-commerce or mobile commerce. These regulations and laws may involve taxes, tariffs, privacy and data security, anti-spam, content protection, electronic contracts and communications, consumer protection and internet neutrality. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, and consumer privacy apply to the internet as the vast majority of these laws were adopted prior to the advent of the internet and do not contemplate or address the unique issues raised by the internet or e-commerce. It is possible that general business regulations and laws, or those specifically governing the internet or e-commerce, may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. We cannot be sure that our practices have complied, comply or will comply fully with all such laws and regulations. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, a loss in business and proceedings,

or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts in defense of these proceedings, distract our management, increase our costs of doing business, decrease the use of our sites by members, customers and suppliers and may result in the imposition of monetary liability. We may also be contractually liable to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any such laws or regulations. In addition, it is possible that governments of one or more countries may seek to censor content available on our websites or may even attempt to completely block access to our websites. Adverse legal or regulatory developments could substantially harm our business. In particular, in the event that we are restricted, in whole or in part, from operating in one or more countries, our ability to retain or increase our customer base may be adversely affected, and we may not be able to maintain or grow our net revenue and expand our business as anticipated.

Failure to comply with federal, state and foreign laws and regulations relating to privacy, data protection and consumer protection, or the expansion of current or the enactment of new laws or regulations relating to privacy, data protection and consumer protection, could adversely affect our business and our financial condition.

A variety of federal, state and foreign laws and regulations govern the collection, use, retention, sharing and security of consumer data. Laws and regulations relating to privacy, data protection and consumer protection are evolving and subject to potentially differing interpretations. These requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another or may conflict with other rules or our practices. As a result, our practices may not have complied or may not comply in the future with all such laws, regulations, requirements and obligations. Any failure, or perceived failure, by us to comply with any federal, state or foreign privacy or consumer protection-related laws, regulations, industry self-regulatory principles, industry standards or codes of conduct, regulatory guidance, orders to which we may be subject or other legal obligations relating to privacy or consumer protection could adversely affect our reputation, brand and business, and may result in claims, investigations, proceedings or actions against us by governmental entities or others or other liabilities or require us to change our operations.

We collect, store, process, and use personal information and other customer data, and we rely on third parties that are not directly under our control to manage certain of these operations and to collect, store, process and use payment information. Our members' and customers' personal information may include names, addresses, phone numbers, email addresses, payment card data, and payment account information, as well as other information. Due to the volume and sensitivity of the personal information and data we and these third parties manage, the security features of our information systems are critical. If our security measures, some of which are managed by third parties, are breached or fail, unauthorized persons may be able to access sensitive customer data, including payment card data. If we or our independent service providers or business partners experience a breach of systems that collect, store or process our members' and customers' sensitive data, our brand could be harmed, sales of our products could decrease, and we could be exposed to claims, losses, administrative fines, litigation or regulatory and governmental investigations and proceedings. Any such claim, investigation, proceeding or action could hurt our reputation, brand and business, force us to incur significant expenses in defense of such proceedings, distract our management, increase our costs of doing business, result in a loss of members, customers and suppliers and may result in the imposition of monetary penalties and administrative fines. Depending on the nature of the information compromised, we may also have obligations to notify users, law enforcement, or payment companies about the incident and may need to provide some form of remedy, such as refunds, for the individuals affected by the incident.

Privacy laws, rules, and regulations are constantly evolving in the United States and abroad and may be inconsistent from one jurisdiction to another. We expect that new industry standards, laws and regulations will continue to be proposed regarding privacy, data protection and information security in many jurisdictions, including the California Consumer Privacy Act of 2018, which went effective January 1, 2020, the California Consumer Privacy Rights Act, which goes effective on January 1, 2023, the Colorado Privacy Act, which goes effective on July 1, 2013 and the Virginia Consumer Data Protection Act, which goes effective January 1, 2023. We cannot yet determine the impact such future laws, regulations and standards may have on our business. Complying with these evolving obligations is costly. For instance, expanding definitions and interpretations of what constitutes "personal data" (or the equivalent) within the United States and elsewhere may increase our compliance costs. Any failure to comply could give rise to unwanted media attention and other negative publicity, damage our customer and consumer relationships and reputation, and result in lost sales, claims, administrative fines, lawsuits or regulatory and governmental investigations and proceedings and may harm our business and results of operations.

Outside of the United States, there are many countries with data protection laws, and new countries are adopting data protection legislation with increasing frequency. Many of these laws may require consent from members and customers for the use of data for various purposes, including marketing, which may reduce our ability to market our products. There is no harmonized approach to these laws and regulations globally. Consequently, we will increase our risk of non-compliance with applicable foreign data protection laws and regulations if we expand internationally. We may need to change and limit the way we use personal information in operating our business and may have difficulty maintaining a single operating model that is compliant. Compliance with such laws and regulations will result in additional costs and may necessitate changes to our business practices and divergent operating models, limit the effectiveness of our marketing activities, adversely affect our business and financial condition, and subject us to additional liabilities.

In addition, various federal, state and foreign legislative and regulatory bodies, or self-regulatory organizations, may expand current laws or regulations, enact new laws or regulations or issue revised rules or guidance regarding privacy, data protection and consumer protection. Further regulation and interpretation of existing regulation of cookies and similar technologies may lead to broader restrictions on our marketing and personalization activities and may negatively impact our efforts to understand users' internet usage, as well as the effectiveness of our marketing and our business generally. Such regulations may have a negative effect on businesses, including ours, that collect and use online usage information for consumer acquisition and marketing, it may increase the cost of operating a business that collects or uses such information and undertakes online marketing, it may also increase regulatory scrutiny and increase potential civil liability under data protection or consumer protection laws. Any such changes may force us to incur substantial costs or require us to change our business practices. This could compromise our ability to pursue our growth strategy effectively and may adversely affect our ability to acquire members and customers or otherwise harm our business, financial condition, and operating results.

We may experience fluctuations in our tax obligations and effective tax rate, which could adversely affect our business, results of operations, and financial condition.

We are subject to taxes in every jurisdiction in which we operate. We record tax expense based on current tax liabilities and our estimates of future tax liabilities, which may include reserves for estimates of probable settlements of tax audits. At any one-time, multiple tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. Further, our effective tax rate in a given financial statement period may be materially impacted by changes in tax laws, changes in the mix and level of earnings by taxing jurisdictions, or changes to existing accounting rules or regulations. Fluctuations in our tax obligations and effective tax rate could adversely affect our business, results of operations, and financial condition.

Our failure to collect state or local sales, use or other similar taxes could result in substantial tax liabilities, including for past sales, as well as penalties and interest, and our business could be materially adversely affected.

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 a result, all states require 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. It is possible that one or more jurisdictions may assert that we have liability for periods for which we have not collected sales, use or other similar taxes, and if such an assertion or assertions were successful it could result in substantial tax liabilities, including for past sales as well as penalties and interest, which could materially adversely affect our business, financial condition and operating results.

Our reliance on overseas manufacturing, including vendors located in jurisdictions presenting an increased risk of bribery and corruption, exposes us to legal, reputational and supply chain risk through the potential for violations of federal and international anti-corruption law.

We derive our merchandise from third-party manufacturing in foreign countries and territories, including countries and territories perceived to carry an increased risk of corrupt business practices. The U.S. Foreign Corrupt Practices Act, or the FCPA, prohibits U.S. corporations and their representatives from offering, promising, authorizing or making payments to any foreign government official, government staff member, political party or political candidate in an attempt to obtain or retain business abroad. Likewise, the SEC, the U.S. Department of Justice, OFAC, the U.S. Department of State, as well as other foreign regulatory authorities continue to enforce economic and trade regulations and anti-corruption laws across industries. U.S. trade sanctions relate to transactions with designated foreign countries and territories as well as specially targeted individuals and entities that are identified on U.S. and other government blacklists, and those owned by them or those acting on their behalf. Notwithstanding our efforts to conduct our operations in material compliance with these regulations, our international vendors could be determined to be our “representatives” under the FCPA, which could expose us to potential liability for the actions of these vendors under the FCPA. If we or our vendors were determined to have violated OFAC regulations, the FCPA, the U.K. Bribery Act of 2010, or any of the anti-corruption and anti-bribery laws in the countries and territories where we and our vendors do business, we could suffer severe fines and penalties, profit disgorgement, injunctions on future conduct, securities litigation, bans on transacting certain business, and other consequences that may have a material adverse effect on our business, financial condition and results of operations. In addition, the costs we may incur in defending against any anti-corruption investigations stemming from our or our vendors’ actions could be significant. Moreover, any actual or alleged corruption in our supply chain could carry significant reputational harms, including negative publicity, loss of good will, and decline in share price.

We incur significant costs to ensure compliance with U.S. and NASDAQ reporting and corporate governance requirements.

We incur significant costs associated with our public company reporting requirements and with applicable U.S. and NASDAQ corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the SEC and NASDAQ. We expect all of these applicable rules and regulations to significantly increase our legal and financial compliance costs compared to prior periods before our IPO and to make some activities more time consuming and costly. We also expect that these applicable rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our Board of Directors or as executive officers.

Risks Related to Management and Directors

Ezra Dabah, our Chief Executive Officer and member of our Board of Directors, exercises majority voting control over us, which limits your ability to influence corporate matters and could delay or prevent a change in corporate control.

Ezra Dabah, our Chief Executive Officer and Chairman, our principal stockholder, currently controls approximately 67.7% of the voting power of our capital stock. As a result, Mr. Dabah can influence our management and affairs and control the outcome of matters submitted to our stockholders for approval, including the election of directors and any sale, merger, consolidation, or sale of all or substantially all of our assets.

Mr. Dabah acquired his shares of common stock for substantially less than the current trading prices of our shares of common stock, and may have interests, with respect to his common stock, that are different from other holders of our common stock and the concentration of voting power held by Mr. Dabah may have an adverse effect on the price of our common stock.

In addition, this concentration of ownership might adversely affect the market price of our common stock by: (1) delaying, deferring or preventing a change of control of our Company; (2) impeding a merger, consolidation, takeover or other business combination involving our Company; or (3) discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our Company. Because Mr. Dabah can control the stockholder vote, investors may find it difficult or impossible to replace Mr. Dabah (and such persons as he may appoint from time to time) as members of our management if they disagree with the way our business is being operated. Additionally, the interests of Mr. Dabah may differ from the interests of the other stockholders and thus result in corporate decisions that are adverse to other stockholders.

Ezra Dabah, our Chief Executive Officer and member of our Board of Directors beneficially owns greater than 50% of our outstanding shares of common stock, which means we are deemed a “controlled company” under the rules of Nasdaq.

Pursuant to the terms of a voting agreement, Mr. Dabah individually, currently controls approximately 67.7% of the voting power of our capital stock. As a result, Mr. Dabah, our Chief Executive Officer and member of our Board of Directors and members of his family, own more than 50% of our outstanding shares, and as such, we are a “controlled company.” under the rules of NASDAQ. Under these rules, a company of which more than 50% of the voting power is held by an individual, a group or another company is a “controlled company” and, as such, can elect to be exempt from certain corporate governance requirements, including requirements that:

- a majority of the Board of Directors consist of independent directors;
- the board maintain a nominations committee with prescribed duties and a written charter; and
- the board maintain a compensation committee with prescribed duties and a written charter and comprised solely of independent directors.

As a “controlled company,” we may elect to rely on some or all of these exemptions, and we have, and currently intend to continue, to take advantage of all of these exemptions. Accordingly, should the interests of Mr. Dabah and his family differ from those of other stockholders, the other stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ corporate governance standards. Even if we do not avail ourselves of these exemptions, our status as a controlled company could make our common stock less attractive to some investors or otherwise harm our stock price. Additionally, as a “controlled company,” and because we have, and continue to intend to, take advantage of all of the exemptions under the rules of NASDAQ relating to “controlled companies,” you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of NASDAQ.

Separately, we are permitted to phase-in our compliance with the independent audit committee requirements set forth in NASDAQ rules, as follows: (1) one independent member of the audit committee at the time of listing, (2) a majority of independent members of the audit committee within 90 days of listing, and (3) all independent members of the audit committee (i.e., at least three members) within one year of listing. During these phase-in periods, our stockholders will not have the same protections afforded to stockholders of companies who have more ‘independent’ members of its audit committee and, if, within the phase-in periods, we are not able to recruit additional directors who would qualify as independent, or otherwise comply with the Nasdaq listing requirements, we may be subject to enforcement actions by Nasdaq. In addition, a change in our board of directors and committee membership may result in a change in corporate strategy and operating philosophies, and may result in deviations from our current growth strategy.

We rely on our management and if they were to leave our company or not devote sufficient time to our company, our business plan could be adversely affected.

We are largely dependent upon the personal efforts and abilities of our existing management, including Ezra Dabah, our Chief Executive Officer and current sole member of the Board of Directors, Moshe Dabah, our Chief Operating and Technology Officer, and Adir Katzav, our Executive Vice President and Chief Financial Officer, each of whom plays an active role in our operations. Moving forward, should the services of any of such persons, or other management of the Company, be lost for any reason, the Company will incur costs associated with recruiting replacements and any potential delays in operations which this may cause. If we are unable to replace our executive officers or other management with a suitably trained alternative individual(s), we may be forced to scale back or curtail our business plan. We do not currently have any employment agreements or maintain key person life insurance policies on our executive officers. Furthermore, certain of our executives do not work

for the Company on a full-time basis. If such executive officers do not devote sufficient time towards our business, we may not be able to effectuate our business plan which would have an adverse effect on our financial conditions and results of operations.

We do not currently have any employment agreements in place with management.

The Company has not entered into an employment agreement with Mr. Dabah, our Chief Executive Officer and Chairman, nor any of our other executive officers. As such, there are no contractual relationships guaranteeing that Mr. Dabah or other management will stay with the Company and continue its operations. In the event Mr. Dabah or other members of management were to resign or be unable to continue to serve in their positions with the Company, due to their death, incapacity or disability, the Company may be unable to find another officer to replace such members of management which may adversely affect the Company's financial condition and results of operations.

Risks Relating to our Intellectual Property

We may be unable to protect our proprietary information and intellectual property, and as a result, our business could be adversely affected.

We rely to a significant degree on trade secret laws to protect our proprietary information. Our principal trademark assets include the registered trademarks "kidpik" 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 "kidpik.com" internet domain name and various other related domain names, which are subject to internet regulatory bodies and trademark and other related laws of each applicable jurisdiction. If we are unable to protect our trademarks or domain names in the United States or in other jurisdictions in which we may ultimately operate, our brand recognition and reputation would suffer, we would incur significant expense establishing new brands and our operating results would be adversely impacted. Additionally, breaches of the security of data center systems and infrastructure or other IT resources could result in the exposure of proprietary information. Additionally, trade secrets may be independently developed by competitors. The steps we have taken to protect our trade secrets and proprietary information may not prevent unauthorized use or reverse engineering of trade secrets or proprietary information. Additionally, to the extent that we have not registered the copyrights in any of our copyrightable works, we will need to register the copyrights before we can file an infringement suit in the United States (or another jurisdiction), and our remedies in any such infringement suit may be limited.

Effective protection of our intellectual property rights may require additional filings and applications in the future. However, pending and future applications may not be approved, and any existing or future patents, trademarks or other intellectual property rights may not provide sufficient protection for our business as currently conducted or may be challenged by others or invalidated through administrative process or litigation.

Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States and, therefore, in certain jurisdictions, we may be unable to protect our proprietary rights and trade secrets adequately against unauthorized third-party copying, infringement or use, which could adversely affect our competitive position.

To protect or enforce our intellectual property rights, we may initiate litigation against third parties. Any lawsuits that we initiate could be expensive, take significant time and divert management's attention from other business concerns. Additionally, we may unintentionally provoke third parties to assert claims against us. These claims could invalidate or narrow the scope of our own intellectual property. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially valuable. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property. The occurrence of any of these events may adversely affect our business, financial condition and results of operations.

We may be subject to claims that we violated intellectual property rights of others, which are extremely costly to defend and could require us to pay significant damages and limit our ability to operate.

Companies on the internet and technology industries, and other patent and trademark holders seeking to profit from royalties in connection with grants of licenses, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. There may be intellectual property rights held by others, including issued or pending patents and trademarks, that cover significant aspects of our technologies, content, branding or business methods. Any intellectual property claims against us, regardless of merit, could be time-consuming and expensive to settle or litigate and could divert our management's attention and other resources. These claims also could subject us to significant liability for damages and could result in our having to stop using technology, content, branding or business methods found to be in violation of another party's rights. We might be required or may opt to seek a license for rights to intellectual property held by others, which may not be available on commercially reasonable terms, or at all. If we cannot license or develop technology, content, branding or business methods for any allegedly infringing aspect of our business, we may be unable to compete effectively. Even if a license is available, we could be required to pay significant royalties, which could increase our operating expenses. We may also be required to develop alternative non-infringing technology, content, branding or business methods, which could require significant effort and expense and be inferior. Any of these results could harm our operating results.

Risks Associated with Our Governing Documents and Delaware Law

Our Second Amended and Restated Certificate of Incorporation provides for indemnification of officers and directors at our expense, which may result in a major cost to us and hurt the interests of our stockholders because corporate resources may be expended for the benefit of officers or directors.

Our Second Amended and Restated Certificate of Incorporation provides for us to indemnify and hold harmless, to the fullest extent permitted by applicable law, each person who is or was made a party or is threatened to be made a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he or she is or was a director or officer of the Company or, while a director or officer of the Company, is or was serving at the request of the Company as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, other enterprise or nonprofit entity, including service with respect to an employee benefit plan. These indemnification obligations may result in a major cost to us and hurt the interests of our stockholders because corporate resources may be expended for the benefit of officers or directors.

We have been advised that, in the opinion of the SEC, indemnification for liabilities arising under federal securities laws is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification for liabilities arising under federal securities laws, other than the payment by us of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding, is asserted by a director, officer or controlling person in connection with our activities, we will (unless in the opinion of our counsel, the matter has been settled by controlling precedent) submit to a court of appropriate jurisdiction, the question whether indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue. The legal process relating to this matter if it were to occur is likely to be very costly and may result in us receiving negative publicity, either of which factors is likely to materially reduce the market and price for our shares.

Our Second Amended and Restated Certificate of Incorporation contains a specific provision that limits the liability of our directors for monetary damages to the Company and the Company's stockholders and requires us, under certain circumstances, to indemnify officers, directors and employees.

The limitation of monetary liability against our directors, officers and employees under Delaware law and the existence of indemnification rights to them may result in substantial expenditures by us and may discourage lawsuits against our directors, officers and employees.

