
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 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: 001-40448



FIGS, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of incorporation or organization)

2834 Colorado Avenue , Suite 100 Santa Monica , CA

(Address of principal executive offices)

46-2005653

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

90404

(Zip Code)

(424) 300-8330

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, \$0.0001 par value per share	FIGS	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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	<input checked="" type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="radio"/>
Emerging growth company	<input type="radio"/>		

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

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

As of October 31, 2023, there were 161,118,558 shares of the registrant's Class A common stock, par value \$0.0001 per share, outstanding and 8,016,338 shares of the registrant's Class B common stock, \$0.0001 par value per share, outstanding.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q may be forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “forecast,” “predict,” “potential,” “strategy,” “strive” or “continue” or the negative of these terms or other similar expressions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, without limitation, statements regarding our future results of operations and financial position, industry, business, and macroeconomic trends, the long-term impact of the COVID-19 pandemic and macroeconomic pressures, our use of ocean and air freight, the fact that we may continue to contend with global supply chain challenges, demand for our products, our plans for addressing increased inventory on hand, our expectations regarding the opening and success of retail stores, our plans for strategically refining our manufacturing base and enhancing fulfillment, equity compensation, our marketing strategy, competition, market growth and our business strategy, plans and objectives for future operations.

The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to, the important factors discussed in Part II, Item 1A. “Risk Factors” in this Quarterly Report on Form 10-Q. The forward-looking statements in this Quarterly Report on Form 10-Q are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise.

SUMMARY RISK FACTORS

Our business is subject to numerous risks and uncertainties, including those described in Part II, Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q. You should carefully consider these risks and uncertainties when investing in our Class A common stock. The principal risks and uncertainties affecting our business include the following:

- Our recent rapid growth may not be sustainable or indicative of future growth, and we expect our growth rate to ultimately slow over time.
- If we fail to manage our growth effectively, our business, financial condition and results of operations may be adversely affected.
- We have not always been profitable and may not be profitable in the future.
- Our success depends on our ability to maintain the value and reputation of our brand.
- If we fail to attract new customers, retain existing customers, or fail to maintain or increase sales to those customers, our business, financial condition, results of operations and growth prospects will be harmed.
- If our marketing efforts are not successful, our business, financial condition and results of operations could be harmed.
- Our business depends on our ability to maintain a strong community of engaged customers and ambassadors, including through the use of social media. We may not be able to maintain and enhance our brand if we experience negative publicity related to our marketing efforts or use of social media, fail to maintain and grow our network of ambassadors or otherwise fail to meet our customers' expectations.
- If we do not continue to successfully develop and introduce new, innovative and updated products, we may not be able to maintain or increase our sales and profitability.
- The market for healthcare apparel is highly competitive.
- Our future success depends on the continuing efforts of our key employees and our ability to attract and retain highly skilled team members.
- We plan to expand into additional international markets over time, which will expose us to new and significant risks.
- Shipping is a critical part of our business and changes in, or disruptions to, our shipping arrangements have in the past and may in the future adversely affect our business, financial condition and results of operations.
- If we experience problems with our distribution and warehouse management systems, our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies could be harmed.
- If we are unable to accurately forecast customer demand, manage our inventory and plan for future expenses, our results of operations could be adversely affected.
- Consumer confidence, shopping behavior and spending have been and may continue to be negatively impacted by factors beyond our control, including the COVID-19 pandemic and related economic impacts, supply chain disruptions, inflation, rising interest rates, fear of recession or entry into a recession and geopolitical events, which may adversely affect our business, financial condition and results of operations.
- Our reliance on a limited number of third-party suppliers to provide materials for and produce our products could cause problems in our supply chain and subject us to additional risks.
- The dual-class structure of our common stock and voting agreement among us and our co-founders, Heather Hasson and Trina Spear, Tulco, LLC and Thomas Tull and certain related persons and trusts have the effect of concentrating voting control with Ms. Hasson, Ms. Spear and Mr. Tull, who together hold the majority of the voting power of our outstanding capital stock, which may limit or preclude your ability to influence corporate matters, including the election of directors and the approval of any change of control transaction.

- We are a "controlled company" within the meaning of the rules of the New York Stock Exchange and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements. You do not have the same protections afforded to stockholders of companies that are subject to such requirements.
- Our quarterly results of operations have from time to time, and may in the future fluctuate, and if our operating and financial performance in any given period does not meet the guidance that we have provided to the public or the expectations of our investors and securities analysts, the trading price of our Class A common stock may decline.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

FIGS, INC.

CONDENSED BALANCE SHEETS
(In thousands, except share and per share data)

	As of	
	September 30, 2023	December 31, 2022
Assets	<i>(Unaudited)</i>	
Current assets		
Cash and cash equivalents	\$ 182,951	\$ 159,775
Short-term investments	49,148	—
Accounts receivable	6,316	6,866
Inventory, net	143,183	177,976
Prepaid expenses and other current assets	13,446	11,883
<i>Total current assets</i>	<i>395,044</i>	<i>356,500</i>
Non-current assets		
Property and equipment, net	16,306	11,024
Operating lease right-of-use assets	16,380	15,312
Deferred tax assets	12,812	10,971
Other assets	1,239	1,257
<i>Total non-current assets</i>	<i>46,737</i>	<i>38,564</i>
Total assets	\$ 441,781	\$ 395,064
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 15,014	\$ 20,906
Operating lease liabilities	3,997	3,408
Accrued expenses	16,145	26,164
Accrued compensation and benefits	6,681	3,415
Sales tax payable	4,048	3,374
Gift card liability	8,689	7,882
Deferred revenue	3,337	2,786
Returns reserve	2,640	3,458
Income tax payable	9,670	—
<i>Total current liabilities</i>	<i>70,221</i>	<i>71,393</i>
Non-current liabilities		
Operating lease liabilities, non-current	16,190	15,756
Other non-current liabilities	176	176
Total liabilities	\$ 86,587	\$ 87,325
Commitments and contingencies (Note 9)		
Stockholders' equity		
Class A Common stock — par value \$ 0.0001 per share, 1,000,000,000 shares authorized as of September 30, 2023 and December 31, 2022; 161,020,834 and 159,351,307 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	16	16
Class B Common stock — par value \$ 0.0001 per share, 150,000,000 shares authorized as of September 30, 2023 and December 31, 2022; 8,016,338 and 7,210,795 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	—	—
Preferred stock — par value \$ 0.0001 per share, 100,000,000 shares authorized as of September 30, 2023 and December 31, 2022; zero shares issued and outstanding as of September 30, 2023 and December 31, 2022	—	—
Additional paid-in capital	303,428	268,606
Accumulated other comprehensive loss	(4)	—
Retained earnings	51,754	39,117
<i>Total stockholders' equity</i>	<i>355,194</i>	<i>307,739</i>
Total liabilities and stockholders' equity	\$ 441,781	\$ 395,064

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

FIGS, INC.

CONDENSED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net revenues	\$ 142,364	\$ 128,589	\$ 400,728	\$ 360,937
Cost of goods sold	44,971	37,756	121,625	105,325
Gross profit	97,393	90,833	279,103	255,612
Operating expenses				
Selling	32,195	31,940	97,092	80,801
Marketing	19,012	20,031	56,965	56,263
General and administrative	36,232	27,652	105,229	84,142
Total operating expenses	87,439	79,623	259,286	221,206
Net income from operations	9,954	11,210	19,817	34,406
Other income, net				
Interest income	1,901	604	4,494	683
Other income (expense)	(6)	1	(11)	—
Total other income, net	1,895	605	4,483	683
Net income before provision for income taxes	11,849	11,815	24,300	35,089
Provision for income taxes	5,703	7,771	11,663	17,294
Net income	\$ 6,146	\$ 4,044	\$ 12,637	\$ 17,795
Earnings attributable to Class A and Class B common stockholders				
Basic earnings per share	\$ 0.04	\$ 0.02	\$ 0.08	\$ 0.11
Diluted earnings per share	\$ 0.03	\$ 0.02	\$ 0.07	\$ 0.09
Weighted-average shares outstanding—basic	168,668,844	165,543,067	167,628,888	164,960,561
Weighted-average shares outstanding—diluted	181,429,745	186,991,769	182,545,627	189,762,364

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

FIGS, INC.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net income	\$ 6,146	\$ 4,044	\$ 12,637	\$ 17,795
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on short-term investments, net of tax	4	—	(4)	—
Total other comprehensive income (loss), net of tax	4	—	(4)	—
Total comprehensive income	\$ 6,150	\$ 4,044	\$ 12,633	\$ 17,795

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

FIGS, INC.

CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional	Retained	Accumulated Other	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Comprehensive Loss	Stockholders' Equity
December 31, 2022	159,351,307	\$ 16	7,210,795	\$ —	\$ 268,606	\$ 39,117	\$ —	\$ 307,739
Issuance of Class A Common Stock upon vesting of Restricted Stock	494,487	—	—	—	—	—	—	—
Issuance of Class B Common Stock upon exchange of Class A Common Stock	(271,219)	—	271,219	—	—	—	—	—
Restricted Stock surrendered for employee's tax liability	—	—	—	—	(246)	—	—	(246)
Stock-based compensation	—	—	—	—	10,790	—	—	10,790
Stock option exercises	2,250	—	—	—	1	—	—	1
Net income	—	—	—	—	—	1,909	—	1,909
March 31, 2023	159,576,825	\$ 16	7,482,014	\$ —	\$ 279,151	\$ 41,026	\$ —	\$ 320,193
Issuance of Class A Common Stock upon vesting of Restricted Stock	626,377	—	—	—	—	—	—	—
Issuance of Class B Common Stock upon exchange of Class A Common Stock	(266,938)	—	266,938	—	—	—	—	—
Stock-based compensation	—	—	—	—	11,519	—	—	11,519
Stock option exercises and employee stock purchases	568,258	—	—	—	636	—	—	636
Net income	—	—	—	—	—	4,582	—	4,582
Other comprehensive loss, net of tax	—	—	—	—	—	—	(8)	(8)
June 30, 2023	160,504,522	\$ 16	7,748,952	\$ —	\$ 291,306	\$ 45,608	\$ (8)	\$ 336,922
Issuance of Class A Common Stock upon vesting of Restricted Stock	637,528	—	—	—	—	—	—	—
Issuance of Class B Common Stock upon exchange of Class A Common Stock	(267,386)	—	267,386	—	—	—	—	—
Stock-based compensation	—	—	—	—	11,996	—	—	11,996
Stock option exercises and employee stock purchases	146,170	—	—	—	126	—	—	126
Net income	—	—	—	—	—	6,146	—	6,146
Other comprehensive income, net of tax	—	—	—	—	—	—	4	4
September 30, 2023	161,020,834	\$ 16	8,016,338	\$ —	\$ 303,428	\$ 51,754	\$ (4)	\$ 355,194

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

FIGS, INC.

CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional	Retained	Total Stockholders'
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Equity
December 31, 2021	152,098,257	\$ 15	12,158,187	\$ 1	\$ 227,626	\$ 17,931	\$ 245,573
Issuance of Class A Common Stock upon vesting of Restricted Stock	381,973	—	—	—	—	—	—
Issuance of Class B Common Stock upon exchange of Class A Common Stock	(338,152)	—	338,152	—	—	—	—
Issuance of Class A Common Stock upon exchange of Class B Common Stock	6,300,000	—	(6,300,000)	—	—	—	—
Stock-based compensation	—	—	—	—	8,477	—	8,477
Stock option exercises	88,610	—	—	—	352	—	352
Net income	—	—	—	—	—	8,899	8,899
March 31, 2022	158,530,688	\$ 15	6,196,339	\$ 1	\$ 236,455	\$ 26,830	\$ 263,301
Issuance of Class A Common Stock upon vesting of Restricted Stock	432,901	—	—	—	—	—	—
Issuance of Class B Common Stock upon exchange of Class A Common Stock	(338,152)	—	338,152	—	—	—	—
Capital contribution	—	—	—	—	479	—	479
Stock-based compensation	—	—	—	—	8,777	—	8,777
Stock option exercises and employee stock purchases	102,730	—	—	—	721	—	721
Net income	—	—	—	—	—	4,852	4,852
June 30, 2022	158,728,167	\$ 15	6,534,491	\$ 1	\$ 246,432	\$ 31,682	\$ 278,130
Issuance of Class A Common Stock upon vesting of Restricted Stock	443,843	—	—	—	—	—	—
Issuance of Class B Common Stock upon exchange of Class A Common Stock	(338,152)	—	338,152	—	—	—	—
Stock-based compensation	—	—	—	—	9,034	—	9,034
Stock option exercises	191,839	—	—	—	1,237	—	1,237
Net income	—	—	—	—	—	4,044	4,044
September 30, 2022	159,025,697	\$ 15	6,872,643	\$ 1	\$ 256,703	\$ 35,726	\$ 292,445

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

FIGS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine months ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 12,637	\$ 17,795
<i>Adjustments to reconcile net income to net cash (used in) provided by operating activities:</i>		
Depreciation and amortization expense	2,128	1,287
Deferred income taxes	(1,841)	(976)
Non-cash operating lease cost	2,138	1,719
Stock-based compensation	34,305	26,288
Accretion of discount on available-for-sale securities	(897)	—
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	550	(5,927)
Inventory	34,793	(82,020)
Prepaid expenses and other current assets	(1,563)	(6,470)
Other assets	18	(678)
Accounts payable	(4,092)	6,421
Accrued expenses	(9,496)	7,584
Accrued compensation and benefits	3,266	(1,248)
Sales tax payable	674	(25)
Gift card liability	807	403
Deferred revenue	551	640
Returns reserve	(818)	663
Income tax payable	9,670	(3,973)
Operating lease liabilities	(2,183)	(1,336)
Other non-current liabilities	—	(28)
<i>Net cash (used in) provided by operating activities</i>	80,647	(39,881)
Cash flows from investing activities:		
Purchases of property and equipment	(9,733)	(4,256)
Purchases of available-for-sale securities	(65,805)	—
Maturities of available-for-sale securities	17,550	—
Purchases of held-to-maturity securities	—	(500)
<i>Net cash used in investing activities</i>	(57,988)	(4,756)
Cash flows from financing activities:		
Proceeds from stock option exercises and employee stock purchases	763	2,310
Tax payments related to net share settlements on restricted stock units	(246)	—
Capital contributions	—	479
<i>Net cash provided by financing activities</i>	517	2,789
<i>Net increase (decrease) in cash, cash equivalents, and restricted cash</i>	23,176	(41,848)
Cash, cash equivalents, and restricted cash, beginning of period	159,775	197,430
Cash and cash equivalents, end of period	\$ 182,951	\$ 155,582
Supplemental disclosures:		
Property and equipment included in accounts payable and accrued expenses	\$ 2,304	\$ 273
Lease assets obtained in exchange for new operating lease liabilities	\$ 3,206	\$ 4,670

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

FIGS, INC.

**NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)**

1. DESCRIPTION OF BUSINESS

FIGS, Inc. (the "Company"), a Delaware corporation, was founded in 2013 and is a founder-led, direct-to-consumer healthcare apparel and lifestyle brand company. The Company designs and sells scrubwear, and other non-scrub offerings, such as footwear, outerwear, underscrubs, compression socks, lab coats, loungewear and other lifestyle apparel. The Company markets and sells its products primarily in the United States. Sales are primarily generated through the Company's digital platforms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. The Company's fiscal year ends on December 31. Certain information and footnote disclosures normally included in the Company's annual audited financial statements and accompanying notes have been condensed or omitted in these accompanying interim condensed financial statements and footnotes. These unaudited condensed financial statements should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2022, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 28, 2023.

In the opinion of management, the unaudited condensed financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of the Company's financial position, results of operations, and cash flows. The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods presented. Significant estimates include, but are not limited to, the valuation of the net realizable value of inventory, reserves for sales returns, allowances for doubtful accounts, stock-based compensation, contingent sales tax liability, and the useful lives and recoverability of long-lived assets. Actual results could differ from those estimates.

Short-term Investments

The Company holds short-term investments in U.S. government debt securities and corporate debt securities. The Company's short-term investments with maturities of 12-months or less are classified as current assets on the Company's condensed balance sheets and have been classified and accounted for as available-for-sale securities. The Company determines the appropriate classification of its investments at the time of purchase and reevaluates their classification at each balance sheet date.

The Company's available-for-sale investments in debt securities are carried at fair value with unrealized gains and losses, net of taxes, reported within accumulated other comprehensive loss in stockholders' equity. Available-for-sale debt securities with an amortized cost basis in excess of estimated fair value are assessed to determine what amount of that difference, if any, is caused by expected credit losses, with any allowance for credit losses recognized as a charge in other expense on the Company's condensed statements of operations. The Company did not record any credit losses on its available-for-sale debt securities in any of the periods presented. The Company determines gains or losses on the sale or maturities of short-term investments using the specific identification method and gains or losses are recorded in other expense on the Company's condensed statements of operations.

Inventory, Net

Inventory consists of finished goods and is accounted for using an average cost method. Inventory is valued at the lower of cost or net realizable value. The Company records a provision for excess and obsolete inventory to adjust the carrying value of inventory based on assumptions regarding future demand for the Company's products.

Lower of cost or net realizable value is evaluated by considering obsolescence, excessive levels of inventory, deterioration, and other factors. Adjustments to reduce the cost of inventory to its net realizable value, if required, are made for estimated excess, obsolescence, or impaired inventory. Excess and obsolete inventory is charged to cost of goods sold.

The Company's allowance to write down inventory to the lower of cost or net realizable value was not material as of September 30, 2023 and December 31, 2022.

Revenue Recognition

The Company recognizes revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASC 606"). Revenue is recognized in an amount that reflects the consideration expected to be received in exchange for products. To determine revenue recognition for contracts with customers within the scope of ASC 606, the Company recognizes revenue from the commercial sales of products and contracts by applying the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations of the contract(s); (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract(s); and (v) recognize revenue when (or as) the Company satisfies the performance obligations.

The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. The Company recognizes revenue at a point in time when it satisfies a performance obligation and transfers control of the products to the respective customers, which occurs when the goods are transferred to a common carrier. Shipping and handling costs associated with outbound freight incurred to transfer a product to a customer are treated as a fulfillment activity, and as a result, any fees received from customers are included in the transaction price for the performance obligation of providing goods to the customer.

The Company generally provides refunds for goods returned within 30 days from the original purchase date. A returns reserve is recorded by the Company based on the historical refund pattern. The returns reserve on the condensed balance sheets was \$ 2.6 million and \$ 3.5 million as of September 30, 2023 and December 31, 2022, respectively.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue. The Company records deferred revenue when it receives payments in advance of the transfer of the goods to a common carrier. The amounts recorded are expected to be recognized as revenue within the 12-months following the balance sheet date and, therefore, are classified as current liabilities on the Company's condensed balance sheets.

The Company does not have significant contract balances other than deferred revenue, the allowance for sales returns and liabilities related to its gift cards. The Company recognized revenues of \$ 2.7 million during the nine months ended September 30, 2023 related to the deferred revenue balance that existed at December 31, 2022. The Company recognized revenues of \$ 2.3 million during the nine months ended September 30, 2023 related to redemptions from the gift card liability balance that existed at December 31, 2022. The Company does not have significant contract acquisition costs.

The following table presents the disaggregation of the Company's net revenues for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
By geography:				
United States	\$ 123,818	\$ 118,316	\$ 355,295	\$ 332,564
Rest of the world	18,546	10,273	45,433	28,373
	\$ 142,364	\$ 128,589	\$ 400,728	\$ 360,937
By product:				
Scrubwear	\$ 114,927	\$ 106,876	\$ 328,031	\$ 301,230
Non-Scrubwear	27,437	21,713	72,697	59,707
	\$ 142,364	\$ 128,589	\$ 400,728	\$ 360,937

3. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Company's cash equivalents consist of money market funds and highly liquid investments with original maturities of 90 days or less from the date of purchase. The Company classifies cash equivalents and short-term investments within Level 1 or Level 2 of the fair value hierarchy.

The following tables present the Company's cash equivalents and short-term investments by significant investment category and fair value level as of September 30, 2023 and December 31, 2022 (in thousands):

	September 30, 2023			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Level 1 ⁽¹⁾ :				
Money market funds	\$ 115,866	\$ —	\$ —	\$ 115,866
U.S. government securities	34,507	1	(1)	34,507
Level 2 ⁽²⁾ :				
Corporate paper	17,130	—	(4)	17,126
Total	\$ 167,503	\$ 1	\$ (5)	\$ 167,499

	December 31, 2022			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Level 1 ⁽¹⁾ :				
Money market funds	\$ 102,908	\$ —	\$ —	\$ 102,908
Total	\$ 102,908	\$ —	\$ —	\$ 102,908

⁽¹⁾ Level 1 fair value estimates are based on quoted prices in active markets for identical assets or liabilities.

