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 December 31, 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

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** (NASDAQ Capital Market)

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

None.

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (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 ☐	Accelerated Filer ☐
Non-accelerated Filer ☒	Smaller reporting company ☒
	Emerging growth company ☒

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting fi rm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the last business day of the registrant’s most recently completed second fiscal quarter was $3,799,701. For purposes of calculating the aggregate market value of shares held by non-affiliates, we have assumed that all outstanding shares are held by non-affiliates, except for shares held by each of our executive officers, directors and 5% or greater stockholders. In the case of 5% or greater stockholders, we have not deemed such stockholders to be affiliates unless there are facts and circumstances which would indicate that such stockholders exercise any control over our company, or unless they hold 10% or more of our outstanding common stock. These assumptions should not be deemed to constitute an admission that all executive officers, directors and 5% or greater stockholders are, in fact, affiliates of our company, or that there are not other persons who may be deemed to be affiliates of our company. Further information concerning shareholdings of our officers, directors and principal stockholders is incorporated by reference in Part III, Item 12 of this Annual Report on Form 10-K.

Number of shares of registrant’s common stock outstanding as of March 31, 2023: 7,688,194.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive proxy statement relating to its 2023 annual meeting of stockholders (the “2023 Proxy Statement”) are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2023 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 terms of such funding and potential dilution caused thereby;
- the continuing effect of rising interest rates and inflation on our operations, sales, and market for our products;
- deterioration of the global economic environment;
- 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 interest rates and 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 rising inflation;
- our ability to establish or maintain vendor and supplier relations and/or relationships with third-parties;
- 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.

Additional Information

Unless the context otherwise requires, all references in this Report to "we," "us," "our," "our company," and "Kidpik" refer to Kidpik Corp.

In addition:

- "Active subscriptions" means individuals who are scheduled to receive future boxes;
- "Boxes" means the Company's subscription clothing, shoe and accessories boxes;
- "Customers" means anyone who has received at least one shipment through subscription, direct or indirect sale from the Company;
- "Exchange Act" refers to the Securities Exchange Act of 1934, as amended;
- "Members" means customers who registered at least one subscription;
- "NASDAQ" means the NASDAQ Capital Market;
- "SEC" or the "Commission" refers to the United States Securities and Exchange Commission;
- "Securities Act" refers to the Securities Act of 1933, as amended; and
- "Subscriptions" means orders for recurring box shipments.

The Kidpik design logo, "kidpik," and our other registered or common law trademarks, service marks, or trade names appearing in this Report are the property of Kidpik Corp. Other trade names, trademarks, and service marks used in this Report are the property of their respective owners. Solely for convenience, we have omitted the ® and ™ designations, as applicable, for the trademarks we name in this Report.

References to our websites and those of third parties below are for information purposes only and, unless expressly stated below, we do not desire to incorporate by reference into this Report information in such websites.

The Company uses a 52-53 week fiscal year ending on the Saturday nearest to December 31 each year. The years ended December 31, 2022 and January 1, 2022 were 52 week years. These years are referred to herein as "2022" or "FYE 2022" and "2021" or "FYE 2021", respectively.

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.

We acquire most of our new members primarily though 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 the positive engagement of our members to having solved the following two pain points for parents and kids:

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

<u>Avoiding challenging in-store shopping experiences</u>: 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 outfits, pre-styled boxes and gift cards, and expanded to sell on Amazon.com as Fulfilled by Amazon and Fulfilled by Merchant for pre-packs and individual items and Walmart as Fulfilled by Merchant.

We have also added new features and products to our core subscription service including add-on items, kidpik koins (our loyalty program), 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 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 helps 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 proprietary 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 boxes contain eight items —six items of apparel, a pair of shoes and an accessory, which creates *mix & match* outfits, from head-to-toe. For our current members we have recently expanded our subscription box offerings, introducing a twelve -items box option. Members are informed they have 7 days to decide what to keep or return and complete the process by checking out online. Returns or exchanges of any items are 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 fashion outfits at a value will set us apart from other children's clothing subscription players. 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.

Members & 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 growth.

We aggressively tests 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 program, whereby we have pre-selected influencers and have provided free seasonal boxes to said influencers 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 have started a program that gives influencers the ability to earn commission on shop purchases of individual items and pre-styled boxes with no subscription required on shop.kidpik.com.

In addition to our influencer program, in February of 2022, we launched a consumer-facing brand influencer program, supported by a third-party platform. Through this program, we inspire everyday consumers to act as influencers and to create content promoting kidpik to be shared with their friends and followers. Each consumer brand influencer is assigned a unique promo code and referral link and earns either monetary commission or a credit to their account upon registering a new subscription or completion of a sale.

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, 2023, we had over 533,000 likes on Facebook and 123,000 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 December 31, 2022, two vendors accounted for approximately 48% of inventory purchases. For the year ended January 1, 2022, three vendors accounted for approximately 49% 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 manufacturers 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 December 31, 2022, we procured merchandise from more than 28 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 seven years, we have invested heavily in our proprietary technology and algorithm capabilities and built a robust infrastructure that we believe is 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 2023 estimates by Statista, in its *Children's Apparel Report 2022*, revenue in the children's apparel segment will total approximately $267 billion in 2023, of which approximately $53 billion is forecasted to be generated in the United States and is projected to grow at a compounded annual growth rate (CAGR) of 2.46% through 2027.

Pursuant to a February 2022 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 February 2022, bi-annual Subscription Economy Index™ (SEI), noted that subscription businesses have grown by 4.6x faster than the S&P 500 over the past decade, 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 marketplace 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 produce our goods in two countries, China and Turkey. In 2021, we experienced delivery delays due to nationwide supply chain issues and COVID-19. Our top six factories account for over 68% of our production and, combined, have been with us for over five years on average, despite the fact that we have only been in operation for only a little over seven 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 years of experience. We have the knowledge and expertise in building each style's cost from the bottom up.

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 manufacturers 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. We do not estimate any significant capital expenditures for environmental control matters either in the current fiscal year or in the near future.

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 25 full-time employees, located in New York and California. Marketing has four employees, merchandising has four employees, design has three employees, production has two employees, customer service has four employees, IT has three employees, finance has three 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. 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 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 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. Consumer trends and the availability of materials have mainly returned to pre-pandemic levels to date and the Biden administration recently has advised that it intends to end the COVID-19 national and public health emergencies on May 11, 2023.

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. Additionally, the COVID-19 pandemic and resulting economic disruption has also led to significant volatility in the capital markets, increased inflation and interest rates. While we have taken measures to preserve our access to liquidity, our cash generated from operations has been negatively impacted and future cash flows may be impacted by recent economic conditions, volatility in capital markets, inflation and high interest rates.

Emerging Growth Company under the JOBS Act

As a company with less than $1.235 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 $1.235 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 62.2% of the voting power of our capital stock (based on shares of common stock outstanding as of March 31, 2023), 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.

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 https://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 varying degrees of risk and uncertainty. Investors should consider the risks and uncertainties summarized below, as well as the risks and uncertainties immediately following this summary. Our business operations could also be affected by factors that we currently consider to be immaterial or that are unknown to us at the present time. If any of these risks occur, our business, financial condition, and results of operations could be materially and adversely affected, and the trading price of our common stock could decline or our common stock could become worthless:

- Our history of losses, our ability to achieve profitability, our need for additional funding and the availability and terms of such funding, as well as potential dilution caused thereby;

- 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 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 of changes in consumer spending due to changes in interest rates, increased inflation, declines in economic activity or recessions;

- 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 future loan agreements;
- Our ability to prevent credit card and payment fraud;
- The risk of unauthorized access to confidential information;
- System interruptions that impair client access to our website or other performance failures in our technology infrastructure could damage our business;
- 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 on 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;
- We may require additional capital to support business growth, and this capital might not be available or may be available only by diluting existing stockholders;
- 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

There is substantial doubt about our ability to continue as a going concern and we will need additional capital which may not be available on favorable terms, if at all.

We have experienced net losses in each year since our inception. We had accumulated deficits of $41,534,445 and $33,919,184 as of December 31, 2022 and January 1, 2022, respectively. In the years ended December 31, 2022 and January 1, 2022, we incurred net losses of $7,615,261 and $5,947,547, respectively. The Company's ability to continue its operations is dependent upon obtaining new financing for its ongoing operations and on the Company's plans to reduce the inventory level. To manage operating cash flows in the near term, the Company plans to significantly reduce purchases of new inventory and if available, may enter into cash advance or other financing arrangement. Future financing options available to the Company include equity financings, debt financings or other capital sources, including collaborations with other companies or other strategic transactions to fund existing operations and execute management's growth strategy. Equity financings may include sales of common stock, warrants and/or preferred 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 and may cause significant dilution to existing stockholders. Although management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient funding on terms acceptable to the Company to fund continued operations, if at all, which would have a material adverse effect on its business, financial condition and results of operations, and it could ultimately be forced to discontinue its operations and liquidate. These matters, when considered in the aggregate, raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time, which is defined as within one year after the date that the financial statements are issued. The accompanying financial statements do not contain any adjustments to reflect the possible future effects on the classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty. The doubt regarding our potential ability to continue as a going concern may adversely affect our ability to obtain new financing on reasonable terms or at all. Additionally, if we are unable to continue as a going concern, our stockholders may lose some or all of their investment in the Company. If we are unable to access additional capital moving forward, it may hurt our ability to grow and to generate future revenue, or may force us to seek bankruptcy protection and any investment in the Company could be lost as part of any bankruptcy proceeding.