Our Second Amended and Restated Certificate of Incorporation contains a specific provision that limits the liability of our directors for monetary damages to the Company and the Company's stockholders. The foregoing indemnification obligations could result in us incurring substantial expenditures to cover the cost of settlement or damage awards against our directors and officers, which the Company may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against our directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers, even though such actions, if successful, might otherwise benefit us and our stockholders.

Our directors have the right to authorize the issuance of shares of preferred stock.

Our directors, within the limitations and restrictions contained in our Second Amended and Restated Certificate of Incorporation, subject to NASDAQ rules and requirements, and without further action by our stockholders, have the authority to issue shares of preferred stock from time to time in one or more series and to fix the number of shares and the relative rights, conversion rights, voting rights, and terms of redemption, liquidation preferences and any other preferences, special rights and qualifications of any such series. Such rights and preferences may be superior to our common stock, provide for voting rights, board appointment rights, priority rights to dividends or in liquidation, and/or may negatively affect the rights of common stockholders or the value of our common shares. Any issuance of shares of preferred stock could adversely affect the rights of holders of our common stock.

Anti-takeover provisions in our Second Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws, as well as provisions of Delaware law, might discourage, delay or prevent a change in control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Our Second Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws and Delaware law contain provisions that may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares of our common stock. These provisions may also prevent or delay attempts by our stockholders to replace or remove our management. Our corporate governance documents include provisions:

- a classified board of directors, as a result of which our board of directors is divided into three classes, with each class serving for staggered three-year terms;
- the removal of directors only for cause;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our Board of Directors;
- authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock; and
- limiting the liability of, and providing indemnification to, our directors and officers.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders holding shares representing more than 15% of the voting power of our outstanding voting stock from engaging in certain business combinations with us. Any provision of our Second Amended and Restated Certificate of Incorporation or Amended and Restated Bylaws or Delaware law 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 common stock.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

Our Second Amended and Restated Certificate of Incorporation contain exclusive forum provisions that may discourage lawsuits against us and our directors and officers.

Our Second Amended and Restated Certificate of Incorporation provides that unless the corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware, will be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim for breach of a fiduciary duty owed by any current or former director, officer, employee or stockholder of the Company to the Company or the Company's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our Second Amended and Restated Certificate of Incorporation or Bylaws or (iv) any action asserting a claim governed by the internal affairs doctrine.

The choice of forum provision in our Second Amended and Restated Certificate of Incorporation does not waive our compliance with our obligations under the federal securities laws and the rules and regulations thereunder. Moreover, the provision does not apply to suits brought to enforce a duty or liability created by the Exchange Act or by the Securities Act. Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder, and Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts with respect to suits brought to enforce a duty or liability created by the Securities Act or the rules and regulations thereunder. Accordingly, both state and federal courts have jurisdiction to entertain claims under the Securities Act.

Notwithstanding the above, to prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our Second Amended and Restated Certificate of Incorporation provides that unless the Company consents, the U.S. federal district courts will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. However, there is uncertainty as to whether a court would enforce such a provision. While the Delaware courts have determined that choice of forum provisions of the type included in our Second Amended and Restated Certificate of Incorporation are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in our exclusive forum provision. In such instance, to the extent applicable, we would expect to vigorously assert the validity and enforceability of our exclusive forum provision. This may require 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 the ability of the Company's stockholders to bring a claim in a judicial forum that such stockholders find favorable for disputes with the Company or the Company's directors or officers, which may discourage such lawsuits against the Company and the Company's directors and officers. Alternatively, if a court were to find one or more of these exclusive forum provisions inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings described above, we may incur additional costs associated with resolving such matters in other jurisdictions or forums, which could materially and adversely affect our business, financial condition or results of operations.

Risks Related to Our Common Stock

We currently have an illiquid and volatile market for our common stock, and the market for our common stock is and may remain illiquid and volatile in the future.

We currently have a highly sporadic, illiquid and volatile market for our common stock, which market is anticipated to remain sporadic, illiquid and volatile in the future. Since the date our common stock began trading publicly on the Nasdaq Capital Market in connection with our IPO on November 11, 2022, our common stock has traded between \$10.49 and \$1.52 per share. The market price of our common stock may continue to be highly volatile and subject to wide fluctuations. Our financial performance, government regulatory action, tax laws, interest rates, and market conditions in general could have a significant impact on the future market price of our common stock.

Some of the factors that could negatively affect or result in fluctuations in the market price of our common stock include:

- actual or anticipated variations in our quarterly operating results;
- changes in market valuations of similar companies;
- adverse market reaction to the level of our indebtedness;
- additions or departures of key personnel;
- actions by stockholders;
- speculation in the press or investment community;

- general market, economic, and political conditions, including an economic slowdown or dislocation in the global credit markets;
- our operating performance and the performance of other similar companies;
- changes in accounting principles; and
- passage of legislation or other regulatory developments that adversely affect us or the e-commerce industry.

Our common stock is listed on the Nasdaq Capital Market under the symbol “PIK.” Our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. The stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. Additionally, general economic, political and market conditions, such as recessions, inflation, war, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Due to the limited volume of our shares which trade, we believe that our stock prices (bid, ask and closing prices) may not be related to our actual value, and not reflect the actual value of our common stock. You should exercise caution before making an investment in us.

Additionally, as a result of the illiquidity of our common stock, investors may not be interested in owning our common stock because of the inability to acquire or sell a substantial block of our common stock at one time. Such illiquidity could have an adverse effect on the market price of our common stock. In addition, a stockholder may not be able to borrow funds using our common stock as collateral because lenders may be unwilling to accept the pledge of securities having such a limited market. An active trading market for our common stock may not develop or, if one develops, may not be sustained.

In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management’s attention from other business concerns, which could seriously harm our business.

There is no guarantee that our common stock will continue to trade on the NASDAQ Capital Market.

As a condition to consummating our IPO, our common stock was required to be listed on NASDAQ and our common stock is currently listed on NASDAQ under the symbol “PIK”. There is no guarantee that we will be able to maintain our listing on NASDAQ for any period of time. Among the conditions required for continued listing on Nasdaq, NASDAQ requires us to maintain at least \$2.5 million in stockholders’ equity or \$500,000 in net income over the prior two years or two of the prior three years, to have a majority of independent directors (subject to certain “controlled company” exemptions, which we currently plan to take advantage of, as discussed in greater detail above under “*Ezra Dabah, our Chief Executive Officer and Chairman and his family, own greater than 50% of our outstanding shares of common stock, which will cause us to be deemed a “controlled company” under the rules of Nasdaq*”), to comply with certain audit committee requirements, and to maintain a stock price over \$1.00 per share. Our stockholders’ equity may not remain above NASDAQ’s \$2.5 million minimum, we may not generate over \$500,000 of yearly net income moving forward, we may not be able to maintain independent directors (to the extent required), and we may not be able to maintain a stock price over \$1.00 per share. NASDAQ’s determination that we fail to meet the continued listing standards of NASDAQ may result in our securities being delisted from NASDAQ.

The absence of such a listing may adversely affect the acceptance of our common stock as currency or the value accorded by other parties. Further, if we are delisted, we would also incur additional costs under state blue sky laws in connection with any sales of our securities. These requirements could severely limit the market liquidity of our common stock and the ability of our stockholders to sell our common stock in the secondary market. If our common stock is delisted by NASDAQ, our common stock may be eligible to trade on an over-the-counter quotation system, such as the OTCQB Market or OTC Pink Market, where an investor may find it more difficult to sell our securities or obtain accurate quotations as to the market value of our securities. In the event our common stock is delisted from NASDAQ in the future, we may not be able to list our common stock or warrants on another national securities exchange or obtain quotation on an over-the counter quotation system.

We have broad discretion in how we use the proceeds of our IPO and may not use these proceeds effectively, which could affect our results of operations and cause our common stock to decline.

We have considerable discretion in the application of the net proceeds of our IPO. We have used, and intend to continue to use, the net proceeds from the IPO to repay debt, for marketing expenses and for working capital, and potentially for future acquisitions. As a result, investors will be relying upon management’s judgment with only limited information about our specific intentions for the use of the net proceeds of the IPO. We may use the net proceeds for purposes that do not yield a significant return or any return at all for our stockholders. In addition, pending their use, we may invest the net proceeds from the IPO in a manner that does not produce income or that loses value.

If securities or industry analysts do not publish research or reports about us, or if they adversely change their recommendations regarding our common stock, then our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us, our industry and our market. If analysts do not elect to cover us and publish research or reports about us, the market for our common stock could be severely limited and our stock price could be adversely affected. As a small-cap company, we are more likely than our larger competitors to lack

coverage from securities analysts. In addition, even if we receive analyst coverage, if one or more analysts ceases coverage of us or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. If one or more analysts who elect to cover us issue negative reports or adversely change their recommendations regarding our common stock, our stock price could decline.

Future sales of our common stock, other securities convertible into our common stock, or preferred stock could cause the market value of our common stock to decline and could result in dilution of your shares.

Our Board of Directors is authorized to cause us to issue additional shares of our common stock or to raise capital through the creation and issuance of preferred stock, other debt securities convertible into common stock, options, warrants and other rights, on terms and for consideration as our Board of Directors in its sole discretion may determine. Sales of substantial amounts of our common stock or of preferred stock could cause the market price of our common stock to decrease significantly. We cannot predict the effect, if any, of future sales of our common stock, or the availability of our common stock for future sales, on the value of our common stock. Sales of substantial amounts of our common stock by large stockholders, or the perception that such sales could occur, may adversely affect the market price of our common stock.

In addition, in connection with our IPO, each of our officers and directors and each stockholder which held more than 5% of our outstanding shares of common stock have entered into a lock-up agreement that restricts the direct or indirect sale of shares of our common stock beneficially held by such person for 180 days after the closing date of the IPO without the prior written consent of the representative of the underwriters. In addition, such persons have agreed not to directly or indirectly sell, offer to sell, grant any option or otherwise transfer or dispose of shares of our common stock for 180 days after the closing date of the IPO. The representative of the underwriters may, at any time, release, or authorize us to release, as the case may be, all or a portion of our common stock subject to the foregoing lock-up provisions. If the restrictions under the lock-up provisions of the lock-up agreements entered into in connection with the IPO are waived, shares of our common stock may become available for sale into the market, subject to applicable law, which could reduce the market price for our common stock.

We have no intention of declaring dividends in the foreseeable future.

The decision to pay cash dividends on our common stock rests with our Board of Directors and will depend on our earnings, unencumbered cash, capital requirements and financial condition. We do not anticipate declaring any dividends in the foreseeable future, as we intend to use any excess cash to fund our operations. Investors in our common stock should not expect to receive dividend income on their investment, and investors will be dependent on the appreciation of our common stock to earn a return on their investment.

Risks Relating to The JOBS Act

The Jumpstart Our Business Startups (JOBS) Act allows us to postpone the date by which we must comply with certain laws and regulations and to reduce the amount of information provided in reports filed with the SEC. We cannot be certain if the reduced disclosure requirements applicable to “emerging growth companies” will make our common stock less attractive to investors.

We are and we will remain an “emerging growth company” until the earliest to occur of (i) the last day of the fiscal year during which our total annual revenues equal or exceed \$1.07 billion (subject to adjustment for inflation), (ii) the last day of the end of our 2026 fiscal year (five years from our first public offering), (iii) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt, or (iv) the date on which we are deemed a “large accelerated filer” (with at least \$700 million in public float) under the Exchange Act. For so long as we remain an “emerging growth company” as defined in the JOBS Act, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” as described in further detail in the risk factors below. We cannot predict if investors will find our common stock less attractive because we will rely on some or all of these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. If we avail ourselves of certain exemptions from various reporting requirements, as is currently our plan, our reduced disclosure may make it more difficult for investors and securities analysts to evaluate us and may result in less investor confidence.

Our election not to opt out of the JOBS Act extended accounting transition period may not make our financial statements easily comparable to other companies.

Pursuant to the JOBS Act, as an “emerging growth company”, we can elect to opt out of the extended transition period for any new or revised accounting standards that may be issued by the Public Company Accounting Oversight Board (PCAOB) or the SEC. Which means that when a standard is issued or revised and it has different application dates for public or private companies, we, as an “emerging growth company”, can adopt the standard for the private company. This may make a comparison of our financial statements with any other public company which is not either an “emerging growth company” nor an “emerging growth company” which has opted out of using the extended transition period, more difficult or impossible as possible different or revised standards may be used.

The JOBS Act also allows us to postpone the date by which we must comply with certain laws and regulations intended to protect investors and to reduce the amount of information provided in reports filed with the SEC.

The JOBS Act is intended to reduce the regulatory burden on “emerging growth companies”. The Company meets the definition of an “emerging growth company” and so long as it qualifies as an “emerging growth company,” it will, among other things:

- be exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that its independent registered public accounting firm provide an attestation report on the effectiveness of its internal control over financial reporting;
- be exempt from the “say on pay” provisions (requiring a non-binding stockholder vote to approve compensation of certain executive officers) and the “say on golden parachute” provisions (requiring a non-binding stockholder vote to approve golden parachute arrangements for certain executive officers in connection with mergers and certain other business combinations) of The Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and certain disclosure requirements of the Dodd-Frank Act relating to compensation of Chief Executive Officers;
- be permitted to omit the detailed compensation discussion and analysis from proxy statements and reports filed under the Exchange Act and instead provide a reduced level of disclosure concerning executive compensation; and
- be exempt from any rules that may be adopted by the PCAOB requiring mandatory audit firm rotation or a supplement to the auditor’s report on the financial statements.

The Company currently intends to take advantage of all of the reduced regulatory and reporting requirements that will be available to it so long as it qualifies as an “emerging growth company”. The Company has elected not to opt out of the extension of time to comply with new or revised financial accounting standards available under Section 102(b)(1) of the JOBS Act. Among other things, this means that the Company’s independent registered public accounting firm will not be required to provide an attestation report on the effectiveness of the Company’s internal control over financial reporting so long as it qualifies as an “emerging growth company,” which may increase the risk that weaknesses or deficiencies in the internal control over financial reporting go undetected. Likewise, so long as it qualifies as an “emerging growth company,” the Company may elect not to provide certain information, including certain financial information and certain information regarding compensation of executive officers, which it would otherwise have been required to provide in filings with the SEC, which may make it more difficult for investors and securities analysts to evaluate the Company. As a result, investor confidence in the Company and the market price of its common stock may be adversely affected.

Notwithstanding the above, we are also currently a “smaller reporting company”, meaning that we are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a smaller reporting company and have a public float of less than \$250 million and annual revenues of less than \$100 million during the most recently completed fiscal year. In the event that we are still considered a “smaller reporting company”, at such time are we cease being an “emerging growth company”, the disclosures we will be required to provide in our SEC filings will increase, but will still be less than it would be if we were not considered either an “emerging growth company” or a “smaller reporting company”. Specifically, similar to “emerging growth companies”, “smaller reporting companies” are able to provide simplified executive compensation disclosures in their filings; are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting; and have certain other decreased disclosure obligations in their SEC filings, including, among other things, only being required to provide two years of audited financial statements in annual reports. Decreased disclosures in our SEC filings due to our status as an “emerging growth company” or “smaller reporting company” may make it harder for investors to analyze the Company’s results of operations and financial prospects.

General Risk Factors

Higher labor costs due to statutory and regulatory changes could materially adversely affect our business, financial condition and operating results.

Various federal and state labor laws, including certain laws and regulations enacted in response to COVID-19, govern our relationships with our employees and affect operating costs. These laws include employee classifications as exempt or non-exempt, minimum wage requirements, unemployment tax rates, workers’ compensation rates, overtime, family leave, workplace health and safety standards, payroll taxes, citizenship requirements and other wage and benefit requirements for employees classified as non-exempt. As our employees are paid at rates set at, or above but related to, the applicable minimum wage, further increases in the minimum wage could increase our labor costs. Significant additional government regulations could materially adversely affect our business, financial condition and 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 members and customers and engage with existing members and customers;
- overcome the impacts of the COVID-19 pandemic;
- increase our market share;
- increase consumer awareness of our brand and maintain our reputation;
- anticipate and respond to macroeconomic changes;
- successfully expand our offering and geographic reach;
- anticipate and respond to changing style trends and consumer preferences;
- manage our inventory effectively;
- 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 product 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.

Failure to adequately manage our planned aggressive growth strategy may harm our business or increase our risk of failure.

For the foreseeable future, we intend to pursue an aggressive growth strategy for the expansion of our operations through increased marketing. Our ability to rapidly expand our operations will depend upon many factors, including our ability to work in a regulated environment, establish and maintain strategic relationships with suppliers, and obtain adequate capital resources on acceptable terms. Any restrictions on our ability to expand may have a materially adverse effect on our business, results of operations, and financial condition. Accordingly, we may be unable to achieve our targets for sales growth, and our operations may not be successful or achieve anticipated operating results.

Additionally, our growth may place a significant strain on our managerial, administrative, operational, and financial resources and our infrastructure. Our future success will depend, in part, upon the ability of our senior management to manage growth effectively. This will require us to, among other things:

- implement additional management information systems;
- further develop our operating, administrative, legal, financial, and accounting systems and controls;
- hire additional personnel;
- develop additional levels of management within our company;
- locate additional office space; and
- maintain close coordination among our operations, legal, finance, sales and marketing, and client service and support personnel.

As a result, we may lack the resources to deploy our services on a timely and cost-effective basis. Failure to accomplish any of these requirements could impair our ability to deliver services in a timely fashion or attract and retain new members and customers.

If we make any acquisitions, they may disrupt or have a negative impact on our business.

If we make acquisitions in the future, we could have difficulty integrating the acquired company's assets, personnel and operations with our own. We do not anticipate that any acquisitions or mergers we may enter into in the future would result in a change of control of the Company. In addition, the key personnel of the acquired business may not be willing to work for us. We cannot predict the effect expansion may have on our core business. Regardless of whether we are successful in making an acquisition, the negotiations could disrupt our ongoing business, distract our management and employees and increase our expenses. In addition to the risks described above, acquisitions are accompanied by a number of inherent risks, including, without limitation, the following:

- the difficulty of integrating acquired products, services or operations;
- the potential disruption of the ongoing businesses and distraction of our management and the management of acquired companies;
- difficulties in maintaining uniform standards, controls, procedures and policies;
- the potential impairment of relationships with employees and members and customers as a result of any integration of new management personnel;
- the potential inability or failure to achieve additional sales and enhance our customer base through cross-marketing of the products to new and existing members and customers;
- the effect of any government regulations which relate to the business acquired;
- potential unknown liabilities associated with acquired businesses or product lines, or the need to spend significant amounts to retool, reposition or modify the marketing and sales of acquired products or operations, or the defense of any litigation, whether or not successful, resulting from actions of the acquired company prior to our acquisition; and
- potential expenses under the labor, environmental and other laws of various jurisdictions.