⁽²⁾ Level 2 fair value estimates are based on observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

There have been no transfers of assets between fair value levels during the periods presented. The carrying values of other current assets, accounts payable and accrued expenses approximate their fair values due to the short-term nature of these assets and liabilities.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Trade	\$ 5,644	\$ 6,288
Other	672	578
	<u>\$ 6,316</u>	<u>\$ 6,866</u>

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Inventory deposits	\$ 1,922	\$ 2,086
Prepaid expenses	10,619	6,588
Prepaid taxes	—	2,186
Other	905	1,023
	<u>\$ 13,446</u>	<u>\$ 11,883</u>

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Furniture and fixtures	\$ 1,233	\$ 1,189
Office equipment	1,014	937
Machinery and equipment	2,753	2,853
Computer equipment	1,774	1,486
Software and website design	7,529	6,209
Leasehold improvements	3,169	3,126
Capital projects in progress	5,749	11
Total property and equipment	23,221	15,811
Less: accumulated depreciation and amortization	(6,915)	(4,787)
Property and equipment, net	<u>\$ 16,306</u>	<u>\$ 11,024</u>

Depreciation and amortization expense of property and equipment for the three and nine months ended September 30, 2023 was \$ 0.8 million and \$ 2.1 million, respectively. Depreciation and amortization expense of property and equipment for the three and nine months ended September 30, 2022 was \$ 0.5 million and \$ 1.3 million, respectively.

7. ACCRUED EXPENSES

Accrued expenses consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Accrued inventory	\$ 2,655	\$ 8,906
Accrued shipping	2,300	2,149
Accrued selling expenses	5,917	10,648
Accrued legal expenses	101	395
Accrued marketing expenses	2,406	1,747
Other accrued expenses	2,766	2,319
	<u>\$ 16,145</u>	<u>\$ 26,164</u>

8. FINANCING ARRANGEMENTS

On September 7, 2021, the Company, as borrower, entered into a credit agreement with Bank of America, N.A. for a \$ 100.0 million revolving credit facility, including capacity to issue letters of credit (the "2021 Facility"). The 2021 Facility is secured by substantially all assets of the Company and its material subsidiaries, subject to customary exceptions. The 2021 Facility has a maturity date of September 7, 2026 ("2021 Facility Maturity Date"). As of September 30, 2023, the Company had letters of credit aggregating to \$ 4.9 million outstanding under the 2021 Facility and available borrowings of \$ 95.1 million. As of September 30, 2023, the Company had no outstanding borrowings under the 2021 Facility. Borrowings under the 2021 Facility are payable on the 2021 Facility Maturity Date. Borrowings bear interest at either (a) the Eurodollar Rate (as defined in the 2021 Facility) plus 1.125 % or (b) the Base Rate (as defined in the 2021 Facility) plus 0.125 %. The interest rate for undrawn amounts is 0.175 %. Costs associated with entering into the 2021 Facility were not material.

On February 27, 2023, the Company entered into a first amendment (the "First Amendment") to the 2021 Facility. The First Amendment amends the Credit Agreement to replace the London interbank offered rate ("LIBOR") with a term rate based on the Secured Overnight Financing Rate ("SOFR"), together with certain administrative changes to facilitate such replacement. Except as amended by the First Amendment, the terms of the Credit Agreement remain in full force and effect.

9. COMMITMENTS AND CONTINGENCIES

Taxes on Remote Sellers

The Company is subject to state laws or administrative practices with respect to the taxes on remote sellers. In accordance with ASC 450, Contingencies, the Company recorded \$ 1.6 million within sales tax payable on the Company's condensed balance sheets as of September 30, 2023 and December 31, 2022, as an estimate of contingent sales tax payable.

Inventory Purchase Obligations

Inventory purchase obligations as of September 30, 2023 were \$ 50.3 million. These inventory purchase obligations can be impacted by various factors, including the timing of issuing orders and the timing of the shipment of orders.

Legal Contingencies

Legal claims may arise from time to time in the normal course of business, the results of which may have a material effect on the Company's accompanying condensed financial statements.

During the three months ended September 30, 2023, the Company had a putative securities class action and related derivative suits against the Company and certain of its executive officers and directors.

The Company intends to vigorously defend against such claims. The Company has determined that any potential loss is neither probable nor reasonably estimable and an accrual has not been recorded.

Leases

In the second quarter of 2023, the Company entered into lease agreements with expected commencement dates in the fourth quarter of 2023 and first half of 2024. The Company expects to classify these leases as operating leases. The initial terms of the leases range from 5 years to 7 years and the Company expects to record operating lease costs of \$ 47.8 million over the life of the leases.

10. INCOME TAXES

The tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items arising during interim periods.

For the three months ended September 30, 2023 and 2022, the Company's effective tax rate was 48.1 % and 65.8 %, respectively. The Company's effective tax rate differed from the U.S. statutory tax rate primarily due to state taxes, the excess tax benefits from stock-based compensation and officer excess compensation limitations.

For the three months ended September 30, 2023 and 2022, the Company recorded income tax expense of \$ 5.7 million and \$ 7.8 million, respectively.

For the nine months ended September 30, 2023 and 2022, the Company's effective tax rate was 48.0 % and 49.3 %, respectively. The Company's effective tax rate differed from the U.S. statutory tax rate primarily due to the excess tax benefit from stock-based compensation and lower pretax income compared to the prior year.

For the nine months ended September 30, 2023 and 2022, the Company recorded income tax expense of \$ 11.7 million and \$ 17.3 million, respectively.

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act of 2022 ("IRA"), which, among other things, implements a 15% alternative minimum tax on corporations with book income in excess of \$1 billion, a 1% excise tax on net stock repurchases and several tax incentives to promote clean energy effective January 1, 2023. The provisions of the IRA did not have an impact to the Company's financial statements. The Company will continue to monitor for updates to the Company's business along with guidance issued with respect to the IRA to determine whether any adjustments are needed to the Company's tax provision in future periods.

11. EARNINGS PER SHARE

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

Basic EPS attributable to common stockholders is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period. For the calculation of diluted EPS, net income attributable to common stockholders for basic EPS is adjusted by the effect of dilutive securities. Diluted EPS attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding, including all potentially dilutive common shares.

As the economic rights of Class A and Class B common stock are identical, undistributed earnings are allocated on a proportionate basis and presented on a combined basis. The following table sets forth the computation of basic and diluted

EPS and a reconciliation of the weighted average number of common and common equivalent shares outstanding for the three and nine months ended September 30, 2023 and 2022 (in thousands, except share and per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Numerator:				
Net income	\$ 6,146	\$ 4,044	\$ 12,637	\$ 17,795
Denominator:				
Weighted-average shares—basic	168,668,844	165,543,067	167,628,888	164,960,561
Effect of dilutive stock options	12,103,234	19,676,684	13,921,825	22,723,439
Effect of dilutive restricted stock	657,667	1,772,017	994,914	2,078,364
Weighted-average shares—diluted	181,429,745	186,991,769	182,545,627	189,762,364
Earnings per share:				
Basic earnings per share	\$ 0.04	\$ 0.02	\$ 0.08	\$ 0.11
Effect of dilutive stock options and restricted stock	(0.01)	—	(0.01)	(0.02)
Diluted earnings per share	\$ 0.03	\$ 0.02	\$ 0.07	\$ 0.09

The Company excluded the following weighted average common equivalent shares from the computation of diluted earnings per share for the three and nine months ended September 30, 2023 and the three and nine months ended September 30, 2022 because including them would have had an anti-dilutive effect:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Stock options to purchase common stock	13,389,170	6,616,871	10,906,538	4,391,646
Restricted stock units	2,781,306	1,641,630	2,231,465	1,130,795

12. RELATED PARTY TRANSACTIONS

In 2022, the Company's Executive Chair and Chief Executive Officer (the "Founders") paid the Company, at their election, an aggregate amount of \$ 0.4 million for certain of the Company's professional fees in connection with the follow-on offering completed on September 20, 2021.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, as well as our audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission ("SEC") on February 28, 2023 (the "2022 Annual Report on Form 10-K"). This discussion contains forward-looking statements based upon current plans, expectations and beliefs involving risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Part II, Item 1A. "Risk Factors" and other factors set forth in other parts of this Quarterly Report on Form 10-Q.

Overview

Our mission is to celebrate, empower and serve those who serve others.

We are a founder-led, direct-to-consumer healthcare apparel and lifestyle brand that seeks to celebrate, empower and serve current and future generations of healthcare professionals. We are committed to helping this growing, global community of professionals, whom we refer to as Awesome Humans, look, feel and perform at their best—24/7, 365 days a year. We create technically advanced apparel and products that feature an unmatched combination of comfort, durability,

function and style, all at an affordable price. In doing so, we have redefined what scrubs are—giving rise to our tag-line: why wear scrubs, when you can #wearFIGS?

We have revolutionized the large and fragmented healthcare apparel market. We branded a previously unbranded industry and de-commoditized a previously commoditized product—elevating scrubs and creating premium products for healthcare professionals. Most importantly, we built a community and lifestyle around a profession. As a result, we have become the industry's category-defining healthcare apparel and lifestyle brand.

We sell products purposefully designed to serve the particular needs of healthcare professionals primarily through a convenient direct-to-consumer ("DTC") digital platform, consisting of our website and mobile app. Our offerings include scrubwear and non-scrubwear, such as footwear, outerwear, underscrubs, compression socks, lab coats, loungewear and other lifestyle apparel. We primarily design all of our products in-house, leverage third-party suppliers and manufacturers to produce our product components and finished products, and generally utilize shallow initial buys and data-driven repurchasing decisions to test new products. We directly and actively coordinate and supervise every step of our product development and production process to ensure that our extremely high quality standards are met. We also have a dynamic merchandising model—due to the largely non-discretionary, replenishment-driven nature of scrubwear, we maintain lessened inventory risk driven by a relatively high volume of repeat purchases and a focus on our core scrubs offerings.

At September 30, 2023, we had approximately 2.6 million active customers. Our customers come to us through word of mouth referrals, as well as through our data-driven brand and performance marketing efforts. See the section titled "Key Operating Metrics and Non-GAAP Financial Measures" for a definition of active customers.

In the three and nine months ended September 30, 2023, we had the following results compared to the same periods in 2022:

- Expanded our community of active customers by 19.6% from approximately 2.2 million at September 30, 2022 to approximately 2.6 million at September 30, 2023;
- Net revenues increased from \$128.6 million to \$142.4 million for the three months ended September 30, 2023, and from \$360.9 million to \$400.7 million for the nine months ended September 30, 2023, representing 10.7% and 11.0% year-over-year growth, respectively;
- Gross margin decreased 2.2 percentage points from 70.6% to 68.4% for the three months ended September 30, 2023, and 1.2 percentage points from 70.8% to 69.6% for the nine months ended September 30, 2023;
- Net income increased from \$4.0 million to \$6.1 million for the three months ended September 30, 2023, and decreased from \$17.8 million to \$12.6 million for the nine months ended September 30, 2023;
- Net income margin increased 1.1 percentage points from 3.1% to 4.2% for the three months ended September 30, 2023, and decreased 1.8 percentage points from 4.9% to 3.1% for the nine months ended September 30, 2023;
- Adjusted EBITDA increased from \$21.0 million to \$24.4 million for the three months ended September 30, 2023, and decreased from \$67.5 million to \$59.4 million for the nine months ended September 30, 2023, representing an Adjusted EBITDA Margin of 17.2% and 14.8%, respectively;
- Cash flows from operating activities increased from \$(39.9) million to \$80.6 million for the nine months ended September 30, 2023; and
- Free cash flow increased from \$(44.1) million to \$70.9 million for the nine months ended September 30, 2023.

See the section titled "Key Operating Metrics and Non-GAAP Financial Measures" for information regarding Adjusted EBITDA, Adjusted EBITDA Margin and free cash flow, including reconciliations to the most directly comparable financial measures prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

Supply Chain and Macroeconomic Update

In the quarter ended September 30, 2023, we continued to experience improved ocean and air freight rates and ocean transit times at near pre-pandemic levels. We also utilized air freight to a lesser extent than we did during the prior year period. We also continued to evolve our sourcing capabilities to strengthen our supply chain, which includes diversifying certain manufacturing operations geographically. For example, in the quarter ended September 30, 2023, we reallocated a material amount of manufacturing geographically, and as a result, are now less dependent on our South East Asia partners. We plan to continue to strategically refine our manufacturing base into fewer high-quality partners, which we believe will enhance our product innovation, quality and lead times across product categories. We also plan to continue enhancing our fulfillment capabilities. While we expect to incur additional costs in the short term in connection with our fulfillment enhancement project, we believe these efforts will support us as we increase scale over the long term.

In the quarter ended September 30, 2023, while we continued to experience elevated inventory on hand, we also continued to make progress in our ongoing efforts to address our increased inventory, which has included adjusting future inventory purchases accordingly, reintroducing previously launched limited-edition styles and colors, and selectively utilizing promotional events. As a result, we have experienced decreased storage costs year over year. In addition, because the vast majority of our production utilizes our main scrubwear fabric technology FIONx and a substantial amount of our revenue is generated by our core scrubwear styles in core colors, which are in demand year-round, we can hold greater inventory without significant risk of obsolescence or exposure to seasonality. We also are generally able to time the sourcing of our product components and manufacturing of our core scrubwear styles in core colors without being solely dependent on cyclical demand trends.

In the quarter ended September 30, 2023, we also continued to see year-over-year sales growth impacted by moderation of frequency trends. We believe this was due largely to continued adverse macroeconomic factors such as sustained inflationary pressures on consumer spending, which continues to impact our customers. While we believe our largely non-discretionary, replenishment-driven business model is resilient in challenging macroeconomic environments, we expect current macroeconomic pressures to continue to affect our results of operations in the near term.

Key Factors Affecting Our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us. There have been no material changes to such factors from those described in our 2022 Annual Report on Form 10-K under the heading "Key Factors Affecting Our Performance." Those factors also pose risks and challenges, including those discussed in Part II, Item 1A. "Risk Factors" of this Quarterly Report on Form 10-Q.

Components of Our Results of Operations

Net Revenues

Net revenues consist of sales of healthcare apparel, footwear and other products primarily through our digital platform. We recognize product sales at the time control is transferred to the customer, which is when the product is shipped to the customer. Net revenues represent the sale of these items and shipping revenue, net of estimated returns and discounts. Net revenues are primarily driven by the growth in the number of active customers, the frequency with which customers purchase and the average order value ("AOV").

Cost of Goods Sold

Cost of goods sold consists principally of the cost of purchased merchandise and includes import duties and other taxes, freight-in, defective merchandise returned by customers, inventory write-offs and other miscellaneous shrinkage. Our cost of goods sold has and may continue to fluctuate with the cost of the raw materials used in our products and freight costs.

Gross Profit and Gross Margin

We define gross profit as net revenues less cost of goods sold. Gross margin is gross profit expressed as a percentage of net revenues. Our gross margin has fluctuated historically and may continue to fluctuate from period to period based on a number of factors, including the timing and mix of the product offerings we sell as well as our ability to reduce costs, in any given period.

Operating Expenses

Our operating expenses consist of selling, marketing and general and administrative expenses.

Selling

Selling expenses represent the costs incurred for fulfillment, selling and distribution. Fulfillment expenses consist of costs incurred in operating and staffing a third-party fulfillment center, including costs associated with inspecting and warehousing inventories and picking, packaging and preparing customer orders for shipment. Selling and distribution expenses consist primarily of shipping and other transportation costs incurred in delivering merchandise to customers and from customers returning merchandise, merchant processing fees and packaging. We expect fulfillment, selling and distribution costs to increase in absolute dollars as we increase our net revenues.

Marketing

Marketing expenses consist primarily of online performance marketing costs, such as retargeting, paid search and product listing advertisements, paid social media advertisements, search engine optimization, personalized email and mobile push notifications through our app. Marketing expenses also include our spend on brand marketing channels, including billboards, podcasts, commercials, photo and video shoot development, expenses associated with our Ambassador Program and other forms of online and offline marketing. We expect our marketing expenses to increase in absolute dollars as we continue to grow our business.

General and Administrative

General and administrative expenses consist primarily of employee-related costs, including salaries, bonuses, benefits, stock-based compensation, other related costs and other general overhead, including certain third-party consulting and contractor expenses, certain facilities costs, software expenses, legal expenses and recruiting fees. We expect our general and administrative expenses to increase in absolute dollars as we continue to grow our business. We also anticipate that we will continue to incur significant additional legal, accounting, insurance, investor relations and other expenses to support our operations as a public company, including costs associated with our compliance with the Sarbanes-Oxley Act.

Other Income, Net

Other income, net consists of interest income or expense associated with debt financing arrangements, amortization of debt issuance costs and interest income earned on investments, as well as gain or loss on foreign currency, primarily driven by payment to vendors for amounts not denominated in U.S. dollars.

Provision for Income Taxes

Our provision for income taxes consists of an estimate of federal and state income taxes based on enacted federal and state tax rates, as adjusted for allowable credits, deductions and uncertain tax positions.

Seasonality

Unlike the traditional apparel industry, the healthcare apparel industry is generally not seasonal in nature. However, due to our historical pattern of sequential growth, as well as our decision to conduct select promotions during the holiday season, we historically have generated a higher proportion of net revenues, and incurred higher selling and marketing expenses, during the fourth quarter of the year compared to other quarters, and we expect these trends to continue.

Results of Operations

Three Months Ended September 30, 2023, Compared to Three Months Ended September 30, 2022

The following table sets forth information comparing the components of our results of operations for the periods indicated and our results of operations as a percentage of net revenues for the periods presented.

	Three months ended September 30,		Three months ended September 30,	
	2023	2022	2023	2022
	<i>(in thousands)</i>		<i>(as a percentage of net revenues)</i>	
Net revenues	\$ 142,364	\$ 128,589	100.0 %	100.0 %
Cost of goods sold	44,971	37,756	31.6	29.4
Gross profit	97,393	90,833	68.4	70.6
Operating expenses				
Selling	32,195	31,940	22.6	24.8
Marketing	19,012	20,031	13.4	15.6
General and administrative ⁽¹⁾	36,232	27,652	25.5	21.5
Total operating expenses	87,439	79,623	61.5	61.9
Net income from operations	9,954	11,210	6.9	8.7
Other income, net	1,895	605	1.3	0.5
Net income before provision for income taxes	11,849	11,815	8.2	9.2
Provision for income taxes	5,703	7,771	4.0	6.0
Net income	\$ 6,146	\$ 4,044	4.2 %	3.1 %

⁽¹⁾ Includes stock-based compensation expense of \$12.0 million and \$9.0 million for the three months ended September 30, 2023 and 2022, respectively.

Net Revenues

	Three months ended September 30,		Change
	2023	2022	%
	<i>(in thousands)</i>		
Net revenues	\$ 142,364	\$ 128,589	10.7 %

Net revenues increased by \$13.8 million, or 10.7%, for the three months ended September 30, 2023, compared to the same period last year. The increase in net revenues was driven by an increase in orders from existing and new customers and, to a lesser extent, an increase in AOV.

Cost of Goods Sold

	Three months ended September 30,		Change
	2023	2022	
	<i>(in thousands)</i>		
Cost of goods sold	\$ 44,971	\$ 37,756	19.1 %
Gross profit	97,393	90,833	7.2 %
Gross margin	68.4 %	70.6 %	(220) bps

Cost of goods sold increased by \$7.2 million, or 19.1%, for the three months ended September 30, 2023, compared to the same period last year. This increase was primarily driven by an increase in the total number of orders in the third quarter of 2023, compared to the same period in 2022.

Gross profit increased by \$6.6 million, or 7.2%, for the three months ended September 30, 2023, compared to the same period last year, primarily due to the increase in the total number of orders in the third quarter of 2023, compared to the same period in 2022.

Gross margin decreased by 2.2 percentage points for the three months ended September 30, 2023, compared to the same period last year. The decrease in gross margin was primarily related to product mix shift and, to a lesser extent, a higher mix of promotional sales and higher duties, partially offset by lower air freight utilization and ocean freight rates.

Operating Expenses

	Three months ended September 30,		Change
	2023	2022	%
<i>(in thousands)</i>			
Operating expenses:			
Selling	\$ 32,195	\$ 31,940	0.8 %
Marketing	19,012	20,031	(5.1)%
General and administrative	36,232	27,652	31.0 %
Total operating expenses	87,439	79,623	9.8 %

Operating expenses increased by \$7.8 million, or 9.8%, for the three months ended September 30, 2023, compared to the same period last year and, as a percentage of net revenues, decreased by 0.4 percentage points, primarily driven by decreases in selling and marketing as a percent of sales, as described below.

Selling expense increased by \$0.3 million, or 0.8%, for the three months ended September 30, 2023, compared to the same period last year and, as a percentage of net revenues, decreased by 2.2 percentage points. The decrease in selling expense as a percentage of net revenues was primarily driven by lower fulfillment expenses, due to lower storage costs and, to a lesser extent, leverage within shipping expense due to higher average order value. This was partially offset by the impact from international duty subsidies and a higher mix of promotional sales.

Marketing expense decreased by \$1.0 million, or 5.1%, for the three months ended September 30, 2023, compared to the same period last year and, as a percentage of net revenues, decreased by 2.2 percentage points. The decrease in marketing expense as a percentage of net revenues was primarily due to greater efficiency in digital marketing across search and social media.

General and administrative expense increased by \$8.6 million, or 31.0%, for the three months ended September 30, 2023, compared to the same period last year and, as a percentage of net revenues, increased by 4.0 percentage points. The increase in general and administrative expense as a percentage of net revenues was primarily driven by higher investment in people, including salaries, bonus, payroll tax and stock-based compensation expense and an update to our accrual methodology for charitable donations in the prior year. This increase was partially offset by reduced professional fees and insurance expenses.