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. 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.

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 December 31, 2022 and January 1, 2022, we incurred net losses of $7,615,261 and $5,947,547, 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 and Walmart.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 December 31, 2022, decreased by 24.5% to $16,477,984, compared to $21,834,518 for the year ended January 1, 2022, a decrease of $5,356,534 from the prior year, partly due to an increase in demand due to COVID-19 in 2021, we cannot assure you that our number of members, or the revenues generated thereby, will increase in the future. While we experienced an increase in demand in 2021, which we believe is due, in part, to the impact the COVID-19 pandemic had on consumer behaviors, demand decreased in 2022 as COVID-19 restrictions were lifted. We also believe that revenues for 2022 were negatively affected by changing consumer spending habits impacted by worsening economic conditions, including increases in inflation and interest rates and declines in market activity.

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 December 31, 2022 and January 1, 2022, our marketing expenses were relatively the same at $3.1 million for both years, representing approximately 18.6% and 14.4% 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.

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 2024, 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.

Economic uncertainty may affect consumer purchases of discretionary items, which has affected and may continue to adversely affect demand for our products.

Our products may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions and other factors such as consumer confidence in future economic conditions, fears of recession and trade wars, the price of energy, fluctuating interest rates, the availability and cost of consumer credit, the availability and timing of government stimulus programs, levels of unemployment, inflation, and tax rates. Adverse economic conditions, such as a recession, in the United States, or protracted periods of high inflation or high energy prices may contribute to higher unemployment levels, decreased consumer spending, reduced credit availability and declining consumer confidence and demand, any of which poses a risk to our business. Any sustained economic downturn in the United States may cause significant readjustments in both the volume and mix of our product sales and level of members, which could materially and adversely affect our business, operating results and financial condition. Additionally, disruptions in the credit and other financial markets and economic conditions could, among other things, impair the financial condition of one or more of the Company's vendors, which could have a material adverse effect on the Company's business, prospects, results of operations, financial condition and/or cash flows. If we are unable to successfully navigate adverse economic conditions, including offsetting the impact of high inflation and high energy prices on our business, our business, financial condition, and results of operations may be adversely affected. Additionally, unfavorable economic conditions have led and in the future may lead, consumers to delay or reduce purchases of our products. Consumer demand for our products may decline as a result of an economic downturn, recession, or economic uncertainty in the United States. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our business, results of operations, and financial condition.

Economic uncertainty may affect our access to capital and/or increase the costs of such capital.

Global economic conditions continue to be volatile and uncertain due to, among other things, consumer confidence in future economic conditions, fears of recession and trade wars, the price of energy, fluctuating interest rates, the availability and cost of consumer credit, the availability and timing of government stimulus programs, levels of unemployment, increased inflation, tax rates and the ongoing conflict between the Ukraine and Russia. These conditions remain unpredictable and create uncertainties about our ability to raise capital in the future. In the event required capital becomes unavailable in the future, or more costly, it could have a material adverse effect on our business, results of operations, and financial condition.

Our industry and the broader US economy have experienced higher than expected inflationary pressures in 2022, related to continued supply chain disruptions, labor shortages and geopolitical instability. Should these conditions persist, our business, results of operations and cash flows could be materially and adversely affected.

In 2022 we saw significant increases in the costs of labor and certain materials and equipment, and longer lead times for such materials and equipment, as a result of availability constraints, supply chain disruption, increased demand, labor shortages associated with a fully employed US labor force, high inflation and other factors. Supply and demand fundamentals have been further aggravated by disruptions in global energy supply caused by multiple geopolitical events, including the ongoing conflict between Russia and Ukraine. Recent supply chain constraints and inflationary pressures have in the past, and may in the future, adversely impact our operating costs, as a result, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

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 December 31, 2022, two vendors accounted for approximately 48% of inventory purchases. For the year ended January 1, 2022, three vendors accounted for approximately 49% 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.

Our business and results of operations could be adversely affected by natural disasters, public health crises, political crises, negative global climate patterns, or other catastrophic events.

Natural disasters, such as hurricanes, tornadoes, floods, earthquakes, wildfires, and other extreme weather conditions; unforeseen public health crises, such as pandemics and epidemics (including, for example, the ongoing COVID-19 pandemic); political crises, such as terrorist attacks, war, labor unrest, and other political instability; negative global climate patterns, especially in water stressed regions; or other catastrophic events or disasters occurring in or impacting the areas in which fulfilment center, corporate offices or our vendors' manufacturing facilities are located, whether occurring in the United States or internationally, could disrupt our and our vendors' operations. Additionally, climate change may increase both the frequency and severity of extreme weather conditions and natural disasters, and the physical changes prompted by climate change could result in increased regulation or changes in consumer preferences.

In particular, these types of events could impact our supply chain from or to the impacted region and could impact our ability or other third parties to operate our websites or distribution center. These types of events could also negatively impact consumer spending in the impacted regions or, depending upon the severity, globally. Disasters occurring at our vendors' manufacturing facilities could impact our reputation and our customers' perception of our brand. To the extent any of these events occur, our business and results of operations could be adversely affected.

In February 2022, in response to the military conflict between Russia and Ukraine, the United States and other North Atlantic Treaty Organization member states, as well as non-member states, announced targeted economic sanctions on Russia, including certain Russian citizens and enterprises, and the continuation of the conflict may trigger additional economic and other sanctions. The potential impact of the conflict and any resulting bans, sanctions and boycotts on our business is uncertain at the current time due to the fluid nature of the conflict as it is unfolding. The potential impacts could include supply chain and logistics disruptions, macro financial impacts resulting from the exclusion of Russian financial institutions from the global banking system, volatility in foreign exchange rates and interest rates, inflationary pressures on raw materials and energy and heightened cybersecurity threats. We have no current operations in Russia or Ukraine; however, we do not and cannot know if the conflict, which is unfolding in real-time, could escalate and result in broader economic and security concerns which could adversely affect our business, financial condition or results of operations.

Our results of operations and future revenues could be materially and adversely affected by future pandemics and diseases.

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. Consumer trends and the availability of materials have mainly returned to pre-pandemic levels to date and the Biden administration has advised that it intends to end the COVID-19 national and public health emergencies on May 11, 2023.

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.

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

The satisfactory performance, reliability, and availability of our website, internal applications, and technology infrastructure are critical to our business. We rely on our website to engage with our clients and sell them merchandise. We also rely on a host of internal custom-built applications to run critical business functions, such as styling, merchandise purchasing, warehouse operations, and order fulfillment. In addition, we rely on a variety of third-party, cloud-based solution vendors for key elements of our technology infrastructure. These systems are vulnerable to damage or interruption. Interruptions may also be caused by a variety of incidents, including human error, our failure to update or improve our proprietary systems, cyber attacks, fire, flood, earthquake, power loss, or telecommunications failures. These risks are exacerbated by hybrid remote workforce. Any failure or interruption of our website, internal business applications, or our technology infrastructure could harm our ability to serve our clients, which would adversely affect our business and operating results.

Our 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. 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;
- our ability to cost-effectively source and distribute the products we offer and to manage our operations, including as a result of increasing inflation;
- 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. 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 the Summer of 2020, we expanded our merchandise offering to boys and in the Spring of 2021, we 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 increasing interest rates and high inflation and their 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, 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 renewed negative impact of the COVID-19 pandemic, future pandemic or diseases or climate change 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, which has recently increased and is still higher than it has been in the last several years, 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 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.

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 which 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.

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 services 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, due to decreased demand due to deteriorating economic conditions or recessions), too much inventory may cause excessive markdowns and, therefore, lower-than-planned margins. We have not always predicted member's and customers' preferences with accuracy and may have issues predicting preferences in the future. Our failure to accurately predict market trends and manage our inventory may require us to write-down future inventory or sell such inventory at a loss.

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, inflation, interest rates, 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. Furthermore, economic conditions in certain regions may also be affected by natural disasters, such as hurricanes, tropical storms, earthquakes, and wildfires; public health crises; and other major unforeseen events.

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 and equity purchases 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 December 31, 2022 and January 1, 2022, the total fees payable to Nina Footwear pursuant to the Management Services Agreement were $110,836 and $150,697, respectively, and are included in general and administrative expenses. In the event the sublease agreements are 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 December 31, 2022 and January 1, 2022, there was $1,107,665 and $913,708 due to Nina Footwear, respectively. Additionally, in the event the Management Services Agreement was 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.

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 again, 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. As discussed above, our network has previously been breached by hackers via a virtual private network (VPN) and while they encrypted certain 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. 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, 2023 and the Virginia Consumer Data Protection Act, which went 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 62.7% 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 62.7% 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 in the future, 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.

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 Moshe Dabah, our Chief Operating and Technology 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 contains 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. Over the past 12 months our common stock has traded between $0.56 and $5.90 per share, with recent trading prices between approximately $0.56 and $1.05 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;
- passage of legislation or other regulatory developments that adversely affect us or the e-commerce industry; and
- the other risks discussed throughout this Report.

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, $35 million in market value of listed securities, 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 maintain $35 million in market value of listed securities, 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 (for example, recently our common stock price has traded below $1.00 per share for a prolonged period of time). 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 the Pink Open 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.