Our business could be severely impaired if and to the extent that we are unable to succeed in addressing any of these risks or other problems encountered in connection with an acquisition, many of which cannot be presently identified. These risks and problems could disrupt our ongoing business, distract our management and employees, increase our expenses and adversely affect our results of operations.

We may apply working capital and future funding to uses that ultimately do not improve our operating results or increase the value of our securities.

In general, we have complete discretion over the use of our working capital and any new investment capital we may obtain in the future. Because of the number and variety of factors that could determine our use of funds, our ultimate expenditure of funds (and their uses) may vary substantially from our current intended operating plan for such funds. Our management has broad discretion to use any or all of our available capital reserves. Our capital could be applied in ways that do not improve our operating results or otherwise increase the value of a stockholder's investment.

The sale of shares by our directors and officers may adversely affect the market price for our shares.

Sales of significant amounts of shares held by our officers and directors, or the prospect of these sales, could adversely affect the market price of our common stock. Management's stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

Stockholders may be diluted significantly through our efforts to obtain financing and satisfy obligations through the issuance of additional shares of our common stock.

Wherever possible, our Board of Directors will attempt to use non-cash consideration to satisfy obligations. In many instances, we believe that the non-cash consideration will consist of restricted shares of our common stock or where shares are to be issued to our officers, directors and applicable consultants. Our Board of Directors has authority, without action or vote of the stockholders, but subject to NASDAQ rules and regulations (which generally require stockholder approval for any transactions which would result in the issuance of more than 20% of our then outstanding shares of common stock or voting rights representing over 20% of our then outstanding shares of stock), to issue all or part of the authorized but unissued shares of common stock. In addition, we may attempt to raise capital by selling shares of our common stock, possibly at a discount to market. These actions will result in dilution of the ownership interests of existing stockholders, which may further dilute common stock book value, and that dilution may be material. Such issuances may also serve to enhance existing management's ability to maintain control of the Company because the shares may be issued to parties or entities committed to supporting existing management.

Claims, litigation, government investigations, and other proceedings may adversely affect our business and results of operations.

From time to time we are subject to actual and threatened claims and we may in the future be subject to litigation, reviews, investigations, and other proceedings, including proceedings relating to products offered by us and by third parties, and other matters. Any of these types of proceedings, may have an adverse effect on us because of legal costs, disruption of our operations, diversion of management resources, negative publicity, and other factors. The outcomes of these matters are inherently unpredictable and subject to significant uncertainties. Determining legal reserves and possible losses from such matters involves judgment and may not reflect the full range of uncertainties and unpredictable outcomes. Until the final resolution of such matters, we may be exposed to losses in excess of the amount recorded, and such amounts could be material. Should any of our estimates and assumptions change or prove to have been incorrect, it could have a material effect on our business, financial position, results of operations, or cash flows. In addition, it is possible that a resolution of one or more such proceedings, including as a result of a settlement, could require us to make substantial future payments, prevent us from offering certain products or services, require us to change our business practices in a manner materially adverse to our business, requiring development of non-infringing or otherwise altered products or technologies, damaging our reputation, or otherwise having a material effect on our operations.

We may incur additional indebtedness in the future which could reduce our financial flexibility, increase interest expense and adversely impact our operations and our costs.

We may incur significant amounts of indebtedness in the future. Our level of indebtedness could affect our operations in several ways, including the following:

- a significant portion of our cash flows is required to be used to service our indebtedness;
- a high level of debt increases our vulnerability to general adverse economic and industry conditions;
- covenants contained in the agreements governing our outstanding indebtedness limit our ability to borrow additional funds and provide additional security interests, dispose of assets, pay dividends and make certain investments;
- a high level of debt may place us at a competitive disadvantage compared to our competitors that are less leveraged and, therefore, may be able to take advantage of opportunities that our indebtedness may prevent us from pursuing; and
- debt covenants may affect our flexibility in planning for, and reacting to, changes in the economy and in our industry.

A high level of indebtedness increases the risk that we may default on our debt obligations. We may not be able to generate sufficient cash flows to pay the principal or interest on our debt, and future working capital, borrowings or equity financing may not be available to pay or refinance such debt. If we do not have sufficient funds and are otherwise unable to arrange financing, we may have to sell significant assets or have a portion of our assets foreclosed upon which could have a material adverse effect on our business, financial condition and results of operations.

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For all of the foregoing reasons and others set forth herein, an investment in our securities involves a high degree of risk.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We do not own any real property. Our corporate and executive offices are in located at 200 Park Avenue South, 3rd Floor, New York, New York 10003. Our fulfillment center/warehouse is located in Rancho Cucamonga, California.

We sublease our New York corporate offices and our fulfillment center from Nina Footwear, which is 86.4% owned by Ezra Dabah and his immediate family, our Chief Executive Officer and Chairman, and which entity Mr. Dabah serves as Chief Executive Officer and member of the Board of Directors of Nina Footwear.

The fulfillment center sublease provides us the right to approximately 32,570 square feet of space in Rancho Cucamonga, California, has a term from April 1, 2021 to September 30, 2023, and requires us to pay a monthly rental cost of \$24,416 per month.

The New York corporate office sublease provides us the right to use a portion of the space leased by Nina Footwear (approximately 7,500 square feet of space), in consideration for \$27,500 per month of rental charges. The sublease does not have a stated term; however, we are currently negotiating to enter into a new lease agreement.

For 2021 and 2020, rent amounted to \$551,595 and \$147,144, respectively, and is included in general and administrative expenses.

We believe our facilities are sufficient to meet our current needs and that suitable space will be available as and when needed.

Item 3. LEGAL PROCEEDINGS

We are not party to any material legal proceedings at this time. From time to time, we may become involved in various legal proceedings that arise in the ordinary course of business, principally personal injury and property casualty claims. Those claims, even if lacking merit, could result in the expenditure by us of significant financial and managerial resources. We may become involved in material legal proceedings in the future.

Item 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

On November 15, 2021, the Company completed its initial public offering. In connection with the initial public offering, the Company's common stock began trading on the Nasdaq Capital Market on and as of November 11, 2021 under the symbol "PIK". In conjunction with its IPO, the Company sold approximately 2.12 million shares of its common stock at \$8.50 per share, raising approximately \$16.1 million in net proceeds after fees and expenses.

As of April 1, 2022, 7,617,834 shares of the registrant's common stock were outstanding.

Holders of Record

As of the close of business on April 1, 2022, there were 20 stockholders of record of our common stock. The actual number of holders of our 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.

Information with Respect to Dividends

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

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Initial Public Offering

On November 15, 2021, we completed our IPO, in which we sold 2,117,647 shares of common stock at a price to the public of \$8.50 per share. In connection with the IPO, the Company also granted the representative of the underwriters a 45-day option to purchase up to an additional 317,647 shares of its common stock. We received aggregate net proceeds of approximately \$16.1 million, after deducting underwriting discounts and commissions, and offering costs.

We have used the net proceeds from the IPO to repay debt, and plan to continue to use such net proceeds to increase our capitalization and financial flexibility, and create a public market for our common stock, and facilitate our future access to the capital markets. We also plan to use a portion of the net proceeds for marketing expenses and for working capital. We used a portion of the net proceeds from the offering to pay all or a portion of our debt outstanding as of October 28, 2021, which included (i) the repayment of amounts owed to Crossroads totaling approximately \$3.2 million (which amount was repaid in full, together with accrued interest and a termination fee in the amount of \$24,498, on November 15, 2021); (ii) amounts owed under a short-term, unsecured promissory note, with Nina Footwear in the amount of \$0.4 million, which is noninterest-bearing and due on December 31, 2021 (of which \$0.4 million was paid on November 16, 2021); (iii) amounts owed to related party in the amount of \$1.3 million (which do not have a stated maturity date and which do not accrue interest) (of which \$0.4 million was paid as of January 1, 2022); (iv) amounts owed in connection with vendor payables of approximately \$1.2 million (of which \$0.3 million was settled as of January 1, 2022); and (v) amounts due under unsecured promissory notes with Ezra Dabah, our Chief Executive Officer and other related party stockholders, which are trusts controlled by family members of Ezra Dabah in the amount of \$2.8 million, (of which \$0.6 million was paid as of March 31, 2022), which do not accrue interest.

All the shares issued and sold in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-260101) filed by the Company with the SEC under the Securities Act on October 6, 2021, as amended and the Company's registration statement on Form S-1MEF (File No. 333-260986) filed by the Company with the SEC under the Securities Act on November 10, 2021, each of which became effective on November 10, 2021. The representative of the underwriters of our IPO was EF Hutton, division of Benchmark Investments, LLC. Following the sale of all the shares upon the closing of the IPO, the offer terminated. No payments were made by us to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates, other than payments in the ordinary course of business, and payments for the repayment of debt, as discussed above (which repayments to affiliates totaled approximately \$1.4 million).

There has been no material change in the expected use of the net proceeds from our initial public offering as described in our final prospectus filed with the SEC on November 15, 2021, pursuant to Rule 424(b).

The expected use of net proceeds from the IPO represents our intentions based upon our present plans and business conditions. We cannot predict with certainty all of the particular uses for the proceeds of the IPO or the amounts that we will actually spend on the uses set forth above. Accordingly, our management will have broad discretion in the application of the net proceeds we received from the IPO, and investors will be relying on the judgment of our management regarding the application of our net proceeds. While we expect to use the net proceeds for the purposes described above, the timing and amount of our actual expenditures will be based on many factors, including cash flows from operations, the anticipated growth of our business, and the availability and terms of alternative financing sources to fund our growth.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6. [RESERVED]

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our audited financial statements and related notes thereto included at the end of this Annual Report. The following discussion contains forward-looking statements regarding future events and the future results of the Company that are based on current expectations, estimates, forecasts, and projections about the industry in which the Company operates and the beliefs and assumptions of the management of the Company. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” variations of such words, and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might 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 and elsewhere in this Annual Report. See also “Cautionary Note Regarding Forward-Looking Statements”. The Company undertakes no obligation to revise or update publicly any forward-looking statements for any reason. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report.

The following discussion is based upon our financial statements included elsewhere in this Annual Report, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingencies. In the course of operating our business, we routinely make decisions as to the timing of the payment of invoices, the collection of receivables, the shipment of products, the fulfillment of orders, the purchase of supplies, and the building of inventory, among other matters. Each of these decisions has some impact on the financial results for any given period. In making these decisions, we consider various factors including contractual obligations, customer satisfaction, competition, internal and external financial targets and expectations, and financial planning objectives. On an on-going basis, we evaluate our estimates, including those related to sales returns, allowance for doubtful accounts, impairment of long-term assets, realization of deferred tax asset, assumptions used in the valuation of stock-based compensation, and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company uses a 52–53-week fiscal year ending on the Saturday nearest to December 31 each year. The years ended January 1, 2022 and January 2, 2021 were 52- and 53-week years, respectively. These years are referred to herein as “2021” and “2020”, respectively. The Company’s fiscal quarters are generally 13 weeks in duration. When the Company’s fiscal year is 53 weeks long, the corresponding fourth quarter is 14 weeks in duration.

Introduction

Our Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. MD&A is organized as follows:

- Overview.
- Key Performance Indicators.
- Factors Affecting Our Future Performance.
- Components of Results of Operations.
- Results of Operations.
- Liquidity and Capital Resources.
- Critical Accounting Policies and Estimates.

This information should be read in conjunction with the financial statements and related notes included in the audited financial statements beginning under “Index to Financial Statements” in this Annual Report.

Overview

We began operations in 2016 as a subscription-based e-commerce company on the proposition of making shopping easy, convenient, and accessible for parents by delivering fashionable and personalized outfits in a box, that their kids will love to wear. kidpik provides kids clothing subscription boxes for boys and girls (sizes 2T-16) that include *mix-&-match* coordinated outfits that are personalized based on each member's style preferences. We focus on providing entire outfits from head-to-toe (including shoes) by designing each seasonal collection internally from concept to box.

Staying ahead in an emerging industry requires constant innovation in product and services. After launching with our girls' subscription box for sizes 4-14 in 2016, we have continued to expand our product offering and marketing channels. We expanded into boys' clothes, added larger sizes—up to 16 for apparel and 6 youth for shoes—added toddler sizes down to 2T & 3T for apparel and 7 & 8 toddler shoes, launched shop.kidpik.com, where we sell individual apparel items and shoes, launched gift.kidpik.com where we sell pre-styled outfit gift boxes and gift cards, and expanded to sell our branded products on Amazon.com, as well as Fulfilled by Amazon (FBA) and Fulfilled by Merchant (FBM) for pre-packs and individual items.

We launched our debut toddler collection in the first quarter of 2021, introducing sizes 2T and 3T apparel sizes, and added size 7 and 8 toddler shoes for boys and girls, which we began to ship in April 2021. We also introduced an “add-on” for all members pursuant to which they can add additional pieces of their choosing to their next box order. We plan to increase the number of add-on item selections offered in an effort to increase the box transaction size and gross margin per box.

As of the date of this Annual Report, we provide e-commerce services only throughout the 48 contiguous U.S. states and Army Post Offices (APOs) and Fleet Post Offices (FPOs).

We have started initiatives to expand our offerings into newborn sizes 12 months and 18 months as well as husky/plus and slim sizes. We currently anticipated launching husky/plus, slim sizes and the two new newborn sizes during Q3 2022. We plan to continue to analyze the marketplace for interest in new products and may further invest in expanding our current lines.

We have added new channels to our paid advertising strategy, including TikTok, Tap Joy and new affiliate partnerships, with the goal of increasing new member growth. In addition, we have focused on other revenue share marketing opportunities, such as scaling our influencer ambassador program and soft launching a consumer-facing brand ambassador program. We are also pursuing new organic growth strategies, such as cross-promotional opportunities with children's companies with brand synergies.

In November 2021, the Company completed an initial public offering (the “IPO”), in which the Company issued and sold 2,117,647 shares of its authorized common stock for \$8.50 per share for net proceeds of \$16.1 million, after deducting underwriting discounts and commissions, and offering costs.

Key Performance Indicators

Key performance indicators that we use to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions include gross margin, shipped items, and average shipment keep rate, each described in greater detail below.

We also use the following metrics to assess the progress of our business, make decisions on where to allocate capital, time and technology investments and assess the near-term and longer-term performance of our business.

Gross Margin

Gross profit is equal to our net sales less cost of goods sold. Gross profit as a percentage of our net sales is referred to as gross margin. Cost of sales consists of the purchase price of merchandise sold to customers and includes import duties and other taxes, freight in, returned from customers, inventory write-offs, and other miscellaneous shrinkage.

	For the Years Ended	
	January 1, 2022	January 2, 2021
Gross margin	59.5%	58.4%

Adjusted EBITDA

In addition to our results calculated under generally accepted accounting principles in the United States (“GAAP”), and to provide investors with additional information regarding our financial results, we have disclosed in the table below and elsewhere in this Report, Adjusted EBITDA, a non-GAAP financial measure that we calculate as net loss before other expense, net, interest, taxes, depreciation and amortization, adjusted to

exclude the effects of equity-based compensation expense, and certain non-routine items. We have provided below a reconciliation of Adjusted EBITDA to net loss, the most directly comparable generally accepted accounting principles, or GAAP, financial measure.

We have included Adjusted EBITDA in this report because it is a key measure used by our management and board of directors to evaluate our operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis and, in the case of exclusion of the impact of equity-based compensation, excludes an item that we do not consider to be indicative of our core operating performance. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us;
- Adjusted EBITDA does not reflect certain non-routine items that may represent a reduction in cash available to us; and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results.

Our financial results include certain items that we consider non-routine and not reflective of the underlying trends in our core business operations. Non-routine items in 2021 primarily related to the forgiveness of a loan by the U.S. Small Business Association. Although we believe this income to be non-routine in nature, we cannot guarantee that this type of income will not be incurred again in the future.

A reconciliation of net loss to Adjusted EBITDA is as follows:

	For the Years Ended	
	January 1, 2022	January 2, 2021
Net loss	\$ (5,947,547)	\$ (4,188,360)
Add (deduct):		
Interest expense	711,974	511,427
Other (income)/expense, net	(429,045)	10,000
Provision for income taxes	1,332	1,122
Depreciation and amortization	26,914	72,843
Equity-based compensation	328,515	-
Adjusted EBITDA	<u>\$ (5,307,857)</u>	<u>\$ (3,592,968)</u>

Shipped Items

We define shipped items as the total number of items shipped in a given period to our customers through our active subscription, amazon and online website sales.

	For the Years Ended	
	(In thousands)	
	January 1, 2022	January 2, 2021
Shipped Items	2,157	1,727

We believe the increase in subscription shipments for fiscal 2021 versus 2020, as shown in the table above, was the result of our continued investment in product expansion and consumer marketing.

Average Shipment Keep Rate

Average shipment keep rate is calculated as the total number of items kept by our customers divided by total number of shipped items in a given period.

	For the Years Ended	
	January 1, 2022	January 2, 2021
Average Shipment Keep Rate	69.0%	66.1%

Factors Affecting Our Future Performance

We believe that our performance and future success depend on several factors that present significant opportunities for us, but also pose risks and challenges, including those discussed below and in the section of this Annual Report titled “Risk Factors.”

Overall Economic Trends

The overall economic environment and related changes in consumer behavior have a significant impact on our business. In general, positive conditions in the broader economy promote customer spending on our sites, while economic weakness, which generally results in a reduction of customer spending, may have a more pronounced negative effect on spending on our sites. Macroeconomic factors that can affect customer spending patterns, and thereby our results of operations, include employment rates, inflation, business conditions, changes in the housing market, the availability of credit, interest rates and fuel and energy costs. In addition, during periods of low unemployment, we generally experience higher labor costs.

Growth in Brand Awareness and Site Visits

We intend to continue investing in our brand marketing efforts. Since 2016 we have made significant investments to strengthen the “kidpik” brand through expansion of our social media presence. If we fail to cost-effectively promote our brand or convert impressions into new customers, our net sales growth and profitability would be adversely affected.

Acquisition of New Subscriptions

Our ability to attract new subscriptions through marketing and the development of our brand is a key factor for our future growth. If we are unable to acquire sufficient new subscriptions in the future, our revenue might decline. New subscriptions could be negatively impacted if our marketing efforts are less effective in the future. Increases in advertising rates could also negatively impact our ability to acquire new subscriptions cost effectively. Consumer tastes, preferences, and sentiment for our brand may also change and result in decreased demand for our products and services. Laws and regulations relating to privacy, data protection, marketing and advertising, and consumer protection are evolving and subject to potentially differing interpretations. These requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another or may conflict with other rules or our practices and procedures.

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.

