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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 1, 2023

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)

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

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**

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares of registrant's common stock outstanding as of May 14, 2023: 7,688,194.

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Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q (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 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.

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 discussed in Part II, Item 1A, "Risk Factors" of this Quarterly Report on Form 10-Q and Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the Securities and Exchange Commission on March 31, 2023 (the "2022 Annual Report"). Investors should also refer to the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q, including our financial statements and related notes, and our other filings made from time to time with the Securities and Exchange Commission. 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 future loan covenants;
- 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;
- The fact that 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".

Additional Information

Unless the context otherwise requires, all references in this Quarterly Report on Form 10-Q to "we," "us," "our," "our company," and "Kidpik" refer to Kidpik Corp. The Kidpik design logo, "kidpik," and our other registered or common law trademarks, service marks, or trade names appearing in this Quarterly Report on Form 10-Q are the property of Kidpik Corp. Other trade names, trademarks, and service marks used in this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q.

Part I – FINANCIAL INFORMATION

Item 1. Financial Statements

Kidpik Corp.
Condensed Interim Balance Sheets

	April 1, 2023 (Unaudited)	December 31, 2022 (Audited)
Assets		
Current assets		
Cash	$ 264,669	$ 600,595
Restricted cash	4,618	4,618
Accounts receivable	192,718	336,468
Inventory	11,110,934	12,625,948
Prepaid expenses and other current assets	905,574	1,043,095
Total current assets	12,478,513	14,610,724
Leasehold improvements and equipment, net	132,506	67,957
Operating lease right-of-use assets	1,335,385	1,469,665
Total assets	$ 13,946,404	$ 16,148,346
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 1,716,630	$ 2,153,389
Accounts payable, related party	1,338,047	1,107,665
Accrued expenses and other current liabilities	395,646	587,112
Operating lease liabilities, current	384,681	438,957
Short-term debt, related party	2,050,000	2,050,000
Total current liabilities	5,885,004	6,337,123
Operating lease liabilities, net of current portion	994,682	1,061,469
Total liabilities	6,879,686	7,398,592
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 April 1, 2023 and December 31, 2022, respectively	-	-
Common stock, par value $0.001, 75,000,000 shares authorized, of which 7,688,194 shares are issued and outstanding as of April 1, 2023 and December 31, 2022, respectively	7,688	7,688
Additional paid-in capital	50,543,987	50,276,511
Accumulated deficit	(43,484,957)	(41,534,445)
Total stockholders' equity	7,066,718	8,749,754
Total liabilities and stockholders' equity	$ 13,946,404	$ 16,148,346

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

Kidpik Corp.
Condensed Interim Statements of Operations
(Unaudited)

	13 Weeks Ended	
	April 1, 2023	**April 2, 2022**
Revenue, net	$ 4,029,478	$ 4,325,997
Cost of goods sold	1,619,226	1,733,914
Gross profit	2,410,252	2,592,083
Operating expenses		
Shipping and handling	1,189,222	1,132,084
Payroll, related costs and equity-based compensation	1,111,101	1,599,236
General and administrative	2,024,562	1,930,893
Depreciation and amortization	10,689	5,665
Total operating expenses	4,335,574	4,667,878
Operating loss	(1,925,322)	(2,075,795)
Other expenses (income)		
Interest expense	25,190	21,674
Other income	-	(286,794)
Total other expenses (income)	25,190	(265,120)
Net loss	$ (1,950,512)	$ (1,810,675)
Net loss per share attributable to common stockholders:		
Basic	$ (0.25)	$ (0.24)
Diluted	$ (0.25)	$ (0.24)
Weighted average common shares outstanding		
Basic	7,688,194	7,617,834
Diluted	7,688,194	7,617,834

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

Kidpik Corp.
Condensed Interim Statements of Changes in Stockholders' Equity
13 Weeks Ended April 1, 2023 and April 2, 2022
(Unaudited)