On March 22, 2023, we received written notice (the "Notification Letter") from the Listing Qualifications Department of The Nasdaq Stock Market LLC ("Nasdaq") notifying the Company that it is not in compliance with the minimum bid price requirements set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on The Nasdaq Capital Market. Nasdaq Listing Rule 5550(a)(2) requires listed securities to maintain a minimum bid price of $1.00 per share, and Listing Rule 5810(c)(3)(A) provides that a failure to meet the minimum bid price requirement exists if the deficiency continues for a period of thirty (30) consecutive business days. Based on the closing bid price of the Company's common stock for the thirty (30) consecutive business days from February 7, 2023 to March 21, 2023, the Company no longer meets the minimum bid price requirement.

The Notification Letter does not impact the Company's listing of its common stock on the Nasdaq Capital Market at this time. The Notification Letter states that the Company has 180 calendar days or until September 18, 2023, to regain compliance with Nasdaq Listing Rule 5550(a)(2). To regain compliance, the bid price of the Company's common stock must have a closing bid price of at least $1.00 per share for a minimum of 10 consecutive business days. If the Company does not regain compliance by September 18, 2023, an additional 180 days may be granted to regain compliance, so long as the Company meets The Nasdaq Capital Market initial listing criteria (except for the bid price requirement) and notifies Nasdaq in writing of its intention to cure the deficiency during the second compliance period by effecting a reverse stock split, if necessary. If the Company does not qualify for the second compliance period, fails to regain compliance during the second 180-day period, or if it appears to Nasdaq that the Company will not be able to cure the deficiency, the Company's common stock will be subject to delisting, at which point the Company would have an opportunity to appeal the delisting determination to a Hearings Panel.

A delisting of our common stock from the Exchange could adversely affect our business, financial condition and results of operations and our ability to attract new investors, reduce the price at which our common stock trades, decrease, investors' ability to make transactions in our common stock, decrease the liquidity of our outstanding shares, increase the transaction costs inherent in trading such shares, and reduce our flexibility to raise additional capital with overall negative effects for our stockholders.

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.

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 $1.235 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 or less than $100 million in annual revenues and a public float of less than $700 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

Our estimates of market opportunity and forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

Market opportunity estimates and growth forecasts, including those we have generated ourselves, are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The variables that go into the calculation of our market opportunity are subject to change over time, and there is no guarantee that any particular number or percentage of individuals covered by our market opportunity estimates will purchase our products at all or generate any particular level of revenue for us. Even if the market in which we compete meets the size estimates and growth forecasts, our business could fail to grow for a variety of reasons outside of our control, including competition in our industry. If any of these risks materialize, it could harm our business and prospects.

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 rising interest rates and high inflation, possible economic slowdowns and recessions;
- 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.

If we are unable to maintain effective internal control over financial reporting, investors may lose confidence in the accuracy of our financial reports.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting. Although our management has determined that our internal control over financial reporting were effective as of December 31, 2022, we cannot assure you that we will not identify a material weakness in our internal control in the future.

If we have a material weakness in our internal control over financial reporting in the future, we may not detect errors on a timely basis. If we have difficulty implementing and maintaining effective internal control over financial reporting at the businesses we have acquired or that we may in the future acquire, or if we identify a material weakness in our internal control over financial reporting in the future, it could harm our operating results, adversely affect our reputation, cause our stock price to decline, or result in inaccurate financial reporting or material misstatements in our annual or interim financial statements. We could be required to implement expensive and time-consuming remedial measures. Further, if there are material weaknesses or failures in our ability to meet any of the requirements related to the maintenance and reporting of our internal control, such as Section 404 of the Sarbanes-Oxley Act, investors may lose confidence in the accuracy and completeness of our financial reports and that could cause the price of our common stock to decline. We could become subject to investigations by Nasdaq, the SEC or other regulatory authorities, which could require additional management attention and which could adversely affect our business.

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

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.

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

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

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.

We may fail to meet our publicly announced guidance or other expectations about our business, which could cause our stock price to decline.

We may provide, from time-to-time, guidance regarding our expected financial and business performance. Correctly identifying key factors affecting business conditions and predicting future events is inherently an uncertain process, and our guidance may not ultimately be accurate and has in the past been inaccurate in certain respects, such as the timing of acquisitions, revenue projections and project completions. Our guidance is based on certain assumptions such as those relating to anticipated sales volumes (which generally are not linear throughout a given period), average sales prices, supplier and commodity costs and planned cost reductions. If our guidance varies from actual results due to our assumptions not being met or the impact on our financial performance that could occur as a result of various risks and uncertainties, the market value of our common stock could decline significantly.

We may be adversely affected by climate change or by legal, regulatory or market responses to such change.

The long-term effects of climate change are difficult to predict; however, such effects may be widespread. Impacts from climate change may include physical risks (such as rising sea levels or frequency and severity of extreme weather conditions), social and human effects (such as population dislocations or harm to health and well-being), compliance costs and transition risks (such as regulatory or technology changes) and other adverse effects. The effects of climate change could increase the cost of certain products, commodities and energy (including utilities), which in turn may impact our ability to procure goods or services required for the operation of our business. Climate change could also lead to increased costs as a result of physical damage to or destruction of our facilities, loss of inventory, and business interruption due to weather events that may be attributable to climate change. These events and impacts could materially adversely affect our business operations, financial position or results of operation.

We might be adversely impacted by changes in accounting standards.

Our consolidated financial statements are subject to the application of U.S. GAAP, which periodically is revised or reinterpreted. From time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board ("FASB") and the SEC. It is possible that future accounting standards may require changes to the accounting treatment in our consolidated financial statements and may require us to make significant changes to our financial systems. Such changes might have a materially adverse impact on our financial position or results of operations.

Our reputation and/or business could be negatively impacted by environmental, social and governance ("ESG") matters and/or our reporting of such matters.

There is an increasing focus from regulators, certain investors, and other stakeholders concerning ESG matters, both in the United States and internationally. Any future ESG initiatives, goals, or commitments we undertake could be difficult to achieve and costly to implement. We could fail to achieve, or be perceived to fail to achieve, our future ESG-related initiatives, goals, or commitments. In addition, we could be criticized for the timing, scope or nature, or lack of initiatives, goals, or commitments. To the extent that our required and voluntary disclosures about ESG matters increase, we could be criticized for the accuracy, adequacy, or completeness of such disclosures. Our actual or perceived failure to set forth or achieve ESG-related initiatives, goals, or commitments could negatively impact our reputation, result in ESG-focused investors not purchasing and holding our stock, or otherwise materially harm our business.

* * * * *

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 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 fulfillment/warehouse 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. The Company entered into a sub-lease agreement for this fulfillment/warehouse space with Nina Footwear on April 1, 2021. The Company pays 33.3% of Nina Footwear's fixed monthly rent pursuant to the terms of the agreement, with an average monthly rent of $20,742. The lease expires on September 30, 2023.

On June 27, 2022, the Company together with Nina Footwear, entered into an agreement to extend the lease agreement with a third party for the office space. The Company will pay 50% of the total monthly rent, including contingent rental expenses. The lease is set to expire on April 30, 2027, with an average monthly rent of $29,259. We use our corporate offices for operating including, product design and development, marketing, technology, customer service and styling and personalization. Prior to the new lease agreement, the New York corporate office was subleased from Nina Footwear, the 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.

For fiscal 2022 and 2021, rent amounted to $579,237 and $551,595, 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

From time to time, we may be subject to legal proceedings, claims, and government investigations in the ordinary course of business. These may include, but not be limited to, claims relating to: our products, such as consumer claims and personal injury claims; our workforce, our technology, and business processes, such as worker classification and patent claims; and our intellectual property, such as trademarks and copyright infringement claims. The results of any future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, harm to our brand and reputation, and other factors.

We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, results of operations, financial condition, or cash flows. We may become involved in material legal proceedings in the future.

Item 4. Mine Safety Disclosures

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 March 31, 2023, 7,688,194 shares of the registrant's common stock were outstanding.

Holders of Record

As of the close of business on March 31, 2023, there were 18 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.

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", above. 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 December 31, 2022 and January 1, 2022 were 52- and 52-week years, respectively. These years are referred to herein as "2022" and "2021", 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 Estimates.

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 customized kids' outfits in a box. Kidpik provides kids clothing subscription boxes for boys and girls (sizes 12M-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 in-house from concept to box.

Staying ahead in an emerging industry requires constant innovation in products and services. After launching with our girls' subscription boxes for sizes 4-14 in 2016, we have continued to expand our product offering and marketing channels. We expanded into boys' clothing, added larger sizes for boys and girls (up to 16 for apparel and 6 youth for shoes), in the Spring of 2022, added toddler sizes down to 2T & 3T for apparel and 7 & 8 toddler shoes, and launched shop.kidpik.com, where we sell individual apparel items and shoes, curated outfits, pre-styled boxes and our 2 for basics. We also recently introduced sizes 12 months and 18 months apparel to our offerings. We have expanded our distribution by selling our branded products on Amazon.com, as Fulfilled by Amazon and Fulfilled by Merchant for pre-packs and individual items. During the fourth quarter of 2022 we started selling our branded products on Walmart.com as Fulfilled by Merchant.