Retention of Existing Subscribers

Our ability to retain subscribers is a also key factor in our ability to generate revenue growth. Most of our current subscribers purchase products through subscription-based plans, where subscribers are billed and sent products on a recurring basis. The recurring nature of this revenue provides us with a certain amount of predictability for future revenue. If customer behavior changes, and customer retention decreases in the future, then future revenue will be negatively impacted.

Inventory Management

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

Investments in Growth

We expect to continue to focus on long-term growth through investments in product offerings and the kids and parent experience. We expect to make significant investments in marketing to acquire new subscribers and customers. Additionally, we intend to continue to invest in our fulfillment and operating capabilities. In the short term, we expect these investments to increase our operating expenses in the future and cannot be certain that these efforts will grow our customer base or be cost-effective; however, in the long term, we anticipate that these investments will positively impact our results of operations.

Components of Results of Operations

Note that our classification of the various items making up cost of goods sold, shipping and handling, payroll and related costs and general and administrative costs may vary from other companies in our industry and as such, may not be comparable to a competitor’s.

Revenue

We generate revenue in two categories: 1) the sale items in our subscription boxes, and 2) the sale of one-time purchases via shop.kidpik.com, and other marketplaces. We refer to these revenue classification as “Subscription boxes” and “one-time purchases”. Net revenue is revenue less promotional discounts, actual customer credits and refunds as well as customer credits and refunds expected to be issued, and sales tax. When we use the term revenue in this Report, we are referring to net revenue, unless otherwise stated. We also recognize revenue resulting upon the use of gift cards. Customers who decide to return some or all of the merchandise they receive in each kidpik box, may return such items within 10 days of receipt of the box. Customers are charged for subscription merchandise which is not returned, or which is accepted and are charged for general merchandise (non-subscription) when they purchase such merchandise; however, they are able to receive a refund on returned merchandise.

Cost of Goods Sold

Cost of goods sold consists of the costs of manufacturing merchandise and the expenses of shipping and importing (duty payments) such merchandise to our warehouse for distribution, and inventory write-offs, offset by the recoverable cost of merchandise estimated to be returned.

Shipping and Handling

Shipping and handling, includes the costs of shipping merchandise to our customers, and back to us, as well as the cost of fulfillment and return processing, and the materials used for packing.

Payroll and Related Costs

Payroll and related costs represent employee salaries, taxes, benefits and fees to our payroll provider.

General and Administrative Expenses

General and administrative expenses consist primarily of marketing, professional fees, Amazon seller fees, bad debt expense and credit card fees, among others.

Depreciation and Amortization

Depreciation and amortization expenses consist of depreciation expense for leasehold improvements and equipment.

Interest Expense

Interest expense consists primarily of interest expense associated with our lines of credit, outstanding notes payable, and amortization of deferred expense related to our line of credit.

Other Non-Operating Income

Other non-operating income relates to the forgiveness of Paycheck Protection Loan.

Provision for Income Taxes

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

Results of Operations

Novel Coronavirus (COVID-19)

In December 2019, a novel strain of coronavirus, which causes the infectious disease known as COVID-19, was reported in Wuhan, China. The World Health Organization declared COVID-19 a “Public Health Emergency of International Concern” on January 30, 2020 and a global pandemic on March 11, 2020. In March and April 2020, many U.S. states and local jurisdictions began issuing ‘stay-at-home’ orders. The U.S. has recently seen decreases in total new COVID-19 infections; however, it is unknown whether such decreases will continue, new strains of the virus will cause numbers to increase, currently projected vaccine efficacy numbers will hold, or new strains of the virus will become dominate in the future, and/or whether jurisdictions in which we operate, will issue new or expanded stay-at-home orders, or how those orders, or others, may affect our operations.

During the majority of March and April 2020, we closed our California warehouse due to stay-at-home orders which were issued in the State of California. We resumed shipping April 17, 2020, following safety protocols and Centers for Disease Control and Prevention (CDC) guidelines, which we strictly adhered to. On aggregate basis we lost about two weeks of potential revenue during this period where we were unable to ship products. For the months of March and April 2020, our new member acquisitions were reduced dramatically. Beginning in early May 2020, through the month of June 2020, our new member acquisitions grew significantly, most likely due to stay-at-home orders when consumers shifted to shopping online, before leveling off to expected growth numbers. The full extent of the impact of COVID-19 on our business and operations currently cannot be estimated and will depend on a number of factors including the scope and duration of the global pandemic.

Since the start of the pandemic, we have taken steps to prioritize the health and safety of our employees. Some of our employees continue to work remotely as a result of the COVID-19 pandemic. Currently we believe that we have sufficient cash on hand, and will generate sufficient cash through operations, to support our operations for the near term; however, we will continue to evaluate our business operations based on new information as it becomes available and will make changes that we consider necessary in light of any new developments regarding the ongoing pandemic.

Although COVID-19 has had a major impact on businesses around the world, to date, other than in March and April 2020, during which period, as described above, our warehouse was shut down, the pandemic has not had a significant negative impact on our business. Since then, our warehouse returned to working at full capacity; however, the full extent to which COVID-19 will ultimately impact us depends on future unknowable developments, including the duration and spread of the virus, as well as potential new seasonal outbreaks, virus mutations, the efficacy of vaccines, and the willingness of individuals to take such vaccines, all of which are uncertain and cannot be predicted.

RESULTS OF OPERATIONS

Year ended January 1, 2022 compared to the year ended January 2, 2021

	<u>FYE 2021</u>	<u>FYE 20</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Revenue, net	\$ 21,834,518	\$ 16,936,387	\$ 4,898,131	28.9%
Cost of goods sold	8,836,884	7,046,716	1,790,168	25.4%
Gross profit	<u>\$ 12,997,634</u>	<u>\$ 9,889,671</u>	<u>\$ 3,107,963</u>	<u>31.4%</u>

We launched our toddler collection in the first quarter of 2021, introducing sizes 2T and 3T apparel sizes, and added size 7 and 8 toddler shoes for boys and girls which we began to ship in April 2021. We also introduced an “add-on” for all members pursuant to which they can add additional pieces of their choosing to their next box order. We plan to increase the number of add-on item selections offered in an effort to increase the box transaction size and gross margin per box.

Revenue

Revenue increased by \$4.9 million or 28.9% for the year ended January 1, 2022, compared to the year ended January 2, 2021. The revenue breakdown by channel is summarized in the tables below:

	<u>FYE 2021</u>	<u>FYE 2020</u>	<u>Change (\$)</u>	<u>Change (%)</u>
<i>Revenue by channel</i>				
Subscription boxes	\$ 18,427,057	\$ 14,941,257	\$ 3,485,800	23.3%
Amazon sales	2,622,884	1,546,906	1,075,978	69.6%
Online website sales	784,577	448,224	336,353	75.0%
Total revenue	<u>\$ 21,834,518</u>	<u>\$ 16,936,387</u>	<u>\$ 4,898,131</u>	<u>28.9%</u>

The revenue from subscription boxes for the years ended January 1, 2022 and January 2, 2021, was generated from active subscriptions recurring boxes and new subscriptions first box revenue, is summarized in the tables below:

	<u>FYE 2021</u>	<u>FYE 2020</u>	<u>Change (\$)</u>	<u>Change (%)</u>
<i>Subscription boxes revenue from</i>				
Active subscriptions – recurring boxes	\$ 15,565,533	\$ 11,372,228	\$ 4,193,305	36.9%
New subscriptions - first box	2,861,524	3,569,029	(707,505)	(19.8)%
Total Subscription boxes revenue	<u>\$ 18,427,057</u>	<u>\$ 14,941,257</u>	<u>\$ 3,485,800</u>	<u>23.3%</u>

The increase in revenue was primarily driven by the introduction of our boys’ and toddlers’ collections, and an increase in our customer base. The revenue breakdown by product line for the year ended January 1, 2022, compared to the year ended January 2, 2021, are summarized in the tables below:

	<u>FYE 2021</u>	<u>FYE 2020</u>	<u>Change (\$)</u>	<u>Change (%)</u>
<i>Revenue by product line</i>				
Girls’ apparel	\$ 16,663,366	\$ 15,125,033	\$ 1,538,333	10.2%
Boy’s apparel	4,352,523	1,811,354	2,541,169	140.3%
Toddlers’ apparel	818,629	-	818,629	100.0%
Total revenue	<u>\$ 21,834,518</u>	<u>\$ 16,936,387</u>	<u>\$ 4,898,131</u>	<u>28.9%</u>

The number of items shipped to our customers increased by 24.9%, from approximately 1,727,000 for the fiscal year 2020, to approximately 2,157,000 for the fiscal year 2021. The average shipment keep rate increased to 69.0% in the fiscal year 2021, compared to 66.1% in the fiscal year 2020.

Cost of Goods Sold

Cost of goods sold increased by \$1.8 million or 25.4% for the year ended January 1, 2022, compared to the year ended January 2, 2021, which increase was a direct result of the increase in our subscription box sales.

Gross Profit and Gross Profit as a Percentage of Net Sales

We had gross profit of \$13.0 million for the year ended January 1, 2022, compared to gross profit of \$9.9 million for the year ended January 2, 2021, which increase was a result of the increase in revenue.

Our gross profit as a percentage of sales was 59.5% for the year ended January 1, 2022, compared to 58.4% for the year ended January 2, 2021.

Operating Expenses

	<u>FYE 2021</u>	<u>FYE 2020</u>	<u>Change (\$)</u>	<u>Change (%)</u>
<i>Expenses</i>				
Shipping and handling	\$ 6,087,283	\$ 4,217,763	\$ 1,869,520	44.3%
Payroll and related costs	4,258,604	2,947,704	1,310,900	44.5%
General and administrative	8,289,119	6,317,172	1,970,947	31.2%
Depreciation and amortization	26,914	72,843	(45,929)	(63.1)%
Total expenses	<u>\$ 18,660,920</u>	<u>\$ 13,555,482</u>	<u>\$ 5,105,438</u>	<u>37.7%</u>

The \$5.1 million or 37.7% increase in total expenses was mainly due to an increase of \$2.0 million or 31.2% in general and administrative expenses, due mainly to an increase in Amazon.com seller fees of \$0.49 million, an increase in marketing expenses of \$0.51 million and an increase in occupancy expense of \$0.40 million, professional fees \$0.30 million, as well as increases of \$1.9 million in shipping and handling. Bad debt is defined as revenue we are unable to collect from our members for items they kept and must send to a collection agency. We also had a \$1.3 million increase in payroll and related costs due to a combination of salary increases, new hires, increased cost associated with benefits and non-cash compensation in amount of \$0.3 million,

Payroll and related costs as a percentage of revenue increased by approximately 2.0% for the 2021 fiscal year (20.3%) compared to the 2020 fiscal year (18.3%). Shipping and handling expenses as a percentage of revenue increased by 3.0% for the 2021 fiscal year (27.9%) compared to 2020 fiscal year (24.9%), due to increase shipments and continued COVID-19 related fees imposed by the Company's shipping partner, as well as increased costs associated with warehouse related expenses. Within selling, general and administrative expenses, marketing expense as a percentage of revenue decreased by 1.2% of revenue for the 2021 fiscal year (14.4%) compared to 2020 fiscal year 2020 (15.6%). Amazon.com seller fees increased from 5.2% of revenue in 2020, compared to 6.3% of revenue in 2021, due to an increase of 69.6% in Amazon.com revenue over the same period. Bad debt increased by 4.5% from 2020 to 2021.

Loss from Operations

Loss from operations increased to \$5,663,286 for the year ended January 1, 2022, compared to \$3,665,811 for the year ended January 2, 2021.

The increase in loss from operations was largely due to increase operating expenses and increase cost of goods sold offset by increase in revenue.

Other (Income) Expenses

	<u>FYE 2021</u>	<u>FYE 2020</u>	<u>Change (\$)</u>	<u>Change (%)</u>
<i>Other (income) expenses</i>				
Interest expense	\$ 711,974	\$ 511,427	\$ 200,547	39.2%
Other (income) expense	(429,045)	10,000	(439,045)	(4,390.5)%
Total other (income) expenses	<u>\$ 282,929</u>	<u>\$ 521,427</u>	<u>\$ (238,498)</u>	<u>(45.7)%</u>

Other expenses for the years ended January 1, 2022 and January 2, 2021 included primarily interest. Interest expense increased due to an increase in the debt we carried during the year ended January 1, 2022, compared to the year ended January 2, 2021. Interest expense as a percentage of sales increased from 3.0% to 3.3% of sales, for the year ended January 1, 2022. The other income in 2021 included the forgiveness of Paycheck Protection Loan in amount of \$442,352.

Provision for Income Taxes

	<u>FYE 2021</u>	<u>FYE 2020</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Loss before income taxes	\$ (5,946,215)	\$ (4,187,238)	\$ 1,758,977	42.0%
Provision for income taxes	1,332	1,122	210	18.7%
Net loss	<u>\$ (5,947,547)</u>	<u>\$ (4,188,360)</u>	<u>\$ 1,759,187</u>	<u>42.0%</u>

We had a nominal provision for income taxes during both the year ended January 1, 2022 and the year ended January 2, 2021.

Net Loss

We had a net loss of \$5.9 million for the year ended January 1, 2022, compared to a net loss of \$4.2 million for the year ended January 2, 2021, an increase of \$1.7 million or 42.0% compared to the prior period. The increase in net loss was mainly due to increase operating expenses and increase cost of goods sold offset by increase in revenue.

LIQUIDITY AND CAPITAL RESOURCES

	<u>January 1, 2022</u>	<u>January 2, 2021</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Cash	\$ 8,415,797	\$ 133,484	\$ 8,282,313	6,204.7%
Working Capital	\$ 14,700,691	\$ 2,105,270	\$ 12,595,421	598.3%
Debt*	\$ -	\$ 2,474,470	\$ (2,474,470)	(100.0)%

* Line of credit, loan payable and long-term debt.

On January 1, 2022, we had \$8,415,797 of cash on-hand compared to the \$133,484 of cash on hand we had at January 2, 2021.

As of January 1, 2022, we had \$22,107,887 in total current assets, \$7,407,196 in total current liabilities, working capital of \$14,700,691 and a total accumulated deficit of \$33,919,184.

The Company has total current liabilities of \$7,407,196, consisting mainly of accounts payable of \$2,560,361, accounts payable to related party of \$913,708, accrued expenses of \$800,972, advance payable of \$932,155 (discussed below), and short-term debt from related party of \$2,200,000 (discussed below).

Through November 10, 2021, we mainly relied on loans from Ezra Dabah, our Chief Executive Officer and Chairman, and his family (which have all, other than \$2,200,000, been converted into equity on May 11, 2021), notes payable (including from Nina Footwear Corp. which is 86.36% owned by Ezra Dabah and his family (including Moshe Dabah), and which entity Ezra. Dabah serves as Chief Executive Officer and member of the Board of Directors of (“Nina Footwear”, a related party) and our line of credit (repaid as of January 1, 2022), and Cash Advance Agreements (each discussed below), as well as revenue generated through our operations, to support our operations since inception. We have primarily used our available cash to pay operating expenses (salaries and other expenses), and for merchandise inventory costs, shipping costs and marketing expenditures. We do not have any material commitments for capital expenditures. Following the closing of the IPO in November 2021, we have also relied on the funds raised in the IPO to support our operations.

We have experienced recurring net losses since inception and negative operating cash flows. We believe that we will continue to incur substantial operating expenses in the foreseeable future as we continue to invest to attract new customers, expand the product offerings and enhance technology and infrastructure. These efforts may prove more expensive than we anticipate, and we may not succeed in increasing the net revenue and margins sufficiently to offset these expenses. Accordingly, we may not be able to achieve profitability, and we may incur significant losses for the foreseeable future.

To support our existing operations or any future expansion of business, including the ability to execute our growth strategy, we must have sufficient capital to continue to make investments and fund operations. We have plans to pursue a growth strategy for the expansion of operations through increased marketing to attract new members and refine the marketing strategy to strategically prioritize customer acquisition channels that we believe will be more successful at attracting new customers and members. We plan to launch new divisions and product lines to help attract new members and retaining existing members. We launched a new boys’ apparel division in the summer of 2020 and a toddler division at the end of March 2021. We have plans to make husky/plus and slim sizes available for the fall 2022 season and also increase our size assortment to include sizes 12 months and 18 months. We also have plans to increase efficiency in distribution and fulfillment capabilities to reduce costs associated with subscription box sales.

In November 2021, we completed our IPO in which we issued and sold 2,117,647 shares of authorized common stock for \$8.50 per share, for net proceeds of \$16.1 million, after deducting underwriting discounts and commissions, and offering costs.

We have used the net proceeds from the IPO to repay debt, and plan to continue to use such net proceeds to increase our capitalization and financial flexibility, and create a public market for our common stock, and facilitate our future access to the capital markets. We also plan to use a portion of the net proceeds for marketing expenses and for working capital. We used a portion of the net proceeds from the offering to pay all or a portion of our debt outstanding as of October 28, 2021, which included (i) the repayment of amounts owed to Crossroads totaling approximately \$3.2 million (which amount was repaid in full, together with accrued interest and a termination fee in the amount of \$24,498, on November 15, 2021); (ii) amounts owed under a short-term, unsecured promissory note, with Nina Footwear in the amount of \$0.4 million, which is noninterest-bearing and due on December 31, 2021 (of which \$0.4 million was paid on November 16, 2021); (iii) amounts owed to related party in the amount of \$1.3 million (which do not have a stated maturity date and which do not accrue interest) (of which \$0.4 million was paid as of January 1, 2022); (iv) amounts owed in connection with vendor payables of approximately \$1.2 million (of which \$0.3 million was settled as of January 1, 2022); and (v) amounts due under unsecured promissory notes with Ezra Dabah, our Chief Executive Officer and other related party stockholders, which are trusts controlled by family members of Ezra Dabah in the amount of \$2.8 million, (of which \$0.6 million was paid as of March 31, 2022), which do not accrue interest.

We expect to continue to generate net losses for the foreseeable future as we make investments to grow our business. We believe that the existing balances of cash and cash equivalents following the IPO will be sufficient to meet our anticipated cash requirements for at least twelve months from the date that these financial statements are issued. However, should our current cash and cash equivalents not be sufficient to support the development of our business to the point at which it has positive cash flows from operations, we plan to meet our future needs for additional capital through equity financings, debt financings or other capital sources, including collaborations with other companies or other strategic transactions. Equity financings may include sales of common stock. Such financing may not be available on terms favorable to us or at all. The terms of any financing may adversely affect the holdings or rights of our stockholders. If we unable to obtain adequate financing or financing on terms satisfactory to it when required, our ability to continue to support our business growth, scale its infrastructure, and to respond to business challenges could be significantly impaired.