Other Income, Net

	Three months ended September 30,		Change
	2023	2022	%
<i>(in thousands)</i>			
Other income, net	\$ 1,895	\$ 605	213.2 %

Other income, net increased by \$1.3 million, or 213.2%, for the three months ended September 30, 2023, compared to the same period last year, primarily related to an increase in our interest income driven by higher interest rates.

Provision for Income Taxes

	Three months ended September 30,		Change
	2023	2022	%
	(in thousands)		
Provision for income taxes	\$ 5,703	\$ 7,771	(26.6)%

Provision for income taxes decreased by \$2.1 million, or 26.6% for the three months ended September 30, 2023, compared to the same period last year. Our effective tax rate was 48.1 % for the three months ended September 30, 2023, down from the same period last year.

Provision for income taxes was lower for the three months ended September 30, 2023 compared to the same period last year as the prior period had a more significant impact from stock-based compensation and non-deductible officer compensation.

Nine months ended September 30, 2023, Compared to Nine months ended September 30, 2022

The following table sets forth information comparing the components of our results of operations for the periods indicated and our results of operations as a percentage of net revenues for the periods presented.

	Nine months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	(in thousands)		(as a percentage of net revenues)	
Net revenues	\$ 400,728	\$ 360,937	100.0 %	100.0 %
Cost of goods sold	121,625	105,325	30.4	29.2
Gross profit	279,103	255,612	69.6	70.8
Operating expenses				
Selling	97,092	80,801	24.2	22.4
Marketing	56,965	56,263	14.2	15.6
General and administrative ⁽¹⁾	105,229	84,142	26.3	23.3
Total operating expenses	259,286	221,206	64.7	61.3
Net income from operations	19,817	34,406	4.9	9.5
Other income, net	4,483	683	1.1	0.2
Net income before provision for income taxes	24,300	35,089	6.0	9.7
Provision for income taxes	11,663	17,294	2.9	4.8
Net income	\$ 12,637	\$ 17,795	3.1 %	4.9 %

⁽¹⁾ Includes stock-based compensation expense of \$34.3 million and \$26.3 million for the nine months ended September 30, 2023 and 2022, respectively.

Net Revenues

	Nine months ended September 30,		Change
	2023	2022	%
	(in thousands)		
Net revenues	\$ 400,728	\$ 360,937	11.0 %

Net revenues increased by \$39.8 million, or 11.0%, for the nine months ended September 30, 2023, compared to the same period last year. The increase in net revenues was driven primarily by an increase in orders from existing and new customers, and to a lesser extent, an increase in AOV.

Cost of Goods Sold

	Nine months ended		
	September 30,		Change
	2023	2022	
	(in thousands)		
Cost of goods sold	\$ 121,625	\$ 105,325	15.5 %
Gross profit	279,103	255,612	9.2 %
Gross margin	69.6 %	70.8 %	(120) bps

Cost of goods sold increased by \$16.3 million, or 15.5%, for the nine months ended September 30, 2023, compared to the same period last year. This increase was primarily driven by an increase in the total number of orders in the nine months ended September 30, 2023, compared to the same period in 2022.

Gross profit increased by \$23.5 million, or 9.2%, for the nine months ended September 30, 2023, compared to the same period last year, primarily due to the increase in the total number of orders, compared to the same period in 2022.

Gross margin decreased 1.2 percentage points for the nine months ended September 30, 2023, compared to the same period last year. The decrease in gross margin was primarily related to product mix shift and, to a lesser extent, a higher mix of promotional sales and higher duties, partially offset by lower air freight utilization and ocean freight rates.

Operating Expenses

	Nine months ended September 30,		Change
	2023	2022	%
<i>(in thousands)</i>			
Operating expenses:			
Selling	\$ 97,092	\$ 80,801	20.2 %
Marketing	56,965	56,263	1.2 %
General and administrative	105,229	84,142	25.1 %
Total operating expenses	259,286	221,206	17.2 %

Operating expenses increased by \$38.1 million, or 17.2%, for the nine months ended September 30, 2023, compared to the same period last year and, as a percentage of net revenues, increased by 3.4 percentage points, primarily driven by increases in selling and general and administrative expenses, as described below.

Selling expense increased by \$16.3 million, or 20.2%, for the nine months ended September 30, 2023, compared to the same period last year and, as a percentage of net revenues, increased by 1.8 percentage points. The increase in selling expense as a percentage of net revenues was primarily driven by higher fulfillment expenses due to increased storage costs, and, to a lesser extent, the impact from international duty subsidies and a higher mix of promotional sales.

Marketing expense increased by \$0.7 million, or 1.2%, for the nine months ended September 30, 2023, compared to the same period last year and, as a percentage of net revenues, decreased by 1.4 percentage points. The decrease in marketing expense as a percentage of net revenues was primarily due to timing shifts in brand marketing investments related to ambassador activations and out of home advertising, and, to a lesser extent, efficiency in digital marketing across search and social media.

General and administrative expense increased by \$21.1 million, or 25.1%, for the nine months ended September 30, 2023, compared to the same period last year and, as a percentage of net revenues, increased by 3.0 percentage points. The increase in general and administrative expense as a percentage of net revenues was primarily driven by higher investment in people, including salaries, bonus, payroll tax and stock-based compensation expense, and, to a lesser extent, an update to our accrual methodology for charitable donations in the prior year. This increase was partially offset by reduced legal and insurance expenses.

Other Income, Net

	Nine months ended September 30,		Change
	2023	2022	%
	(in thousands)		
Other income, net	\$ 4,483	\$ 683	556.4 %

Other income, net increased by \$3.8 million, or 556.4%, for the nine months ended September 30, 2023, compared to the same period last year, primarily related to an increase in our interest income driven by higher interest rates.

Provision for Income Taxes

	Nine months ended September 30,		Change
	2023	2022	%
	(in thousands)		
Provision for income taxes	\$ 11,663	\$ 17,294	(32.6)%

Provision for income taxes decreased by \$5.6 million, or 32.6% for the nine months ended September 30, 2023, compared to the same period last year. Our effective tax rate was 48.0 % for the nine months ended September 30, 2023, down from the same period last year.

Provision for income taxes was lower for the nine months ended September 30, 2023 compared to the same period last year as the prior period had a more significant impact from stock-based compensation and non-deductible officer compensation.

Key Operating Metrics and Non-GAAP Financial Measures

We report our financial results in accordance with GAAP. In addition to the measures presented in our financial statements, we use the following key operational and business metrics to evaluate our business, measure our performance, develop financial forecasts and make strategic decisions. We also believe the non-GAAP financial measures, Adjusted EBITDA, Adjusted EBITDA Margin and free cash flow, are useful in evaluating our performance. Our non-GAAP financial measures should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP.

Active Customers, Net Revenues per Active Customer, and Average Order Value

The number of active customers is an important indicator of our growth as it reflects the reach of our digital platform, our brand awareness and overall value proposition. We define an active customer as a unique customer account that has made at least one purchase in the preceding 12-month period. In any particular period, we determine the number of active customers by counting the total number of customers who have made at least one purchase in the preceding 12-month period, measured from the last date of such period.

	As of September 30,	
	2023	2022
	(in thousands)	
Active customers	2,576	2,154

We believe measuring net revenues per active customer is important to understanding our engagement and retention of customers, and as such, our value proposition for our customer base. We define net revenues per active customer as the sum of total net revenues in the preceding twelve month period divided by the current period active customers.

	As of September 30,	
	2023	2022
Net revenues per active customer	\$ 212	\$ 227

We define average order value ("AOV") as the sum of the total net revenues in a given period divided by the total orders placed in that period. Total orders are the summation of all completed individual purchase transactions in a given period. We believe our relatively high average order value demonstrates the premium nature of our product. As we expand into and increase our presence in additional product categories, price points and international markets, AOV may fluctuate.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Average order value	\$ 114	\$ 112	\$ 114	\$ 112

Adjusted EBITDA and Adjusted EBITDA Margin

We calculate Adjusted EBITDA as net income (loss) adjusted to exclude: other income (loss), net; gain/loss on disposal of assets; provision for income taxes; depreciation and amortization expense; stock-based compensation and related expense; transaction costs; and expenses related to non-ordinary course disputes. Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by net revenues.

Management believes that excluding certain non-cash items and items that may vary substantially in frequency and magnitude period-to-period from net income provides useful supplemental measures that assist in evaluating our ability to generate earnings, provide consistency and comparability with our past financial performance and facilitate period-to-period comparisons of our core operating results as well as the results of our peer companies.

There are several limitations related to the use of Adjusted EBITDA and Adjusted EBITDA margin as analytical tools, including:

- other companies may calculate Adjusted EBITDA and Adjusted EBITDA margin differently, which reduces their usefulness as a comparative measure;
- Adjusted EBITDA and Adjusted EBITDA margin do not reflect other income (loss), net;
- Adjusted EBITDA and Adjusted EBITDA margin do not reflect any gain or loss on disposal of assets;
- Adjusted EBITDA and Adjusted EBITDA margin do not reflect our tax provision, which reduces cash available to us;
- Adjusted EBITDA and Adjusted EBITDA margin do not reflect recurring, non-cash expenses of depreciation and amortization of property and equipment and, although these are non-cash expenses, the assets being depreciated and amortized may have to be replaced in the future;
- Adjusted EBITDA and Adjusted EBITDA margin do not reflect the impact of stock-based compensation and related expense;
- Adjusted EBITDA and Adjusted EBITDA margin do not reflect transaction costs; and
- Adjusted EBITDA and Adjusted EBITDA margin do not reflect expenses related to non-ordinary course disputes.

The following table reflects a reconciliation of Adjusted EBITDA to Net income (loss), the most directly comparable financial measure prepared in accordance with GAAP and presents Adjusted EBITDA margin with Net income (loss) margin, the most directly comparable financial measure prepared in accordance with GAAP:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
<i>(in thousands, except margin)</i>				
Net income	\$ 6,146	\$ 4,044	\$ 12,637	\$ 17,795
Add (deduct):				
Other income, net	(1,895)	(605)	(4,483)	(683)
Provision for income taxes	5,703	7,771	11,663	17,294
Depreciation and amortization expense ⁽¹⁾	756	479	2,128	1,287
Stock-based compensation and related expense ⁽²⁾	13,713	9,082	36,195	26,335
Expenses related to non-ordinary course disputes ⁽³⁾	—	254	1,256	5,458
Adjusted EBITDA	\$ 24,423	\$ 21,025	\$ 59,396	\$ 67,486
Net revenues	\$ 142,364	\$ 128,589	\$ 400,728	\$ 360,937
Net income margin ⁽⁴⁾	4.2 %	3.1 %	3.1 %	4.9 %
Adjusted EBITDA margin	17.2 %	16.4 %	14.8 %	18.7 %

⁽¹⁾ Excludes amortization of debt issuance costs included in "Other income, net."

⁽²⁾ Includes stock-based compensation expense, payroll taxes and costs related to equity award activity.

⁽³⁾ Exclusively represents attorney's fees, costs and expenses incurred by the Company in connection with the Company's now-concluded litigation against Strategic Partners, Inc.

⁽⁴⁾ Net income margin represents net income as a percentage of net revenues.

Free Cash Flow

We calculate free cash flow as net cash (used in) provided by operating activities reduced by capital expenditures, including purchases of property and equipment and capitalized software development costs. We believe free cash flow is a useful supplemental measure of liquidity and an additional basis for assessing our ability to generate cash. There are limitations related to the use of free cash flow as an analytical tool, including: other companies may calculate free cash flow differently, which reduces its usefulness as a comparative measure; and free cash flow does not reflect our future contractual commitments and it does not represent the total residual cash flow for a given period.

The following table presents a reconciliation of free cash flow to net cash (used in) provided by operating activities, the most directly comparable financial measure calculated in accordance with GAAP:

	Nine months ended September 30,	
	2023	2022
<i>(in thousands)</i>		
Net cash (used in) provided by operating activities	\$ 80,647	\$ (39,881)
Less: capital expenditures	(9,733)	(4,256)
Free cash flow	\$ 70,914	\$ (44,137)

Liquidity and Capital Resources

As of September 30, 2023 and December 31, 2022, we had \$183.0 million and \$159.8 million of cash and cash equivalents, respectively. Since inception, we have financed operations primarily through cash flows from operating activities, the sale of our capital stock and borrowings under credit facilities.

In September 2021, we entered into a credit agreement with Bank of America, N.A. providing for a revolving credit facility in an amount of up to \$100.0 million (as amended, the “2021 Facility”). The 2021 Facility will mature in September 2026. As of September 30, 2023, we had no outstanding borrowings under the 2021 Facility (other than \$4.9 million of outstanding letters of credit) and available borrowings of \$95.1 million.

See Note 8 to our condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information regarding the 2021 Facility.

Our cash requirements have primarily been for working capital and capital expenditures. We believe that existing cash and cash equivalents, cash flows from operations and available borrowings under our 2021 Facility, if needed, will be sufficient to support our working capital and capital expenditure requirements for at least the next 12 months.

Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, the timing and extent of international expansion efforts and other growth initiatives, the expansion of our marketing activities and overall economic conditions. To the extent that current and anticipated future sources of liquidity are insufficient to fund our future business activities and cash requirements, we may be required to seek additional equity or debt financing. The sale of additional equity would result in additional dilution to our stockholders. The incurrence of additional debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations. There can be no assurances that we will be able to raise additional capital when needed or on terms acceptable to us. The inability to raise capital if needed would adversely affect our ability to achieve our business objectives.

Historical Cash Flows

The following table summarizes our cash flows for the periods presented:

	Nine months ended September 30,	
	2023	2022
	<i>(in thousands)</i>	
Cash flows from operating activities	\$ 80,647	\$ (39,881)
Cash flows from investing activities	(57,988)	(4,756)
Cash flows from financing activities	517	2,789
Net change in cash and cash equivalents	\$ 23,176	\$ (41,848)

Operating Activities

Cash flows from operating activities consists primarily of net income adjusted for certain items including depreciation and amortization, stock-based compensation expense and the effect of changes in operating assets and liabilities.

Cash flows from operating activities increased by \$120.5 million for the nine months ended September 30, 2023, compared to the same period last year. The increase in operating cash flows was primarily due to a net change in operating assets and liabilities of \$118.2 million driven by lower inventory purchases of \$116.8 million, the timing of income tax payments of \$13.6 million, the timing of cash receipts from accounts receivable of \$6.5 million, and the timing of payments for prepaid expenses of \$4.9 million. These improvements were partially offset by the timing of payments against accrued expenses of \$17.1 million and the timing of payments against accounts payable of \$10.5 million.

Investing Activities

Cash flows from investing activities consists of capital expenditures and purchases of investments.

Cash flows from investing activities decreased by \$53.2 million for the nine months ended September 30, 2023, compared to the same period last year. The decrease in investing cash flows was primarily due to purchases of available-for-sale securities of \$65.8 million with no comparable activity in the prior year and an increase in capital expenditures of \$5.5 million. The decrease was offset by maturities of available-for-sale securities of \$17.6 million, with no comparable activity in the prior year.

Capital expenditures during the nine months ended September 30, 2023 were primarily related to capitalized projects in progress and software development costs.

Capital expenditures during the nine months ended September 30, 2022 were primarily related to capitalized software development costs, purchases of computer equipment, and purchases of warehouse machinery.

Financing Activities

Cash flows from financing activities consists primarily of proceeds and payments related to transactions involving our common stock, borrowings, and fees associated with our existing line of credit.

Cash flows from financing activities of \$0.5 million for the nine months ended September 30, 2023 was attributable to proceeds from stock option exercises and employee stock purchases, offset by tax payments related to net share settlements on restricted stock units ("RSUs").

Cash flows from financing activities of \$2.8 million for the nine months ended September 30, 2022 was primarily attributable to proceeds from stock option exercises and employee stock purchases.

Contractual Obligations and Commitments

Refer to Note 9 to our condensed financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for commitments entered into during the nine months ended September 30, 2023.

Critical Accounting Policies and Estimates

Our condensed financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q are prepared in accordance with GAAP. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from our 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 our 2022 Annual Report on Form 10-K. There have been no material changes to our critical accounting policies since December 31, 2022. See Note 2 to our condensed financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for a description of our other significant accounting policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to the quantitative and qualitative disclosures about market risk disclosed in our 2022 Annual Report on Form 10-K.

Item 4. Controls and Procedures.

Limitations on effectiveness of controls and procedures

In designing and evaluating our 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 judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of disclosure controls and procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2023, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

On November 1, 2022, a putative class action complaint was filed against us and certain of our executive officers and directors in the United States District Court for the Central District of California alleging, among other things, violations of the Securities Act and Exchange Act for allegedly making false and misleading statements in our initial public offering in May 2021 and thereafter. An additional putative class action complaint was filed against us, certain of our executive officers and directors, stockholders and the underwriters to our IPO, in the United States District Court for the Central District of California on December 8, 2022, making similar allegations to the previously referenced purported class action. On February 14, 2023, the court consolidated the two complaints and appointed lead plaintiffs. On April 10, 2023, the lead plaintiffs filed a consolidated amended complaint against us, certain of our executive officers and directors, stockholders and the underwriters to our IPO, alleging, among other things, violations of the Securities Act and Exchange Act for allegedly making false and misleading statements between May 27, 2021 and February 28, 2023 with respect to our ability to predict customer demand and to manage our supply chain, inventory, air freight usage and costs (the “Class Action Securities Litigation”). The complaint seeks unspecified compensatory damages and attorney’s fees and costs. On May 25, 2023, defendants filed a motion to dismiss the consolidated amended complaint, and that motion is fully briefed and pending with the court.

On June 2, 2023, a putative stockholder, Paige McMurtrie, filed a derivative lawsuit against us and certain of our current and former executive officers, directors and stockholders in the United States District Court for the Central District of California. The derivative complaint alleges factual allegations largely tracking allegations made in the Class Action Securities Litigation and seeks, among other things, damages and restitution to be paid to the Company by the individual defendants, governance changes and attorney’s fees and costs. On June 8, 2023, the plaintiff voluntarily dismissed that action brought in the Central District of California and re-filed it in the United States District Court for the District of Delaware (the “McMurtrie Action”). On July 11, 2023, another putative stockholder, Andrew Wubben, filed a derivative lawsuit asserting claims and factual allegations that are materially equivalent to the McMurtrie Action (the “Wubben Action”). On July 31, 2023, the parties to the McMurtrie Action and Wubben Action filed a stipulation to consolidate those actions and any future actions that may be filed based on the same claims and factual allegations (collectively, the “Consolidated Derivative Action”). On September 25, 2023, the parties to the Consolidated Derivative Action filed a stipulation voluntarily staying the Consolidated Derivative Action until (1) the dismissal of the Class Action Securities Litigation, with prejudice, and exhaustion of all related appeals; or (2) the denial of any motion to dismiss the Class Action Securities Litigation in whole or in part; or (3) any of the parties to the Consolidated Derivative Action provides 30-day notice that they no longer consent to the voluntary stay of the Consolidated Derivative Action. On September 20, 2023, another putative stockholder, Osayi Lawani, filed a derivative lawsuit in the Central District of California asserting claims and factual allegations that are materially equivalent to the Consolidated Derivative Action (the “Lawani Action”). We believe the Lawani Action will be dismissed, re-filed in the United States District Court for the District of Delaware and consolidated into the Consolidated Derivative Action.

We intend to continue to vigorously defend against such claims; however, we cannot be certain of the outcome of our ongoing proceedings and, if determined adversely to us, our business and financial condition may be adversely affected.

In addition to the matters described above, from time to time, we have been and may become subject to arbitration, litigation or claims arising in the ordinary course of business. The results of any current or future claims or proceedings cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and litigation costs, diversion of management resources, reputational harm and other factors.

Item 1A. Risk Factors.

Our business involves significant risks. You should carefully consider the risks and uncertainties described below, which update and supersede the risks and uncertainties previously disclosed in Part I, Item 1A of our 2022 Annual Report on Form 10-K, together with all of the other information in this Quarterly Report on Form 10-Q and in our 2022 Annual Report on Form 10-K and in our other filings with the SEC. The realization of any of these risks and uncertainties could have a material adverse effect on our reputation, business, financial condition, results of operations, growth and future prospects as well as our ability to accomplish our strategic objectives. In that event, the market price of our Class A common stock could decline and you could lose part or all of your investment.

Risks Related to Our Business

Our recent rapid growth may not be sustainable or indicative of future growth, and we expect our growth rate to ultimately slow over time.

Our historical rate of growth may not be sustainable or indicative of our future rate of growth, and in future periods, our net revenues could grow more slowly than we expect or decline. We believe that continued growth in net revenues, as well as our ability to improve or maintain margins and profitability, will depend upon, among other factors, our ability to address the challenges, risks and difficulties described elsewhere in this "Risk Factors" section. We cannot provide assurance that we will be able to successfully manage any such challenges or risks to our future growth. Any of these factors could cause our net revenues growth to slow or decline and may adversely affect our margins and profitability. Even if our net revenues continue to increase, we expect that our growth rate could be negatively impacted due to a number of other reasons, including if there is a slowdown in the growth of demand for our products, increased competition, a decrease in the growth or reduction in the size of our overall market or if we cannot capitalize on growth opportunities. Failure to continue to grow our net revenues or improve or maintain margins would adversely affect our business, financial condition and results of operations. You should not rely on our historical rate of growth as an indication of our future performance.