We also introduced an "add-on" option for all members, whereby they can add additional items of their choosing to their next subscription box order. We plan to broaden the assortment of add-on items offered in an effort to increase the average box transaction size and gross margin. We have recently expanded our subscription box offerings, introducing a 12-item box option in addition to our traditional 8-item box, adding to the customer experience and providing an opportunity to drive additional revenue. We have also expanded our seasonal pre-styled fashion box and outfit assortment available on our e-commerce website, which provides an upsell opportunity for active members and additional variety for our e-commerce customers.

Currently, we provide e-commerce services throughout the 48 contiguous U.S. states and Army Post Offices (APOs) and Fleet Post Offices (FPOs).

We have expanded our offerings with the introduction of husky/plus and slim sizes to our assortment and launched a limited-edition NASA selection during the third quarter of 2022. We will 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 continuing to scale our influencer ambassador program, and launched a consumer-facing brand ambassador program. We are also pursuing new awareness 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

	For the Years Ended	
	December 31, 2022	January 1, 2022
Gross margin	59.9%	59.5%

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, returns from customers, inventory write-offs, and other miscellaneous shrinkage.

Adjusted EBITDA

In addition to our results calculated under generally accepted accounting principles in the United States ("U.S. 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-U.S. 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 U.S. 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 U.S. 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 U.S. 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 2022 primarily related to settlement of insurance claim related to business interruption of damaged inventory and 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 52 weeks ended	
	December 31, 2022	January 1, 2022
Net loss	$ (7,615,261)	$ (5,947,547)
Add (deduct)		
Interest expense	78,646	711,974
Other income	(286,794)	(429,045)
Provision for income taxes	-	1,332
Depreciation and amortization	27,914	26,914
Equity-based compensation	1,651,048	328,515
Adjusted EBITDA	$ (6,144,447)	$ (5,307,857)

Shipped Items

We define shipped items as the total number of items shipped in a given period to our customers through our active subscription, 3rd party websites sales and kidpik's online website sales.

	For the Years Ended (In thousands)	
	December 31, 2022	January 1, 2022
Shipped Items	1,457	2,157

We believe the decrease in subscription shipments for fiscal 2022 versus 2021, as shown in the table above, was primarily driven by a decrease in subscription boxes sales as a result of a lower number of new customers being acquired during 2022, in comparison to 2021.

Average Shipment Keep Rate

	For the Years Ended	
	December 31, 2022	January 1, 2022
Average Shipment Keep Rate	68.3%	69.0%

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. Average shipment keep rate was fairly constant for fiscal 2022 and 2021.

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 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, high inflation, as is being currently experienced, business conditions, changes in the housing market, the availability of credit, increases in interest rates and fuel, energy costs raw material costs, and supply chain challenges. In addition, during periods of low unemployment, we generally experience higher labor costs. The COVID-19 pandemic has also had and may continue to have a materially adverse impact on the macroeconomic environment in the United States and other markets. We are continuing to navigate the uncertainties presented by the current macroeconomic environment and remain focused on improving the conversion of new members and our overall client experience.

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 continue to 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 2024, 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 also a 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, equity-based compensation 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 classifications as "Subscription boxes" and "one-time purchases", respectively. 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 Expenses

Payroll and related expenses 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, 3rd party seller fees, rent, 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 in fiscal year 2022 mainly related to settlement of insurance claim related to business interruption of damaged inventory. Other non-operating income in fiscal year 2021 relates to the forgiveness of a prior Paycheck Protection Program 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

RESULTS OF OPERATIONS

Year ended December 31, 2022 compared to the year ended January 1, 2022

	FYE 2022	FYE 2021	Change ($)	Change (%)
Revenue, net	$ 16,477,984	$ 21,834,518	$ (5,356,534)	(24.5)%
Cost of goods sold	6,600,007	8,836,884	(2,236,877)	(25.3)%
Gross profit	$ 9,877,977	$ 12,997,634	$ (3,119,657)	(24.0)%

Revenue in the fiscal year 2022 decreased by $5.4 million, or 24.5%, from revenue in the fiscal year 2021. The decline in revenue was primarily attributable to a decline in subscription box sales driven by costumers' conversion challenges, as we experienced weaker-than-expected conversion of new customers mainly due to the ongoing effects of Apple's iOS privacy changes.

Gross margin for the fiscal year 2022, increased by 40 basis points compared with the fiscal year 2021. The increase was primarily attributable to an increase in sales price per item sold offset by an increase in inventory charges for transportation costs.

We expanded our assortment during the fiscal year 2022, to include sizes 12 months and 18 months apparel, expanded our subscription box offerings, with a 12-piece box option as well as introduced a limited offering of the husky/plus and slim sizes, and started selling our branded products on Walmart.com, during the fourth quarter of 2022.

In fiscal year 2021, 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.

Revenue

Our revenue for the year ended December 31, 2022, decreased by 24.5% to $16,477,984, compared to $21,834,518 for the year ended January 1, 2022, a decrease of $5,356,534 from the prior period. The revenue breakdown by sales channel for the fiscal year 2022 and 2021, is summarized in the table below:

	FYE 2022	FYE 2021	Change ($)	Change (%)
Revenue by channel				
Subscription boxes	$ 12,861,293	$ 18,427,057	$ (5,565,764)	(30.2)%
3rd party websites sales	2,170,858	2,622,884	(452,026)	(17.2)%
Online website sales	1,445,833	784,577	661,256	84.3%
Total revenue	$ 16,477,984	$ 21,834,518	$ (5,356,534)	(24.5)%

The revenue from subscription boxes for the years ended December 31, 2022 and January 1, 2022, was generated from active subscriptions recurring boxes and new subscriptions first box revenue, is summarized in the tables below:

	FYE 2022	FYE 2021	Change ($)	Change (%)
Subscription boxes revenue from				
Active subscriptions – recurring boxes	$ 11,007,517	$ 15,565,533	$ (4,558,016)	(29.3)%
New subscriptions - first box	1,853,776	2,861,524	(1,007,748)	(35.2)%
Total Subscription boxes revenue	$ 12,861,293	$ 18,427,057	$ (5,565,764)	(30.2)%

The decrease in revenue was primarily driven by a decrease in our subscription box sales, as a result of a lower number of new customers being acquired during fiscal year 2022 in comparison to fiscal year 2021, mainly due to the ongoing effects of Apple's iOS privacy changes.

The revenue breakdown by product line for the year ended December 31, 2022, compared to the year ended January 1, 2022, is summarized in the tables below:

	FYE 2022	FYE 2021	Change ($)	Change (%)
Revenue by product line				
Girls' apparel	$ 12,211,914	$ 16,663,366	$ (4,451,452)	(26.7)%
Boys' apparel	3,437,117	4,352,523	(915,406)	(21.0)%
Toddlers' apparel	828,953	818,629	10,324	1.3%
Total revenue	$ 16,477,984	$ 21,834,518	$ (5,356,534)	(24.5)%

The number of items shipped to our customers decreased by 32.4%, from approximately 2,157,000 for the fiscal year 2021, to approximately 1,457,000 for the fiscal year 2022, for the same reasons discussed above. The average shipment keep rate was relatively flat at 68.3% in the fiscal year 2022, compared to 69.0% in the fiscal year 2021.

During the fiscal year 2022, we experienced a decline in net revenue year-over-year. The decrease in revenue was primarily driven by a decrease in our subscription box sales, as a result of a lower number of new customers being acquired during fiscal year 2022 in comparison to fiscal year 2021, mainly due to the ongoing effects of Apple's iOS privacy changes. We also believe that revenue for 2022 was negatively affected by changing consumer spending habits impacted by worsening economic conditions, including increases in inflation and interest rates and declines in market activity.

Cost of Goods Sold

Cost of goods sold decreased by $2.2 million or 25.3% for the year ended December 31, 2022, compared to the year ended January 1, 2022, which was a direct result of a decrease in our subscription box sales, as a result of a lower number of new members being acquired during 2022, in comparison to 2021, for the same reasons discussed above.

Gross Profit and Gross Profit as a Percentage of Revenue

Our gross profit was $9.9 million for the year ended December 31, 2022, compared to gross profit of $13.0 million for the year ended January 1, 2022. The decrease in gross profit for the fiscal year 2022, compared to the fiscal year 2021, was primarily attributable to the decrease in our subscription box sales for the same reasons discussed above.

Our gross profit as a percentage of revenue was 59.9% for the year ended December 31, 2022, compared to 59.5% for the year ended January 1, 2022.

Operating Expenses

	FYE 2022	FYE 2021	Change ($)	Change (%)
Expenses				
Shipping and handling	$ 4,334,928	$ 6,087,283	$ (1,752,355)	(28.8)%
Payroll and, related costs and equity-based compensation	5,276,719	4,258,604	1,018,115	23.9%
General and administrative	8,061,825	8,288,117	(226,292)	(2.7)%
Depreciation and amortization	27,914	26,916	998	3.7%
Total expenses	$ 17,701,386	$ 18,660,920	$ (959,534)	(5.1)%

Our operating expenses include general and administrative expenses, salaries and benefits, shipping and handling, and depreciation and amortization, as shown in the tables above. Our operating expenses for the fiscal year 2022 decreased by $959,534 or 5.1% to $17,701,386, compared to $18,660,920 for the fiscal year 2021. This decrease was mainly a result of (i) a decrease in shipping and handling expenses of $1,752,355, which was due to lower subscription box sales, for the same reasons discussed above; our shipping and handling expenses were 26.3% of total revenue in the fiscal year 2022, compared to 27.9% of total revenue in fiscal year 2021, and (ii) a decrease of $226,292 or 2.7% in general and administrative expenses, mainly due to an decrease in third-party seller and credit card fees due to the decrease in sales, offset by an increase in insurance costs; within selling, general and administrative expenses, our marketing expense as a percentage of revenue increased by 4.2% of revenue for the 2022 fiscal year to 18.6% compared to 14.4% in the fiscal year 2021, as we experienced weaker-than-expected conversion of new costumers mainly due to the ongoing effects of Apple's iOS privacy changes; offset by (i) an increase in payroll and, related costs and equity-based compensation of $1,080,115, mainly due to non-cash, equity-based compensation of $1,651,048 recorded in the fiscal year 2022 compared to $328,515 in the fiscal year 2021, offset by a lower headcount and reduction in healthcare insurance cost during fiscal year 2022 compared to fiscal year 2021; our payroll and, related costs and equity-based compensation were 32.0% of total revenue in the fiscal year 2022, compared to 19.5% of total revenue in fiscal year 2021.