	Year ended January 1, 2022	Year ended January 2, 2021
<i>Cash provided by (used in):</i>		
Operating activities	\$ (11,015,868)	\$ (3,550,328)
Investing activities	(45,394)	(11,470)
Financing activities	18,796,466	3,615,774
Net increase in cash	<u>\$ 7,735,204</u>	<u>\$ 53,976</u>

Net cash used in operating activities increased to \$11,015,868 for the year ended January 1, 2022, compared to \$3,550,328 of cash used in operating activities during the year ended January 2, 2021. The increase in our cash used in operating activities of approximately \$7.5 million was primarily due to an increase in net loss in the amount of approximately \$1.8 million, as discussed in greater detail above, adjusted for the non-cash

items totaling \$0.1 million and the impact from changes in operating assets and liabilities in the amount of approximately \$5.6 million, primarily investment in inventory.

Net cash used in investing activities was \$45,394 during the year ended January 1, 2022, which was related to purchases of equipment, compared to \$11,470 during the year ended January 2, 2021 was related to purchases of equipment.

Net cash provided by financing activities increased to \$18,796,466 for the year ended January 1, 2022, compared to net cash provided by financing activities of \$3,615,774 for the year ended January 2, 2021, mainly as a result of funds raised in the IPO, net of offering costs, of \$16.1 million.

Line of Credit

On September 5, 2017, we entered into a Loan and Security Agreement (as amended, the “Loan Agreement”) with Crossroads Financial Group, LLC (“Crossroads”). The Loan Agreement had an initial term of two years, and renews thereafter for additional one-year periods automatically, unless Crossroads has provided the Company at least 30 days’ notice of its intent to not renew prior to such applicable automatic renewal date. The Loan Agreement allows the Company to request advances from Crossroads up to \$3,200,000. The advances are limited to the lower of (i) 70% of the Company’s inventory cost at the time of request, or (ii) 75% of net orderly liquidation value, when applied to eligible inventory. The advances bear interest at a rate of 1.42% per month (17.04% per annum) and mature on November 20, 2021. The amounts owed under the Loan Agreement are personally guaranteed by Ezra Dabah, our Chief Executive Officer, President and Chairman, and his wife Renee. The amounts owed to Crossroads are also secured by a security interest in substantially all of our assets. The Loan Agreement includes an early termination fee equal to 5% of the maximum amount available if the agreement is terminated during the first year of the agreement and 3% thereafter, provided that such fee is waived if we sell equity in order to repay amounts owed under the Loan Agreement. The Loan Agreement includes customary covenants and events of default, including if Ezra Dabah, our Chief Executive Officer and Chairman, and his family cease being the direct or indirect beneficial owner of more than 50% of our voting stock, or if any other person or entity shall become the direct or indirect owner of over 45% of our voting stock or if Mr. Dabah or Adir Katzav our Executive Vice President and Chief Financial Officer cease to be employed by the Company. On November 15, 2021, we paid off the loan and security agreement in amount of \$3,200,000 and related outstanding interest and facility fee in amount of \$24,498, with funds raised through the IPO.

As of January, 1, 2022 and January, 2, 2021, outstanding advances amounted to \$0 and \$2,065,568, respectively. Interest expense amounted to \$395,080 and \$318,941 for the years 2021 and 2020, respectively. Deferred financing costs, net of accumulated amortization, totaled \$33,450 for both years ended January 1, 2022 and January 2, 2021. Amortization of these costs amounted to \$53,397 and \$44,086 for the years ended January 1, 2022 and January 2, 2021, respectively.

Cash Advance Agreements

From time to time, we have been party to cash advance agreements with financial institutions whereby such institutions purchased receivables or advanced cash for us to purchase inventory. Those include the following transactions:

On February 1, 2021, the Company entered into a new cash advance agreement with a financial institution and was advanced cash totaling \$360,000 to be used for the purchase of inventory. In accordance with the agreement, the Company agreed to repay \$381,600, plus interest, by depositing future receivables with the lender. The cash advance bears interest at a rate of 7% per annum for the first 121 days and 12% per annum thereafter until the advance is fully repaid.

On March 10, 2021, the Company entered into a new cash advance agreement with a financial institution and was advanced cash totaling \$100,000 to be used for the purchase of inventory. In accordance with the agreement, the Company agreed to repay the advanced cash plus \$311,953 previously owed to the financial institution (totaling \$411,953), plus interest, by depositing future receivables with the lender in total amount of \$417,954. The cash advance bears interest at a rate of 7% per annum for the first 121 days and 12.50% per annum thereafter until the advance is fully repaid.

On March 10, 2021, the Company also entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$1,137,666 of receivables from the Company for \$1,062,666, which included \$437,666 owed under the previous agreement. The Company will deliver 12.5% of the future collections of receivables to the financial institution until \$1,137,666 has been paid. In the event no event of default has occurred under the agreement and the Company remains in compliance with its terms, the financial institution will provide a 6% discount on the receivables purchased.

On May 7, 2021, the Company also entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$461,316 of receivables from the Company for \$446,316, which included \$196,316 owed under the previous agreement. In accordance with the agreement, the Company agreed to repay \$461,316, plus interest, by depositing future receivables with the lender. The cash advance bears interest at a rate of 7.5% per annum for the first 121 days and 12% per annum thereafter until the advance is fully repaid.

On June 4, 2021, the Company entered into a new cash advance agreement with a financial institution and was advanced cash totaling \$125,000 to be used for the purchase of inventory. In accordance with the agreement, the Company agreed to repay the advanced cash plus \$355,598 previously owed to the financial institution (totaling \$480,598), plus interest, by depositing future receivables with the lender in total amount of \$488,098. The cash advance bears interest at a rate of 7.5% per annum for the first 121 days and 12.50% per annum thereafter until the advance is fully repaid.

On June 4, 2021, the Company also entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$1,196,055 of receivables from the Company for \$1,124,055, which included \$524,055 owed under the previous agreement. The Company will deliver 12.5% of the future collections of receivables to the financial institution until \$1,196,055 has been paid. In the event no event of default has occurred under the agreement and the Company remains in compliance with its terms, the financial institution will provide a 6% discount on the receivables purchased.

On July 9, 2021, the Company entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$495,902 of receivables from the Company for \$488,402, which included advanced cash totaling \$125,000 to be used for the purchase of inventory and \$363,402 owed under the previous agreement. In accordance with the agreement, the Company agreed to repay \$495,902, plus interest, by depositing future receivables with the lender. The cash advance bears interest at a rate of 7.5% per annum for the first 121 days and 12.5% per annum thereafter until the advance is fully repaid.

On August 10, 2021, the Company entered into a new cash advance agreement with a financial institution and was advanced cash totaling \$185,000 to be used for the purchase of inventory. In accordance with the agreement, the Company agreed to repay the advanced cash plus \$390,169 previously owed to the financial institution (totaling \$575,169), plus interest, by depositing future receivables with the lender in the total amount of \$586,269. The cash advance bears interest at a rate of 7.5% per annum for the first 121 days and 12.50% per annum thereafter until the advance is fully repaid.

On August 10, 2021, the Company also entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$1,182,318 of receivables from the Company for \$1,136,718, which included \$756,718 owed under the previous agreement. The Company will deliver 12.5% of the future collections of receivables to the financial institution until \$1,182,318 has been paid. In the event no event of default has occurred under the agreement and the Company remains in compliance with its terms, the financial institution will provide a 6% discount on the receivables purchased.

On October 22, 2021, the Company entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$863,847 of receivables from the Company for \$857,847, which included \$807,847 owed under the previous agreement. The Company will deliver 12.5% of the future collections of receivables to the financial institution until \$863,847 has been paid. In the event no event of default has occurred under the agreement and the Company remains in compliance with its terms, the financial institution will provide a 6% discount on the receivables purchased.

On October 27, 2021, the Company entered into a new cash advance agreement with a financial institution and was advanced cash totaling \$300,000 to be used for the purchase of inventory. In accordance with the agreement, the Company agreed to repay the advanced cash plus \$381,124 previously owed to the financial institution (totaling \$681,124), plus interest, by depositing future receivables with the lender in the total amount of \$699,124. The cash advance bears interest at a rate of 7.5% per annum for the first 121 days and 12.50% per annum thereafter until the advance is fully repaid.

On November 2, 2021, the Company entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$923,682 of receivables from the Company for \$899,682, which included \$699,682 owed under the previous agreement. The Company will deliver 12.5% of the future collections of receivables to the financial institution until \$923,682 has been paid. In the event no event of default has occurred under the agreement and the Company remains in compliance with its terms, the financial institution will provide a 6% discount on the receivables purchased.

As of January 1, 2022 and January 2, 2021, the cash advance outstanding, including interest, amounted to \$932,156 and \$829,030, respectively. For 2021 and 2020, interest expense related to the advances totaled \$81,193 and \$117,127, respectively.

SBA Loan

As a response to the COVID-19 pandemic, Congress passed the CARES Act to aid businesses through the current economic conditions. The CARES Act provided businesses with loans from the Small Business Administration (“SBA”) based on a calculation provided by the SBA. In 2020, the Company received \$442,352 in funding from these loans. The CARES Act provides a provision allowing all or a portion of the loan to be forgiven by the SBA based on certain criteria. Any unforgiven portion will be repaid over a two-year period with a ten-month deferral on payments yielding 1% interest. The Company applied for forgiveness of the loan and on August 2, 2021, notification and confirmation was received that our loan including related accrued interest had been forgiven in its entirety by the SBA. The forgiveness amount was recorded in other income.

Related Party Convertible Notes and Loans

In 2020 and 2019, the Company entered into unsecured convertible promissory notes with stockholders in the amount of \$1,770,000 and \$3,300,000, respectively. These notes were noninterest bearing. Prior to the maturity, the notes were converted to equity.

In January, February, and March 2021, the Company entered into various unsecured convertible promissory notes with stockholders in the aggregate amount of \$2,000,000. Each of the convertible notes were payable on January 15, 2022 and were automatically convertible into shares of the Company’s common stock at a conversion price equal to the per share price of the next equity funding completed by the Company in an amount

of at least \$2,000,000 and required the repayment of 110% of such convertible note amount upon a sale of the Company (including a change of 50% or more of the voting shares). In May 2021, prior to the maturity, the notes in the amount of \$2,000,000 were converted to equity.

In April and June 2021, the Company entered into various short-term, unsecured promissory notes with an affiliated entity under common control in the amount of \$400,000. The notes are noninterest-bearing and due on December 31, 2021. On November 16, 2021, the Company paid in full the outstanding loan amounts of \$400,000. As of January 1, 2022 and January 2, 2021, there was \$913,708 and \$599,811 due to related party, respectively. During the first quarter of 2022, we paid an additional \$0.3 million to a related party.

On June 28, 2021, the Company entered into four unsecured convertible promissory notes with stockholders in the aggregate amount of \$100,000. Each of the convertible notes were payable on January 15, 2022 and were automatically convertible into shares of the Company's common stock at a conversion price equal to the per share price of the next equity funding completed by the Company in an amount of at least \$2,000,000 and required the repayment of 110% of such convertible note amount upon a sale of the Company (including a change of 50% or more of the voting shares). On August 25, 2021, the parties agreed to amend the previously convertible notes to remove the conversion rights provided for therein and clarify that no interest accrues on the convertible notes. On December 27, 2021, the Company paid in full the outstanding loan amounts of \$100,000.

On August 13, 2021, the Company entered into two unsecured convertible promissory notes with stockholders in the aggregate amount of \$200,000. Each of the convertible notes were payable on demand and were automatically convertible into shares of the Company's common stock at a conversion price equal to the per share price of the next equity funding completed by the Company in an amount of at least \$2,000,000 and requires the repayment of 110% of such convertible note amount upon a sale of the Company (including a change of 50% or more of the voting shares). On August 25, 2021, the parties agreed to amend the previously convertible notes to remove the conversion rights provided for therein and clarify that no interest accrues on the convertible notes.

In September, October and November 2021, the Company borrowed an aggregate of \$2,500,000 from Ezra Dabah, who is our Chief Executive Officer and Chairman. The notes are unsecured, noninterest-bearing and the principal is fully due on demand, at the rate of 110% of such note amount upon a sale of the Company (including a change of 50% or more of the voting shares). On December 27, 2021, the Company paid \$500,000 of the outstanding loan amounts.

Need for Future Funding

As discussed above, our current capital resources, combined with the net proceeds from the IPO in amount of \$16.1 million, are expected to be sufficient for us to fund operations for the next 12 months. We may need funding in addition to the funding raised in this offering, to support our operations in the future. We may also seek to acquire additional businesses or assets in the future, which may require us to raise funding. We currently anticipate such funding, if required, being raised through the offering of debt or equity. Such additional financing, if required, may not be available on favorable terms, if at all. If debt financing is available and obtained, our interest expense may increase and we may be subject to the risk of default, depending on the terms of such financing. If equity financing is available and obtained it may result in our stockholders experiencing significant dilution. If such financing is unavailable, we may be forced to curtail our business plan, which may cause the value of our securities to decline in value.

Critical Accounting Policies and Estimates

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reporting values of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The more significant estimates and assumptions are those used in determining the inventory obsolescence. Accordingly, actual results could differ from those estimates.

Concentration of credit risk: Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash, restricted cash and accounts receivable. We maintain our cash and restricted cash with high-quality financial institutions with investment-grade ratings. Although the Company's cash balance held with a U.S. bank may exceed the amount of federal insurance provided on such deposits, the Company has not experienced any losses in such accounts. The Company is exposed to credit risk in the event of a default by the financial institution holding its cash for the amount reflected on the balance sheets.

Net loss per common share: The Company complies with the accounting and disclosure requirements of Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") Topic 260, Earnings Per Share. Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period.

Revenue recognition: The Company recognizes revenue from three sources; its subscription box sales, Amazon business and online website sales. Revenue is gross billings net of promotional discounts, actual customer credits and refunds as well as customer credits and refunds expected to be issued, and sales tax. Customers are charged for subscription merchandise which is not returned, or which is accepted and are charged for general merchandise (non-subscription) when they purchase such merchandise. Customers can receive a refund on returned merchandise for which return shipping is a cost to the Company.

Revenue for subscription box sales is recognized when control of the promised goods is transferred and accepted by the subscriber. Subscribers have a maximum of 10 days from the date the product is delivered to return any items in the delivery. Control is transferred either when a subscriber checks out or automatically ten days after the goods are delivered, whichever occurs first. Upon checkout or the 10-day period, the amount of the order not returned is recognized as revenue. Payment is due upon checkout or the end of the 10-day period after the goods are

delivered, whichever occurs first. Starting on August 24, 2021 and ending January 6, 2022, we charged new subscribers an upfront styling fee before the box is shipped that is credited toward items purchased. The styling fees are included in deferred revenue until the time of client checkout or when the option to purchase the item expires.

Revenue from online website sales, which includes sales from our and Amazon online websites, are recognized when control of the promised goods are transferred to the Company's customers, in an amount that depicts the consideration the Company expects to be entitled to in exchange for those goods. Control is transferred at the time of shipment. Upon shipment, the total amount of the order is recognized as revenue. Payment for online website sales are due upon time of order.

The provision for anticipated sales returns consists of both contractual return rights and discretionary authorized returns.

Estimates of discretionary authorized returns for sales other than subscription sales, discounts and claims are based on (1) historical rates, (2) specific identification of outstanding returns not yet received from customers and outstanding discounts and claims and (3) estimated returns, discounts and claims expected, but not yet finalized with customers. Actual returns, discounts and claims in any future period are inherently uncertain and thus may differ from estimates recorded. If actual or expected future returns, discounts or claims were significantly greater or lower than reserves established, a reduction or increase to net revenue would be recorded in the period in which such determination was made.

Shipping and handling costs associated with outbound freight fulfillment before control over a product has transferred to a customer are accounted for as a shipping and handling cost in the statement of operations.

Taxes assessed by governmental authorities that are both imposed on and concurrent with a specific revenue producing transaction and are collected by the Company from a customer are excluded from revenue and cost of goods sold in the statement of operations.

Restricted cash: Restricted cash balance consists of cash advanced received by the Company from the cash advance agreement described in Note 8 to the audited financial statements included at the end of this Annual Report. The cash advances can only be used for purchases of products and services necessary to operate the Company, as defined by the agreement.

Inventory: Inventory, consisting primarily of finished goods, is valued at the lower of cost or net realizable value using the weighted average cost method. In addition, the Company capitalizes freight, duty and other supply chain costs in inventory. These costs are included in the cost of sales as inventory is sold.

Leasehold improvements and equipment: Leasehold improvements and equipment are recorded at cost. Depreciation for equipment is computed using the straight-line method over the estimated useful life of the assets ranging from three to five years. Leasehold improvements are amortized over the shorter of the term of the lease or the life of the improvement on a straight-line method. Expenditures that extend the useful lives of the equipment are capitalized. Expenditure for the repairs and maintenance are charged to expense as incurred. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in operations.

Intangible assets: Intangible assets consist of capitalized website development costs and are being amortized using the straight-line method over their estimated useful lives, ranging from one to three years. The Company periodically evaluates the reasonableness of the useful life of the intangible assets. Expenditures for repairs and maintenance are charged to expense as incurred.

Impairment of long-lived assets: The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Company compares the carrying value of the assets with their estimated future undiscounted pre-tax cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the assets' carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. As a result of its review, the Company does not believe that any material impairment currently exists related to its long-lived assets.

Deferred financing costs: Deferred financing costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the line of credit to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expenses and is computed using the straight-line method over the term of the agreement, which approximates the effective interest method.

Income taxes: The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized with respect to the future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial statement purposes. Deferred tax assets and liabilities measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company applies generally accepted accounting principles on accounting for uncertainty in income taxes. If the Company considers that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, it recognizes the tax benefit. The Company measures the tax benefit by determining the amount that is greater than 50% likely of being realized upon settlement, presuming the tax position is examined by the appropriate taxing authority that has full knowledge of relevant information.

The Company has no unrecognized tax benefits at January 1, 2022 and January 2, 2021. The Company's federal, state and local income tax returns prior to fiscal years 2017 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Company recognizes interest and penalties associated with tax matters, if any, as part of operating expenses and includes accrued interest and penalties with accrued expenses in the balance sheet.

Advertising costs: Direct advertising and promotion costs are expensed as incurred. Advertising and promotion expenses totaled \$3,148,834 and \$2,639,158 for the 2021 and 2020 fiscal years, respectively, and are included in general and administrative expenses.

Bad debt expense: Bad debt expense is recognized when a receivable is no longer collectible after a customer is unable to fulfill their obligation to pay an outstanding balance.

Equity-based compensation: We measure equity-based compensation expense associated with the awards granted based on their estimated fair values at the grant date. For awards with service condition only, equity-based compensation expense is recognized over the requisite service period using the straight-line method. The grant-date fair value of stock options is estimated using the Black-Scholes option pricing model. Forfeitures are recorded as they occur.