	Common Stock		Preferred Stock		Additional paid-in	Accumulated	
	Shares	Amount	Shares	Amount	capital	deficit	Total
Balance, January 1, 2022	7,617,834	$ 7,618	-	$ -	$48,659,225	$ (33,919,184)	$14,747,659
Equity-based compensation	-	-	-	-	617,164	-	617,164
Net loss	-	-	-	-	-	(1,810,675)	(1,810,675)
Balance, April 2, 2022	7,617,834	$ 7,618	-	$ -	$49,276,389	$ (35,729,859)	$13,554,148
Balance, December 31, 2022	7,688,194	$ 7,688	-	$ -	$50,276,511	$ (41,534,445)	$ 8,749,754
Equity-based compensation	-	-	-	-	267,476	-	267,476
Net loss	-	-	-	-	-	(1,950,512)	(1,950,512)
Balance, April 1, 2023	7,688,194	$ 7,688	-	$ -	$50,543,987	$ (43,484,957)	$ 7,066,718

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

Kidpik Corp.
Condensed Interim Statements of Cash Flows
(Unaudited)

	13 Weeks Ended	
	April 1, 2023	**April 2, 2022**
Cash flows from operating activities		
Net loss	$ (1,950,512)	$ (1,810,675)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	10,689	5,665
Equity-based compensation	267,476	617,164
Bad debt expense	80,153	93,142
Changes in operating assets and liabilities:		
Accounts receivable	63,597	66,171
Inventory	1,515,014	(650,649)
Prepaid expenses and other current assets	137,521	81,608
Operating lease right-of-use assets and liabilities	13,217	1,896
Accounts payable	(436,759)	28,282
Accounts payable, related parties	230,382	(194,142)
Accrued expenses and other current liabilities	(191,466)	(472,125)
Net cash flows used in operating activities	(260,688)	(2,233,663)
Cash flows from investing activities		
Purchases of leasehold improvements and equipment	(75,238)	(17,018)
Net cash used in investing activities	(75,238)	(17,018)
Cash flows from financing activities		
Net repayments from advance payable	-	(735,126)
Net cash used in financing activities	-	(735,126)
Net decrease in cash and restricted cash	(335,926)	(2,985,807)
Cash and restricted cash, beginning of period	605,213	8,420,500
Cash and restricted cash, end of period	$ 269,287	$ 5,434,693
Reconciliation of cash and restricted cash:		
Cash	$ 264,669	$ 5,430,075
Restricted cash	4,618	4,618
	$ 269,287	$ 5,434,693
Supplemental disclosure of cash flow data:		
Interest paid	$ -	$ 3,890
Supplemental disclosure of noncash investing and financing activities:		
Record right-of-use asset and operating lease liabilities	$ -	$ 418,951

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

Kidpik Corp.
Notes to the Condensed Interim Financial Statements
(Unaudited)

NOTE 1: NATURE OF BUSINESS

Kidpik Corp. (the "Company", "kidpik", "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 condensed interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), and the requirements of the U.S. Securities and Exchange Commission (the "SEC") for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. Accordingly, they do not include all of the information and footnotes normally included in financial statements prepared in conformity with U.S. GAAP. They should be read in conjunction with the financial statements and notes thereto included in the Company's 2022 Annual Report on Form 10-K, filed with the SEC on March 31, 2023 (the "Form 10-K").

The accompanying condensed interim financial statements are unaudited and include all adjustments (consisting of normal recurring adjustments) that management considers necessary for a fair presentation of its condensed interim financial position and results of operations for the interim periods presented.

The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the entire year.

Fiscal year: The Company uses a 52-53-week fiscal year ending on the Saturday nearest to December 31 each year. The quarters ended April 1, 2023 and April 2, 2022 consist of 13 weeks. These quarters are referred to herein as the first quarter of "2023" and "2022", respectively.

Use of estimates: The preparation of financial statements in conformity with U.S. 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 condensed interim 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 June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 adoption of this guidance did not have a material impact on the Company's financial position, results of operations and related disclosures.

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 Accounting Standards Codification ("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. Between August 24, 2021 and January 6, 2022, we charged new subscribers an upfront styling fee before the box was shipped that was credited toward items purchased. The styling fees were 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 condensed interim 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 condensed interim statements of operations.

Restricted cash: Restricted cash balance consists of cash advances received by the Company from the cash advance agreement. 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 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 April 1, 2023 and December 31, 2022. The Company's federal, state and local income tax returns prior to fiscal year 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 condensed interim balance sheets.