Loss from Operations

Loss from operations increased to $7,823,409 for the year ended December 31, 2022, compared to $5,663,286 for the year ended January 1, 2022. The increase in loss from operations was largely due to a decrease in revenues as discussed above.

Other (Income)/Expenses

	FYE 2022	FYE 2021	Change ($)	Change (%)
Other expenses				
Interest expense	$ 78,646	$ 711,974	$ (633,328)	(89.0)%
Other (income)/expense	(286,794)	(429,045)	142,251	(33.2)%
Total other (income)/expenses	$ (208,148)	$ 282,929	$ (483,077)	(173.6)%

Other (income)/expenses for the years ended December 31, 2022 and January 1, 2022 changed by $491,077 due to a reduction of interest expense by $633,328 and a decrease of other income by $150,251. The other income in fiscal year 2022 was mainly related to settlement of insurance claim related to business interruption of damaged inventory. The other income in fiscal year 2021 related to forgiveness of the paycheck protection loan. Interest expense as a percentage of revenue decreased by 2.8% from 3.3% of sales to 0.5% of revenue.

Provision for Income Taxes

	FYE 2022	FYE 2021	Change ($)	Change (%)
Loss before income taxes	$ (7,615,261)	$ (5,946,215)	$ 1,669,046	28.1%
Provision for income taxes	-	1,332	(1,332)	n/a
Net loss	$ (7,615,261)	$ (5,947,547)	$ 1,667,714	28.0%

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

Net Loss

We had a net loss of $7,615,261 for the year ended December 31, 2022, compared to a net loss of $5,947,547 for the year ended January 1, 2022, an increase of $1,667,714 or 28.0%. The increase in net loss was mainly due to decrease in revenues for fiscal year 2022 and an increase in non-cash equity-based compensation of $1,322,533; offset by a decrease in shipping and handling and interest expenses, each as discussed in greater detail above.

LIQUIDITY AND CAPITAL RESOURCES

	December 31, 2022	January 1, 2022	Change ($)	Change (%)
Cash and restricted cash	$ 605,213	$ 8,420,500	$ (7,815,287)	(92.8)%
Working capital	$ 8,273,601	$ 14,700,691	$ (6,427,090)	(43.7)%
Short-term debt, related party	$ 2,050,000	$ 2,200,000	$ (150,000)	(6.8)%

On December 31, 2022, we had $605,213 of cash and restricted cash on-hand compared to the $8,420,500 of cash and restricted cash on hand on January 1, 2022.

As of December 31, 2022, we had $14,610,724 in total current assets, $6,337,123 in total current liabilities, working capital of $8,273,601; and a total accumulated deficit of $41,534,445.

As of December 31, 2022, we had total current liabilities of $6,337,123, consisting mainly of accounts payable of $2,153,389, and related party payables of $1,107,665 (owed to Nina Footwear), accrued expenses of $587,112, current portion of operating lease liabilities of $438,957 and short-term debt from related party of $2,050,000 (discussed below).

From inception through November 10, 2021, we mainly relied on equity and loans from Ezra Dabah, our Chief Executive Officer and Chairman, and his family (which loans have all, other than $2,200,000, been converted into equity as of May 11, 2021), notes payable including from Nina Footwear Corp. which is 86.36% owned by Ezra Dabah and his family, including Moshe Dabah, for which entity Ezra Dabah serves as Chief Executive Officer and member of the Board of Directors of "Nina Footwear", a related party, and a 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 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 retain existing members.

We expect to continue to generate net losses for the foreseeable future as we make investments to grow our business. The Company's ability to continue its operations is dependent upon obtaining new financing for its ongoing operations and on the Company's plans to reduce the inventory level. To manage operating cash flows in the near term, the Company plans to significantly reduce purchases of new inventory and if available, may enter into cash advance or other financing arrangements. Future financing options available to the Company include equity financings, debt financings or other capital sources, including collaborations with other companies or other strategic transactions to fund existing operations and execute management's growth strategy. Equity financings may include sales of common stock. Such financing may not be available on terms favorable to the Company or at all and may cause significant dilution to existing stockholders. The terms of any financing may adversely affect the holdings or rights of the Company's stockholders. Although management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient funding on terms acceptable to the Company to fund continued operations, if at all, which would have a material adverse effect on its business, financial condition and results of operations, and it could ultimately be forced to discontinue its operations and liquidate. These matters, when considered in the aggregate, raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time, which is defined as within one year after the date that the financial statements are issued. The accompanying annual financial statements do not contain any adjustments to reflect the possible future effects on the classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

On March 22, 2023, we received written notice (the "Notification Letter") from the Listing Qualifications Department of The Nasdaq Stock Market LLC ("Nasdaq") notifying the Company that it is not in compliance with the minimum bid price requirements set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on The Nasdaq Capital Market. Nasdaq Listing Rule 5550(a)(2) requires listed securities to maintain a minimum bid price of $1.00 per share, and Listing Rule 5810(c)(3)(A) provides that a failure to meet the minimum bid price requirement exists if the deficiency continues for a period of thirty (30) consecutive business days. Based on the closing bid price of the Company's common stock for the thirty (30) consecutive business days from February 7, 2023 to March 21, 2023, the Company no longer meets the minimum bid price requirement.

The Notification Letter does not impact the Company's listing of its common stock on the Nasdaq Capital Market at this time. The Notification Letter states that the Company has 180 calendar days or until September 18, 2023, to regain compliance with Nasdaq Listing Rule 5550(a)(2). To regain compliance, the bid price of the Company's common stock must have a closing bid price of at least $1.00 per share for a minimum of 10 consecutive business days. If the Company does not regain compliance by September 18, 2023, an additional 180 days may be granted to regain compliance, so long as the Company meets The Nasdaq Capital Market initial listing criteria (except for the bid price requirement) and notifies Nasdaq in writing of its intention to cure the deficiency during the second compliance period by effecting a reverse stock split, if necessary. If the Company does not qualify for the second compliance period, fails to regain compliance during the second 180-day period, or if it appears to Nasdaq that the Company will not be able to cure the deficiency, the Company's common stock will be subject to delisting, at which point the Company would have an opportunity to appeal the delisting determination to a Hearings Panel.

We intends to monitor the closing bid price of its common stock and may, if appropriate, consider implementing available options to regain compliance with the minimum bid price requirement under the Nasdaq Listing Rules.

Cash Flows

	Year ended December 31, 2022	Year ended January 1, 2022
Cash provided by (used in):		
Operating activities	$ (6,650,537)	$ (11,015,868)
Investing activities	(48,903)	(45,394)
Financing activities	(1,115,847)	18,796,466
Net (decrease)/increase in cash	$ (7,815,287)	$ 7,735,204

Net cash used in operating activities decreased to $6,650,537 for the year ended December 31, 2022, compared to $11,015,868 for the year ended January 1, 2022. The decrease in our cash used in operating activities of approximately $4.4 million was primarily due to a decrease in operating assets and liabilities in the amount of approximately $4.5 million, offset by an increase in net loss in the amount of approximately $1.8 million adjusted for the non-cash items totaling $1.3 million and the forgiveness in loan payable of approximately $0.4 million, as discussed in greater detail above.

Net cash used in investing activities during the year ended December 31, 2022 was $48,903, which was related to purchases of equipment, compared to $45,394 during the year ended January 1, 2022, which was related to purchases of equipment.

Net cash used in financing activities was $1,115,847 for the year ended December 31, 2022, mainly related to repayment of advances payable of $0.9 million and repayment from loan payable related party of $0.2 million, compared to net cash provided by financing activities of $18,796,466 for the year ended January 1, 2022, 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”), which is described in greater detail under “Note 11: Line of Credit” to our financial statements included at the end of this Annual Report on Form 10-K. On November 15, 2021, we paid off the loan and security agreement in the amount of $3,200,000 and related outstanding interest and facility fee in the amount of $24,498, with funds raised through the IPO.

Interest expense on the line of credit amounted to zero and $395,080 for the fiscal years ended December 31, 2022 and January 1, 2022, respectively.

Deferred financing cost, net of accumulated amortization, totaled zero for the years ended December 31, 2022 and January 1, 2022. Amortization of these costs amounted to zero and $58,397 for the years ended December 31, 2022 and January 1, 2022, 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, which are described in greater detail under “Note 8: Advance Payable” to our financial statements included in this Annual Report on Form 10-K.

During the second quarter of 2022, the Company satisfied its obligations under the October 27, 2021 and November 2, 2021 cash advance agreements in full.