Segment Information: The Company has one operating segment and one reportable segment as its chief operating decision maker, who is its Chief Executive Officer, reviews financial information on a consolidated basis for purposes of allocating resources and evaluating financial performance. All long-lived assets are located in the United States.

JOBS Act and Recent Accounting Pronouncements

The JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act, for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act, for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act.

We have implemented all new accounting pronouncements that are in effect and may impact our financial statements and we do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on our financial position or results of operations.

Recent Accounting Pronouncements

Refer to “Note 2: Summary of Significant Accounting Policies” to our audited financial statements included in this Annual Report on Form 10-K for a discussion of recently issued accounting pronouncements not yet adopted.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information otherwise required under this item.

Item 8. Financial Statements and Supplementary Data

See “Index to Financial Statements” which appears on page F-1 of this Annual Report on Form 10-K.

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer (our principal executive officer and principal accounting/financial officer), we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Annual Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting

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

Limitations on Effectiveness of Controls and Procedures and Internal Control over Financial Reporting

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

Changes in Internal Control Over Financial Reporting

During the year 2021, we implemented remedial actions to address the material weakness in the general controls relating to our information technology (IT), which related to insufficient documentation related to risk assessment, privileged access and application described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Internal Controls” in the Company’s Prospectus on Form 424(b)(4) for the year ended January 2, 2021, filed with the SEC on November 15, 2021.

To address the material weakness, as of the date of this annual report, new and enhanced controls have been designed and implemented to properly address the requirement for documentation and policy over the information technology. In particular we created a policy to document our risk assessment, privileged access and application. Our formal documentation includes written policies and controls around IT general controls and procedures.

Accordingly, we believe the actions described herein sufficiently remediated the material weakness and strengthened our internal control over information technology.

Except for the remediation efforts described above, there have been no changes in our internal control over financial reporting that occurred during the fourth quarter of 2021 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Because this Annual Report on Form 10-K is being filed within four business days from the date of the reportable events described below, we have elected to make the following disclosures in this Annual Report on Form 10-K instead of in a Current Report on Form 8-K under Item 1.01 and Item 2.03:

Item 1.01 Entry into a Material Definitive Agreement.

On March 31, 2022, the Company entered into a First Amendment to Promissory Note with Ezra Dabah, the Company’s Chief Executive Officer and director, Raine Silverstein & Renee Dabah, co-trustee, u/a/d 02/02/1997, Trust FBO Chana Dabah and Raine Silverstein & Renee Dabah, co-trustee, u/a/d 02/02/1997, Trust FBO Yaacov Dabah, pursuant to which the Company and the note holders agreed to amend certain outstanding promissory notes evidencing an aggregate of \$2,200,000 owed by the Company to such note holders (including \$2,000,000 owed to Mr. Dabah, \$100,000 owed to Trust FBO Chana Dabah and \$100,000 owed to Trust FBO Yaacov Dabah) which had a stated due date of January 15, 2022, to instead be payable on demand, effective as of January 15, 2022.

The foregoing description of the First Amendment to Promissory Notes is qualified in its entirety by reference to the full text of the First Amendment to Promissory Notes filed herewith as Exhibits 10.30 to 10.32 hereto.

Item 2.03. Creation of Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information contained in Item 1.01 relating to the First Amendment to Promissory Notes (as discussed in Item 1.01), above, is incorporated in this Item 2.03 by reference in its entirety.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be set forth under the headings “Election of Directors”, “Executive Officers”, “Corporate Governance”, “Code of Ethics”, “Committees of the Board”, and “Delinquent Section 16(a) Reports” (to the extent applicable and warranted) in our Proxy Statement for the 2022 Annual Meeting of Stockholders (the “2022 Proxy Statement”) in connection with the solicitation of proxies for the Company’s 2022 annual meeting of stockholders, to be filed with the SEC within 120 days of our fiscal year ended January 1, 2022 and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item will be set forth under the headings “Executive and Director Compensation”, “Executive Compensation”, “Directors Compensation”, “Outstanding Equity Awards at Fiscal Year-End”, “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” (to the extent required), in our 2022 Proxy Statement to be filed with the SEC within 120 days of our fiscal year ended January 1, 2022, and is incorporated herein by reference.

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

The information required by this item will be set forth under the headings “Voting Rights and Principal Stockholders” and “Equity Compensation Plan Information” in our 2022 Proxy Statement to be filed with the SEC within 120 days of our fiscal year ended January 1, 2022, and is incorporated herein by reference.

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

The information required by this item will be set forth under the headings “Certain Relationships and Related Transactions” and “Committees of the Board” - “Director Independence” in our 2022 Proxy Statement to be filed with the SEC within 120 days of our fiscal year ended January 1, 2022, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Our independent public accounting firm is CohnReznick LLP, New York, New York, PCAOB Auditor ID No. 596.

The information required by this item will be set forth under the heading “Ratification of Appointment of Auditors”-“Audit Fees” in our 2022 Proxy Statement to be filed with the SEC within 120 days of our fiscal year ended January 1, 2022, and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Annual Report on Form 10-K

1. Financial Statements: See accompanying Index to Financial Statements.
2. Financial Statement Schedule: Financial statement schedules are omitted due to the absence of conditions under which they are required.

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Date	Exhibit	
1.1	Underwriting Agreement, dated November 10, 2021, by and between Kidpik Corp. and EF Hutton, division of Benchmark Investments, LLC	8-K	001-41032	11/16/2021	1.1	
3.1	Second Amended and Restated Certificate of Incorporation of Kidpik Corp. filed with the Secretary of State of Delaware on May 10, 2021, as currently in effect	S-1	333-260101	10/6/2021	3.1	
3.2	Bylaws, as currently in effect	S-1	333-260101	10/6/2021	3.2	

4.1*	Description of the Registrant's Securities					X
10.1#	Forms of Restricted Stock Unit Grant Notice and Award Agreement under the Kidpik Corp. First Amended and Restated 2021 Equity Incentive Plan (November 2021 Officer and Director Awards)	8-K	001-41032	11/16/2021	10.2	
10.2#	Form of Stock Option Grant Notice and Stock Option Agreement under the Kidpik Corp. First Amended and Restated 2021 Equity Incentive Plan	10-Q	001-41032	12/22/2021	10.2	
10.3#	Kidpik Corp. First Amended and Restated 2021 Equity Incentive Plan	S-1	333-260101	10/6/2021	10.35	
10.4#	Form of Director and Officer Indemnification Agreement	8-K	001-41032	11/16/2021	10.1	
10.5	Loan and Security Agreement dated September 5, 2017, by and between Kidpik Corp. and Crossroads Financial Group, LLC	S-1	333-260101	10/6/2021	10.1	
10.6	First Amendment to Loan and Security Agreement dated July 31, 2019, by and between Kidpik Corp. and Crossroads Financial Group, LLC	S-1	333-260101	10/6/2021	10.2	
10.7	Second Amendment to Loan and Security Agreement dated September 13, 2019, by and between Kidpik Corp. and Crossroads Financial Group, LLC	S-1	333-260101	10/6/2021	10.3	
10.8	Third Amendment to Loan and Security Agreement dated November 17, 2020, by and between Kidpik Corp. and Crossroads Financial Group, LLC	S-1	333-260101	10/6/2021	10.4	
10.9	Fourth Amendment to Loan and Security Agreement April 27, 2021, by and between Kidpik Corp. and Crossroads Financial Group, LLC	S-1	333-260101	10/6/2021	10.5	
10.10	Fifth Amendment to Loan and Security Agreement dated July 6, 2021, by and between Kidpik Corp. and Crossroads Financial Group, LLC	S-1	333-260101	10/6/2021	10.36	
10.11	Sixth Amendment to Loan and Security Agreement dated August 11, 2021, by and between Kidpik Corp. and Crossroads Financial Group, LLC	S-1	333-260101	10/6/2021	10.54	

10.12	<u>Revenue Share Agreement – Inventory dated July 9, 2021, by and between Kidpik Corp. and CFT Clear Finance Technology Corp.</u>	S-1	333-260101	10/6/2021	10.43
10.13	<u>Revenue Share Agreement – Inventory dated August 10, 2021, by and between Kidpik Corp. and CFT Clear Finance Technology Corp.</u>	S-1	333-260101	10/6/2021	10.49
10.14	<u>Revenue Share Agreement dated August 10, 2021, by and between Kidpik Corp. and CFT Clear Finance Technology Corp.</u>	S-1	333-260101	10/6/2021	10.49
10.15	<u>Revenue Share Agreement dated October 22, 2021, by and between Kidpik Corp. and CFT Clear Finance Technology Corp.</u>	S-1/A	333-260101	10/29/2021	10.61
10.16	<u>Revenue Share Agreement – Inventory dated October 27, 2021, by and between Kidpik Corp. and CFT Clear Finance Technology Corp.</u>	S-1/A	333-260101	10/29/2021	10.62
10.17	<u>\$100,000 Convertible Promissory Note August 13, 2021 between Kidpik Corp. (borrower) and Raine Silverstein & Renee Dabah, co-trustee, u/a/d 02/02/1997, Trust FBO Yaacov Dabah (holder)</u>	S-1	333-260101	10/6/2021	10.44
10.18	<u>\$100,000 Convertible Promissory Note dated August 13, 2021 between Kidpik Corp. (borrower) and Raine Silverstein & Renee Dabah, co-trustee, u/a/d 02/02/1997, Trust FBO Chana Dabah (holder)</u>	S-1	333-260101	10/6/2021	10.51
10.19	<u>First Amendment to Convertible Promissory Notes, dated August 25, 2021, by and between Kidpik Corp. and each of the note holders party thereto</u>	S-1	333-260101	10/6/2021	10.53
10.20	<u>\$100,000 Promissory Note effective September 18, 2021, by and between Kidpik Corp. and Sofia Dabah</u>	S-1	333-260101	10/6/2021	10.56
10.21	<u>\$500,000 Promissory Note effective September 23, 2021, by and between Kidpik Corp. and Ezra Dabah</u>	S-1	333-260101	10/6/2021	10.57
10.22	<u>\$500,000 Promissory Note effective October 8, 2021, by and between Kidpik Corp. and Ezra Dabah</u>	S-1/A	333-260101	10/29/2021	10.58

10.23	\$500,000 Promissory Note effective October 12, 2021, by and between Kidpik Corp. and Ezra Dabah	S-1/A	333-260101	10/29/2021	10.59	
10.24	\$200,000 Promissory Note effective October 22, 2021, by and between Kidpik Corp. and Ezra Dabah	S-1/A	333-260101	10/29/2021	10.6	
10.25	Financial Support Letter dated September 2, 2021, from Ezra Dabah	S-1	333-260101	10/6/2021	10.54	
10.26	Voting Agreement, dated and effective September 1, 2021 by and among Ezra Dabah, and each of Eva Yagoda, Joia Kazam, Moshe Dabah, Chana Rapaport, Yaacov Dabah, Gila Goodman, the Josh A. Kazam Irrevocable Grantor Trust, GMM Capital LLC, Isaac and Ivette Dabah, Sterling Macro Fund, the u/a/d 02/02/1997, Trust FBO Eva Dabah; the u/a/d 02/02/1997, Trust FBO Joia Kazam; the u/a/d 02/02/1997, Trust FBO Moshe Dabah; the u/a/d 02/02/1997, Trust FBO Chana Dabah; and the u/a/d 02/02/1997, Trust FBO Yaacov Dabah	S-1	333-260101	10/6/2021	10.55	
10.27	Revenue Share Agreement dated November 2, 2021, by and between Kidpik Corp. and CFT Clear Finance Technology Corp.	10-Q	001-41032	12/22/2021	10.27	X
10.28	\$500,000 Promissory Note effective October 26, 2021, by and between Kidpik Corp. and Ezra Dabah	10-Q	001-41032	12/22/2021	10.28	X
10.29	\$200,000 Promissory Note effective November 16, 2021, by and between Kidpik Corp. and Ezra Dabah	10-Q	001-41032	12/22/2021	10.29	X
10.30*	First Amendment to Promissory Note, dated March 31, 2021, by and between Kidpik Corp. and Ezra Dabah					X
10.31*	First Amendment to Promissory Note, dated March 31, 2021, by and between Kidpik Corp. (borrower) and Raine Silverstein & Renee Dabah, co-trustee, u/a/d 02/02/1997, Trust FBO Chana Dabah (holder)					X
10.32*	First Amendment to Promissory Note, dated March 31, 2021, by and between Kidpik Corp. (borrower) and Raine Silverstein & Renee Dabah, co-trustee, u/a/d 02/02/1997, Trust FBO Yaacov Dabah (holder)					X

14.1	Code of Business Conduct and Ethics	S-1	333-260101	10/6/2021	14.1	
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a)					X
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a)					X
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350					X
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350					X
99.1	Audit Committee Charter	S-1	333-260101	10/6/2021	99.1	
99.2	Whistleblower Protection Policy	S-1	333-260101	10/6/2021	99.2	
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.LAB	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

* Filed herewith.

**The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, are not deemed “filed” by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Indicates management contract or compensatory plan.

The Company currently has no subsidiaries and as such has not included [Exhibit 21.1](#).

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, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KIDPIK CORP.

By: /s/ Ezra Dabah

Name: Ezra Dabah

Title: President and Chief Executive Officer (Principal Executive Officer)

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

<u>NAME</u>	<u>POSITION</u>	<u>DATE</u>
<u>/s/ Ezra Dabah</u> Ezra Dabah	President, Chief Executive Officer and Chairman (Principal Executive Officer)	April 1, 2022
<u>/s/ Adir Katzav</u> Adir Katzav	Executive Vice President, Chief Financial Officer, and Treasurer (Principal Financial and Accounting Officer)	April 1, 2022
<u>/s/ David Oddi</u> David Oddi	Director	April 1, 2022
<u>/s/ Bart Sichel</u> Bart Sichel	Director	April 1, 2022

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Kidpik Corp.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Kidpik Corp. (the “Company”) as of January 1, 2022 and January 2, 2021; the related statements of operations, changes in stockholders’ equity, and cash flows for the years then ended, and, the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 1, 2022 and January 2, 2021, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

We have served as the Company’s auditor since 2016.

/s/ CohnReznick LLP

New York, New York

April 1, 2022

Kidpik Corp.
Balance Sheets
January 1, 2022 and January 2, 2021

<u>Assets</u>	<u>2021</u>	<u>2020</u>
Current assets		
Cash	\$ 8,415,797	\$ 133,484
Restricted cash	4,703	551,812
Accounts receivable	342,274	320,446
Inventory	11,618,597	7,480,072
Prepaid expenses and other current assets	1,726,516	822,580
Total current assets	22,107,887	9,308,394
Leasehold improvements and equipment, net	46,968	27,874
Intangible assets, net	-	614
Total assets	\$ 22,154,855	\$ 9,336,882
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities		
Accounts payable	\$ 2,560,361	\$ 2,960,687
Accounts payable, related party	913,708	599,811
Accrued expenses and other current liabilities	800,972	690,049
Advance payable	932,155	829,030
Loan payable, current portion	-	91,429
Short-term debt, related party	2,200,000	-
Line of credit	-	2,032,118
Total current liabilities	7,407,196	7,203,124
Loan payable, less current portion	-	350,923
Total liabilities	7,407,196	7,554,047
Commitments and contingencies		
Stockholders' equity		
Preferred stock (par value \$0.001, 25,000,000 shares authorized, of which no shares are issued and outstanding as of January 1, 2022 and January 2, 2021, respectively)	-	-
Common stock (par value \$0.001, 75,000,000 shares authorized, of which 7,617,834 and 5,075,444 shares are issued and outstanding as of January 1, 2022 and January 2, 2021, respectively)	7,618	5,075
Additional paid-in capital	48,659,225	29,749,397
Accumulated stockholders' deficit	(33,919,184)	(27,971,637)
Total stockholders' equity	14,747,659	1,782,835
Total liabilities and stockholders' equity	\$ 22,154,855	\$ 9,336,882

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

Kidpik Corp.
Statements of Operations
Years Ended January 1, 2022 and January 2, 2021

	2021	2020
Revenues, net	\$ 21,834,518	\$ 16,936,387
Cost of goods sold	8,836,884	7,046,716
Gross profit	12,997,634	9,889,671
Operating expenses		
Shipping and handling	6,087,283	4,217,763
Payroll, related costs and equity-based compensation	4,258,604	2,947,704
General and administrative	8,288,119	6,317,172
Depreciation and amortization	26,914	72,843
Total operating expenses	18,660,920	13,555,482
Operating loss	(5,663,286)	(3,665,811)
Other (income) expenses		
Interest expense	711,974	511,427
Other (income)/expense, net	(429,045)	10,000
Total other (income) expenses	282,929	521,427
Loss before provision for income taxes	(5,946,215)	(4,187,238)
Provision for income taxes	1,332	1,122
Net loss	\$ (5,947,547)	\$ (4,188,360)
Net loss per share attributable to common stockholders:		
Basic	\$ (1.05)	\$ (1.12)
Diluted	(1.05)	(1.12)
Weighted average common shares outstanding:		
Basic	5,648,344	3,746,351
Diluted	5,648,344	3,746,351

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

Kidpik Corp.
Statements of Changes in Stockholders' Equity (Deficit)
Years Ended January 1, 2022 and January 2, 2021

	<u>Common Stock</u>		<u>Preferred Stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated stockholders' deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance, December 28, 2019	3,735,457	\$ 3,735	-	\$ -	\$23,680,737	\$ (23,783,277)	\$ (98,805)
Issuance of common Stock	220,759	221	-	-	999,779	-	1,000,000
Conversion of debt	1,119,228	1,119	-	-	5,068,881	-	5,070,000
Net loss	-	-	-	-	-	(4,188,360)	(4,188,360)
Balance, January 2, 2021	<u>5,075,444</u>	<u>5,075</u>	<u>-</u>	<u>-</u>	<u>29,749,397</u>	<u>(27,971,637)</u>	<u>1,782,835</u>
Issuance of common stock upon initial public offering, net of offering costs	2,117,647	2,118	-	-	16,081,738	-	16,083,856
Conversion of debt	339,526	340	-	-	1,999,660	-	2,000,000
Issuance of common stock	85,217	85	-	-	499,915	-	500,000
Equity-based compensation	-	-	-	-	328,515	-	328,515
Net loss	-	-	-	-	-	(5,947,547)	(5,947,547)
Balance, January 1, 2022	<u>7,617,834</u>	<u>\$ 7,618</u>	<u>-</u>	<u>\$ -</u>	<u>\$48,659,225</u>	<u>\$ (33,919,184)</u>	<u>\$14,747,659</u>

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

Kidpik Corp.
Statements of Cash Flows
Years Ended January 1, 2022 and January 2, 2021

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Net loss	\$ (5,947,547)	\$ (4,188,360)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	26,914	72,843
Amortization of debt issuance costs	58,397	44,086
Forgiveness of loan payable	(442,352)	-
Equity-based compensation	328,515	-
Bad debt expense	783,979	749,912
Changes in operating assets and liabilities:		
Accounts receivable	(805,807)	(838,797)
Inventory	(4,138,525)	(728,654)
Prepaid expenses and other current assets	(903,936)	(366,646)
Accounts payable	(601,264)	892,993
Accounts payable, related parties	313,897	599,811
Accrued expenses and other current liabilities	311,862	212,484
Net cash flows used in operating activities	<u>(11,015,868)</u>	<u>(3,550,328)</u>
Cash flows from investing activities		
Purchases of leasehold improvements and equipment	(45,394)	(11,470)
Net cash used in investing activities	<u>(45,394)</u>	<u>(11,470)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt from related party	2,000,000	1,770,000
Net proceeds (repayment) from line of credit	(2,090,515)	215,922
Net proceeds from short-term debt, related party	2,200,000	-
Net proceeds from advance payable	103,125	187,500
Proceeds from loan payable	-	442,352
Receipts of initial public offering, net of offering costs	16,083,856	-
Proceeds from issuance of common stock	500,000	1,000,000
Net cash provided by financing activities	<u>18,796,466</u>	<u>3,615,774</u>
Net increase in cash	<u>7,735,204</u>	<u>53,976</u>
Cash and restricted cash, beginning of year	<u>685,296</u>	<u>631,320</u>
Cash and restricted cash, end of year	<u>\$ 8,420,500</u>	<u>\$ 685,296</u>
Supplemental disclosure of cash flow data:		
Interest paid	<u>\$ 573,618</u>	<u>\$ 374,557</u>
Taxes paid	<u>\$ 1,332</u>	<u>\$ 1,122</u>
Supplemental disclosure of noncash investing and financing activities:		
Conversion of shareholder debt	<u>\$ 2,000,000</u>	<u>\$ 5,070,000</u>

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

Kidpik Corp.
Notes to the Financial Statements
Years Ended January 1, 2022 and January 2, 2021

NOTE 1: NATURE OF BUSINESS

Kidpik Corp. (the “Company”, “we”, “our” or “us”) was incorporated on April 16, 2015 under the laws of Delaware. The Company is a subscription-based e-commerce business geared toward kid products for girls’ and boys’ apparel, footwear, and accessories. The Company serves its customers through the clothing subscription box business and its retail website, www.kidpik.com. The Company commenced operations in March 2016 and its executive office is located in New York.