Advertising costs: Direct advertising and promotion costs are expensed as incurred. Advertising and promotion expenses totaled $902,103 and $718,381 for the 13 weeks ended April 1, 2023 and April 2, 2022, respectively, and are included in general and administrative expenses in the condensed interim statements of operations.

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

Equity-based compensation: The Company measures 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 11, *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 has an accumulated deficit of $43,484,957 as of April 1, 2023. 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. Subject to availability of sufficient capital, management has 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 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 its 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 may 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 condensed interim financial statements are issued. The accompanying condensed interim 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. The Company is also seeking stockholder approval of an amendment to the Company's Second Amended and Restated Certificate of Incorporation, to effect a reverse stock split of the Company's issued and outstanding shares of our common stock, par value $0.001 per share, by a ratio of between one-for-five to one-for-twenty, inclusive, with the exact ratio to be set at a whole number to be determined by the Company's Board of Directors or a duly authorized committee thereof in its discretion, at any time after approval of the amendment and prior to April 24, 2024.

NOTE 4: INVENTORY

Inventory consists of the following:

	April 1, 2023 (unaudited)	December 31, 2022
Finished goods	$ 11,110,934	$ 12,625,948
Total	$ 11,110,934	$ 12,625,948

NOTE 5: LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Leasehold improvements and equipment consist of the following:

	April 1, 2023 (unaudited)	December 31, 2022
Computer equipment	$ 120,459	$ 117,841
Furniture and fixtures	185,290	174,504
Leasehold improvements	137,060	65,523
Machinery and equipment	32,666	42,369
Total cost	475,475	400,237
Accumulated depreciation	(342,969)	(332,280)
Leasehold improvements and equipment, net	$ 132,506	$ 67,957

Depreciation expense amounted to $10,689 and $5,665 for the 13 weeks ended April 1, 2023 and April 2, 2022, 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 condensed interim balance sheets. 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 condensed interim 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. As of April 1, 2023, the minimum lease payments amount to $127,404 for the year ending December 30, 2023.

The table below includes the balances of operating lease right-of-use assets and operating lease liabilities as of April 1, 2023:

		April 1, 2023
Assets		
Operating lease right-of-use assets, net	$	1,335,385
Liabilities		
Operating lease liabilities – current	$	384,681
Operating lease liabilities – non-current		994,682
Total Lease Liabilities	$	1,379,363

The maturities of our operating lease liabilities as of April 1, 2023, are as follows:

Maturity of Operating Lease Liabilities		
2023	$	381,504
2024		346,698
2025		357,099
2026		367,812
2027		123,806
Total lease payments		1,576,919
Less: imputed interest		(197,556)
Present value of lease liabilities	$	1,379,363

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 $12,591 and $73,075 for the 13 weeks ended April 1, 2023 and April 2, 2022, respectively.

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 $28,990 and $30,926 for the 13 weeks ended April 1, 2023 and April 2, 2022, respectively, and are included in general and administrative expenses in the condensed interim statements of operations.

In addition, the Company is using a related party to run its Amazon Marketplace site. The consulting fees for this service amounted to $19,323 and $30,545 for the 13 weeks ended April 1, 2023 and April 2, 2022, respectively, and are included in general and administrative expenses in the condensed interim 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. On June 27, 2022, the parties signed a new lease agreement with a third party, see Note 6. For the 13 weeks ended April 1, 2023 and April 2, 2022, related party office rent amounted to zero and $82,500, respectively, and is included in general and administrative expenses in the condensed interim statements of operations.

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

As of April 1, 2023 and December 31, 2022, there was $1,338,047 and $1,107,665 due to related party, respectively.

See Note 8 for a description of short-term debt from affiliated entities under common control and from stockholders.

NOTE 8: SHORT-TERM DEBT

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. The total outstanding amount to a stockholder as of April 1, 2023 and December 31, 2022, was $1,850,000.

NOTE 9: 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 13 weeks ended April 1, 2023 and April 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 13 weeks ended April 1, 2023 does not include 250,000 stock options and 176,000 restricted stock units as their effect was anti-dilutive.