If we fail to manage our growth effectively, our business, financial condition and results of operations may be adversely affected.

To manage our growth effectively, we must continue to implement our operational plans and strategies, improve and expand our infrastructure of people and information systems and expand, train and manage our employee base. We face significant competition for personnel, including in Southern California, where our headquarters is located. To attract top talent, we may need to increase our employee compensation levels to remain competitive in attracting and retaining talented employees. In addition, we could be required to continue to expand our sales and marketing, product development and distribution functions, to upgrade our management information systems and other processes and technology and to obtain more space for our expanding workforce. Additionally, the growth of our business places significant demands on our existing management and other employees. Failure to manage our employee base and hiring needs effectively, including successfully integrating our new hires, may adversely affect our business, financial condition and results of operations.

In addition, we are required to manage relationships with a growing number of customers, suppliers, manufacturers, distributors and other third parties. If we are unable to expand supply, manufacturing and distribution capabilities when required, or our information technology systems and our other processes are inadequate to support the future growth of these relationships, we could experience delays in customer service and order response and shipping times, which would adversely impact our reputation and brand. If we are unable to manage the growth of our organization effectively, our business, financial condition and results of operations may be adversely affected.

We have not always been profitable and may not be profitable in the future.

We have not always been profitable. We expect our operating expenses to increase in the future as we increase our sales and marketing efforts, continue to invest in developing new products, hire additional personnel, expand our operating infrastructure and expand into new geographies. Further, as a public company, we incur additional legal, accounting and other expenses that we did not incur as a private company. Additionally, stock-based compensation expense related to equity awards has been and may from time to time be a significant expense in future periods, which impacts our net income. These efforts and additional expenses may be more costly than we expect, and we cannot guarantee that we will be able to increase our net revenues to offset our increased operating expenses. Our net revenues growth may slow for a number of other reasons, including if we experience reduced demand for our products, increased competition, a decrease in the growth or reduction in the size of our overall market or if we cannot capitalize on growth opportunities. If our net revenues do not grow at a greater rate than our operating expenses, we will not be able to maintain the level of profitability that we have achieved.

Our success depends on our ability to maintain the value and reputation of our brand.

The FIGS brand is integral to our business strategy and our ability to attract and engage customers. Maintaining, promoting and positioning our brand will depend largely on the success of our marketing and branding efforts and our ability to provide a consistent, high quality product and customer experience. Our brand may suffer if we fail to achieve these objectives or if our public image were to be tarnished by negative publicity about us, including our products,

technology, customer service, personnel, marketing efforts, ambassadors or suppliers. Even isolated incidents involving our company, suppliers, agents or third-party service providers, or the products we sell, could erode the trust and confidence of our customers and damage the strength of our brand, especially if such incidents result in adverse publicity, governmental investigations, product recalls or litigation.

In addition, the importance of our brand may increase to the extent we experience increased competition, which could require additional expenditures on our brand promotion activities. Maintaining and enhancing our brand image also may require us to make additional investments in areas such as merchandising, marketing and online operations. These investments may be substantial and may not ultimately be successful. Moreover, if we are unsuccessful in protecting our intellectual property rights in our brand, the value of our brand may be harmed. Any harm to our brand and reputation could adversely affect our ability to attract and engage customers and negatively impact our business, financial condition and results of operations.

If we fail to attract new customers, retain existing customers, or fail to maintain or increase sales to those customers, our business, financial condition, results of operations and growth prospects will be harmed.

Our success depends in large part upon widespread adoption of our products by healthcare professionals. In order to attract new customers and continue to expand our customer base, we must appeal to and attract healthcare professionals who identify with our products. If the number of healthcare professionals who are willing to purchase our products does not continue to increase, if we fail to deliver a high quality shopping experience or if our current or potential future customers are not convinced that our products are superior to alternatives, then our ability to retain existing customers, acquire new customers and grow our business may be harmed. We have made significant investments in enhancing our brand and attracting new customers, and we expect to continue to make significant investments to promote our products, including marketing campaigns that can be expensive and may not always result in new customers or increased sales of our products. These factors, in turn, have from time to time increased and may again increase our customer acquisition costs over time. Further, as our brand becomes more widely known, we may not attract new customers or increase our net revenues at the same rates as we have in the past. If we are unable to acquire new customers who purchase products in numbers sufficient to grow our business, we may not be able to generate the scale necessary to drive beneficial network effects with our suppliers, our net revenues may decrease, and our business, financial condition and operating results may be adversely affected.

In addition, our future success depends in part on our ability to increase sales to our existing customers over time, as a significant portion of our net revenues are generated from sales to existing customers, particularly those existing customers who are highly engaged and make frequent and/or large purchases of the products we offer. If existing customers no longer find our products appealing, are not satisfied with our customer service, including shipping times, or if we are unable to timely update our products to meet current trends and customer demands, our existing customers may not make purchases, or if they do, they may make fewer or smaller purchases in the future.

If we are unable to continue to attract new customers or our existing customers decrease their spending on the products we offer or fail to make repeat purchases of our products, our business, financial condition, results of operations and growth prospects will be harmed.

If our marketing efforts are not successful, our business, financial condition and results of operations could be harmed.

We create differentiated brand marketing content and utilize performance marketing to drive customers from awareness to consideration to conversion, and promoting awareness of our brand and products is important to our ability to grow our business, drive customer engagement and attract new customers. Our marketing strategy includes brand marketing campaigns across platforms, including email, digital, display, site, direct-mail, commercials, social media, out-of-home campaigns and ambassadors, as well as performance marketing efforts, including retargeting, paid search and product listing advertisements, paid social media advertisements, search engine optimization, personalized email and mobile push notifications through our mobile app.

We have historically also benefited from social media, customer referrals and word of mouth to advertise our brand. Social networks are important as a source of new customers and as a means by which to connect with existing customers, and such importance may be increasing. In addition, we have implemented grassroots marketing efforts such as engaging with local doctors, nurses and other healthcare professionals, some of whom we refer to as our ambassadors, to assist us by introducing our brand and culture to their communities. Our social media and grassroots efforts must be tailored to each particular market, which requires substantial efforts as we enter new markets, as well as ongoing attention and resources.

We also seek to engage with our customers and build awareness of our brands through sponsoring unique events and experiences. If our marketing efforts and messaging are not appropriately tailored to and accepted by the healthcare community, we may fail to attract customers and our brand and reputation may be harmed. Our future growth and profitability and the success of our brand will depend in part upon the effectiveness and efficiency of these marketing efforts.

We also receive a significant amount of visits to our digital platform via social media or other channels used by our existing and prospective customers. As eCommerce and social media continue to rapidly evolve, we must continue to establish relationships with these channels and may be unable to develop or maintain these relationships on acceptable terms. In addition, we currently receive a significant number of visits to our website and mobile app via search engine results. Search engines frequently change the algorithms that determine the ranking and display of results of a user's search, which could reduce the number of visits to our website, in turn reducing new customer acquisition and adversely affecting our results of operations. If we are unable to cost-effectively drive traffic to our digital platform, our ability to acquire new customers and our financial condition would suffer. Email marketing efforts are also important to our marketing efforts. If we are unable to successfully deliver emails to our customers or if our customers do not engage with our emails, whether out of choice, because those emails are marked as low priority or spam or for other reasons, our business could be adversely affected.

We also have and may in the future adjust our marketing activity and spend from period to period or within a period as we launch new campaigns or offerings, or for other reasons. Because of these adjustments and because marketing initiatives may become increasingly expensive, generating a meaningful return on those initiatives may be difficult or unpredictable. Moreover, even if we successfully increase net revenues as a result of our marketing efforts, it may not offset the additional marketing expenses we incur.

If our marketing efforts are not successful in promoting awareness of our products, driving customer engagement or attracting new customers, or if we are not able to cost-effectively manage our marketing expenses, our results of operations could be adversely affected.

Our business depends on our ability to maintain a strong community of engaged customers and ambassadors, including through the use of social media. We may not be able to maintain and enhance our brand if we experience negative publicity related to our marketing efforts or use of social media, fail to maintain and grow our network of ambassadors or otherwise fail to meet our customers' expectations.

We partner with ambassadors to help raise awareness of our brand and engage with our community. Our ability to maintain relationships with our existing ambassadors and to identify new ambassadors is critical to expanding and maintaining our customer base. As our market becomes increasingly competitive or as we expand internationally, recruiting and maintaining new ambassadors may become increasingly difficult. If we are not able to develop and maintain strong relationships with our ambassador network, our ability to promote and maintain awareness of our brand may be adversely affected. Further, if we incur excessive expenses in this effort, our business, financial condition and results of operations may be adversely affected.

We and our ambassadors use third-party social media platforms to raise awareness of our brand and engage with our community. As existing social media platforms evolve and new platforms develop, we and our ambassadors must continue to maintain a presence on these platforms and establish presences on emerging popular social media platforms. If we are unable to cost-effectively use social media platforms as marketing tools, our ability to acquire new customers and our financial condition may suffer. Furthermore, as laws and regulations governing the use of these platforms evolve, any failure by us, our ambassadors, our sponsors or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms could subject us to regulatory investigations, class action lawsuits, liability, fines or other penalties and adversely affect our business, financial condition and results of operations. In addition, an increase in the use of social media for product promotion and marketing may cause an increase in the burden on us to monitor compliance of such materials, and increase the risk that such materials could contain problematic product or marketing claims in violation of applicable regulations. For example, in some cases, the Federal Trade Commission has sought enforcement action where an endorsement has failed to clearly and conspicuously disclose a financial relationship or material connection between an influencer and an advertiser.

Our ambassadors could engage in behavior or use their platforms in a manner that reflects poorly on our brand or is in violation of applicable regulations or platform terms of service, and may be attributed to us. Negative commentary regarding us, our products or ambassadors and other third parties who are affiliated with us, whether accurate or not, may

be posted on social media platforms at any time and may adversely affect our reputation, brand and business. The harm may be immediate, without affording us an opportunity for redress or correction and could have an adverse effect on our business, financial condition and results of operations.

In addition, customer complaints or negative publicity related to our website, mobile app, products, product delivery times, customer data handling, marketing efforts, security practices or customer support, especially on blogs and social media websites, could diminish customer loyalty and community engagement.

If we do not continue to successfully develop and introduce new, innovative and updated products, we may not be able to maintain or increase our sales and profitability.

We are an apparel and lifestyle brand for healthcare professionals. As a result, our success depends in part on our ability to create apparel for healthcare professionals, as well as to anticipate and react to changing customer demands in a timely manner. All of our products are subject to changing customer preferences that cannot be predicted with certainty. If we do not continue to introduce new products or innovations on existing products in a timely manner or our new products or innovations are not accepted by our customers, or if our competitors introduce similar products in a more timely fashion, our brand or our position as a leader in healthcare apparel could be harmed.

Further, our new products and innovations, including to fit and style, on existing and future products may not receive the same level of customer acceptance as our products have in the past. Customer preferences could change, especially as we expand our product offerings beyond our core scrubwear, and our future success depends in part on our ability to anticipate and respond to these changes. Our failure to anticipate and respond in a timely manner to changing customer preferences could lead to, among other things, lower sales, excess inventory or inventory shortages, markdowns and write-offs and diminished brand loyalty. Even if we are successful in anticipating customer needs and preferences, our ability to adequately address those needs and preferences will in part depend upon our continued ability to develop and introduce innovative, high quality products and designs and maintain our distinctive brand identity as we expand the range of products we offer. A failure to effectively introduce new products or innovations on existing products that appeal to our customers could result in a decrease in net revenues and excess inventory levels, which could adversely affect our business, financial condition and results of operations.

The market for healthcare apparel is highly competitive.

We compete in the healthcare apparel industry, principally on the basis of product quality, innovation, style, price, brand image, distribution model, as well as customer experience and service. The industry is highly competitive and includes established companies as well as new entrants. Some of our competitors also have longer operating histories, larger market share and greater resources than we do.

We compete against wholesalers of healthcare apparel, such as Careismatic Brands, Barco Uniforms, Landau Uniforms and Superior Group of Companies. Additionally, we compete with healthcare apparel specialty retailers, such as Scrubs & Beyond and Uniform Advantage as well as digitally native brands such as Jaanuu and Mandala. We also currently and in the future may continue to face competition from large, diversified apparel brands with name recognition and well-established sales, manufacturing and distribution infrastructure that choose to expand into the production and marketing of healthcare apparel, such as Fabletics.

Our competitors may be able to achieve and maintain market share more quickly and effectively than we can. Similarly, if customers perceive the products offered by our competitors to be of higher quality than ours, or our competitors offer similar products at lower prices, our revenues may decline, which would adversely affect our results of operations.

Many of our potential competitors promote their brands primarily through traditional forms of advertising, such as print media, and have substantial resources to devote to such efforts. Our competitors may also use traditional forms of advertising more quickly in new markets than we can. While we believe that our direct-to-consumer business model offers us competitive advantages, our competitors may also be able to increase sales in their new and existing markets faster than we do by emphasizing different distribution channels than we do, such as wholesale and an extensive franchise network of retail stores, and many of our competitors have substantial resources to devote toward increasing sales in such ways. Competition may result in pricing pressures, reduced profit margins or lost market share or a failure to grow our market share, any of which could substantially harm our business, financial condition and results of operations.

Our future success depends on the continuing efforts of our key employees and our ability to attract and retain highly skilled team members.

We are dependent on our ability to continue to identify, attract, develop and retain qualified and highly skilled team members. In particular, we are highly dependent on the services of our co-founders, Heather Hasson and Trina Spear, who serve as our Executive Chair and Chief Executive Officer, respectively, and who are critical to the development of our business, future vision and strategic direction. We also heavily rely on the continued service and performance of other members of our senior management team. If the senior management team, including any new hires that we make, fails to work together effectively or to execute our plans and strategies on a timely basis, our business and future growth prospects could be harmed.

Additionally, the loss of any key team members could make it more difficult to manage our business, including operations, research, development, production, marketing, design, merchandising, engineering and finance activities, reduce our employee retention and net revenues and impair our ability to compete. Although we have entered into employment agreements with certain key team members, these agreements have no specific duration and constitute at-will employment. We have not obtained key man life insurance policies on any of our senior management team. As a result, we would have no way to cover the financial loss if we were to lose the services of members of our senior management team.

Competition for highly skilled team members is often intense, especially in Southern California, where our headquarters is located. We may not be successful in attracting or retaining qualified team members to fulfill our current or future needs. We may experience difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Failure to manage our employee base and hiring needs effectively, including successfully integrating our new hires, or to retain and motivate our current team members may adversely affect our business, financial condition and results of operations.

If we cannot maintain our culture as we grow, we could lose the innovation, teamwork and passion that we believe contribute to our success and our business may be harmed.

We believe that a critical component of our success has been our corporate culture. We have invested substantial time and resources in building our culture, which is rooted in passion, purpose and innovation. As we continue to grow, including geographically expanding our presence outside of our headquarters in Santa Monica, California, and developing the infrastructure associated with being a public company, we will need to continue to maintain our culture among a larger number of employees, dispersed across various geographic regions. Any failure to preserve our culture could negatively affect our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives.

We plan to expand into additional international markets over time, which will expose us to new and significant risks.

Our current operations and customer base are based largely in the United States, and our future growth depends in part on our ongoing expansion efforts outside of the United States. While we currently ship to certain countries in North America, Europe, the Asia Pacific region and the Middle East, we have a limited number of customers and experience operating outside of the United States. We also have limited experience with regulatory environments and market practices outside of the United States and cannot guarantee that we will be able to penetrate or successfully operate in any market outside of the United States. In connection with our expansion efforts, we may encounter obstacles we do not face in the United States, including cultural and linguistic differences, differences in regulatory environments and market practices, difficulties in keeping abreast of market, business and technical developments and foreign customers' tastes and preferences.

We may also encounter difficulty expanding into new markets because of limited brand recognition in those markets, leading to delayed acceptance of our apparel by customers there. In particular, we have no assurance that our marketing efforts will prove successful outside of the narrow geographic regions in which they have been used in the United States. The expansion into new markets may also present competitive, merchandising, forecasting and distribution challenges that are different from or more severe than those we currently face. There are also other risks and costs inherent in doing business in international markets, including:

- the need to adapt and localize products for specific countries to account for, among other things, different cultural tastes, size and fit preferences or regulatory requirements;

- difficulty establishing and managing international operations and the increased operations, travel, infrastructure, including establishment of local delivery service and customer service operations, and legal compliance costs associated with locations in different countries or regions;
- increased shipping times to and from international markets;
- the need to vary pricing and margins to effectively compete in international markets;
- increased competition from local providers of similar products;
- the ability to protect and enforce intellectual property rights abroad;
- the need to offer customer support in various languages;
- difficulties in understanding and complying with local laws, regulations and customs in other jurisdictions;
- compliance with anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act (the “FCPA”), and the U.K. Bribery Act 2010 (the “U.K. Bribery Act”), by us, our employees and our business partners;
- complexity and other risks associated with current and future legal requirements in other countries, including legal requirements related to medical apparel, customer advertising protection, customer product safety and data privacy and security frameworks, such as the EU General Data Protection Regulation 2016/679 (the “GDPR”) and the UK GDPR;
- the potential need to utilize new suppliers or comply with additional regulations regarding our suppliers, supply chain or value chain;
- varying business practices and customs related to the sale of medical apparel;
- varying levels of internet technology adoption and infrastructure, and increased or varying network and hosting service provider costs;
- tariffs and other non-tariff barriers, such as quotas and local content rules, as well as tax consequences;
- fluctuations in inflationary conditions, which could increase our costs of doing business in certain countries;
- fluctuations in currency exchange rates and the requirements of currency control regulations, which might restrict or prohibit conversion of other currencies into U.S. dollars; and
- political or social unrest, economic instability or armed conflict in a specific country or region in which we operate, including, for example, Russia's invasion of Ukraine and armed conflict in Israel, Gaza and the Middle East generally.

Our failure to successfully manage these risks could harm our international operations and have an adverse effect on our business, financial condition and results of operations.

Shipping is a critical part of our business and changes in, or disruptions to, our shipping arrangements have in the past and may in the future adversely affect our business, financial condition and results of operations.

We currently rely on third-party global providers to deliver the products we offer on our website and mobile app. If we are not able to negotiate acceptable pricing and other terms with these providers, or if these providers experience performance problems or other difficulties in processing our orders or delivering our products to customers, it could negatively impact our results of operations and our customers' experience. Furthermore, changes to the terms of our shipping arrangements or the imposition of surcharges or surge pricing have in the past and may in the future adversely impact our margins and profitability. For example, the ongoing volatility in the global oil markets, including as a result of Russia's invasion of Ukraine, other wars or armed conflicts, or changes in global supply generally, has from time to time resulted in higher fuel prices, which shipping companies have from time to time passed on to their customers by way of increased fuel surcharges. We have from time to time experienced increased shipping costs as a result, and these costs may continue to increase in the future. We may not be able to or choose to pass such increases on to our customers in the future.

In addition, the operations of the third-party providers on which we rely from time to time have been, and may in the future be, disrupted by the ongoing COVID-19 pandemic. For example, strained parcel carrier networks have from time to time resulted in extended outbound shipping times generally and additional shipping costs. The COVID-19 pandemic or any future pandemic, epidemic or outbreak of an infectious disease may also continue to adversely affect workforces and

supply chains globally, potentially impacting the operations of our third-party shipping providers, which could negatively impact our business and results of operations.

Our ability to receive inbound inventory efficiently and ship merchandise to customers, including at costs to which we are accustomed, may also be negatively affected by other factors beyond our and/or these providers' control, including pandemic, weather, fire, flood, power loss, earthquakes, acts of war, or terrorism or other events specifically impacting other shipping partners, such as labor disputes or shortages, financial difficulties, system failures and other disruptions to the operations of the shipping companies on which we rely. For example, a strike, or threat of a strike, by employees of any of our third-party global providers, other parcel carriers or by port workers, or a work slow-down or other transportation disruption in the ports of Los Angeles or Long Beach, California, where we generally import our products into the U.S., could significantly disrupt our business. We have in the past experienced, and may in the future experience, shipping delays for reasons outside of our control.

We are also subject to risks of damage or loss during delivery by our shipping vendors. If the products ordered by our customers are not delivered in a timely fashion, including to international customers, or are damaged or lost during the delivery process, our customers could become dissatisfied and cease buying products from us, which would adversely affect our business, financial condition and results of operations.

If we experience problems with our distribution and warehouse management systems, our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies could be harmed.

We rely on our sole fulfillment center in the City of Industry, California, which is operated by our third-party logistics provider, for all of our product distribution. We also rely on several additional third-party storage locations to house inventory. Our fulfillment center and storage locations include computer-controlled and automated equipment and rely on a warehouse management systems to manage supply chain fulfillment operations, which means our operations are complicated, require coordination between our fulfillment center, storage locations and retail operations, and are subject to a number of risks related to cybersecurity, the proper operation of software and hardware, including connections between software and/or hardware, electronic or power interruptions or other system failures. In addition, because all of our products are distributed from our City of Industry fulfillment center, our operations could also be interrupted by labor difficulties, or by floods, fires or other natural disasters near our fulfillment center and storage locations. We maintain business interruption insurance, but it may not adequately protect us from the adverse effects that could result from significant disruptions to our distribution system, such as the long-term loss of customers or an erosion of our brand image. Moreover, if we or our third-party logistics provider are unable to adequately staff our fulfillment center to meet demand or if the cost of such staffing is higher than historical or projected costs due to mandated wage increases, regulatory changes, hazard pay, international expansion or other factors, some of which has occurred from time to time and may occur again in the future, our results of operations could be harmed.