As of December 31, 2022 and January 1, 2022, the cash advance outstanding, including interest, amounted to zero and $932,155, respectively. For the fiscal years 2022 and 2021, interest expense related to the advances totaled zero and $81,193, respectively.

SBA Loan

As a response to the COVID-19 pandemic, Congress passed the Coronavirus Aid, Relief and Economic Security Act (“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 the fiscal year 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 10-month deferral on payments yielding 1% interest. The Company applied for forgiveness and on August 2, 2021, we received notification and confirmation that our loan, including related accrued interest, was forgiven in its entirety by the SBA. The forgiveness amount was recorded in other income.

Related Party Convertible Notes and Loans

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.

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 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 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. On March 31, 2022, and effective on January 15, 2022, the parties amended the notes to be payable on demand.

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 January 15, 2022, 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. On March 31, 2022, and effective on January 15, 2022, the parties amended the notes to be payable on demand. On June 2, 2022, Company paid $150,000 of the outstanding loan amounts.

As of December 31, 2022 and January 1, 2022, there was $1,107,665 and $913,708 due to related party (Nina Footwear), respectively.

Need for Future Funding

The Company's ability to continue its operations is dependent upon obtaining new financing for its ongoing operations and on the Company's plans to reduce the inventory level. To manage operating cash flows in the near term, the Company plans to significantly reduce purchases of new inventory and may enter into cash advance or other financing arrangements. Future financing options available to the Company include equity financings, debt financings or other capital sources, including collaborations with other companies or other strategic transactions to fund existing operations and execute management's growth strategy. 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 and may cause significant dilution to existing stockholders. Although management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient funding on terms acceptable to the Company to fund continued operations, if at all, which would have a material adverse effect on its business, financial condition and results of operations, and it could ultimately be forced to discontinue its operations and liquidate. These matters, when considered in the aggregate, raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time, which is defined as within one year after the date that the financial statements are issued. The accompanying financial statements do not contain any adjustments to reflect the possible future effects on the classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Off-Balance Sheet Arrangements

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

Critical Accounting 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 recoverability of long-lived assets and 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. A majority of the cash balances are with U.S. banks and are insured to the extent defined by the Federal Deposit Insurance Corporation ("FDIC").

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, 3rd party websites sales and kidpik's 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 pre-paid delivery bag. 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 3rd party's websites (including Amazon and Walmart), 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 is 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.

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 U.S. GAAP 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 December 31, 2022 and January 1, 2022. The Company's federal, state and local income tax returns prior to fiscal years 2018 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 $3,065,011 and $3,148,834 for the fiscal years ended 2022 and 2021, 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. See "Note 15, *Equity-based compensation"* to our audited financial statements included in this Annual Report on Form 10-K, 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.

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, after the signature pages hereof, which is incorporated by reference into this Item 8.

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 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

The management of the Company is responsible for the preparation of the financial statements and related financial information appearing in this Annual Report on Form 10-K. The financial statements and notes have been prepared in conformity with accounting principles generally accepted in the United States of America. The management of the Company is also responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. A company's internal control over financial reporting is defined as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

With the participation of the Chief Executive Officer (the principal executive officer) and the Company's Chief Financial Officer (the principal financial/accounting officer), our management evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2022, the end of the period covered by this Report, based upon the framework in Internal Control –Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013). Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2022.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this annual report. We are a "smaller reporting company" as defined in Item 10(f)(1) of Regulation S-K under the Securities Act. For as long as we continue to be a smaller reporting company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not smaller reporting companies. Additionally, this Report does not contain an attestation report of our independent registered public accounting firm regarding internal control over financial reporting since the Company, as an "emerging growth company," is not required to provide such report.

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

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the 13 weeks ended December 31, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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 2023 Annual Meeting of Stockholders (the "2023 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 December 31, 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 2023 Proxy Statement to be filed with the SEC within 120 days of our fiscal year ended December 31, 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 2023 Proxy Statement to be filed with the SEC within 120 days of our fiscal year ended December 31, 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 2023 Proxy Statement to be filed with the SEC within 120 days of our fiscal year ended December 31, 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 2023 Proxy Statement to be filed with the SEC within 120 days of our fiscal year ended December 31, 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.

		Incorporated by Reference				Filed/ Furnished
Exhibit Number	**Exhibit Description**	**Form**	**File No.**	**Date**	**Exhibit**	**Herewith**
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	10-K	001-41032	4/1/2022	4.1	
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	Revenue Share Agreement – Inventory dated July 9, 2021, by and between Kidpik Corp. and CFT Clear Finance Technology Corp.	S-1	333-260101	10/6/2021	10.43
10.13	Revenue Share Agreement – Inventory dated August 10, 2021, by and between Kidpik Corp. and CFT Clear Finance Technology Corp.	S-1	333-260101	10/6/2021	10.49
10.14	Revenue Share Agreement dated August 10, 2021, by and between Kidpik Corp. and CFT Clear Finance Technology Corp.	S-1	333-260101	10/6/2021	10.49
10.15	Revenue Share Agreement dated October 22, 2021, by and between Kidpik Corp. and CFT Clear Finance Technology Corp.	S-1/A	333-260101	10/29/2021	10.61
10.16	Revenue Share Agreement – Inventory dated October 27, 2021, by and between Kidpik Corp. and CFT Clear Finance Technology Corp.	S-1/A	333-260101	10/29/2021	10.62
10.17	$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)	S-1	333-260101	10/6/2021	10.44
10.18	$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)	S-1	333-260101	10/6/2021	10.51
10.19	First Amendment to Convertible Promissory Notes, dated August 25, 2021, by and between Kidpik Corp. and each of the note holders party thereto	S-1	333-260101	10/6/2021	10.53
10.20	$100,000 Promissory Note effective September 18, 2021, by and between Kidpik Corp. and Sofia Dabah	S-1	333-260101	10/6/2021	10.56
10.21	$500,000 Promissory Note effective September 23, 2021, by and between Kidpik Corp. and Ezra Dabah	S-1	333-260101	10/6/2021	10.57
10.22	$500,000 Promissory Note effective October 8, 2021, by and between Kidpik Corp. and Ezra Dabah	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
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

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	
10.30	First Amendment to Promissory Note, dated March 31, 2021, by and between Kidpik Corp. and Ezra Dabah	10-K	001-41032	4/1/2022	10.30	
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)	10-K	001-41032	4/1/2022	10.31	
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)	10-K	001-41032	4/1/2022	10.32	
14.1	Code of Business Conduct and Ethics	S-1	333-260101	10/6/2021	14.1	
23.1*	Consent of CohnReznick LLP				X	
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.

Date: March 31, 2023

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.

NAME	POSITION	DATE
/s/ Ezra Dabah Ezra Dabah	President, Chief Executive Officer and Chairman (Principal Executive Officer)	March 31, 2023
/s/ Adir Katzav Adir Katzav	Executive Vice President, Chief Financial Officer, and Treasurer (Principal Financial and Accounting Officer)	March 31, 2023
/s/ David Oddi David Oddi	Director	March 31, 2023
/s/ Bart Sichel Bart Sichel	Director	March 31, 2023
/s/ Jill Kronenberg Jill Kronenberg	Director	March 31, 2023

INDEX TO FINANCIAL STATEMENTS

Audited Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Kidpik Corp.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Kidpik Corp. (the “Company”) as of December 31, 2022 and January 1, 2022, and the related statements of operations, changes in stockholders’ equity (deficit) 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 December 31, 2022 and January 1, 2022 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.

The Company’s Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has incurred recurring losses from operations since inception which raises substantial doubt about the Company’s ability to continue as a going concern. Management’s evaluation of the events and conditions and management’s plans regarding these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 from 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
March 31, 2023

Kidpik Corp.
Balance Sheets
December 31, 2022 and January 1, 2022

	2022	2021
Assets		
Current assets		
Cash	$ 600,595	$ 8,415,797
Restricted cash	4,618	4,703
Accounts receivable	336,468	342,274
Inventory	12,625,948	11,618,597
Prepaid expenses and other current assets	1,043,095	1,726,516
Total current assets	14,610,724	22,107,887
Leasehold improvements and equipment, net	67,957	46,968
Operating lease right-of-use assets	1,469,665	-
Total assets	$ 16,148,346	$ 22,154,855
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 2,153,389	$ 2,560,361
Accounts payable, related party	1,107,665	913,708
Accrued expenses and other current liabilities	587,112	800,972
Advance payable	-	932,155
Operating lease liabilities	438,957	-
Short-term debt, related party	2,050,000	2,200,000
Total current liabilities	6,337,123	7,407,196
Operating lease liabilities, net of current portion	1,061,469	-
Total liabilities	7,398,592	7,407,196
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 December 31, 2022 and January 1, 2022, respectively	-	-
Common stock, par value $0.001, 75,000,000 shares authorized, of which 7,688,194 and 7,617,834 shares are issued and outstanding as of December 31, 2022 and January 1, 2022, respectively	7,688	7,618
Additional paid-in capital	50,276,511	48,659,225
Accumulated deficit	(41,534,445)	(33,919,184)
Total stockholders' equity	8,749,754	14,747,659
Total liabilities and stockholders' equity	$ 16,148,346	$ 22,154,855

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

Kidpik Corp.
Statements of Operations
Years Ended December 31, 2022 and January 1, 2022