	April 1, 2023	April 2, 2022
Net loss	$ (1,950,512)	$ (1,810,675)
Weighted Average Shares – Basic	7,688,194	7,617,834
Dilutive effect of stock options and restricted stock units	-	-
Weighted Average Shares – Diluted	7,688,194	7,617,834
Basic net loss per share	(0.25)	(0.24)
Diluted net loss per share	(0.25)	(0.24)

NOTE 10: 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 condensed interim Statements of Changes in Stockholders' Equity were restated to retroactively incorporate this stock split.

On May 12, 2021, the Company and each then stockholder of the Company, other than one minority stockholder holding 147,620 shares 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 11: 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 Company's initial public offering (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 (i) 1/3 on May 15, 2022; and (ii) 1/3 on May 15, 2023; and continue to vest (to the extent not forfeited) 1/3 on May 15, 2024. 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. On May 15, 2023, 88,000 restricted stock units were vested.

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 December 31, 2022	286,000	$	8.50
Granted	-		-
Vested	-		-
Forfeited/Repurchased	(36,000)		-
Unvested options as of April 1, 2023	250,000	$	8.50

As of April 1, 2023, there was $1.3 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 1.1 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 13 weeks ended April 1, 2023, was $267,476 and it is included as part of payroll expense.

NOTE 12: RISK CONCENTRATION AND UNCERTAINTIES

The Company uses various vendors for purchases of inventory. For the 13 weeks ended April 1, 2023, no inventory had been purchased. For the 13 weeks ended April 2, 2022, two vendors accounted for approximately 53% of inventory purchases.

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 13: REVENUE, NET

		April 1, 2023		April 2, 2022
Revenue by channel				
Subscription boxes	$	2,971,567	$	3,483,851
3rd party websites		436,298		549,500
Online website sales		621,613		292,646
Total revenue	$	4,029,478	$	4,325,997

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed interim financial statements and related notes that are included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and the notes to those financial statements for the fiscal year ended December 31, 2022, which were included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2023 (the "2022 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. See also "Cautionary Statement Regarding Forward-Looking Information", above. 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 elsewhere in this Quarterly Report and in other reports we file with the SEC. The Company undertakes no obligation to revise or update publicly any forward-looking statements for any reason, except as otherwise provided by law.

The following discussion is based upon our financial statements included elsewhere in this Quarterly 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, especially goodwill and intangible assets, 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.

Kidpik Corp. (the "Company") uses a 52–53-week fiscal year ending on the Saturday nearest to December 31 each year. The year ended December 30, 2023 is a 52-week year and referred to herein as fiscal "2023". The years ended December 31, 2022 and January 1, 2022 were both 52-week years. These years are referred to herein as fiscal "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. References to the first quarter of fiscal 2023 and the first quarter of fiscal 2022, refer to the 13 weeks ended April 1, 2023 and April 2, 2022, respectively.

Certain capitalized terms used below but not otherwise defined, are defined in, and shall be read along with the meanings given to such terms in, the notes to the unaudited financial statements of the Company for the 13 weeks ended April 1, 2023 and April 2, 2022, above.

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.

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

In addition:

- "Active subscriptions" mean individuals who are scheduled to receive future boxes;
- "Boxes" mean 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" mean orders for recurring box shipments.

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 Sections 13(a) and 15(d) of the Exchange Act, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. Our SEC filings are also available to the public at the SEC's web site at http://www.sec.gov. Information contained in, or that can be accessed through, our website is not a part of, and is not incorporated into, this Report. Further, the Company's references to website URLs are intended to be inactive textual references only.

Introduction

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided in addition to the accompanying condensed interim 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 product 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. During the second quarter of 2022, we 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 well as Fulfilled by Amazon (FBA) and Fulfilled by Merchant (FBM) for pre-packs and individual items.

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. During the second quarter of 2022, we expanded our subscription box offerings, introducing a 12-piece box option in addition to our traditional 8-piece 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.

As of the date of this Report, 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 have added new channels to our paid advertising strategy, including 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.

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 13 weeks ended	
	April 1, 2023	**April 2, 2022**
Gross margin	59.8%	59.9%

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.