Operating a fulfillment center comes with additional potential risks, such as workplace safety issues and employment claims for the failure or alleged failure to comply with labor laws or laws respecting union organizing activities. Our distribution capacity is also dependent on the timely performance of services by third parties, including the shipping of our products to and from our City of Industry distribution facility. We may need to operate additional fulfillment centers in the future to keep pace with the growth of our business, and we cannot assure you that we will be able to locate suitable facilities on commercially acceptable terms in accordance with our expansion plans, nor can we assure you that we will be able to recruit qualified managerial and operational personnel to support our expansion plans. If we encounter problems with our distribution and warehouse management systems, our ability to meet customer expectations, manage inventory and fulfillment capacity, complete sales, fulfill orders in a timely manner and achieve objectives for operating efficiencies could be harmed, which could also harm our reputation and our relationship with our customers.

In addition, operations at our fulfillment center may also be disrupted by the ongoing COVID-19 pandemic. For example, like other similarly situated companies, as a result of the COVID-19 pandemic we have from time to time experienced, and may from time to time experience in the future (including as a result of any future pandemic, epidemic or outbreak of an infectious disease), inbound shipping delays of our product and labor shortages in our fulfillment center that impact our ability to fulfill orders on the timeline to which we have been accustomed. The COVID-19 pandemic may continue to adversely affect workforces and supply chains globally, potentially impacting the operations of our third-party logistics provider, which could negatively impact our business and results of operations.

If we are unable to accurately forecast customer demand, manage our inventory and plan for future expenses, our results of operations could be adversely affected.

We base our current and future inventory needs and expense levels on our operating forecasts and estimates of future demand. To ensure adequate inventory supply, we must be able to forecast inventory needs and expenses and place orders sufficiently in advance with our suppliers and manufacturers, based on our estimates of future demand for particular products. Our ability to forecast demand for our products has from time to time been and will continue to be affected by various factors, including unanticipated changes in general market conditions (for example, because of effects on inventory supply and consumer demand caused by the COVID-19 pandemic and high inflation rates), and economic conditions or consumer confidence in future economic conditions. Failure to accurately forecast demand may result in inefficient inventory supply or increased costs. This risk may be exacerbated by the fact that we may not carry a significant amount of inventory and may not be able to satisfy short-term demand increases. In addition, if we experience increased shipping times from our suppliers and manufacturers and/or production disruptions, we may experience a shortage of products available for sale. Alternatively, if we advance the timing of inventory shipments to mitigate perceived freight transit time volatility and/or sales below our expectations, we may experience excess inventory levels. For example, faster than anticipated ocean freight transit times following our decision to increase weeks of supply during periods of ocean freight transit time volatility, and sales below our expectations as a result of inflationary pressure on consumer spending, have from time to time resulted in increased levels of inventory on hand, which has from time to time resulted in increased storage needs and costs. Inventory levels in excess of customer demand may also result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would cause our gross margin to suffer and could impair the strength and premium nature of our brand.

Further, lower than forecasted demand could also result in excess manufacturing capacity or reduced manufacturing efficiencies, which could result in lower margins. Conversely, if we underestimate customer demand, our suppliers and manufacturers may not be able to deliver products to meet our requirements, and we may be subject to higher costs in order to secure the necessary production capacity or we may incur increased shipping costs. An inability to meet customer demand and delays in the delivery of our products to our customers could result in reputational harm and damaged customer relationships and have an adverse effect on our business, financial condition and results of operations.

Moreover, while we devote significant attention to forecasting efforts, the volume, timing, value and type of the orders we receive are inherently uncertain. In addition, we cannot be sure the same growth rates, trends and other key performance metrics are meaningful predictors of future growth. Our business, as well as our ability to forecast demand, is also affected by general economic and business conditions in the United States and globally, including inflationary pressures, and the degree of customer confidence in future economic conditions, and we anticipate that our ability to forecast demand due to these types of factors will be increasingly affected by conditions in international markets. A significant portion of our expenses is fixed, and as a result, we may be unable to adjust our spending in a timely manner to compensate for any unexpected shortfall in net revenues. Any failure to accurately predict net revenues or gross margins could cause our operating results to be lower than expected, which could adversely affect our financial condition.

Consumer confidence, shopping behavior and spending have been and may continue to be negatively impacted by factors beyond our control, including the COVID-19 pandemic and related economic impacts, supply chain disruptions, inflation, rising interest rates, fear of recession or entry into a recession and geopolitical events, which may adversely affect our business, financial condition and results of operations.

Macroeconomic conditions may adversely affect our business. While we believe our business is largely resistant to recessionary pressures due to the largely non-discretionary nature of scrubwear, consumer spending may decline if general economic conditions deteriorate, and demand for our products has been and may continue to be adversely affected. The repercussions from the ongoing COVID-19 pandemic present significant risks and uncertainty in the global economy, and there has been significant shifts in consumer behavior and spending patterns as a result. Moreover, the COVID-19 pandemic and Russia's invasion of Ukraine have also resulted in significant macroeconomic consequences, risks and uncertainties, including increased fuel and energy prices and depressed financial markets, and as a result consumer confidence may continue to be negatively impacted in the future. Other factors affecting consumers' spending levels include, among others: rising interest rates, the size and timing of federal stimulus programs, wages, levels of employment, inflation, recession and fears of recession or depression or entry into a recession or depression, housing costs, energy costs, income tax rates, financial market fluctuations, consumer perceptions of personal well-being and security, availability of consumer credit and consumer debt levels, and consumer confidence in future economic conditions.

These factors and their impact on macroeconomic consumer spending behavior have from time to time impacted, and may continue to impact in the future, the demand for our products, as well as our financial condition and results of operations.

Merchandise returns could harm our business.

We allow our customers to return our products, subject to our return policy. We generally accept merchandise returns for full refund if returned within 30 days of the original purchase date and for exchange up to 30 days from the original purchase date. Our revenue is reported net of returns and discounts. We estimate our liability for product returns based on historical return trends and an evaluation of current economic and market conditions. We record the expected customer refund liability as a reduction to revenue, and the expected inventory right of recovery as a reduction of cost of goods sold. The introduction of new products, changes in customer confidence or shopping habits or other competitive and general economic conditions could cause actual returns to exceed our estimates. If actual return costs differ from previous estimates, the amount of the liability and corresponding revenue are adjusted in the period in which such costs occur. In addition, from time to time, our products may be damaged in transit, which can also increase return rates. Returned goods may also be damaged prior to or in connection with the return process, which can and has from time to time impeded our ability to restock and resell returned goods. Competitive pressures could cause us to alter our return policies or our shipping policies, which could result in an increase in damaged products and an increase in product returns. If the rate of product returns increases significantly or if product return economics become less efficient, our business, financial condition and results of operations could be harmed.

The fluctuating cost of raw materials could increase our cost of goods sold and cause our business, financial condition and results of operations to suffer.

We have in the past experienced, and may in the future experience, fluctuations in the cost of raw materials used in our products for reasons beyond our control. For example, our core scrubs fabric includes synthetic fabric, the components of which may experience price fluctuations. Our costs for raw materials are affected by, among other things, weather, customer demand, rising interest rates, inflation, geopolitical tensions, volatility in the commodities market, the relative valuations and fluctuations of the currencies of producer versus customer countries and other factors that are generally unpredictable and beyond our control. In addition, the U.S. government's presumptive import ban on materials mined, produced, or manufactured wholly or in part in the Xinjiang region of China, the source of a large portion of certain raw materials, including rayon, may impact global prices and availability of raw materials from which some of our products are made. Increases in the cost of raw materials could adversely affect our cost of goods sold, business, financial condition and results of operations.

Our business may be subject to uncertainty as a result of the ongoing impact of COVID-19 and any future pandemics.

The COVID-19 pandemic has negatively impacted global supply chains and from time to time caused challenges to logistics, including causing ocean freight reliability and capacity issues, increased volatility in ocean freight transit times, port congestion, increased ocean and air freight rates, labor shortages and ocean freight delays. As a result, certain of our ocean freight providers, as well as some of our suppliers and manufacturers, have from time to time experienced delays and shutdowns, and could experience delays and shutdowns again in the future due to the COVID-19 pandemic or other pandemics (including new variants of COVID-19). As a result of these supply chain challenges, we have from time to time contended with, and may continue to contend with, supply chain-related delays, which from time to time have, and may in the future, result in delays receiving finished products from our manufacturers, impact our ability to keep certain products in stock and interrupt product and color launch schedules.

In order to manage the impact of these disruptions and meet our customers' expectations, we have from time to time shipped, and may continue from time to time to ship, goods earlier when possible and adjust shipments to alternate origin and destination ports to avoid delays. We have also from time to time used faster but more expensive air freight and incurred increased freight costs as a result of global supply chain disruptions, which has in the past increased our cost of goods sold and adversely impacted our gross margin, and we may from time to time continue to use more expensive air freight in the future. If we experience elevated costs due to significant and sustained supply chain disruption, we may not be able to, or may not choose to, fully offset such higher costs through price increases, which could harm our business, financial condition and results of operations.

We continue to monitor the impacts of current macroeconomic conditions related to the COVID-19 pandemic. An economic slowdown or recession, financial market volatility, changes in the labor market and geopolitical tensions,

continuing supply chain disruptions, a reduction in consumer spending, or inability for our suppliers, vendors or other parties with whom we do business to meet their contractual obligations, could negatively impact our business and results of operations.

The impact of the COVID-19 pandemic may also exacerbate other risks discussed in this Quarterly Report on Form 10-Q, any of which could have a material effect on us. Though we continue to monitor the COVID-19 pandemic closely, the situation is changing rapidly, including periodic resurgences in many countries, and additional impacts may arise that we are not aware of currently.

Our reliance on a limited number of third-party suppliers to provide materials for and produce our products could cause problems in our supply chain and subject us to additional risks.

We rely on third-party suppliers to manufacture our raw materials, product components and products, and our raw materials, product components and products may be available, in the short-term, from a limited number of sources. We choose not to enter into long-term contracts with any of our suppliers or manufacturers for the production and supply of our raw materials, product components and products, and typically transact business with our suppliers on an order-by-order basis. We also compete with other companies for raw materials, product components and production.

As of September 30, 2023, our supply chain consisted of a diverse network of global production partners spread across multiple continents. Within our supply chain, we source the vast majority of the fabrics used in our products from a limited number of suppliers in China, and we source the other raw materials and product components used in our products, including items such as content labels, elastics, buttons, clasps and drawcords, from suppliers located predominantly in the Asia Pacific region. We also work with manufacturing partners that produce our products in facilities located in South East Asia, China, South America and Jordan, with the vast majority of our products currently in inventory having been produced by a limited number of our largest manufacturing suppliers in South and South East Asia. We are continuously working to strengthen our sourcing and manufacturing capabilities, which includes diversifying manufacturing operations geographically, as well as strategically refining our manufacturing base into fewer high-quality manufacturing partners to improve product quality and consistency. For example, we recently reallocated a material amount of manufacturing geographically, which makes us less dependent on our South East Asia partners. We believe these efforts will enhance our product innovation, quality and lead times across product categories. However, these efforts may subject us to additional risks and costs, which may adversely impact our results of operations in the short term.

We may experience a disruption in the supply of fabrics, raw materials or product components from current sources, and we may be unable to locate alternative materials suppliers of comparable quality at an acceptable price, or at all. In addition, if we experience significantly increased demand, or if we need to replace or discontinue our relationship with an existing supplier or manufacturer, which has occurred from time to time, we may be unable to locate additional suppliers of fabrics, raw materials or product components or additional manufacturing capacity on terms that are acceptable to us, or at all, or we may be unable to locate any supplier or manufacturer with sufficient capacity to meet our requirements or to fill our orders in a timely manner. Identifying a suitable supplier is an involved process that requires us to become satisfied with its quality control, responsiveness and service, financial stability and labor and other ethical practices. Even if we are able to expand existing or find new manufacturing or fabric sources, we may encounter delays in production and added costs as a result of the time it takes to train our suppliers and manufacturers in our methods, products, and quality control standards.

Our supply of fabric or the manufacture of our products could also be disrupted or delayed by the impact of global conflict or war, such as the ongoing conflict in Ukraine, Israel, Gaza and in the Middle East generally, as well as health pandemics, including the ongoing COVID-19 pandemic, and the related government and private sector responsive actions, such as border closures, restrictions on product shipments and travel restrictions. For example, the ongoing COVID-19 pandemic has negatively impacted global supply chains and caused challenges to logistics, including from time to time causing ocean freight reliability and capacity issues, increased volatility in ocean freight transit times, port congestion, increased ocean and air freight rates, labor shortages and ocean freight delays. Certain of our ocean freight providers, as well as some of our suppliers and manufacturers, have from time to time experienced delays and shutdowns, and could experience delays and shutdowns again in the future. As a result of these supply chain challenges, we have from time to time contended, and may again contend with, supply chain-related delays, which from time to time have, and may in the future, result in delays receiving finished products from our manufacturers, impact our ability to keep certain products in stock and interrupt product and color launch schedules.

In order to manage the impact of these disruptions and meet our customers' expectations, we have from time to time shipped, and may continue from time to time, to ship goods earlier when possible and adjust shipments to alternate origin and destination ports to avoid delays. We have also from time to time used faster but more expensive air freight, and we may from time to time need to continue to use more expensive air freight in the future, which has in the past and may in the future increase our cost of goods sold. For example, from time to time, our gross margin has been impacted by higher freight costs, which we believe was as a result of inflation due, in part, to global supply chain disruptions and the COVID-19 pandemic. We continue to monitor the impact of inflation on raw materials, freight, labor, rent, and other costs in order to minimize its effects. A high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general, and administrative expenses as a percentage of net revenue if we are unable, or choose not to, increase the selling prices of our products in proportion with these increased costs. Further, any delays, interruption or increased costs in the supply of fabric or the manufacture of our products, or extended period of global supply chain disruption, could also have an adverse effect on our ability to meet customer demand for our products and result in lower net revenues, increased cost of goods sold and lower net income from operations, both in the short and long term.

Moreover, our suppliers have from time to time manufactured, and may in the future manufacture, products that fail to comply with our technical specifications or that fail to conform to our quality control standards. Under these circumstances, unless we are able to obtain replacement products in a timely manner, we risk the loss of net revenues resulting from the inability to sell those products and related increased administrative and shipping costs, as well as potential inventory write-offs and/or increased fees in connection with additional inspections of our products, which have occurred from time to time. Additionally, if the unacceptability of our products is not discovered until after such products are purchased by our customers, our customers could lose confidence in our products, and our business and brand could be harmed.

The operations of many of our suppliers and manufacturers are subject to additional risks that are beyond our control and that could harm our business, financial condition and results of operations.

Substantially all of our suppliers and manufacturers are located outside of the United States, and as a result, we are subject to risks associated with doing business abroad, including:

- the imposition of new laws and regulations, including those relating to our due diligence of our supply chain as well as labor conditions, quality and safety standards, imports, duties, taxes and other charges on imports, as well as trade restrictions and restrictions on currency exchange or the transfer of funds;
- political unrest, conflict or war, such as Russia's invasion of Ukraine, the armed conflict in Israel, Gaza and the Middle East generally, terrorism, labor disputes and economic instability resulting in the disruption of trade from foreign countries in which our products are manufactured;
- reduced protection for intellectual property rights, including trademark protection, in some countries, particularly in China;
- disruptions or delays in shipments across our supply chain, whether due to port congestion, labor disputes, product regulations and/or inspections or other factors, natural disasters, including in connection with climate change, or health pandemics, or other transportation disruptions; and
- the impact of health conditions, including the ongoing COVID-19 pandemic, and related government and private sector responsive actions, and other changes in local economic conditions in countries where our manufacturers, suppliers or customers are located.

These and other factors beyond our control could interrupt our suppliers' production in offshore facilities, influence the ability of our suppliers to export our products cost-effectively or at all and inhibit our suppliers' ability to procure certain materials, any of which could harm our business, financial condition and results of operations.

Any failure by us or our suppliers or manufacturers to comply with product safety, labor or other laws, provide safe conditions for our or their workers or use or be transparent about ethical business practices may damage our reputation and brand and harm our business.

We are committed to supporting our communities around the globe. Operating with compassion and integrity is core to our values, which makes our reputation sensitive to allegations of unethical or improper business practices, whether real or perceived. The failure of any of our suppliers or manufacturers to provide safe and humane factory conditions and oversight at their facilities could damage our reputation and brand or result in legal claims against us. While we rely on our

manufacturers' and suppliers' compliance reporting as well as contractual provisions in our vendor manual, in order to comply with regulations applicable to our products, expectations of ethical business practices continually evolve and may be substantially more demanding than applicable legal requirements.

We do not control our suppliers and manufacturers or their business, and they may not comply with our guidelines or applicable law. The products we sell are subject to regulation by the Federal Customer Product Safety Commission, the Federal Trade Commission and similar state and international regulatory authorities. Product safety, labeling and licensing concerns may require us to voluntarily remove selected merchandise from our inventory. Such recalls or voluntary removal of merchandise can result in, among other things, lost sales, diverted resources, potential harm to our reputation and increased customer service costs and legal expenses, which could adversely affect our results of operations. Moreover, failure of our suppliers or manufacturers to comply with applicable laws and regulations and contractual requirements could lead to litigation against us or cause us to seek other vendors, which could increase our costs and result in delayed delivery of our products, product shortages or other disruptions of our operations.

Ethical business practices are also driven in part by legal developments and by groups active in publicizing and organizing public responses to perceived ethical shortcomings. For example, there are increasing expectations in various jurisdictions that companies monitor the environmental and social performance of their suppliers, including compliance with a variety of labor practices, as well as consider a wider range of potential environmental and social matters, including the end of life considerations for products. While we have taken efforts to assess our suppliers, expectations on these matters are evolving rapidly. Compliance can be costly and, in certain cases, require us to design supply chains to avoid certain regions altogether. Failure to comply with such regulations can result in fines, reputational damage, denial of import for our products, or otherwise adversely impact our business. In addition to evaluating the substance of companies' practices, such groups also often scrutinize companies' transparency as to such practices and the policies and procedures they use to ensure compliance by their suppliers and other business partners. If we do not meet the transparency standards expected by parties active in promoting ethical business practices, we may attract negative publicity, regardless of whether the actual labor and other business practices adhered to by us and our independent manufacturers are consistent with ethical business practices. Such negative publicity could harm our brand image, business, financial condition and results of operations.

We conduct business with suppliers and manufacturers based in China, which exposes us to risks inherent in doing business there.

We source raw material from, and conduct limited manufacturing in, the People's Republic of China. With the rapid development of the Chinese economy, the cost of labor has increased and may continue to increase. Our results of operations will be adversely affected if the labor costs of our third-party suppliers and manufacturers increase significantly. In addition, our manufacturers and suppliers may be unable to find a sufficient number of qualified workers due to the competitive market for skilled labor in China.

Conducting business in China exposes us to political, legal and economic risks. In particular, the political, legal and economic climate in China is fluid and unpredictable. Our ability to operate in China may be adversely affected by changes in U.S. and Chinese laws and regulations, including those related to taxation, import and export tariffs and restrictions, economic sanctions and export controls, environmental regulations, land use rights, intellectual property, currency controls, network security, employee benefits, hygiene supervision and other matters.

Our ability to operate in China may also be adversely affected by the COVID-19 pandemic. For example, China from time to time has, and in the future may again, enforce broad lockdowns in response to the COVID-19 pandemic, which has affected, and may in the future affect, our third-party suppliers' and manufacturers' ability to timely deliver raw materials, product components and products to us.

In addition, Chinese trade regulations are continuously evolving, and we may become subject to other forms of taxation, tariffs and duties. Furthermore, the third parties we rely on in China may disclose our confidential information or intellectual property to competitors or third parties, which could result in the illegal sale of counterfeit versions of our products. If any of these events occur, our business, financial condition and results of operations could be adversely affected.

Finally, certain trade restrictions related to the Xinjiang region of China could impact our business. The U.S. Government has taken several steps to address forced labor concerns in the Xinjiang Uyghur Autonomous Region of China, including sanctions on specific entities and individuals; withhold release orders ("WROs") issued by U.S. Customs

and Border Protection (“CBP”) that prohibit the entry of imports of certain items from Xinjiang; and the Uyghur Forced Labor Prevention Act, which went into effect in June 2022, and imposes a rebuttable presumption against U.S. imports of any items from Xinjiang and specifically targets the cotton and apparel industry as high-priority sectors for enforcement. We do not intentionally source any products or materials from the Xinjiang region (either directly or indirectly through our supply chain) and we prohibit our suppliers and manufacturers from doing business with or sourcing from any company or entity located in China’s Xinjiang region. However, the presumptive ban on virtually all imports from that region could affect the global sourcing and availability of raw materials, such as rayon, used in the manufacturing of certain of our products and/or lead to our products being held for inspection by CBP and delayed or rejected for entry into the United States, which could unexpectedly affect our inventory levels, result in other supply chain disruptions, or cause us to be subject to penalties, fines or sanctions. Even if we were not subject to penalties, fines or sanctions, if products we source are linked in any way to the Xinjiang region, our reputation could be harmed.