	2022	2021
Revenues, net	$ 16,477,984	$ 21,834,518
Cost of goods sold	6,600,007	8,836,884
Gross profit	9,877,977	12,997,634
Operating expenses		
Shipping and handling	4,334,928	6,087,283
Payroll, related costs and non-cash stock-based compensation	5,276,719	4,258,604
General and administrative	8,061,825	8,288,119
Depreciation and amortization	27,914	26,914
Total operating expenses	17,701,386	18,660,920
Operating loss	(7,823,409)	(5,663,286)
Other (income)/expenses		
Interest expense	78,646	711,974
Other income	(286,794)	(429,045)
Total other (income)/expenses	(208,148)	282,929
Loss before provision for income taxes	(7,615,261)	(5,946,215)
Provision for income taxes	-	1,332
Net loss	$ (7,615,261)	$ (5,947,547)
Net loss per share attributable to common stockholders:		
Basic	$ (0.99)	$ (1.05)
Diluted	(0.99)	(1.05)
Weighted average common shares outstanding:		
Basic	7,662,486	5,648,344
Diluted	7,662,486	5,648,344

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

Kidpik Corp.
Statements of Changes in Stockholders' Equity
Years Ended December 31, 2022 and January 1, 2022

	Common Stock		Preferred Stock		Additional paid-in	Accumulated stockholders'	
	Shares	Amount	Shares	Amount	capital	deficit	Total
Balance, January 2, 2021	5,075,444	$ 5,075	-	$ -	$29,749,397	$ (27,971,637)	$ 1,782,835
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	7,617,834	7,618	-	-	48,659,225	(33,919,184)	14,747,659
Issuance of common stock	70,360	70	-	-	(70)	-	-
Equity-based compensation	-	-	-	-	1,651,048	-	1,651,048
Cash used to settle net share equity awards	-	-	-	-	(33,692)	-	(33,692)
Net loss	-	-	-	-	-	(7,615,261)	(7,615,261)
Balance, December 31, 2022	7,688,194	$ 7,688	-	$ -	$50,276,511	$ (41,534,445)	$ 8,749,754

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

Kidpik Corp.
Statements of Cash Flows
Years Ended December 31, 2022 and January 1, 2022

		2022		2021
Cash flows from operating activities				
Net loss	$	(7,615,261)	$	(5,947,547)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		27,914		26,914
Amortization of debt issuance costs		-		58,397
Forgiveness of loan payable		-		(442,352)
Equity-based compensation		1,651,048		328,515
Bad debt expense		742,037		783,979
Changes in operating assets and liabilities:				
Accounts receivable		(736,231)		(805,807)
Inventory		(1,007,351)		(4,138,525)
Prepaid expenses and other current assets		683,421		(903,937)
Operating lease right-of-use assets and liabilities		30,761		-
Accounts payable		(406,972)		(601,264)
Accounts payable, related parties		193,957		313,897
Accrued expenses and other current liabilities		(213,860)		311,862
Net cash flows used in operating activities		(6,650,537)		(11,015,868)
Cash flows from investing activities				
Purchases of leasehold improvements and equipment		(48,903)		(45,394)
Net cash used in investing activities		(48,903)		(45,394)
Cash flows from financing activities				
Proceeds from issuance of long-term debt from related party		-		2,000,000
Net repayment to line of credit		-		(2,090,515)
Net proceeds (repayments) from loan related party		(150,000)		2,200,000
Net proceeds (repayments) from advance payable		(932,155)		103,125
Cash used to settle net share equity awards		(33,692)		-
Receipts of initial public offering, net of offering costs		-		16,083,856
Proceeds from issuance of common stock		-		500,000
Net cash (used in) provided by financing activities		(1,115,847)		18,796,466
Net (decrease) increase in cash and restricted cash		(7,815,287)		7,735,204
Cash and restricted cash, beginning of year		8,420,500		685,296
Cash and restricted cash, end of year	$	605,213	$	8,420,500
Supplemental disclosure of cash flow data:				
Interest paid	$	38,607	$	573,618
Taxes paid	$	-	$	1,332
Supplemental disclosure of noncash investing and financing activities:				
Record right-of use asset and operating lease liabilities	$	1,857,925	$	-
Conversion of shareholder debt	$	-	$	2,000,000

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

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, its retail website, www.kidpik.com and 3rd party websites. The Company commenced operations in March 2016 and its executive office is located in New York.

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 December 31, 2022 and January 1, 2022 were 52 week years, respectively. These years are referred to herein as "2022" and "FYE 2022" and "2021" and "2021 FYE", 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 recoverability of long-lived assets and inventory obsolescence. 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 February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, this standard requires 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. Refer to Note 6, "*Leases*" for information regarding our adoption of this guidance effective January 2, 2022 and a discussion of the impact to information presented herein, as well as additional required disclosures under the new guidance.

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. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations and related disclosures.

Accounting standards issued but not yet adopted: 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. A majority of the cash balances are with U.S. banks and are insured to the extent defined by the Federal Deposit Insurance Corporation ("FDIC").

Net loss per common share: The Company complies with the accounting and disclosure requirements of FASB ASC 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. 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, 3rd party website sales and kidpik's 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 pre-paid delivery bag. 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 3rd party websites (currently Amazon and Walmart), 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 is 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 statements 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 statements of operations.

Restricted cash: Restricted cash balance consists of cash advances 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.

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 are 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 December 31, 2022 and January 1, 2022. The Company's federal, state and local income tax returns prior to fiscal years 2018 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 sheets.

Advertising costs: Direct advertising and promotion costs are expensed as incurred. Advertising and promotion expenses totaled $3,065,011 and $3,148,834 for the fiscal years ended 2022 and 2021, 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. 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, negative operating cash flows and an accumulated deficit of $41,534,445 as of December 31, 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.

The Company's ability to continue its operations is dependent upon obtaining new financing for its ongoing operations and on the Company's plans to reduce the inventory level. To manage operating cash flows in the near term, the Company plans to significantly reduce purchases of new inventory and if available, may enter into cash advance or other financing arrangement. Future financing options available to the Company include equity financings, debt financings or other capital sources, including collaborations with other companies or other strategic transactions to fund existing operations and execute management's growth strategy. 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 and may cause significant dilution to existing stockholders. Although management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient funding on terms acceptable to the Company to fund continued operations, if at all, which would have a material adverse effect on its business, financial condition and results of operations, and it could ultimately be forced to discontinue its operations and liquidate. These matters, when considered in the aggregate, raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time, which is defined as within one year after the date that the annual financial statements are issued. The accompanying financial statements do not contain any adjustments to reflect the possible future effects on the classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

On March 22, 2023, the Company received written notice (the "Notification Letter") from the Listing Qualifications Department of The Nasdaq Stock Market LLC ("Nasdaq") notifying the Company that it is not in compliance with the minimum bid price requirements set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on The Nasdaq Capital Market. Nasdaq Listing Rule 5550(a)(2) requires listed securities to maintain a minimum bid price of $1.00 per share, and Listing Rule 5810(c)(3)(A) provides that a failure to meet the minimum bid price requirement exists if the deficiency continues for a period of thirty (30) consecutive business days. Based on the closing bid price of the Company's common stock for the thirty (30) consecutive business days from February 7, 2023 to March 21, 2023, the Company no longer meets the minimum bid price requirement.

The Notification Letter does not impact the Company's listing of its common stock on the Nasdaq Capital Market at this time. The Notification Letter states that the Company has 180 calendar days or until September 18, 2023, to regain compliance with Nasdaq Listing Rule 5550(a)(2). To regain compliance, the bid price of the Company's common stock must have a closing bid price of at least $1.00 per share for a minimum of 10 consecutive business days. If the Company does not regain compliance by September 18, 2023, an additional 180 days may be granted to regain compliance, so long as the Company meets The Nasdaq Capital Market initial listing criteria (except for the bid price requirement) and notifies Nasdaq in writing of its intention to cure the deficiency during the second compliance period by effecting a reverse stock split, if necessary. If the Company does not qualify for the second compliance period, fails to regain compliance during the second 180-day period, or if it appears to Nasdaq that the Company will not be able to cure the deficiency, the Company's common stock will be subject to delisting, at which point the Company would have an opportunity to appeal the delisting determination to a Hearings Panel.

The Company intends to monitor the closing bid price of its common stock and may, if appropriate, consider implementing available options to regain compliance with the minimum bid price requirement under the Nasdaq Listing Rules.

NOTE 4: INVENTORY

Inventory consists of the following:

	2022	2021
Finished goods	$ 12,625,948	$ 10,596,968
Goods in transit	-	1,021,629
Total	$ 12,625,948	$ 11,618,597

NOTE 5: LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Leasehold improvements and equipment consist of the following:

	2022	2021
Computer equipment	$ 117,841	$ 90,205
Furniture and fixtures	174,504	184,207
Leasehold improvements	65,523	59,523
Machinery and equipment	42,369	17,399
Total cost	400,237	351,334
Accumulated depreciation	(332,280)	(304,366)
Leasehold improvements and equipment, net	$ 67,957	$ 46,968

Depreciation expense amounted to $27,914 and $26,300 for the fiscal years ended 2022 and 2021, respectively.