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

	For the 13 weeks Ended	
	April 1, 2023	**April 2, 2022**
Net loss	$ (1,950,512)	$ (1,810,675)
Add (deduct):		
Interest expense	25,190	21,674
Other income, net	-	(286,794)
Depreciation and amortization	10,689	5,665
Equity-based compensation	267,476	617,164
Adjusted EBITDA	$ (1,647,157)	$ (1,452,966)

Shipped Items

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

	For the 13 weeks ended (In thousands)	
	April 1, 2023	**April 2, 2022**
Shipped Items	340	371

We believe the decrease in subscription shipments for the first quarter of 2023 versus 2022, 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 2023, in comparison to 2022.

Average Shipment Keep Rate

	For the 13 weeks ended	
	April 1, 2023	April 2, 2022
Average Shipment Keep Rate	68.1%	70.4%

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.

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 referenced 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. 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 sustain revenues and 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

Subject to availability of sufficient capital, we expects to continue to focus on long-term growth through investments in product offerings and the kids and parent experience. We expect to make 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.

<u>Components of Results of Operations</u>

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, equity-based compensation 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 the first quarter of 2022 mainly related to settlement of an insurance claim related to business interruption of damaged inventory.

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

Comparison of the thirteen weeks ended April 1, 2023 and April 2, 2022

Revenue

Our revenue for the 13 weeks ended April 1, 2023, decreased by 6.9% to $4,029,478, compared to $4,325,997 for the 13 weeks ended April 2, 2022, a decrease of $296,519 from the prior period. The revenue breakdown by sales channel for the 13 weeks ended April 1, 2023, and April 2, 2022, is summarized in the tables below:

	13 weeks ended April 1, 2023	13 weeks ended April 2, 2022	Change ($)	Change (%)
Revenue by channel				
Subscription boxes	$ 2,971,567	$ 3,483,851	$ (512,284)	(14.7)%
3rd party sellers	436,298	549,500	(113,202)	(20.6)%
Online website sales	621,613	292,646	328,967	112.4%
Total revenue	$ 4,029,478	$ 4,325,997	$ (296,519)	(6.9)%

The revenue from subscription boxes for the 13 weeks ended April 1, 2023 and April 2, 2022, was generated from active subscriptions recurring boxes revenue and new subscriptions first box revenue, as summarized in the tables below:

	13 weeks ended April 1, 2023	13 weeks ended April 2, 2022	Change ($)	Change (%)
Subscription boxes revenue from				
Active subscriptions – recurring boxes	$ 2,401,026	$ 3,136,569	$ (735,543)	(23.5)%
New subscriptions - first box	570,541	347,282	223,259	64.3%
Total subscription boxes revenue	$ 2,971,567	$ 3,483,851	$ (512,284)	(14.7)%

The decrease in revenue was primarily driven by a decrease in subscription boxes sales. The revenue breakdown by product line for the 13 weeks ended April 1, 2023 and April 2, 2022 is summarized in the tables below:

	13 weeks ended April 1, 2023	13 weeks ended April 2, 2022	Change ($)	Change (%)
Revenue by product line				
Girls' apparel	$ 3,047,756	$ 3,256,893	$ (209,137)	(6.4)%
Boys' apparel	787,159	867,794	(80,635)	(9.3)%
Toddlers' apparel	194,563	201,310	(6,747)	(3.4)%
Total revenue	$ 4,029,478	$ 4,325,997	$ (296,519)	(6.9)%

The number of items shipped to our customers decreased by 8.4%, from approximately 371,000 for the 13 weeks ended April 2, 2022, to approximately 340,000 for the 13 weeks ended April 1, 2023. The average shipment keep rate was 68.1% in the 13 weeks ended April 1, 2023, compared to 70.4% for the 13 weeks ended April 2, 2022.

Cost of Goods Sold

Our cost of goods sold decreased by 6.6% to $1,619,226 for the 13 weeks ended April 1, 2023, compared to $1,733,914 for the 13 weeks ended April 2, 2022, a decrease of $114,688.

The decrease in cost of goods sold for the 13 weeks ended April 1, 2023, compared to the same period in fiscal 2022, was primarily attributable to the decrease in our subscription box sales as discussed above.