Initial Public Offering

In November 2021, the Company completed an initial public offering (the “IPO”), in which the Company issued and sold 2,117,647 shares of its authorized common stock for \$8.50 per share for net proceeds of \$16.1 million, after deducting underwriting discounts and commissions, and offering costs.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting: The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (“US GAAP”).

Fiscal year: The Company uses a 52-53 week fiscal year ending on the Saturday nearest to December 31 each year. The years ended January 1, 2022 and January 2, 2021 were 52 and 53 week years, respectively. These years are referred to herein as “2021” and “2020”, respectively.

Use of estimates: The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reporting values of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The more significant estimates and assumptions are those used in determining the inventory obsolescence, equity-based compensation and the valuation of deferred tax assets. Accordingly, actual results could differ from those estimates.

Emerging growth company: The Company is an “emerging growth company,” as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards.

Recently adopted accounting pronouncements: In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This guidance removes certain exceptions to the general principles in Topic 740 and enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. This standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2020. The Company adopted the standard on January 2, 2021 and the adoption of the ASU didn’t have a material impact on the Company’s financial position, results of operations and related disclosures.

Accounting standards issued but not yet adopted: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than twelve (12) months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, this standard will require both types of leases to be recognized on the balance sheet. The standard also requires disclosures about the amount, timing and uncertainty of the cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. For emerging growth companies, this standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is currently assessing the impact of the adoption of the ASU on the Company’s financial position, results of operations and related disclosures. The Company does not believe that the adoption of this standard would have a material impact on the Company’s financial statements.

In June 2016, the FASB issued ASU 2016-13—Financial Instruments—Credit losses, which replaces the incurred loss impairment methodology for financial instruments in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The FASB has issued ASU 2019-10 which has resulted in the postponement of the effective date of the new guidance for eligible smaller reporting companies to the fiscal year beginning January 1, 2023. The guidance must be adopted using a modified-retrospective approach and a prospective transition approach is required for debt securities for which an other-than-

temporary impairment had been recognized before the effective date. The Company is currently evaluating the impact of the guidance on its financial statements. The Company does not believe that the adoption of this standard would have a material impact on the Company's financial statements.

Concentration of credit risk: Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash, restricted cash and accounts receivable. We maintain our cash and restricted cash with high-quality financial institutions with investment-grade ratings. Although the Company's cash balance held with a U.S. bank may exceed the amount of federal insurance provided on such deposits, the Company has not experienced any losses in such accounts. The Company is exposed to credit risk in the event of a default by the financial institution holding its cash for the amount reflected on the balance sheets.

Net loss per common share: The Company complies with the accounting and disclosure requirements of FASB ASC Topic 260, Earnings Per Share. Basic earnings per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflects the impact of stock options and restricted stock units, if any, under the treasury stock method unless their impact is anti-dilutive.

Revenue recognition: The Company recognizes revenue from three sources; its subscription box sales, Amazon business and online website sales. Revenue is gross billings net of promotional discounts, actual customer credits and refunds as well as customer credits and refunds expected to be issued, and sales tax. Customers are charged for subscription merchandise which is not returned, or which is accepted and are charged for general merchandise (non-subscription) when they purchase such merchandise. Customers can receive a refund on returned merchandise for which return shipping is a cost to the Company.

Revenue for subscription box sales is recognized when control of the promised goods is transferred and accepted by the subscriber. Subscribers have a maximum of 10 days from the date the product is delivered to return any items in the delivery. Control is transferred either when a subscriber checks out or automatically ten days after the goods are delivered, whichever occurs first. Upon checkout or the 10-day period, the amount of the order not returned is recognized as revenue. Payment is due upon checkout or the end of the 10-day period after the goods are delivered, whichever occurs first. Starting on August 24, 2021 and ending January 6, 2022, we charged new subscribers an upfront styling fee before the box is shipped that is credited toward items purchased. The styling fees are included in deferred revenue until the time of client checkout or when the option to purchase the item expires.

Revenue from online website sales, which includes sales from our and Amazon online websites, are recognized when control of the promised goods are transferred to the Company's customers, in an amount that depicts the consideration the Company expects to be entitled to in exchange for those goods. Control is transferred at the time of shipment. Upon shipment, the total amount of the order is recognized as revenue. Payment for online website sales are due at time of order.

The provision for anticipated sales returns consists of both contractual return rights and discretionary authorized returns.

Estimates of discretionary authorized returns for sales other than subscription sales, discounts and claims are based on (1) historical rates, (2) specific identification of outstanding returns not yet received from customers and outstanding discounts and claims and (3) estimated returns, discounts and claims expected, but not yet finalized with customers. Actual returns, discounts and claims in any future period are inherently uncertain and thus may differ from estimates recorded. If actual or expected future returns, discounts or claims were significantly greater or lower than reserves established, a reduction or increase to net revenue would be recorded in the period in which such determination was made.

Shipping and handling costs associated with outbound freight fulfillment before control over a product has transferred to a customer are accounted for as a shipping and handling cost in the statement of operations.

Taxes assessed by governmental authorities that are both imposed on and concurrent with a specific revenue producing transaction and are collected by the Company from a customer are excluded from revenue and cost of goods sold in the statement of operations.

Restricted cash: Restricted cash balance consists of cash advanced received by the Company from the cash advance agreement described in Note 8. The cash advances can only be used for purchases of products and marketing related services necessary to operate the Company, as defined by the agreement.

Inventory: Inventory, consisting primarily of finished goods, is valued at the lower of cost or net realizable value using the weighted average cost method. In addition, the Company capitalizes freight, duty and other supply chain costs in inventory. These costs are included in the cost of sales as inventory is sold.

Leasehold improvements and equipment: Leasehold improvements and equipment are recorded at cost. Depreciation for equipment is computed using the straight-line method over the estimated useful life of the assets ranging from three to five years. Leasehold improvements are amortized over the shorter of the term of the lease or the life of the improvement on a straight-line method. Expenditures that extend the useful lives of the equipment are capitalized. Expenditure for the repairs and maintenance are charged to expense as incurred. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in operations.

Intangible assets: Intangible assets consist of capitalized website development costs and are being amortized using the straight-line method over their estimated useful lives, ranging from one to three years. The Company periodically evaluates the reasonableness of the useful life of the intangible assets. Expenditures for repairs and maintenance are charged to expense as incurred.

Impairment of long-lived assets: The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Company compares the carrying value of the assets with their estimated future undiscounted pre-tax cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the assets' carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. As a result of its review, the Company does not believe that any material impairment currently exists related to its long-lived assets.

Deferred financing costs: Deferred financing costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the line of credit to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expenses and is computed using the straight-line method over the term of the agreement, which approximates the effective interest method.

Income taxes: The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized with respect to the future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial statement purposes. Deferred tax assets and liabilities measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company applies US GAAP on accounting for uncertainty in income taxes. If the Company considers that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, it recognizes the tax benefit. The Company measures the tax benefit by determining the amount that is greater than 50% likely of being realized upon settlement, presuming the tax position is examined by the appropriate taxing authority that has full knowledge of relevant information.

The Company has no unrecognized tax benefits at January 1, 2022 and January 2, 2021. The Company's federal, state and local income tax returns prior to fiscal years 2017 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Company recognizes interest and penalties associated with tax matters, if any, as part of operating expenses and includes accrued interest and penalties with accrued expenses in the balance sheet.

Advertising costs: Direct advertising and promotion costs are expensed as incurred. Advertising and promotion expenses totaled \$3,148,834 and \$2,639,158 for the years ended 2021 and 2020, respectively, and are included in general and administrative expenses in the statement of operations.

Bad debt expense: Bad debt expense is recognized when a receivable is no longer collectible after a customer is unable to fulfill their obligation to pay an outstanding balance.

Equity-based compensation: We measure equity-based compensation expense associated with the awards granted based on their estimated fair values at the grant date. For awards with service condition only, equity-based compensation expense is recognized over the requisite service period using the straight-line method. The grant-date fair value of stock options is estimated using the Black-Scholes option pricing model. Forfeitures are recorded as they occur. See Note 15, *Equity-based compensation*, for additional details.

Segment information: The Company has one operating segment and one reportable segment as its chief operating decision maker, who is its Chief Executive Officer, reviews financial information on a consolidated basis for purposes of allocating resources and evaluating financial performance. All long-lived assets are located in the United States.

NOTE 3: LIQUIDITY

The Company has sustained losses from operations since inception, and has negative operating cash flows and an accumulated deficit of \$33,919,184 as of January 1, 2022. The Company will continue to incur substantial operating expenses in the foreseeable future as the Company continues to invest in attracting new customers, expanding its product offerings and enhancing technology and infrastructure. These efforts may prove more expensive than the Company anticipates, and the Company may not succeed in increasing revenue and margins sufficiently to offset these expenses. Accordingly, the Company may not be able to achieve profitability, and the Company may incur significant losses for the foreseeable future.

To support the Company's existing operations or any future expansion of business, including the ability to execute the Company's growth strategy, the Company must have sufficient capital to continue to make investments and fund operations. Management has plans to pursue an aggressive growth strategy for the expansion of operations through increased marketing to attract new members and refine the marketing strategy to strategically prioritize customer acquisition channels that management believes will be more successful at attracting new customers and members. Management plans to launch new divisions and product lines to help attract new members and retain existing members. Management launched a new boys' apparel division in the summer of 2020 and launched a toddler division in early 2021. Management also has plans to increase efficiency in distribution and fulfillment capabilities to reduce costs associated with subscription box sales.

In November 2021, the Company completed an IPO, in which the Company issued and sold 2,117,647 shares of its authorized common stock for \$8.50 per share for net proceeds of \$16.1 million, after deducting underwriting discounts and commissions, and offering costs.

The Company expects to continue to generate net losses for the foreseeable future as it makes investments to grow its business. Management believes that the Company's existing balances of cash and cash equivalents following the IPO, will be sufficient to meet its anticipated cash requirements for at least twelve months from the date that these financial statements are issued. However, should the Company's current cash and cash equivalents not be sufficient to support the development of its business to the point at which it has positive cash flows from operations, the Company plans to meet its future needs for additional capital through equity financings, debt financings or other capital sources, including collaborations with other companies or other strategic transactions. Equity financings may include sales of common stock. Such financing may not

be available on terms favorable to the Company or at all. The terms of any financing may adversely affect the holdings or rights of the Company's stockholders. If the Company is unable to obtain adequate financing or financing on terms satisfactory to it when required, the Company's ability to continue to support its business growth, scale its infrastructure, and to respond to business challenges could be significantly impaired.

NOTE 4: INVENTORY

Inventory consists of the following:

	2021	2020
Finished goods	\$ 10,596,968	\$ 7,034,470
Goods in transit	1,021,629	445,602
Total	\$ 11,618,597	\$ 7,480,072

NOTE 5: LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Leasehold improvements and equipment consist of the following:

	2021	2020
Computer equipment	\$ 90,205	\$ 52,215
Furniture and fixtures	184,207	184,207
Leasehold improvements	59,523	59,523
Machinery and equipment	17,399	9,995
Total cost	351,334	305,940
Accumulated depreciation	(304,366)	(278,066)
Leasehold improvements and equipment, net	\$ 46,968	\$ 27,874

Depreciation expense amounted to \$26,300 and \$51,088 for the years ended 2021 and 2020, respectively.

NOTE 6: INTANGIBLE ASSET

Intangible assets consist of the following:

	2021	2020
Website development	\$ 267,303	\$ 267,303
Less accumulated amortization	(267,303)	(266,689)
Intangible assets, net	\$ -	\$ 614

Amortization expense amounted to \$614 and \$21,755 for the years ended 2021 and 2020, respectively.

NOTE 7: RELATED PARTY TRANSACTIONS

In the normal course of business, the Company made purchases from related parties for merchandise and shared services which amounted to \$47,403 and \$403,865 for the years ended January 1, 2022 and January 2, 2021, respectively.

In addition, a related party performs certain management services for the Company pursuant to a management services agreement. For these services, the Company was to pay a monthly management fee equal to 0.75% of the Company's net sales collections. Management fees amounted to \$150,697 and \$115,725 for 2021 and 2020, respectively, and are included in general and administrative expenses in the statement of operations.

The Company entered into a revocable monthly lease agreement for office space from a related party on March 1, 2017. The Company will pay a percentage of the related party's fixed monthly rent, including contingent rental expenses. For 2021 and 2020, related party rent amounted to \$330,000 and \$147,144, respectively, and is included in general and administrative expenses in the statement of operations.

The Company entered into a new sub-lease agreement for warehouse space from a related party on April 1, 2021. The Company will pay 33.3% of the related party's fixed monthly rent. The lease expires on September 30, 2023. The minimum lease payments amount to \$221,595 for the year ending January 1, 2022, \$249,237 for the year ending December 31, 2022, and \$191,104 for the year ending December 30, 2023.

As of January 1, 2022 and January 2, 2021, there was \$913,708 and \$599,811 due to related parties, respectively.

See Note 10 for short-term debt from affiliated entities under common control and from stockholders.

NOTE 8: ADVANCE PAYABLE

From time to time, we have been party to cash advance agreements with financial institutions whereby such institutions purchased receivables or advanced cash for us to purchase inventory. Those include the following transactions:

On February 1, 2021, the Company entered into a new cash advance agreement with a financial institution and was advanced cash totaling \$360,000 to be used for the purchase of inventory. In accordance with the agreement, the Company agreed to repay \$381,600, plus interest, by depositing

future receivables with the lender. The cash advance bears interest at a rate of 7% per annum for the first 121 days and 12% per annum thereafter until the advance is fully repaid.

On March 10, 2021, the Company entered into a new cash advance agreement with a financial institution and was advanced cash totaling \$100,000 to be used for the purchase of inventory. In accordance with the agreement, the Company agreed to repay the advanced cash plus \$311,953 previously owed to the financial institution (totaling \$411,953), plus interest, by depositing future receivables with the lender in total amount of \$417,954. The cash advance bears interest at a rate of 7% per annum for the first 121 days and 12.50% per annum thereafter until the advance is fully repaid.

On March 10, 2021, the Company also entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$1,137,666 of receivables from the Company for \$1,062,666, which included \$437,666 owed under the previous agreement. The Company will deliver 12.5% of the future collections of receivables to the financial institution until \$1,137,666 has been paid. In the event no event of default has occurred under the agreement and the Company remains in compliance with its terms, the financial institution will provide a 6% discount on the receivables purchased.

On May 7, 2021, the Company also entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$461,316 of receivables from the Company for \$446,316, which included \$196,316 owed under the previous agreement. In accordance with the agreement, the Company agreed to repay \$461,316, plus interest, by depositing future receivables with the lender. The cash advance bears interest at a rate of 7.5% per annum for the first 121 days and 12% per annum thereafter until the advance is fully repaid.

On June 4, 2021, the Company entered into a new cash advance agreement with a financial institution and was advanced cash totaling \$125,000 to be used for the purchase of inventory. In accordance with the agreement, the Company agreed to repay the advanced cash plus \$355,598 previously owed to the financial institution (totaling \$480,598), plus interest, by depositing future receivables with the lender in total amount of \$488,098. The cash advance bears interest at a rate of 7.5% per annum for the first 121 days and 12.50% per annum thereafter until the advance is fully repaid.

On June 4, 2021, the Company also entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$1,196,055 of receivables from the Company for \$1,124,055, which included \$524,055 owed under the previous agreement. The Company will deliver 12.5% of the future collections of receivables to the financial institution until \$1,196,055 has been paid. In the event no event of default has occurred under the agreement and the Company remains in compliance with its terms, the financial institution will provide a 6% discount on the receivables purchased.

On July 9, 2021, the Company entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$495,902 of receivables from the Company for \$488,402, which included advanced cash totaling \$125,000 to be used for the purchase of inventory and \$363,402 owed under the previous agreement. In accordance with the agreement, the Company agreed to repay \$495,902, plus interest, by depositing future receivables with the lender. The cash advance bears interest at a rate of 7.5% per annum for the first 121 days and 12.5% per annum thereafter until the advance is fully repaid.