NOTE 6: LEASES

The Company adopted the ASC 842 guidance on January 2, 2022, using the modified retrospective transition effective date method. As part of that adoption, the Company has elected the package of three practical expedients, which includes the following: an entity may elect not to reassess whether expired or existing contracts contain a lease under the revised definition of a lease; an entity may elect not to reassess the lease classification for expired or existing leases; and an entity may elect not to reassess whether previously capitalized initial direct costs would qualify for capitalization. The Company has elected not to utilize the hindsight expedient in determining the lease term, and to not record leases with an initial term of 12 months or less on our balance sheet. Additionally, the Company has elected to account for lease components and non-lease components as a single lease component for all asset classes. Lease expense is recognized over the expected term on a straight-line basis. The adoption did not have a material impact on the Company's annual statements of operations or cash flows.

The Company entered into a sub-lease agreement for warehouse space from a related party on April 1, 2021. The Company pays 33.3% of the related party's fixed monthly rent. The lease expires on September 30, 2023. The minimum lease payments amount to $249,237 for the year ended December 31, 2022, and $191,106 for the year ending December 30, 2023.

On June 27, 2022, the Company together with a related party, entered into a new agreement to extend the lease agreement with a third party for the office space. The Company will pay 50% of the total monthly rent, including contingent rental expenses. The lease is set to expire on April 30, 2027, with an average monthly rent of $29,259.

The discount rate used in the calculation of the lease liability ranged from 6% to 7%, which is based on our estimate of the rate of interest that we could have to pay to borrow on a collateralized basis over a similar term and amount equal to the lease payments in a similar economic environment as the lease does not provide an implicit rate.

The amortization expense associated with the operating lease right-of-use of assets for the year ended December 31, 2022, amounted to $388,260.

The table below includes the balances of operating lease right-of-use assets and operating lease liabilities as of December 31, 2022:

December 31, 2022		
Assets		
Operating lease right-of-use assets, net	$	1,469,665
Liabilities		
Operating lease liabilities – current	$	438,957
Operating lease liabilities – non-current		1,061,469
Total Lease Liabilities	$	1,500,426

The maturities of our operating lease liabilities as of December 31, 2022, are as follows:

Maturity of Operating Lease Liabilities		
2023	$	527,706
2024		346,698
2025		357,099
2026		367,812
2027		123,806
Total lease payments		1,723,121
Less: imputed interest		(222,695)
Present value of lease liabilities	$	1,500,426

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 $10,484 and $47,403 for the years ended December 31, 2022 and January 1, 2022, respectively.

In addition, a related party performs certain management services for the Company pursuant to a management services agreement. For these services, the Company pays a monthly management fee equal to 0.75% of the Company's net sales collections. Management fees amounted to $110,836 and $150,697 for the fiscal years 2022 and 2021, respectively, and are included in general and administrative expenses.

In addition, the Company is using a related party to run its Amazon Marketplace site. The consulting fees for this service amounted to $115,231 and $146,001 for the year ended December 31, 2022 and January 1, 2022, respectively. The consulting fees are included in general and administrative expenses in the annual statements of operations.

The Company entered into a new revocable monthly sub-lease agreement for office space from a related party on January 1, 2021. The Company will pay 50% of the related party's fixed monthly rent, including contingent rental expenses. For 2021, related party office rent amounted to $330,000 and is included in general and administrative expenses. On June 27, 2022, the parties signed a new lease agreement with a third party, see Note 6.

The Company entered into a new sub-lease agreement for warehouse space from a related party on April 1, 2021. The Company pays 33.3% of the related party's fixed monthly rent. The lease expires on September 30, 2023. The minimum lease payments amount to $191,106 for the year ending December 30, 2023.

As of December 31, 2022 and January 1, 2022, there was $1,107,665 and $913,708 due to related parties, respectively.

See Note 10 for a description of 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 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 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 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 entered into a 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 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 entered into a 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 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 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 12.5% per annum thereafter until the advance is fully repaid.

On August 10, 2021, the Company also entered into a 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 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 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 12.5% per annum thereafter until the advance is fully repaid. On May 11, 2022, the Company satisfied its obligations under the October 27, 2021 cash advance agreement in full.

On November 2, 2021, the Company entered into a 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. On April 29, 2022, the Company satisfied its obligations under the November 2, 2021 cash advance agreement in full.

As of December 31, 2022 and January 1, 2022, the cash advance outstanding, including interest, amounted to zero and $932,155, respectively. For 2022 and 2021, interest expense related to the advances totaled zero and $81,193, 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 our loan including related accrued interest had been forgiven in its entirety by the SBA. The forgiveness amount was recorded in other income in the statements 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 were 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 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 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. On March 31, 2022, and effective on January 15, 2022, the parties amended the notes to be payable on demand.

In September, October and November 2021, the Company borrowed $2,500,000 from a stockholder. The notes are unsecured, noninterest-bearing and the principal was due on January 15, 2022, or was due 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. On March 31, 2022, and effective on January 15, 2022, the parties amended the notes to be payable on demand. On July 2, 2022, the Company paid $150,000 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 allowed the Company to request advances from the lender up to $3,200,000, in minimum installments of $10,000. The advances were 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 accrued interest at a rate of 1.42% per month and matured on November 20, 2021. The loan and security agreement was personally guaranteed by two stockholders of the Company. The Loan Agreement included an early termination fee equal to 3% of the maximum amount available ($3.2 million), provided that such fee was to be waived if the Company sold equity in order to repay amounts owed under the Loan Agreement. The Loan Agreement included customary covenants and also included that an event of default occurs 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 became the direct or indirect owner of over 45% of the voting stock or if certain employees ceased 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 the amount of $24,498, with funds raised through the Company's November 2021 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.

As of December 31, 2022 and January 1, 2022, there was no outstanding advance amounts related to the line of credit. Interest expense amounted to zero and $395,080 for the fiscal years 2022 and 2021, respectively.

As of December 31, 2022 and January 1, 2022, deferred financing cost, net of accumulated amortization, totaled zero for both periods. Amortization of these costs amounted to zero and $58,397 for the years ended December 31, 2022 and January 1, 2022, respectively.

NOTE 12: LONG-TERM DEBT

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 December 31, 2022 and January 1, 2022. 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 December 31, 2022 does not include 286,000 stock options and 176,000 restricted stock units as their effect was anti-dilutive.

	2022	2021
Net loss	$ (7,615,261)	$ (5,947,547)
Weighted Average Shares – Basic	7,662,486	5,648,344
Dilutive effect of stock options and restricted stock units	-	-
Weighted Average Shares – Diluted	7,662,486	5,648,344
Basic net loss per share	(0.99)	(1.05)
Diluted net loss per share	(0.99)	(1.05)

NOTE 14: STOCKHOLDERS' EQUITY

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 vested 1/3 on May 15, 2022 (six months from the closing of the Company's IPO); and continue to vest (to the extent not forfeited) (i) 1/3 on May 15, 2023 (18 months from the closing of the IPO); and (ii) 1/3 on May 15, 2024 (30 months from the closing date of the IPO). The options each have a term of five years. On May 15, 2022, 88,000 restricted stock units were vested of which 70,360 common stocks were issued and 17,640 were forfeited and cancelled to settle tax liability on the vested shares.

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 restricted stock unit ("RSU") 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
Unvested options as of January 2, 2021	-	$ -
Granted	480,000	8.50
Vested	-	-
Forfeited/Repurchased	-	-
Unvested options as of January 1, 2022	480,000	$ 8.50
Granted	-	-
Vested	(149,000)	8.50
Forfeited/Repurchased	(45,000)	-
Unvested options as of December 31, 2022	286,000	$ 8.50

As of December 31, 2022, there was $1.6 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 1.4 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 years ended December 31, 2022 and January 1, 2022, was $1,651,048 and $328,515, respectively. The non-cash compensation expense is 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 December 31, 2022, two vendors accounted for approximately 48% of inventory purchases. As of December 31, 2022, there was no outstanding amount due to these vendors. 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.

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 debt on a monthly basis for accounts that are deemed uncollectible.

NOTE 17: INCOME TAXES

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

	2022	2021
Current		
Federal	$ -	$ -
State	-	1,332
Total current	-	1,332
Deferred benefit		
Federal	1,678,546	1,532,719
State	570,172	130,211
Total deferred	2,248,718	1,662,930
Change in valuation allowance	(2,248,718)	(1,662,930)
Provision for income taxes	$ -	$ 1,332

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 December 31, 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:

	2022	2021
Federal statutory rate	21.00%	21.00%
State statutory rate	6.99%	6.95%
Total statutory tax rate	27.99%	27.95%
Valuation allowance	(27.99)%	(27.95)%
Effective tax rate	0%	0%

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

	2022	2021
Deferred tax assets		
NOL carryforwards	$ 9,052,182	$ 7,285,330
Inventory valuation	84,174	84,046
Charity carryforwards	131,117	111,630
Equity-based compensation	552,642	90,392
Total deferred tax assets	9,820,115	7,571,398
Valuation allowance	(9,820,115)	(7,571,398)
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 $32.3 million and $26.1 million for the years ended December 31, 2022 and January 1, 2022, 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:

	2022	2021
Subscription boxes	$ 12,861,293	$ 18,427,057
Online website sales	1,445,833	784,577
3rd party websites	2,170,858	2,622,884
Total	$ 16,477,984	$ 21,834,518

NOTE 19: RECONCILIATION OF CASH AND RESTRICTED CASH

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

	2022	2021
Cash	$ 600,595	$ 8,415,797
Restricted cash	4,618	4,703
Total	$ 605,213	$ 8,420,500