Gross Profit and Gross Profit as a Percentage of Revenue

Our gross profit was $2,410,252 for the 13 weeks ended April 1, 2023, compared to gross profit of $2,592,083 for the 13 weeks ended April 2, 2022. The decrease in gross profit for the 13 weeks ended April 1, 2023, compared to the same period in fiscal 2022, was primarily attributable to the decrease in our subscription box sales.

Gross profit as a percentage of revenue was 59.8% for the 13 weeks ended April 1, 2023, compared to 59.9% for the 13 weeks ended April 2, 2022.

Operating Expenses

Our operating expenses for the 13 weeks ended April 1, 2023 and April 2, 2022, are summarized in the table below:

	13 weeks ended April 1, 2023	13 weeks ended April 2, 2022	Change ($)	Change (%)
Expenses				
Shipping and handling	$ 1,189,222	$ 1,132,084	$ 57,138	5.0%
Payroll, related costs and equity-based compensation	1,111,101	1,599,236	(488,135)	(30.5)%
General and administrative	2,024,562	1,930,893	93,669	4.9%
Depreciation and amortization	10,689	5,665	5,024	88.6%
Total expenses	$ 4,335,574	$ 4,667,878	$ (332,304)	(7.1)%

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 13 weeks ended April 1, 2023, decreased by $332,304 or 7.1% to $4,335,574, compared to $4,667,878 for the 13 weeks ended April 2, 2022. This decrease was mainly a result of (i) a decrease in payroll and related costs of $488,135, mainly due to a decrease in non-cash, equity-based compensation and lower headcount, recorded in the first quarter of 2023, compared to the same period in fiscal 2022, offset by (ii) an increase in shipping and handling of $57,138, which was mainly due to an increased in shipping costs — our shipping and handling expenses were 29.5% of total revenue in the current period, compared to 26.2% of total revenue in the previous period, and (iii) a $93,671 increase in general and administrative expenses, mainly due to an increase in marketing expenses, offset by a decrease in third party fees due to the decrease in sales.

Loss from Operations

Loss from operations decreased from $2,075,795 for the 13 weeks ended April 2, 2022, to $1,925,322 for the 13 weeks ended April 1, 2023. The decrease in loss from operations was largely due to a decrease in payroll as discussed above, offset by a decrease in sales.

Other Expenses (Income)

For the 13 weeks ended April 1, 2023 and April 2, 2022, total other expenses were $25,190 compared to total other income of $265,120, respectively. The other income for the 13 weeks ended April 2, 2022 mainly related to settlement of an insurance claim related to business interruption of damaged inventory.

Net Loss

We had a net loss of $1,950,512 for the 13 weeks ended April 1, 2023, compared to a net loss of $1,810,675 for the 13 weeks ended April 2, 2022, an increase in net loss of $139,837 or 7.7%. The increase in net loss was primarily due to a decrease in revenue and in other income, offset by a decrease in payroll-related cost, each discussed in greater detail above.

LIQUIDITY AND CAPITAL RESOURCES

	April 1, 2023	December 31, 2022	Change ($)	Change (%)
Cash	$ 269,287	$ 605,213	$ (335,926)	(55.5)%
Working Capital	$ 6,593,509	$ 8,273,601	$ (1,680,092)	(20.3)%
Short-term debt, related party	$ 2,050,000	$ 2,050,000	$ -	-

On April 1, 2023, we had $269,287 of cash on hand compared to $605,213 of cash on hand at December 31, 2022.

As of April 1, 2023, the Company had total current liabilities of $5,885,004, consisting mainly of accounts payable of $1,716,630, accounts payable to related party of $1,338,047, accrued expenses of $395,646, operating lease liability of $384,681 and short-term debt from related party of $2,050,000 (discussed below).

As of April 1, 2023, we had $12,478,513 in total current assets, $5,885,004 in total current liabilities, working capital of $6,593,509 and a total accumulated deficit of $43,484,957.

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, our Vice President, Chief Operating Officer and Chief Technology Officer, 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 (which have since been terminated), 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 our initial public offering ("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 which may be 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 condensed interim financial statements are issued. The accompanying condensed interim 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.