Increases in labor costs, including wages, could adversely affect our business, financial condition and results of operations.

Labor is a significant portion of our cost structure and is subject to many external factors, including unemployment levels, inflation, prevailing wage rates, minimum wage laws, potential collective bargaining arrangements, health insurance costs and other insurance costs and changes in employment and labor legislation or other workplace regulation. From time to time, legislative proposals are made to increase the federal minimum wage in the United States, as well as the minimum wage in California and a number of other states and municipalities, and to reform entitlement programs, such as health insurance and paid leave programs. As minimum wage rates increase, related laws and regulations change, or inflationary or other pressures increase wage rates, we and our partners may need to increase not only the wage rates of minimum wage employees, but also the wages paid to other hourly or salaried employees. For example, hourly wages for employees of our third-party logistics provider have from time to time increased as a result of inflationary pressures, and may in the future increase further, which could adversely impact our fulfillment costs. Any increase in the cost of our or our third-party partners’ labor could have an adverse effect on our business, financial condition and results of operations.

Increases in labor costs could also force us to increase prices, which could adversely impact our sales. If competitive pressures or other factors prevent us from offsetting increased labor costs by increases in prices, our profitability may decline and could adversely affect our business, financial condition and results of operations. In addition, the job market in Southern California, where our principal offices, fulfillment center and the majority of our employees are located, is very competitive. If prevailing rates are driven higher by market forces or otherwise but we fail to pay such higher wages, we could suffer increased employee turnover, adversely affecting our business. While none of our employees is currently covered by a collective bargaining agreement, any attempt by our employees to organize a labor union could also result in increased legal and other associated costs.

A significant portion of our products are produced in Asia, with some of our products produced in China. Increases in the costs of labor and other costs of doing business in these regions could also increase our costs to produce our products and could have a negative impact on our operations and earnings. Factors that could negatively affect our business include a potential significant revaluation of the currencies used in these countries, which may result in an increase in the cost of producing products, labor shortage and increases in labor costs, and difficulties and additional costs in transporting products manufactured from these countries. Also, the imposition of trade sanctions or other regulations against products imported by us from, or the loss of “normal trade relations” status with, any country in which our products are manufactured, could significantly increase our cost of products and harm our business.

Our sales and profitability may decline if product costs increase or selling prices decrease.

Our business is subject to pressure on costs and pricing caused by many factors, including competition, constrained sourcing capacity and related inflationary pressure, pressure from customers to reduce the prices we charge for our products and changes in customer demand. These factors may cause us to experience increased costs while also causing us to reduce prices. If we were to increase prices in response to increased costs, we may experience reduced sales. Any of the forgoing could cause our operating margin to decline if we are unable to offset these factors with reductions in operating costs and could adversely affect our business, financial condition and results of operations.

If we do not successfully optimize, operate and manage the expansion of the capacity of our fulfillment operations, our business, financial condition and results of operations could be harmed.

We intend to expand our fulfillment center capacity and technological functionality, and have leased additional warehouse space to serve as storage centers as our business continues to grow. As we continue to add fulfillment capabilities, technology, warehouse capabilities and space, product categories with different fulfillment requirements or change the mix in products that we sell, our fulfillment network has and will become increasingly complex and operating it will become more challenging. The expansion of our fulfillment center capacity may put pressure on our managerial, financial, operational and other resources. We cannot assure you that we will be able to locate suitable facilities on commercially acceptable terms in accordance with our expansion plans, nor can we assure you that we will be able to recruit qualified managerial and operational personnel to support our expansion plans. In addition, we may be required to further expand our capacity sooner than we anticipate. If we are unable to secure new facilities for the expansion of our fulfillment operations, recruit qualified personnel to support any such facilities or effectively control expansion-related expenses, our order fulfillment and shipping times may be delayed and our business, financial condition and results of operations could be adversely affected.

Our credit agreement contains restrictive covenants that may limit our operating flexibility.

Although we have no outstanding borrowings under our existing credit facility, our credit agreement contains restrictive covenants that, among other things, limit our ability to transfer or dispose of assets, merge with other companies or consummate certain changes of control, acquire other companies, incur additional indebtedness and liens and enter into new businesses. We therefore may not be able to engage in any of the foregoing transactions unless we obtain the consent of the lender or terminate the credit agreement, which may limit our operating flexibility. In addition, our credit agreement is secured by all of our assets and requires us to satisfy certain financial covenants. There is no guarantee that we will be able to generate sufficient cash flow or sales to meet these financial covenants or pay the principal and interest when due under our credit facility. Furthermore, there is no guarantee that future working capital, borrowings or equity financing will be available to repay or refinance any such debt. Any inability to comply with the terms of our credit agreement, including failing to make scheduled payments or to meet the financial covenants, would adversely affect our business. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional information regarding the terms of our existing credit agreement.

A downturn in the economy may adversely affect our business.

We believe that due to the largely non-discretionary nature of healthcare apparel, our business is largely resistant to recessionary pressures. However, due to our limited operating history, we have not experienced a sustained recessionary period and therefore cannot predict the effect on our sales and profitability of a prolonged downturn in the economy. It is possible that a prolonged downturn in the economy in markets in which we sell our products may harm our business, financial condition and results of operations.

We may seek to grow our business through acquisitions of, or investments in, new or complementary businesses, facilities, technologies or products, or through strategic alliances, and the failure to manage these acquisitions, investments or alliances, or to integrate them with our existing business, could adversely affect us.

From time to time, we acquire or make investments in new or complementary businesses, facilities, technologies, offerings or products, or enter into strategic alliances, that may enhance or augment our capabilities, expand our outsourcing and supplier network, complement our current products or services or expand the breadth of our markets. Acquisitions, investments and other strategic alliances involve numerous risks, including:

- problems integrating the acquired business, facilities, technologies or products, including issues maintaining uniform standards, procedures, controls, policies and culture;
- unanticipated costs associated with acquisitions, investments or strategic alliances;
- diversion of management's attention from our existing business;
- adverse effects on existing business relationships with suppliers, outsourced manufacturing partners and other third parties;
- risks associated with entering new markets in which we may have limited or no experience;
- potential loss of key employees of acquired businesses; and

- increased legal and accounting compliance costs

We may be unable to identify acquisitions or strategic relationships we deem suitable. Even if we do, we may be unable to successfully complete any such transactions on favorable terms or at all, or to successfully integrate any acquired business, facilities, technologies or products into our business or retain any key personnel, suppliers or customers. These efforts could be expensive and time-consuming and may disrupt our ongoing business and prevent management from focusing on our operations. If we are unable to identify suitable acquisitions or strategic relationships, or if we are unable to integrate any acquired businesses, facilities, technologies and products effectively, our business, financial condition and results of operations could be adversely affected.

Certain of our key operating metrics are subject to inherent challenges in measurement, and any real or perceived inaccuracies in our metrics or the underlying data may cause a loss of investor confidence in such metrics and the market price of our Class A common stock may decline.

We track certain key operating metrics using internal data analytics tools, which have certain limitations. In addition, we rely on data received from third parties, including third-party platforms, to track certain performance indicators, and we may be limited in our ability to verify such data. In addition, our methodologies for tracking metrics may change over time, which could result in changes to the metrics we report. If we undercount or overcount performance due to the internal data analytics tools we use or issues with the data received from third parties, or if our internal data analytics tools contain algorithmic or other technical errors, the data we report may not be accurate or comparable with prior periods. In addition, limitations, changes or errors with respect to how we measure data may affect our understanding of certain details of our business, which could affect our longer-term strategies. If our performance metrics are not, or are not perceived to be, accurate representations of our business, if we discover material inaccuracies in our metrics or the data on which such metrics are based, or if we can no longer calculate any of our key performance metrics with a sufficient degree of accuracy, investors could lose confidence in the accuracy and completeness of such metrics, which could cause the price of our Class A common stock to decline.

We may incur losses from fraud.

We have occasionally in the past incurred and may in the future incur losses from various types of fraud, including stolen credit card numbers, claims that a customer did not authorize a purchase and merchant fraud. As a general matter, we are liable for fraudulent credit card transactions. Although we have measures in place to detect and reduce the occurrence of fraudulent activity on our digital platform, those measures may not always be effective. In addition to the direct costs of such losses, if the fraud is related to credit card transactions and becomes excessive, it could potentially result in us paying higher fees or affecting our ability to accept credit cards for payment. Our failure to adequately prevent fraudulent transactions could damage our reputation, result in litigation or regulatory action and lead to expenses that could substantially impact our operating results.

Additionally, we have occasionally in the past been, and may in the future be, subject to fraudulent purchases by individuals or organizations purchasing our products in bulk with the intention of unlawfully reselling such products at a premium. We have also in the past been the target of, and may in the future be the target of, fraudulent websites with similar domain names or content to our website, that attempt to unlawfully divert our customer traffic to such fraudulent websites to defraud our customers. While we have procedures in place to detect and prevent such practices, our failure to identify those activities may adversely affect our brand and reputation.

Our business may be affected by seasonality.

Unlike the traditional apparel industry, the healthcare apparel industry is generally not seasonal in nature. However, due to our historical pattern of sequential growth, as well as our decision to conduct select promotions during the holiday season, we historically have generated a higher proportion of net revenues, and incurred higher selling and marketing expenses, during the fourth quarter of the year compared to other quarters, and we expect these trends to continue.

We may be unable to execute on our retail growth strategy.

We currently operate one retail store in Los Angeles, California, and plan to open additional retail stores in the future. We believe that a brick-and-mortar presence helps raise brand awareness and complements our online experience, offering customers an expanded omni-channel buying experience. In so doing, we have entered into, and may in the future again enter into, long-term leases before we know whether our retail strategy or a particular geography will be successful.

We also face a number of challenges in opening stores, including locating retail space with a cost and geographic profile that will allow us to operate in highly desirable shopping locations, hire in-store talent and expand our operations in a cost-effective manner, as well as potential design, construction or inspection delays. Even if we are able to secure attractive retail locations, the opening of new stores brings operational challenges. In opening stores, we must also provide our customers with a consistent experience, which presents additional challenges. Our stores may also be the target of theft or experience property damage. Any such incidents may result in a disruption to our retail operations and significant costs if not covered by our insurance policies.

In addition, operating retail stores creates supply chain, merchandising and pricing challenges, as we must select the right product mix for each individual store while continuing to manage inventory at our fulfillment center. There can also be no assurance that our retail stores will achieve or maintain sales and profitability levels that justify the required investments. In addition, the failure of our retail stores to achieve acceptable results could lead to unplanned store closures and/or impairment and other charges. If this occurs, or if we are not able to manage or execute on our retail growth strategy, or if consumers are not receptive to the products, design layout, or visual merchandising in our stores, our business, financial condition and results of operations may be adversely affected.

Opening retail stores also subject us to costs and risks related to compliance with labor and employment laws. We may face significant exposure to changes in laws governing our relationships with our workforce, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, union protections, workers' compensation rates, pension contributions, citizenship requirements, and payroll taxes, which could cause our business, financial condition and results of operations to be adversely affected. These laws also change frequently, exist at federal, state, and local levels, and may be difficult to interpret and apply. There is also a risk of potential claims related to discrimination and harassment, health and safety, wage and hour laws, criminal activity, personal injury, and other claims, any of which could have an adverse effect on our business, financial condition and results of operations.

Risks Related to Information Technology, Cybersecurity, Data Privacy and Intellectual Property

System interruptions that impair customer access to our website or other performance failures in our technology infrastructure could damage our business, reputation and brand and substantially harm our business, financial condition and results of operations.

We rely on information technology networks and systems, our website and mobile app to market and sell our products and to manage a variety of business processes and activities and to comply with regulatory, legal and tax requirements. We depend on our information technology infrastructure for digital marketing activities, for electronic communications among our personnel, customers, manufacturers and suppliers around the world, and for our warehousing and order fulfillment operations. Our website, portions of which are run through Shopify, our mobile app, and information technology systems, including those integral to our warehousing and order fulfillment operations and some of which are managed by third parties, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or catastrophic events. Our website and mobile app serve as an effective extension of our marketing strategies by exposing potential new customers to our brand, product offerings and enhanced content. Due to the importance of our website, mobile app, information technology infrastructure and internet-related operations, we are vulnerable to downtime and other technical failures, which may be outside of our control. Further, any slow down or material disruption of our systems, or the systems of our third-party service providers, or our website or mobile app has from time to time, and could in the future, disrupt our ability to track, record and analyze the products that we sell and could negatively impact our operations, shipment of goods, ability to process financial information and transactions, and our ability to receive and process customer orders or engage in normal business activities. Our third-party technology providers may also change their policies, terms or offerings from time to time, may fail to introduce new features and offerings that meet our needs as we expand, or may cease to provide services to us on favorable terms, or at all, which could require us to adjust how we use our information technology systems, including our website and mobile app, or switch to alternative third-party service providers which could be costly, cause interruptions and could ultimately adversely affect our business, financial condition, results of operations and growth prospects.

If our website, mobile app or information technology systems, including those run by or those of our third-party providers, suffer damage, disruption or shutdown and we or our third-party providers do not effectively resolve the issues in a timely manner, our business, financial condition and results of operations may be adversely affected, and we could experience delays in reporting our financial results. If our computer and communications hardware fail, or if we suffer an

interruption or degradation of services, we could also lose customer data and miss order fulfillment deadlines, which could harm our business. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, terrorist attacks, cyberattacks, data loss, acts of war, break-ins, earthquake and similar events. Any failure or interruption of our website, mobile app, internal business applications or our technology infrastructure could harm our ability to serve our clients, which could adversely affect our business, financial condition and results of operations.

We also use complex custom-built proprietary software in our technology infrastructure. Our proprietary software may contain undetected errors or vulnerabilities, some of which may only be discovered after the software has been implemented in our production environment or released to end users. In addition, we seek to continually update and improve our software, and we may not always be successful in executing these upgrades and improvements, and the operation of our systems may be subject to failure. We may experience slowdowns or interruptions in our website when we are updating it. For example, in the past we have experienced minor slowdowns while updating our website. Moreover, new technologies or infrastructures may not be fully integrated with existing systems on a timely basis, or at all. Any errors or vulnerabilities discovered in our software after commercial implementation or release could result in damage to our reputation, loss of customers, disruption to our eCommerce channels, loss of revenue or liability for damages, any of which could adversely affect our growth prospects and our business.

Additionally, if we expand our use of third-party services, including cloud-based services, our technology infrastructure may be subject to increased risk of slowdown or interruption as a result of integration with such services and/or failures by such third parties, which are out of our control. Our net revenues depend on the number of visitors who shop on our website and mobile app and the volume of orders we can handle. Unavailability of our website or mobile app or reduced order fulfillment performance would reduce the volume of goods sold and could also adversely affect customer perception of our brand. We may experience periodic system interruptions from time to time. In addition, continued growth in our transaction volume, as well as surges in online traffic and orders associated with promotional activities or seasonal trends in our business, place additional demands on our technology platform and could cause or exacerbate slowdowns or interruptions. If there is a substantial increase in the volume of traffic on our website or the number of orders placed by customers, we will be required to further expand, scale and upgrade our technology, transaction processing systems and network infrastructure. There can be no assurance that we will be able to accurately project the rate or timing of increases, if any, in the use of our website or mobile app or expand, scale and upgrade our technology, systems and infrastructure to accommodate such increases on a timely basis. In order to remain competitive, we must continue to enhance and improve the responsiveness, functionality, features and accessibility of our website, which is particularly challenging given the rapid rate at which new technologies, customer preferences and expectations and industry standards and practices are evolving in the eCommerce industry. Our or our third-party vendors' inability to continue to update, improve and scale our website or mobile app and the underlying technology infrastructure could harm our reputation and our ability to acquire, retain and serve our customers, which could adversely affect our business, financial condition and results of operations.

Further, we endeavor to continually upgrade existing technologies and business applications, and we may be required to implement new technologies or business applications in the future. The implementation of upgrades and changes requires significant investments. Our results of operations may be affected by the timing, effectiveness and costs associated with the successful implementation of any upgrades or changes to our systems and infrastructure. In the event that it is more difficult for our customers to buy products from us on their mobile devices, or if our customers choose not to buy products from us on their mobile devices or to use mobile products that do not offer access to our website or mobile app, our customer growth could be harmed and our business, financial condition and results of operations may be adversely affected.

We must continue to expand and scale our information technology systems, and our failure to do so could adversely affect our business, financial condition and results of operations.

We will need to continue to expand and scale our information technology systems and personnel to support recent and expected future growth. As such, we will continue to invest in and implement modifications and upgrades to our information technology systems and procedures, including replacing legacy systems with successor systems, making changes to legacy systems or acquiring new systems with new functionality, hiring employees with information technology and cybersecurity expertise and building new policies, procedures, training programs and monitoring tools. These types of activities subject us to inherent costs and risks associated with replacing and changing these systems, including impairment of our ability to fulfill customer orders, potential disruption of our internal control structure, capital expenditures, additional administration and operating expenses, acquisition and retention of sufficiently skilled personnel to implement and operate the new systems, demands on management time, the introduction of errors or vulnerabilities and other risks

and costs of delays or difficulties in transitioning to or integrating new systems into our current systems. These implementations, modifications and upgrades may not result in productivity improvements at a level that outweighs the costs of implementation, or at all. Additionally, difficulties with implementing new technology systems, delays in our timeline for planned improvements, significant system failures or our inability to successfully modify our information systems to respond to changes in our business needs may cause disruptions in our business operations and adversely affect our business, financial condition and results of operations.

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

We use software licensed to us by third-party developers under “open source” licenses in connection with the development or deployment of our proprietary software and expect to continue to use open source software in the future. Some open source licenses contain express requirements, which may be triggered under certain circumstances, that licensees make available source code for modifications or derivative works created or prohibit such modifications or derivative works from being licensed for a fee. Although we monitor our use of open source software to avoid subjecting our platform to such requirements, the terms of many open source licenses have not been interpreted by U.S. or foreign courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to develop or use our proprietary software. We may face claims from third parties demanding the release or license of the open source software or derivative works that we developed from such software (which could include our proprietary source code) or otherwise seeking to enforce the terms of applicable open source licenses. These claims could result in litigation and could require us to publicly release portions of our proprietary source code or cease distributing or otherwise using the implicated solutions unless and until we can re-engineer them.

In addition, our use of open source software may present greater risks than use of other third-party commercial software, as open source licensors generally do not provide support, warranties, indemnification or other contractual protections regarding infringement claims or the quality of the code. To the extent that our platform depends upon the successful operation of open source software, any undetected errors or defects in open source software that we use could prevent the deployment or impair the functionality of our systems and injure our reputation. In addition, the public availability of such software may make it easier for others to compromise our platform. Any of these risks could be difficult to eliminate or manage and, if not addressed, could have an adverse effect on our business, financial condition and results of operations.

Our business may be adversely affected if we are unable to provide our customers a cost-effective shopping platform that is able to respond and adapt to rapid changes in technology.

The number of people who access the internet through devices other than personal computers, including smartphones and portable computers, such as laptops and tablets, has increased dramatically in the past few years. The smaller screen size, functionality and memory associated with some alternative devices may make the use of our website and purchasing our products more difficult. The versions of our website and our mobile app developed for such alternative devices may not be compelling to customers. In addition, it is time consuming and costly to keep pace with rapidly changing and continuously evolving technology.

As existing mobile devices and platforms evolve and new mobile devices and platforms are released, it is difficult to predict the problems we may encounter in adjusting and developing applications for changed and alternative devices and platforms, and we may need to devote significant resources to the redevelopment, support and maintenance of our website and mobile app. The timing, effectiveness and costs associated with the successful implementation of any upgrades or changes to our systems and infrastructure serving website or mobile device users may affect our results of operations. If we are unable to attract customers to our websites through these devices or are slow to develop versions of our website or mobile app that are more compatible with alternative devices, or if our customers choose not to buy products from us on their mobile devices or use mobile products that do not offer access to our websites, we may fail to capture a significant share of customers in the medical apparel market, which could adversely affect our business. In addition, in the event that it is more difficult for our customers to buy products from us on their mobile devices, or if our customers choose not to buy products from us on their mobile devices or to use mobile products that do not offer access to our website or mobile app, our customer growth could be harmed and our business, financial condition and results of operations may be adversely affected.

Our customer engagement on mobile devices depends upon effective operation with mobile operating systems, networks, and standards that we do not control.

An increasing number of our customers purchase our products through our mobile app. We are dependent on the interoperability of our website and mobile app with popular mobile operating systems that we do not control, such as Android and iOS, and any changes in such systems that degrade the functionality of our digital offering could adversely affect the user experience of our website and mobile app on mobile devices. Additionally, in order to deliver a consistent shopping experience to mobile devices, it is important that our mobile app is designed effectively and works well with a range of mobile technologies, systems, networks, and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile industry or in developing products that operate effectively with these technologies, systems, networks, or standards. In the event that it is more difficult for our customers to access and use our mobile app on their mobile devices or if our customers choose not to access or use our mobile app on their mobile devices or use mobile products that do not offer access to our platform, our sales and growth prospects could be adversely impacted.

If proprietary, confidential or sensitive information or personal data about our customers is disclosed, or if we or our third-party providers are subject to real or perceived cyberattacks, our customers may curtail use of our website or mobile app, we may be exposed to liability and our reputation could suffer.