On August 10, 2021, the Company entered into a new cash advance agreement with a financial institution and was advanced cash totaling \$185,000 to be used for the purchase of inventory. In accordance with the agreement, the Company agreed to repay the advanced cash plus \$390,169 previously owed to the financial institution (totaling \$575,169), plus interest, by depositing future receivables with the lender in the total amount of \$586,269. The cash advance bears interest at a rate of 7.5% per annum for the first 121 days and 12.50% per annum thereafter until the advance is fully repaid.

On August 10, 2021, the Company also entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$1,182,318 of receivables from the Company for \$1,136,718, which included \$756,718 owed under the previous agreement. The Company will deliver 12.5% of the future collections of receivables to the financial institution until \$1,182,318 has been paid. In the event no event of default has occurred under the agreement and the Company remains in compliance with its terms, the financial institution will provide a 6% discount on the receivables purchased.

On October 22, 2021, the Company entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$863,847 of receivables from the Company for \$857,847, which included \$807,847 owed under the previous agreement. The Company will deliver 12.5% of the future collections of receivables to the financial institution until \$863,847 has been paid. In the event no event of default has occurred under the agreement and the Company remains in compliance with its terms, the financial institution will provide a 6% discount on the receivables purchased.

On October 27, 2021, the Company entered into a new cash advance agreement with a financial institution and was advanced cash totaling \$300,000 to be used for the purchase of inventory. In accordance with the agreement, the Company agreed to repay the advanced cash plus \$381,124 previously owed to the financial institution (totaling \$681,124), plus interest, by depositing future receivables with the lender in the total amount of \$699,124. The cash advance bears interest at a rate of 7.5% per annum for the first 121 days and 12.50% per annum thereafter until the advance is fully repaid.

On November 2, 2021, the Company entered into a new cash advance agreement with a financial institution. Pursuant to the agreement, the financial institution purchased \$923,682 of receivables from the Company for \$899,682, which included \$699,682 owed under the previous agreement. The Company will deliver 12.5% of the future collections of receivables to the financial institution until \$923,682 has been paid. In the event no event of default has occurred under the agreement and the Company remains in compliance with its terms, the financial institution will provide a 6% discount on the receivables purchased.

As of January 1, 2022 and January 2, 2021, the cash advance outstanding, including interest, amounted to \$932,155 and \$829,030, respectively. For 2021 and 2020, interest expense related to the advances totaled \$81,193 and \$117,127, respectively.

NOTE 9: LOAN PAYABLE

As a response to the COVID-19 pandemic, Congress passed the CARES Act to aid businesses through the current economic conditions. The CARES Act provided businesses with loans from the Small Business Administration (“SBA”) based on a calculation provided by the SBA. In 2020, the Company received \$442,352 in funding from these loans. The CARES Act provides a provision allowing all or a portion of the loan to be forgiven by the SBA based on certain criteria. Any unforgiven portion will be repaid over a two-year period with a ten-month deferral on payments yielding 1% interest. The Company applied for forgiveness of the loan and on August 2, 2021, notification and confirmation was received that the loan including related accrued interest had been forgiven in its entirety by the SBA. The forgiveness amount was recorded in other income in the statement of operations.

NOTE 10: SHORT-TERM DEBT

In April and June 2021, the Company entered into various short-term, unsecured promissory notes with an affiliated entity under common control in the amount of \$400,000. The notes are noninterest-bearing and due on December 31, 2021. On November 16, 2021, the Company paid in full the outstanding loan amounts of \$400,000.

On June 28, 2021, the Company entered into four unsecured convertible promissory notes with stockholders in the aggregate amount of \$100,000. Each of the convertible notes were payable on January 15, 2022 and were automatically convertible into shares of the Company’s common stock at a conversion price equal to the per share price of the next equity funding completed by the Company in an amount of at least \$2,000,000 and required the repayment of 110% of such convertible note amount upon a sale of the Company (including a change of 50% or more of the voting shares). On August 25, 2021, the parties agreed to amend the previously convertible notes to remove the conversion rights provided for therein and clarify that no interest accrues on the convertible notes. On December 27, 2021, the Company paid in full the outstanding loan amounts of \$100,000.

On August 13, 2021, the Company entered into two unsecured convertible promissory notes with stockholders in the aggregate amount of \$200,000. Each of the convertible notes were payable on demand and were automatically convertible into shares of the Company’s common stock at a conversion price equal to the per share price of the next equity funding completed by the Company in an amount of at least \$2,000,000 and requires the repayment of 110% of such convertible note amount upon a sale of the Company (including a change of 50% or more of the voting shares). On August 25, 2021, the parties agreed to amend the previously convertible notes to remove the conversion rights provided for therein and clarify that no interest accrues on the convertible notes.

In September, October and November 2021, the Company borrowed \$2,500,000 from a stockholder. The notes are unsecured, noninterest-bearing and the principal is fully due and payable on demand, at the rate of 110% of such note amount upon a sale of the Company (including a change of 50% or more of the voting shares). On December 27, 2021, the Company paid \$500,000 of the outstanding loan amounts.

NOTE 11: LINE OF CREDIT

In September 2017, the Company entered into a loan and security agreement with a lender for an initial term of two years. The agreement was amended in July 2019, September 2019, November 2020, April 2021, July 2021 and August 2021. The agreement allows the Company to request advances from the lender up to \$3,200,000, in minimum installments of \$10,000. The advances are limited to the lower of (i) 70% of the Company’s inventory cost at the time of request, or (ii) 75% of net orderly liquidation value, when applied to eligible inventory. The advances bear interest at a rate of 1.42% per month and mature on November 20, 2021. The loan and security agreement is personally guaranteed by two stockholders of the Company. The Loan Agreement includes an early termination fee equal to 3% of the maximum amount available (currently \$3.2 million), provided that such fee is waived if the Company sells equity in order to repay amounts owed under the Loan Agreement. The Loan Agreement includes customary covenants and also includes that an event of default if certain shareholders cease being the direct or indirect beneficial owner of more than 50% of the voting stock, or if any other person or entity shall become the direct or indirect owner of over 45% of the voting stock or if certain employees cease to be employed by the Company. On November 15, 2021, the Company paid off the loan and security agreement in the amount of \$3,200,000 and related outstanding interest and facility fee in amount of \$24,498, with funds raised through the IPO.

As of January, 1, 2022 and January, 2, 2021, outstanding advances amounted to \$0 and \$2,065,568, respectively. Interest expense amounted to \$395,080 and \$318,941 for the years 2021 and 2020, respectively.

Deferred financing cost, net of accumulated amortization, totaled \$0 for the year ended January 1, 2022 and \$33,450 for the year ended January 2, 2021. Amortization of these costs amounted to \$58,397 and \$44,086 for the years ended January 1, 2022 and January 2, 2021, respectively.

NOTE 12: LONG-TERM DEBT

In 2020 and 2019, the Company entered into unsecured convertible promissory notes with stockholders in the amount of \$1,770,000 and \$3,300,000, respectively. These notes were noninterest bearing. Prior to the maturity, the notes were converted to equity (see Note 14).

In January, February, and March 2021, the Company entered into various unsecured convertible promissory notes with stockholders in the aggregate amount of \$2,000,000. Each of the convertible notes were payable on January 15, 2022 and were automatically convertible into shares of the Company's common stock at a conversion price equal to the per share price of the next equity funding completed by the Company in an amount of at least \$2,000,000 and required the repayment of 110% of such convertible note amount upon a sale of the Company (including a change of 50% or more of the voting shares). In May 2021, prior to the maturity, the notes in the amount of \$2,000,000 were converted to equity (see Note 14).

NOTE 13: NET LOSS PER COMMON SHARE

The computation of basic net loss per share is based on the weighted average number of common shares outstanding for the years ended January 1, 2022 and January 2, 2021. Diluted net loss per share gives effect to stock options and restricted stock units using the treasury stock method, unless the impact is anti-dilutive.

Diluted net loss per share for the year ended January 1, 2022 does not include 480,000 stock options and 264,000 restricted stock units as their effect was anti-dilutive.

	2021	2020
Net loss	\$ (5,947,547)	\$ (4,188,360)
Weighted Average Shares - Basic	5,648,344	3,746,351
Dilutive effect of stock options and restricted stock units	-	-
Weighted Average Shares - Diluted	5,648,344	3,746,351
Basic net loss per share	(1.05)	(1.12)
Diluted net loss per share	(1.05)	(1.12)

NOTE 14: STOCKHOLDERS' EQUITY

In December 2020, the Company issued 220,759 shares in exchange for a contribution of \$1,000,000. The shares had a par value of \$0.001 totaling \$221. The remaining contribution of \$999,779 was recorded to additional paid-in capital.

In December 2020, the Company issued 1,119,228 shares in conjunction with the conversion of debt to equity (described in Note 9). The shares had a par value of \$0.001 totaling \$1,119. The remaining amount of \$5,068,881 was recorded to additional paid-in capital.

On May 10, 2021, the Company filed an amended and restated Certificate of Incorporation which authorized 75,000,000 shares of Common Stock having a par value of \$0.001 per share and 25,000,000 shares of Preferred Stock having a par value of \$0.001 per share. All shares of Common Stock shall be of the same class and have equal rights, powers and privileges. The Preferred Stock may be issued from time to time in one or more series and each issued series may have full or limited designations, preferences, participating, special rights and limitation as adopted by the Board of Directors. In conjunction with this amendment, the Company completed a forward split of existing Common Stock whereby each one share of Common Stock was automatically split up and converted into 671 shares of Common Stock. The Statements of Changes in Stockholders' Equity (Deficit) was restated to retroactively incorporate this stock split.

On May 11, 2021, the Company converted stockholder notes in the amount of \$2,000,000 to equity with the issuance of 339,526 shares of common stock of the Company. The Conversion Agreement provides certain rights to the stockholders, see details below.

On May 11, 2021, the Company entered into an investment agreement with related parties. Pursuant to the investment agreement, the related parties purchased 46,970 shares of common stock for \$275,000. The investment agreement provides certain rights to the stockholders, see details below.

Also on May 11, 2021, the Company entered into an investment agreement with an investment firm owned by a related party. Pursuant to the investment agreement, the firm purchased 38,247 shares of common stock for \$225,000. The Conversion Agreement provides certain rights to the stockholder, see details below.

The Investment Agreement provided preemptive rights for converting note holders, for so long as they hold not less than 5% of the Company's outstanding common stock, to acquire additional shares of common stock to maintain their then current percentage ownership in the Company, on the same terms offered to any other party which triggered such preemptive rights, subject to certain exceptions, and drag-along rights (providing for rights to be dragged along in any transaction relating to the sale of a majority of the Company's outstanding shares or assets, or certain similar transactions, on the same terms, and subject to the same conditions, as other sellers). The agreement also provided anti-dilution rights such that if the Company, after the date of the closing of the transactions contemplated by the Conversion Agreement, issued shares of common stock, or common stock equivalents (options, warrants or convertible securities), if the price per share is less than the conversion price of the converted notes, then we

are required to issue additional shares of common stock equal to the difference between the number of shares issued to each purchaser in such anti-dilutive transaction and the aggregate amount of each converted note, divided by such lower dilutive price.

On May 12, 2021, the Company and each then stockholder of the Company, other than one minority stockholder holding 147,620 or 2.7% of the Company's then outstanding common stock, entered into a Covenant Termination and Release Agreement, whereby each executing stockholder, in consideration for \$10, agreed to terminate any and all preemptive rights, anti-dilutive rights, tag-along, drag-along or other special stockholder rights which they held as a result of the terms of any prior Investment Agreements or Conversion Agreements, and release the Company from any and all liability or obligations in connection with any such special stockholder rights.

NOTE 15: EQUITY-BASED COMPENSATION

On May 9, 2021, the Board of Directors and majority stockholders adopted an Equity Incentive Plan which provides an opportunity for any employee, officer, director or consultant of the Company to receive incentive stock options, nonqualified stock options, restricted stock, stock awards, shares in performance of services or any combination of the foregoing.

On September 30, 2021, the Board of Directors and majority stockholders of the Company amended and restated its 2021 Equity Incentive Plan (as amended and restated, the "2021 Plan"). The 2021 Plan provides for the grant of incentive stock options, or ISOs, within the meaning of Section 422 of the Internal Revenue Code, to our employees, and for the grant of nonstatutory stock options, or NSOs, stock appreciation rights, restricted stock awards, restricted stock unit awards (RSU awards), performance awards and other forms of awards to our employees, directors and consultants and any of our affiliates' employees and consultants. A total of 2,600,000 shares of the Company's common stock were initially reserved for issuance under the 2021 Plan.

On November 10, 2021, prior to the pricing of the IPO, the Company granted (a) options to purchase an aggregate of 480,000 shares of our common stock at an exercise price of \$8.50 per share, to certain employees and consultants of the Company in consideration for services rendered and to be rendered through May 2024; (b) 254,000 restricted stock units, to certain executive officers; and (c) 10,000 restricted stock units to a board of director member. Such options and restricted stock units vest (i) 1/3 on May 15, 2022 (six months from the closing of the Company's IPO); (ii) 1/3 on May 15, 2023 (eighteen months from the closing of the IPO); and (iii) 1/3 on May 15, 2024 (thirty months from the closing date of the IPO). The options each have a term of 5 years.

In determining the fair value of the stock-based awards, we used the Black-Scholes option-pricing model and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment. *Expected Term* - The expected term represents the period that our stock options are expected to be outstanding and is determined using the simplified method (generally calculated as the mid-point between the vesting date and the end of the contractual term). *Expected Volatility* - The expected volatility was estimated based on the average volatility for publicly traded companies that we considered comparable, over a period equal to the expected term of the stock option grants. *Risk-Free Interest Rate* - The risk-free interest rate is based on the U.S. Treasury zero coupon notes in effect at the time of grant for periods corresponding with the expected term of the option. *Expected Dividend* - We have not paid dividends on our common stock and do not anticipate paying dividends on our common stock; therefore, we use an expected dividend yield of zero.

The fair value of each option we issued on November 10, 2021 was \$3.16. The weighted average assumptions used included a risk-free interest rate of 0.88%, an expected stock price volatility factor of 52.4% and a dividend rate of 0%. The fair value of each RSUs we issued on November 10, 2021 was \$8.50.

A summary of the Company's time-based stock option activity under the 2021 Plan was as follows:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance as of January 2, 2021	-	-	-
Granted	480,000	\$ 8.50	
Vested	-	-	
Forfeited/Repurchased	-	-	
Balance as of January 1, 2022	<u>480,000</u>	<u>\$ 8.50</u>	<u>-</u>
Vested as of January 1, 2022	<u>-</u>	<u>-</u>	<u>-</u>

As of January 1, 2022, there was \$3.4 million of total unrecognized compensation cost related to unvested options and RSUs granted under the 2021 Plan, which is expected to be recognized over a weighted average service period of 2.4 years. The Company records the impact of any forfeitures of options as they occur.

Amortization of this charge, which is included in non-cash compensation expense, for the year ended January 1, 2022, was \$328,515 and it included as part of payroll expense.

NOTE 16: RISK CONCENTRATION AND UNCERTAINTIES

The Company uses various vendors for purchases of inventory. For the year ended January 1, 2022 three vendors accounted for approximately 49% of inventory purchases. As of January 1, 2022, none was due to these vendors. For the year ended January 2, 2021, four vendors accounted for

approximately 60% of inventory purchases. As of January 2, 2021, the amount due to these vendors totaled \$242,019.

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the Company's customer base. In addition, the Company reviews receivables and recognizes bad debts on a monthly basis for accounts that are deemed uncollectible.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID- 19) as a pandemic, which continues to spread throughout the world affecting the United States and global economies. The potential impact and the duration of the COVID-19 pandemic is difficult to assess or predict. The COVID-19 pandemic has interrupted the global supply chain which has impacted purchases and timing of inventory.

NOTE 17: INCOME TAXES

The Company's income tax provision consists of the following:

	2021	2020
Current		
Federal	\$ -	\$ -
State	1,332	1,122
Total current	1,332	1,122
Deferred benefit		
Federal	1,532,719	838,344
State	130,211	353,302
Total deferred	1,662,930	1,191,646
Change in valuation allowance	(1,662,930)	(1,191,646)
Provision for income taxes	\$ 1,332	\$ 1,122

In assessing the realizability of deferred tax assets, the Company considers whether it is more-likely-than-not that some portion or all the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences representing net future deductible amounts become deductible. After consideration of all the evidence, both positive and negative, the Company has recorded a full valuation allowance against their net deferred tax assets at January 1, 2022, because the Company has concluded that it is more-likely-than-not that these assets will not be realized.

A reconciliation of the statutory tax rates to the Company's effective tax rate is as follows:

	2021	2020
Federal statutory rate	21.00%	21.00%
State statutory rate	6.95%	8.85%
Total statutory tax rate	27.95%	29.85%
Valuation allowance	(27.95)%	(29.85)%
Effective tax rate	0%	0%

The Company's significant components of deferred tax assets and liabilities are as follows:

	2021	2020
Deferred tax assets		
NOL carryforwards	\$ 7,285,330	\$ 5,715,508
Inventory valuation	84,046	103,203
Charity carryforwards	111,630	63,081
Equity-based compensation	90,392	-
Accrued expenses	-	16,416
Leasehold improvements and equipment	-	10,260
Total deferred tax assets	7,571,398	5,908,468
Valuation allowance	(7,571,398)	(5,908,468)
Net deferred tax assets	\$ -	\$ -

The CARES Act, among other things, permits net operating loss ("NOL") carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021 and allows carryovers indefinitely until exhausted. The Company's net operating loss carryforward totaled approximately \$26,070,000 and \$22,800,000 as of January 1, 2022 and January 2, 2021, respectively. These net operating loss carryforwards can be carried forward indefinitely for Federal purposes and through 2039 for states purposes.

NOTE 18: REVENUE DISCLOSURES

The Company's revenue is disaggregated based on the following categories:

	2021	2020
Subscription boxes	\$ 18,427,057	\$ 14,941,257
Online website sales	784,577	448,224
Amazon sales	2,622,884	1,546,906
Total	\$ 21,834,518	\$ 16,936,387

NOTE 19: RECONCILIATION OF CASH AND RESTRICTED CASH

The Company's reconciliation of cash and restricted cash is as follows:

	2021	2020
Cash	\$ 8,415,797	\$ 133,484
Restricted cash	4,703	551,812
Total	\$ 8,420,500	\$ 685,296

NOTE 20: SUBSEQUENT EVENTS

On March 31, 2022, the Company entered into a first amendment to promissory notes with several stockholders, pursuant to which the Company and the note holders agreed to amend certain outstanding promissory notes evidencing an aggregate of \$2,200,000 owed by the Company to such note holders which had a stated due date of January 15, 2022, to instead be payable on demand, effective as of January 15, 2022.