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. The Company is also seeking stockholder approval of an amendment to the Company's Second Amended and Restated Certificate of Incorporation, to effect a reverse stock split of the Company's issued and outstanding shares of our common stock, par value $0.001 per share, by a ratio of between one-for-five to one-for-twenty, inclusive, with the exact ratio to be set at a whole number to be determined by the Company's Board of Directors or a duly authorized committee thereof in its discretion, at any time after approval of the amendment and prior to April 24, 2024.

Cash Flows

	13 weeks ended April 1, 2023	13 weeks ended April 2, 2022
Cash used in:		
Operating activities	$ (260,688)	$ (2,233,663)
Investing activities	(75,238)	(17,018)
Financing activities	-	(735,126)
Net decrease in cash	$ (335,926)	$ (2,985,807)

Net cash used in operating activities decreased to $260,688 for the 13 weeks ended April 1, 2023, compared to $2,233,663 for the 13 weeks ended April 2, 2022. The decrease in our cash used in operating activities of approximately $2.0 million was primarily due to changes in operating assets and liabilities in the amount of approximately $2.5 million, offset by adjustments for non-cash items totaling $0.36 million, and by an increase in net loss in the amount of approximately $0.14 million, as discussed in greater detail above.

Net cash used in investing activities during the 13 weeks ended April 1, 2023 and April 2, 2022 was $75,238 and $17,018, respectively, each of which was related to purchases of equipment.

Net cash used in financing activities was $735,126 for the 13 weeks ended April 2, 2022, related to repayment of advances payable.

Related Party Convertible Notes and Loans

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. The total outstanding amount to Mr. Dabah as of April 1, 2023 and December 31, 2022, was $1,850,000.

As of April 1, 2023 and December 31, 2022, there was $1,338,047 and $1,107,665 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 advances or other financing arrangements. Future financing options which may be 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 condensed interim financial statements are issued. The accompanying condensed interim 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.

Critical Accounting Estimates

Our condensed interim financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q are prepared in accordance with U.S. GAAP. The preparation of condensed interim financial statements 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 condensed interim 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. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

Our critical accounting policies are described under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in the 2022 Annual Report and in "Note 2: Summary of Significant Accounting Policies" to the audited financial statements appearing in the 2022 Annual Report. During the 13 weeks ended April 1, 2023, there were no material changes to our critical accounting policies from those discussed in our 2022 Annual Report.

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 unaudited condensed interim financial statements included in this Quarterly Report on Form 10-Q for a discussion of recently issued accounting pronouncements not yet adopted.

Item 3. 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 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of April 1, 2023, the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

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 April 1, 2023 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, 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 must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Reference is made to Part I, Item 1A, "Risk Factors" included in our 2022 Annual Report for information concerning risk factors, which should be read in conjunction with the factors set forth in "Cautionary Statement Regarding Forward-Looking Information" of this Report. There have been no material changes with respect to the risk factors disclosed in our 2022 Form 10-K. You should carefully consider such factors, which could materially affect our business, financial condition or future results. The risks described in the 2022 Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Initial Public Offering

On November 15, 2021, we completed our IPO, in which we sold 2,117,647 shares of common stock at a price to the public of $8.50 per share. All the shares issued and sold in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-260101) filed by the Company with the SEC under the Securities Act on October 6, 2021, as amended and the Company's registration statement on Form S-1MEF (File No. 333-260986) filed by the Company with the SEC under the Securities Act on November 10, 2021, each of which became effective on November 10, 2021. We received aggregate net proceeds of approximately $16.1 million, after deducting underwriting discounts and commissions, and offering costs. There has been no material change in the planned use of proceeds from the IPO from that described in the Final Prospectus.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

The following exhibits are filed herewith or incorporated by reference herein:

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Date	Exhibit	
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
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	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set					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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Kidpik Corp.
Date: May 16, 2023	By: */s/ Ezra Dabah*
	Ezra Dabah President and Chief Executive Officer (Principal Executive Officer)
Date: May 16, 2023	By: */s/ Adir Katzav*
	Adir Katzav Executive Vice President, Chief Financial Officer, and Treasurer (Principal Financial and Accounting Officer)