Operating our business and platform involves the collection, storage and transmission of proprietary and confidential data, as well as the personal information of our employees and customers. Some of our third-party service providers, such as identity verification and payment processing providers, also regularly have access to customer data. In an effort to protect sensitive information, we rely on a variety of security measures, including encryption and authentication technology licensed from third parties. However, advances in computer capabilities, increasingly sophisticated tools and methods used by hackers and cyber terrorists, new discoveries in the field of cryptography, machine learning, artificial intelligence or other developments may result in our failure or inability to adequately protect sensitive information.

Like other eCommerce companies, we (along with our supply chain partners and other third party vendors) are vulnerable to hacking, malware, computer viruses, unauthorized access, phishing or social engineering attacks, ransomware and extortion-based attacks, credential stuffing attacks, denial-of-service attacks, exploitation of software vulnerabilities and other real or perceived cyberattacks. Additionally, our workforce predominantly remains in a hybrid work environment, which has heightened the risk of these potential vulnerabilities. Furthermore, due to political uncertainty and military actions associated with Russia's invasion of Ukraine, we and our service providers may be vulnerable to heightened risks of cybersecurity incidents from nation-state actors or nation-state actor affiliates. Any of these incidents could lead to interruptions or shutdowns of our platform, loss or corruption of data or unauthorized access to or disclosure of personal data or other sensitive information. Cyberattacks could also result in the theft of our intellectual property, damage to our IT systems, operational disruptions, or disruption of our ability to make financial reports and other public disclosures required of public companies. We and our third-party vendors have from time to time been subject to cyber, phishing, social engineering and business email compromise attacks in the past, none of which individually or in the aggregate has led to costs or consequences that have materially impacted our business, however, we and our third-party vendors may continue to be subject to such attacks and other cybersecurity incidents in the future. If we gain greater visibility, we may face a higher risk of being targeted by cyberattacks. Advances in computer capabilities, new technological discoveries or other developments may result in cyberattacks or other incidents becoming more sophisticated or obscure and more difficult to detect. We and our third-party service providers may not have the resources or technical sophistication to anticipate or prevent all such cyberattacks. Moreover, techniques used to obtain unauthorized access to systems change frequently and may not be known until launched against us or our third-party service providers. Security breaches can also occur as a result of non-technical issues, including intentional or inadvertent actions by our employees, our third-party service providers, or their personnel.

In addition, we and our third-party service providers may experience cyberattacks aimed at disrupting our and their services. If we or our third-party service providers experience, or are believed to have experienced, security breaches that result in marketplace performance or availability problems or the loss or corruption of, or unauthorized access to or disclosure of, personal data or confidential information, people may become unwilling to provide us the information necessary to make purchases on our website or mobile app. Existing customers may also decrease or stop their purchases altogether. While we maintain cyber and errors and omissions insurance coverage that covers certain aspects of cyber risks, these losses may not be adequately covered by insurance or other contractual rights available to us. The successful assertion of one or more large claims against us that exceed or are not covered by our insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have an adverse effect on our business, financial condition and results of operations.

Furthermore, we may be required to disclose personal data pursuant to demands from individuals, data privacy advocates, regulators, government agencies and law enforcement agencies in various jurisdictions with conflicting data privacy and security laws. This disclosure or refusal to disclose personal data may result in a breach of privacy and data protection policies, notices, laws, rules, court orders and regulations and could result in proceedings or actions against us in the same or other jurisdictions, damage to our reputation and brand and inability to provide our products to customers in certain jurisdictions. Additionally, changes in the laws and regulations that govern our collection, use and disclosure of customer data could impose additional requirements with respect to the retention and security of customer data, could limit our marketing activities and have an adverse effect on our business, financial condition and results of operations.

The actual or perceived failure to comply with federal, state or foreign laws and regulations or our contractual obligations relating to data privacy, data protection, cybersecurity and customer protection, or the expansion of current or the enactment of new laws and regulations relating to data privacy, data protection, cybersecurity and customer protection, could adversely affect our business and our financial condition.

We collect and maintain significant amounts of data relating to our customers and employees, and we face risks inherent in both handling large volumes of data and in protecting the security of such data. Our actual or perceived failure to comply with any federal, state or foreign laws and regulations, or applicable industry standards that govern or apply to our collection, use, retention, sharing and security of data, could result in enforcement actions that require us to change our business practices in a manner that may negatively impact our revenue, as well as expose ourselves to litigation, fines, civil and/or criminal penalties and adverse publicity that could cause our customers to lose trust in us, negatively impacting our reputation and business in a manner that harms our financial position. Laws and regulations in the United States and around the world restrict how information about individuals is collected, processed, stored, used and disclosed, as well as set standards for its security, implement notice requirements regarding privacy practices, and provide individuals with certain rights regarding the use, disclosure and sale of their protected personal data. These laws and regulations are still being tested in courts, and they are subject to new and differing interpretations by courts and regulatory officials. We are working to comply with the privacy, security and data protection laws and regulations that apply to us, and we anticipate needing to devote significant additional resources to complying with these laws and regulations. It is possible that these laws and regulations may be interpreted and applied in a manner that is inconsistent from jurisdiction to jurisdiction or inconsistent with our current policies and practices.

In the United States, the Federal Trade Commission (the “FTC”) and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination, and security of data. Such standards require us to publish statements that describe how we handle personal data and choices individuals may have about the way we handle their personal data. If such information that we publish is considered untrue or inaccurate, we may be subject to government claims of unfair or deceptive trade practices, which could lead to significant liabilities and consequences. Moreover, according to the FTC, violating consumers’ privacy rights or failing to take appropriate steps to keep consumers’ personal data secure may constitute unfair acts or practices in or affecting commerce in violation of Section 5(a) of the Federal Trade Commission Act. State consumer protection laws provide similar causes of action for unfair or deceptive practices. Some states, such as California and Massachusetts, have passed specific laws mandating reasonable security measures for the handling of consumer data. Further, privacy advocates and industry groups have regularly proposed and sometimes approved, and may propose and approve in the future, self-regulatory standards with which we must legally comply or that contractually apply to us.

In addition, many state legislatures have adopted legislation that regulates how businesses operate online, including measures relating to data privacy, data security, and data breaches. For example, California enacted the California Consumer Privacy Act (the “CCPA”) which gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as statutory damages and a private right of action for data breaches that is expected to increase data breach litigation. Further, in November 2020, California voters passed the California Privacy Rights Act (the “CPRA”). The CPRA, which took effect on January 1, 2023, creates obligations with respect to certain data relating to consumers as of January 1, 2022 and significantly expands the CCPA, including by introducing additional obligations such as data minimization and storage limitations, granting additional rights to consumers, such as correction of personal information and additional opt-out rights, and creates a new entity, the California Privacy Protection Agency, to implement and enforce the law. Personal information we handle may be subject to the CCPA and CPRA, which may increase our compliance costs and potential liability.

Other states have enacted similar bills. For example, Virginia, Colorado and Connecticut also recently passed comprehensive privacy laws that took effect in 2023, and Utah, Delaware and Texas recently passed comprehensive

privacy laws that will take effect over the next few years. Similar laws have been proposed in other states and at the federal level, reflecting a trend toward more stringent privacy legislation in the United States. We must comply with these new privacy laws if our operations fall within their scope, which may increase our compliance costs and potential liability.

In addition to fines and penalties that may be imposed for failure to comply with state laws, some states also provide for private rights of action to customers for misuse of or unauthorized access to personal data. Our compliance with these changing, increasingly burdensome and sometimes conflicting regulations and requirements may cause us to incur substantial costs or require us to change our business practices, which may impact our financial condition. If we fail to comply with these regulations or requirements, we may be exposed to litigation expenses and possible significant liability, fees or fines. Further, any such claim, proceeding or action could harm our reputation, brand and business, force us to incur significant expenses in defense of such proceedings, distract our management, increase our costs of doing business, result in a loss of customers and suppliers or an inability to process credit card payments and may result in the imposition of monetary penalties. We may also be contractually required to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any laws, regulations or other legal obligations relating to privacy or consumer protection or any inadvertent or unauthorized use or disclosure of data that we store or handle as part of operating our business.

In addition to risks posed by new privacy laws, we could be, and have been from time to time, subject to claims alleging violations of long-established federal and state privacy and consumer protection laws. For example, the Telephone Consumer Protection Act (the "TCPA") is a federal law that imposes significant restrictions on the ability to make telephone calls or send text messages to mobile telephone numbers without the prior consent of the person being contacted. The TCPA provides for substantial statutory damages for violations, which has generated extensive class-action litigation. In addition, class-action plaintiffs in the United States are employing novel legal theories to allege that federal and state eavesdropping/wiretapping laws and state constitutions prohibit the use of analytics technologies widely employed by website and mobile app operators to understand how their users interact with their services. Despite our compliance efforts, our use of text messaging communications or similar analytics technologies could expose us to costly litigation, government enforcement actions, damages and penalties, which could adversely affect our business, financial condition and results of operations.

Further, some laws may require us to notify governmental authorities and/or affected individuals of data breaches involving certain personal data or other unauthorized or inadvertent access to or disclosure of such information. We may need to notify governmental authorities and affected individuals with respect to such incidents. For example, laws in all 50 U.S. states may require businesses to provide notice to consumers whose personal data has been disclosed as a result of a data breach. These laws are not consistent with each other, and compliance in the event of a widespread data breach may be difficult and costly. We also may be required to notify consumers or other counterparties of a security incident, including a breach. Any such disclosures under state data breach notification laws can be costly, and the disclosures we make to comply with, or the failure to comply with, such requirements could lead to adverse consequences. Any actual or perceived security incident or breach, or breach of our contractual obligations, could also harm our reputation and brand, expose us to potential liability or require us to expend significant resources on data security and in responding to any such actual or perceived breach.

Outside of the United States, certain foreign jurisdictions, including the European Economic Area (the "EEA"), and the UK, have laws and regulations which are more restrictive in certain respects than those in the United States. For example, the EEA and the UK have adopted the GDPR or the UK GDPR respectively, which may apply to our collection, control, use, sharing, disclosure and other processing of data relating to an identified or identifiable living individual (personal data). The GDPR, UK GDPR and national implementing legislation in EEA member states and the UK impose a strict data protection compliance regime including: providing detailed disclosures about how personal data is collected and processed (in a concise, intelligible and easily accessible form); granting comprehensive rights for data subjects in regard to their personal data (including, for example, the right to access data, the right to be "forgotten" and the right to data portability); requirements to have data processing agreements in place to govern the processing of personal data on behalf of other organizations; introducing the obligation to notify data protection regulators or supervisory authorities (and in certain cases, affected individuals) of significant data breaches; maintaining a record of data processing; and complying with the principal of accountability and the obligation to demonstrate compliance through policies, procedures, trainings and audits.

We also may be subject to specific requirements with respect to cross-border transfers of personal data out of the EEA and UK. Recent legal developments in the EEA and UK have created complexity and uncertainty regarding transfers of personal data out of Europe. On July 16, 2020, the Court of Justice of the European Union (the "CJEU"), invalidated the

EU-US Privacy Shield Framework (the "Privacy Shield"), under which personal data could be transferred from the EEA to US entities who had self-certified under the Privacy Shield Framework. While the CJEU upheld the adequacy of the standard contractual clauses ("SCCs"; a standard form of contract approved by the European Commission as an adequate personal data transfer mechanism, and potential alternative to the Privacy Shield), it made clear that reliance on them alone may not necessarily be sufficient in all circumstances. Use of the SCCs must now be assessed on a case-by-case basis taking into account the legal regime applicable in the destination country, in particular applicable surveillance laws and rights of individuals and additional measures and/or contractual provisions may need to be put in place. The CJEU went on to state that if a competent supervisory authority believes that the SCCs cannot be complied with in the destination country and the required level of protection cannot be secured by other means, such supervisory authority is under an obligation to suspend or prohibit that transfer. Moreover, the European Commission released an implementation decision for a new set of SCCs on June 4, 2021, which requires us to use new SCCs since September 28, 2021, and the European Data Protection Board and national regulators have released related guidelines. On July 10, 2023, the European Commission adopted an adequacy decision for the new EU-US Data Privacy Framework. The decision concludes that the United States ensures an adequate level of protection for personal data transferred from the EU to US companies under the new framework. Joining the EU-U.S. Data Privacy Framework would require us to comply with a detailed set of privacy obligations, for instance the requirement to delete personal data when it is no longer necessary for the purpose for which it was collected, and to ensure continuity of protection when personal data is shared with third parties. The UK's Information Commissioner's Office has also published new standard contractual clauses for cross-border transfers of UK personal data under the UK GDPR ("UK Clauses"). This new documentation is mandatory for relevant data transfers beginning September 21, 2022; existing standard contractual clauses arrangements entered into prior to that date must be migrated to the new documentation by March 21, 2024. We may have obligations to conduct transfer impact assessments for such cross-border data transfers and implement additional security measures. Reliance on the new SCCs or UK Clauses may require us to expend significant resources to comply with resulting obligations. As supervisory authorities issue further guidance on personal data export mechanisms, including circumstances where the SCCs or UK Clauses cannot be used, and/or start taking enforcement action, we could suffer additional costs, complaints and/or regulatory investigations or fines, and/or if we are otherwise unable to transfer personal data between and among countries and regions in which we operate, it could affect the manner in which we provide our products, the geographical location or segregation of our relevant systems and operations, and could adversely affect our business, financial condition and results of operation.

These recent developments may require us to review and amend the legal mechanisms by which we make and/or receive personal data transfers to/in the United States. We could suffer additional costs, complaints and/or regulatory investigations or fines, and/or if we are otherwise unable to transfer personal data between and among countries and regions in which we operate, it could affect the manner in which we provide our services, the geographical location or segregation of our relevant systems and operations, and could adversely affect our business, financial condition and results of operations.

The withdrawal of the UK from the European Union has also created uncertainty with regard to the regulation of data protection in the UK. Going forward, we may have to comply with multiple data protection regimes in the EEA and in the UK. On June 28, 2021, the European Commission issued an adequacy decision under the GDPR which allows transfers of personal data from the EEA to the UK to continue without restriction for a period of four years ending June 27, 2025. During these four years, the European Commission could intervene if the UK deviates from the level of data protection in place at the time of issuance of the adequacy decision. If the adequacy decision is withdrawn or not renewed, transfers of personal data from the EEA to the UK will require a valid transfer mechanism and we may be required to implement new processes and put new agreements in place to continue making such transfers. The UK government is considering reforms to the UK GDPR and the UK data protection regime, which could lead to divergence from the EEA regime. There is a risk that any material changes which are made to the UK data protection regime could result in the Commission reviewing the UK adequacy decision, and the UK losing its adequacy decision if the Commission deems the UK to no longer provide adequate protection for personal data. These changes may lead to additional costs and increase our overall risk exposure.

We depend on a number of third parties in relation to the operation of our business, a number of which process personal data on our behalf. Any violation of data or security laws, including the GDPR or UK GDPR, by our third-party processors, or their acts or omissions that cause us to violate our legal obligations, could have an adverse effect on our business and result in substantial fines and penalties. For example, fines for certain breaches of the GDPR, or UK GDPR and Data Protection Act 2018, are up to the greater of 20 million Euros (or 17.5 million pound sterling respectively) or 4% of total global annual turnover, whichever is higher. In addition to the foregoing, a breach of the GDPR or UK GDPR could result in regulatory investigations, reputational damage, orders to cease/change our processing of our data, enforcement notices, and/or assessment notices (for a compulsory audit). We may also face civil claims including representative actions and other class action type litigation (where individuals have suffered harm), potentially amounting

to significant compensation or damages liabilities, as well as associated costs, diversion of internal resources and reputational harm.

We are also subject to evolving privacy laws on cookies and e-marketing. In the EEA and UK, regulators are increasingly focusing on compliance with requirements in the online behavioral advertising ecosystem. Under the ePrivacy Directive, national implementation laws and relevant legislation in the UK, informed consent is required for the placement of a cookie or similar technologies on a user's device and for direct electronic marketing. The GDPR and UK GDPR also impose conditions on obtaining valid consent, such as a prohibition on pre-checked consents and a requirement to ensure separate consents are sought for each type of cookie or similar technology. In the European Union, current national laws that implement the ePrivacy Directive are expected to be replaced by an EU regulation known as the ePrivacy Regulation which will significantly increase fines for non-compliance. While the text of the ePrivacy Regulation is still under development, a recent European court decision and regulators' recent guidance are driving increased attention to cookies and tracking technologies. As regulators, activists, consumer protection organizations and third parties increasingly enforce the strict approach in recent guidance, this could lead to substantial costs, require significant systems changes, limit the effectiveness of our marketing activities, divert the attention of our technology personnel, adversely affect our margins, increase costs and subject us to additional liabilities. Regulation of cookies and similar technologies, and any decline of cookies or similar online tracking technologies as a means to identify and potentially target individuals, may lead to broader restrictions and impairments on our marketing and personalization activities and may negatively impact our efforts to understand users.

Furthermore, compliance with legal and contractual obligations requires us to make public statements about our privacy and data security practices, including the statements we make in our online privacy policies. Although we endeavor to comply with these statements, should they prove to be untrue or be perceived as untrue, even through circumstances beyond our reasonable control, we may face litigation, claims, investigations, inquiries or other proceedings by the U.S. Federal Trade Commission, state attorneys general and other federal, state and foreign regulators and private litigants alleging violations of privacy or consumer protection laws.

Certain requirements from our third-party technology and platform providers could also cause us to modify our offerings or strategy due to privacy concerns or negatively affect our financial performance. For example, the recent versions of Apple iOS require apps in the Apple App Store to opt in to the tracking of users across apps and websites owned by third parties for advertising and measurement purposes. Additionally, Google is expected to begin blocking third party cookies with the goal of phasing them out in 2024. Changes like this could reduce the quality of the data and related metrics that may be collected or used by us and/or our partners. In addition, such changes could inhibit the effectiveness of our targeted advertising and related activities.

We are also subject to the Payment Card Industry ("PCI"), Data Security Standard, which is a security standard designed to protect payment card data as mandated by payment card industry entities. We rely on vendors to handle PCI matters and to ensure PCI compliance. Despite our compliance efforts, we may become subject to claims that we have violated the PCI Data Security Standard, which could subject us to substantial fines and penalties.

Any actual or perceived non-compliance with these rapidly changing laws, regulations or standards or our contractual obligations relating to data privacy, data protection and consumer protection by us or the third-party companies we work with could result in litigation and proceedings against us by governmental entities, consumers or others, fines and civil or criminal penalties for us or company officials, obligations to cease offerings or to substantially modify our business in a manner that makes it less effective in certain jurisdictions, negative publicity and harm to our brand and reputation, and reduced overall demand for our products, any of which could have an adverse effect on our business, financial condition and results of operations.

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

We are subject to general business regulations and laws as well as regulations and laws specifically governing the internet and eCommerce. Existing and future regulations and laws could impede the growth of the internet, eCommerce or mobile commerce, which could in turn adversely affect our growth. These regulations and laws may involve taxes, tariffs, data privacy and data security, anti-spam, content protection, electronic contracts and communications, customer protection and internet neutrality. It is not clear how existing laws governing issues such as property ownership, sales and other taxes and customer data privacy apply to the internet as the vast majority of these laws were adopted prior to the advent of the internet and do not contemplate or address the unique issues raised by the internet or eCommerce. It is possible that general

business regulations and laws, or those specifically governing the internet or eCommerce, may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. We cannot be sure that our practices comply fully with all such laws and regulations. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, a loss in business and proceedings or actions against us by governmental entities, customers, suppliers or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts in defense of these proceedings, distract our management, increase our costs of doing business, decrease the use of our website and mobile app by customers and suppliers and may result in the imposition of monetary liabilities. We may also be contractually liable to indemnify and hold harmless third parties from the costs or consequences of our own non-compliance with any such laws or regulations. As a result, adverse developments with respect to these laws and regulations could substantially harm our business, financial condition and results of operations.

Any failure or inability to protect or enforce our intellectual property rights could diminish the value of our brand, weaken our competitive position and harm our business, financial condition and results of operations.

We currently rely on a combination of copyright, trademark, trade dress, design patent and other intellectual property laws as well as confidentiality procedures and contractual restrictions to establish and protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may not be adequate to prevent infringement of these rights by others, including imitation or counterfeiting of our products and misappropriation of our brand.

Our success depends in large part on our brand image. We believe that our trademarks, design patents and other intellectual property rights have significant value and are important to differentiating our products from those of our competitors and creating and sustaining demand for our products. We have applied for and obtained certain U.S. and foreign trademark registrations, design patents and design registrations and will continue to evaluate the registration of additional trademarks and designs and the application for additional design patents as appropriate. However, we cannot guarantee that any of our pending trademark or design patent applications will be approved by the applicable governmental authorities. Moreover, even if our applications are approved, third parties from time to time have, and may in the future, seek to oppose or otherwise challenge these registrations or other of our intellectual property rights. In addition, third parties from time to time have infringed, and may again in the future infringe, on our intellectual property rights. As a result, we from time to time have expended, and may again in the future expend, significant time and resources to defend or enforce our rights.

We also currently hold various domain names relating to our brand. We may be unable to prevent third parties from acquiring and using domain names that are confusingly similar to our trademarks, or that otherwise have a negative impact on, the value of our trademarks and other proprietary rights. For example, we have in the past been the target of, and may in the future be the target of, fraudulent websites with similar domain names or content to our website that attempt to unlawfully divert our customer traffic to such fraudulent websites to defraud our customers. Any inability to prevent these practices could adversely affect our brand and make it more difficult for users to find our website.

Additionally, the expansion of our product lines and the geographic scope of our sales and marketing could pose additional intellectual property challenges. For example, certain foreign countries do not protect intellectual property rights as fully as they are protected in the United States, and accordingly, intellectual property protection may be limited, or in some circumstances unavailable, in some foreign countries where we choose to do business. Thus, it may be more difficult for us to successfully challenge the use of our intellectual property rights by other parties in these countries. If we fail to protect and maintain our intellectual property rights, the value of our brand could be diminished, and our competitive position may suffer.

Our fabrics and manufacturing technology may be imitated by our competitors.

We have obtained design patents in the United States and corresponding industrial design registrations in other countries on certain aspects of some of our product designs, and we have applications pending for additional design patents and industrial design registrations. In addition, our products are made using our proprietary blends of raw materials, fabrics and fabric treatments, which results in products unique to us; however, we do not own the intellectual property rights for the underlying fabric technology, fabrics treatments or fabrics. Our ability to obtain intellectual property protection for our products is therefore limited. As a result, our current and future competitors may attempt to imitate our products and fabrics and do so at lower prices. If our competitors are successful in doing so, our net revenues and profitability could suffer.

We may incur costs to defend against, face liability for or be vulnerable to intellectual property infringement claims brought against us by others.

Third parties may assert claims against us alleging that we infringe upon, misappropriate, dilute or otherwise violate their intellectual property rights, particularly as we expand our business and the number of products we offer. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims. Our defense of any claim, regardless of its merit, could be expensive and time consuming and could divert management resources. We cannot predict the outcome of lawsuits and cannot ensure that the results of any such actions will not have an adverse effect on our business, financial condition or results of operations. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products. In addition, resolution of claims may require us to redesign or rebrand our products, license rights from third parties, cease using certain brand names or other intellectual property rights altogether or make substantial payments for royalty or license fees, legal fees, settlement payments or other costs or damages. Any of these events could harm our business and cause our results of operations, liquidity and financial condition to suffer.

The inability to acquire, use or maintain our marks and domain names for our websites could substantially harm our business, financial condition and results of operations.

We currently are the registrant of marks for our products in numerous jurisdictions and are the registrant of the internet domain name for the website wearfigs.com, as well as various related domain names. However, we have not registered our marks represented by our domain names in all major international jurisdictions. Domain names generally are regulated by internet regulatory bodies and may not be generally protectable as trademarks in and of themselves. As our business grows, we may incur material costs in connection with the registration, maintenance and protection of our marks. If we do not have or cannot obtain on reasonable terms the ability to use our marks in a particular country, or to use or register our domain name, we could be forced either to incur significant additional expenses to market our products within that country, including the development of a new brand and the creation of new promotional materials and packaging, or to elect not to sell products in that country. Either result could adversely affect our business, financial condition and results of operations.

Furthermore, the regulations governing domain names and laws protecting marks and similar proprietary rights could change in ways that block or interfere with our ability to use relevant domains or the FIGS brand. Also, we might not be able to prevent third parties from registering, using or retaining domain names that interfere with our customer communications or infringe or otherwise decrease the value of our marks, domain names and other proprietary rights. Regulatory bodies also may establish additional generic or country-code top-level domains or may allow modifications of the requirements for registering, holding or using domain names. As a result, we might not be able to register, use or maintain the domain names that use the name FIGS or “wearFIGS” in all of the countries and territories in which we currently or intend to conduct business.

Risks Related to Other Legal, Regulatory and Tax Matters

We may face exposure to foreign currency exchange rate fluctuations.

While we have historically transacted in U.S. dollars with our customers, and we currently recognize revenue from sales to international customers in U.S. dollars, we may transact directly and recognize revenue in foreign currencies in the future as we expand offerings and operations internationally. Moreover, our products for sale in foreign countries are priced in the country's local currency based primarily on an applicable currency exchange rate to the U.S. dollar, which we generally review and adjust periodically. To the extent the U.S. dollar strengthens relative to foreign currencies, prices for customers in foreign countries may be more expensive relative to that of competition in those markets, which may adversely affect our demand. Furthermore, the general purchasing power of customers in international markets is weakened by a stronger U.S. dollar. Certain of our foreign operating expenses are also denominated in the currencies of the countries and territories in which our third-party vendors are located. Accordingly, changes in the value of foreign currencies relative to the U.S. dollar can affect our net revenues and results of operations. As a result of such foreign currency exchange rate fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our Class A common stock could be adversely affected.

We do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more

than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place and may introduce additional risks if we are unable to structure effective hedges with such instruments.

Any failure to comply with trade, anti-corruption and other regulations could lead to investigations or actions by government regulators and negative publicity.

The labeling, distribution, importation, marketing and sale of our products are subject to extensive regulation by various federal agencies, including the Federal Trade Commission, Customer Product Safety Commission and state attorneys general in the United States, the Competition Bureau and Health Canada in Canada, as well as by various other federal, state, provincial, local and international regulatory authorities in the countries in which our products are distributed or sold. If we fail to comply with any of these regulations, we could become subject to enforcement actions or the imposition of significant penalties or claims, which could harm our results of operations or our ability to conduct our business. Certain laws, particularly relating to environmental, health and safety matters, may also impose liability without regard to fault or to the legality of the action at the time of occurrence. Any investigations or inquiries by governmental agencies could result in significant settlement amounts, damages, fines or other penalties, divert financial and management resources and result in significant legal fees. An unfavorable outcome of any particular proceeding could have an adverse impact on our business, financial condition and results of operations. In addition, the adoption of new regulations or changes in the interpretation of existing regulations may result in significant compliance costs or discontinuation of product sales and could impair the marketing of our products, which could adversely affect our business, financial condition and results of operations.

Our products are predominantly produced by third-party manufacturing and supply partners in foreign countries and territories, including countries and territories perceived to carry an increased risk of corrupt business practices. We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the U.K. Bribery Act, and possibly other anti-bribery and anti-money laundering laws in countries in which we conduct activities. These laws prohibit companies and their employees and third-party intermediaries from corruptly promising, authorizing, offering or providing, directly or indirectly, improper payments or anything of value to foreign government officials, political parties and private-sector recipients for the purpose of obtaining or retaining business, directing business to any person or securing any advantage. In addition, U.S. public companies are required to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. In many foreign countries, including countries in which we may conduct business, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. We face significant risks if we or any of our directors, officers, employees, agents or other partners or representatives fail to comply with these laws, and governmental authorities in the United States and elsewhere could seek to impose substantial civil and/or criminal fines and penalties, which could adversely affect our reputation, business, financial condition and results of operations.

If our employees, contractors and agents, and companies to which we outsource certain of our business operations were to take actions in violation of our policies or applicable law, there could be an adverse effect on our reputation, business, financial condition and results of operations.

Any violation of the FCPA, other applicable anti-corruption laws or anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U.S. government contracts, any of which could have an adverse effect on our business, financial condition and results of operations. In addition, responding to any enforcement action may result in a significant diversion of management's attention and resources and significant defense costs and other professional fees.

Our ability to source and distribute our merchandise profitably or at all could be harmed if new trade restrictions and/or tariffs are imposed or existing trade restrictions become more burdensome.

Substantially all of our products are currently manufactured outside of the United States. The United States and the countries in which our products are produced or sold internationally have imposed and may impose additional quotas, duties, tariffs or other restrictions or regulations, or may adversely adjust prevailing quota, duty or tariff levels. Countries impose, modify and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions, which make it impossible for us to predict future developments regarding tariffs and other trade restrictions. For example, the U.S. government has in recent years imposed increased tariffs on imports from certain foreign countries, and any imposition of additional tariffs by the United States could result in the adoption of tariffs by other countries, leading to a global trade war. While the U.S. government's recent tariffs on certain imports from

China only affect a small portion of our production, any such future tariffs by the United States or other countries could have a significant impact on our business.

We may attempt to renegotiate prices with suppliers or diversify our supply chain in response to tariffs, but such efforts may not yield immediate results or may be ineffective. We might also consider increasing prices to the end customer; however, this could reduce the competitiveness of our products and adversely affect net revenues. If we fail to manage these dynamics successfully, gross margins and profitability could be adversely affected. As of the date of this Quarterly Report on Form 10-Q, tariffs have not had a material impact on our business, but trade restrictions, including tariffs, quotas, export controls, trade sanctions, embargoes, safeguards and customs restrictions implemented by the United States or other countries, in connection with a trade war or otherwise could increase the cost or reduce the supply of products available to us or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition and results of operations.

Moreover, our products could be held for inspection by CBP, in connection with the U.S.'s trade restrictions related to the Xinjiang region of China, or for other reasons, which would cause delays and unexpectedly affect our inventory levels. CBP has also in the past and may in the future challenge or disagree with our classification of our imports, or our valuation or country of origin determinations. While we haven't experienced material tariff liabilities in such instances, such challenges could in the future result in material tariff liabilities, including tariffs on past imports, as well as penalties and interest.

Changes in tax laws, including the recently enacted Inflation Reduction Act of 2022, may adversely impact our future financial position and results of operations. Our effective income tax rate could also change as a result of various evolving factors, including changes in the scope of our operations.

Net income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time, or interpreted, changed, modified or applied adversely to us, any of which could adversely affect our business operations and financial performance. For example, on August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022 ("IRA"), which, beginning in 2023, imposes a 1% excise tax on certain publicly traded company stock buybacks. Furthermore, over 140 member jurisdictions of the G20/Organization for Economic Cooperation and Development ("OECD") Inclusive Framework have joined the Two-Pillar Solution to Address the Tax Challenges of the Digitalization of the Economy as part of the OECD's base erosion and profit sharing project ("BEPS"), which includes a reallocation of taxing rights among market jurisdictions and a global minimum tax rate of 15% which are expected to become effective January 1, 2024. As changes to U.S. federal income tax laws pursuant to the IRA remain subject to additional guidance from the Internal Revenue Service and the U.S. Department of Treasury and the implementation of the BEPS framework remains subject to further negotiation, the extent to which any such changes to tax laws, statutes, rules, regulations or ordinances will ultimately impact our business is uncertain.

To the extent that changes in tax laws have a negative impact on us, our suppliers, manufacturers or our customers (including as a result of the IRA which we are currently evaluating or the timing of the implementation of the global minimum tax rate under BEPS), such changes may adversely impact our business, financial condition, results of operations and cash flows. Finally, changes in the scope of our operations, including expansion to new U.S. and non-U.S. jurisdictions, could increase the amount of taxes to which we are subject (including as a result of the implementation of the global minimum tax rate under BEPS) and our effective tax rate.

We could be required to collect additional sales taxes that may increase the costs our customers would have to pay for our products and adversely affect our results of operations.

Following the U.S. Supreme Court's decision in 2018 in *South Dakota v. Wayfair, Inc.*, a state may impose sales tax collection obligations on certain retailers, including eCommerce companies, that lack any physical presence within such state. The Supreme Court's *Wayfair* decision has removed a significant impediment to the enactment of laws imposing sales tax collection obligations on out-of-state eCommerce companies, and an increasing number of states have adopted such laws. Although we believe that we currently collect sales taxes in all states that require us to do so, a successful assertion by one or more states requiring us to collect sales taxes where we currently do not collect sales taxes, or to collect additional sales taxes in a state in which we currently collect sales taxes, could result in substantial tax liabilities (including penalties and interest). In addition, the imposition of additional sales tax collection obligations, whether for prior years or prospectively, could create additional administrative burdens for us, put us at a competitive disadvantage if similar obligations are not imposed on our competitors and decrease our future sales, which could have an adverse impact on our business and results of operations.

Our ability to use our net operating loss carryforwards may be limited.

As of December 31, 2022, we had U.S. federal and state net operating loss carryforwards of approximately \$1.4 million and \$1.2 million, respectively. Unused U.S. federal net operating losses generated in tax years beginning after December 31, 2017, will not expire and may be carried forward indefinitely, but the deductibility of such federal net operating loss carryforwards in taxable years beginning after December 31, 2020, is limited to 80% of taxable income. Our ability to utilize our federal net operating carryforwards may be limited under Section 382 of the Internal Revenue Code of 1986, as amended. The limitations apply if we experience an “ownership change,” which is generally defined as a greater than 50 percentage point change (by value) in the ownership of our equity by certain stockholders over a rolling three-year period. Similar provisions of state tax law may also apply to limit the use of our state net operating loss carryforwards. We have previously experienced ownership changes, and although such prior ownership changes have not materially limited our utilization of affected net operating loss carryforwards, future changes in our stock ownership, which may be outside of our control, may trigger an ownership change that materially impacts our ability to utilize pre-change net operating loss carryforwards. In addition, there may be periods during which the use of net operating loss carryforwards is suspended or otherwise limited. Accordingly, our ability to use our net operating loss carryforwards to offset taxable income may be subject to such limitations or special rules that apply at the state level, which could adversely affect our results of operations.

Risks Related to the Ownership of Our Class A Common Stock

Our stock price has been volatile and may continue to decline regardless of our operating performance, resulting in substantial losses for investors.

The market price of our Class A common stock has fluctuated significantly since our initial public offering (“IPO”), and may continue to fluctuate in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our financial condition and results of operations;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates or ratings by any securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, results of operations or capital commitments;
- changes in stock market valuations and operating performance of other healthcare and technology companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- changes in our board of directors or management;
- sales of large blocks of our Class A common stock, including sales by Tulco, LLC’s Permitted Transferees, as defined in our amended and restated certificate of incorporation, our co-founders or our other executive officers or directors;
- lawsuits threatened or filed against us;
- anticipated or actual changes in laws, regulations or government policies applicable to our business;
- changes in our capital structure, such as future issuances of debt or equity securities;
- short sales (or concerted efforts by short sellers to spread negative information in order to gain a market advantage), hedging and other derivative transactions involving our capital stock;
- general economic conditions in the United States and globally, such as a continued increase in inflation rates or interest rates;
- other events or factors, including those resulting from war (such as Russia’s invasion of Ukraine), pandemics (including COVID-19), incidents of terrorism or responses to these events; and
- the other factors described in this “Risk Factors” section of our Quarterly Report on Form 10-Q.

The stock market has recently experienced extreme price and volume fluctuations. The market prices of securities of companies have experienced fluctuations that often have been unrelated or disproportionate to their results of operations. Market fluctuations have resulted and could continue to result in extreme volatility in the price of shares of our Class A common stock, which could cause a decline in the value of your investment. Price volatility may be greater if the public float and trading volume of shares of our Class A common stock is low.

Furthermore, short sellers may engage in manipulative activity intended to drive down the market price of target company stock. We have in the past been the subject of a short seller report containing certain allegations against us. While we reviewed the allegations in such report and believe them to be unsubstantiated, we may in the future become subject to additional unfavorable reports, which may cause us to expend a significant amount of resources to investigate such allegations and may lead to increased volatility in the price of our Class A common stock.

In the past, following periods of volatility, stockholders have sometimes instituted securities class action litigation against companies, and such litigation has been filed against us as well. This or future litigation against us could result in substantial costs, divert management's attention and resources, and harm our business, financial condition and results of operations.

Our quarterly results of operations have from time to time, and may in the future fluctuate, and if our operating and financial performance in any given period does not meet the guidance that we have provided to the public or the expectations of our investors and securities analysts, the trading price of our Class A common stock may decline.

Our quarterly results of operations may fluctuate for a variety of reasons, many of which are beyond our control. These reasons include those described in these risk factors as well as the following:

- fluctuations in product mix;
- our ability to effectively launch and manage new products;
- fluctuations in the levels or quality of inventory;
- fluctuations in capacity as we expand our operations;
- our success in engaging existing customers and attracting new customers;
- the amount and timing of our operating expenses;
- the timing and success of new products launches;
- the impact of competitive developments and our response to those developments;
- our ability to manage our existing business and future growth; and
- economic and market conditions, particularly those affecting our industry.

Fluctuations in our quarterly results of operations from time to time have caused, and may again in the future cause, those results to fall below the guidance that we have provided to the public or the expectations of our investors and securities analysts, which could cause the trading price of our Class A common stock to decline. Fluctuations in our results could also cause a number of other problems. For example, analysts or investors might change their models for valuing our Class A common stock, we could experience short-term liquidity issues, our ability to retain or attract key personnel may diminish and other unanticipated issues may arise.

In addition, we believe that our quarterly results of operations may vary in the future and that period-to-period comparisons of our results of operations may not be meaningful. You should not rely on the results of one quarter as an indication of future performance.

The dual-class structure of our common stock may adversely affect the trading market for our Class A common stock.

We cannot predict whether our dual-class structure will result in a lower or more volatile market price of our Class A common stock or in adverse publicity or other adverse consequences. For example, certain index providers have announced restrictions on including companies with dual-class or multi-class share structures in certain of their indexes. In July 2017, S&P Dow Jones and FTSE Russell announced changes to their eligibility criteria for the inclusion of shares of public companies on certain indices, including the Russell 2000, the S&P 500, the S&P MidCap 400 and the S&P SmallCap 600, to exclude companies with multiple classes of shares of common stock from being added to these indices.

Beginning in 2017, MSCI, a leading stock index provider, opened public consultations on their treatment of no-vote and multi-class structures and temporarily barred new multi-class listings from certain of its indices; however, in October 2018, MSCI announced its decision to include equity securities “with unequal voting structures” in its indices and to launch a new index that specifically includes voting rights in its eligibility criteria. As a result, our dual-class capital structure makes us ineligible for inclusion in any of these indices, and mutual funds, exchange-traded funds and other investment vehicles that attempt to passively track these indices will not be investing in our stock. These policies are still fairly new, and it remains unclear what effect, if any, they will have on the valuations of publicly traded companies excluded from the indices in the longer term, but it is possible that they may depress these valuations compared to those of other similar companies that are included. Furthermore, we cannot assure you that other stock indices will not take a similar approach to S&P Dow Jones or FTSE Russell in the future. Exclusion from indices could make our Class A common stock less attractive to investors and, as a result, the market price of our Class A common stock could be adversely affected.

Sales, directly or indirectly, of a substantial amount of our Class A common stock in the public markets by our existing security holders may cause the price of our Class A common stock to decline.

Sales of a substantial number of shares of our Class A common stock into the public market, particularly sales by our directors, executive officers and principal stockholders, or the perception that these sales might occur, could cause the market price of our Class A common stock to decline. All of the shares of Class A common stock issuable upon the exercise or vesting and settlement of equity grants under our equity plans are registered for public resale under the Securities Act and may be resold in the public market, subject, in the case of shares held by our affiliates, to the limitations under Rule 144 of the Securities Act. Further, based on shares outstanding as of September 30, 2023, holders of 9,223,399 shares of our common stock have rights, subject to certain conditions, to require us to file registration statements for the public resale of such shares or to include such shares in registration statements that we may file for us or other stockholders. Many of our existing security holders have substantial unrecognized gains on the value of the equity they hold and may take steps to sell their shares or otherwise secure or limit their risk exposure to the value of their unrecognized gains on those shares. We are unable to predict the timing or effect of such sales on the market price of our Class A common stock.

The dual-class structure of our common stock and voting agreement among us and our co-founders, Heather Hasson and Trina Spear, Tulco, LLC and Thomas Tull and certain related persons and trusts, have the effect of concentrating voting control with Ms. Hasson, Ms. Spear and Mr. Tull, who together hold the majority of the voting power of our outstanding capital stock, which may limit or preclude your ability to influence corporate matters, including the election of directors and the approval of any change of control transaction.

Our Class B common stock has 20 votes per share and our Class A common stock has one vote per share. All outstanding shares of our Class B common stock are held by our co-founders, Mses. Hasson and Spear, who also serve as our Executive Chair and Chief Executive Officer, respectively. These holders, along with Thomas Tull, chairman and chief executive officer of Tulco, LLC, represent a majority of the voting power of our outstanding capital stock as of September 30, 2023.

These stockholders have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of our directors and the approval of any change of control transaction. In addition, we, Mses. Hasson and Spear, Tulco, LLC, Mr. Tull and certain related persons and trusts are party to a voting agreement with respect to the election of directors. This concentrated control limits or precludes our stockholders’ ability to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may feel are in your best interest as one of our stockholders.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning purposes. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term.

We are a “controlled company” within the meaning of the rules of the New York Stock Exchange and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements. You do not have the same protections afforded to stockholders of companies that are subject to such requirements.

In connection with our IPO, we, our co-founders, Mses. Hasson and Spear, and Tulco, LLC, and certain related persons and trusts entered into a voting agreement with respect to the election of directors. On March 21, 2022, in connection with a distribution by Tulco, LLC of all shares of the Company's common stock then held by Tulco, LLC to its members on a pro rata basis, and as contemplated by the voting agreement, the existing parties to the voting agreement entered into an amendment and joinder with Thomas Tull, the founder, chairman and chief executive officer of Tulco, LLC and his family trust (together, the “Tull Parties”), under which the Tull Parties were acknowledged as permitted transferees under the voting agreement and joined as parties to the voting agreement, with the same rights and obligations as the other investor parties thereto.

As a result, Ms. Hasson, Ms. Spear and the Tull Parties together control a majority of the voting power of our outstanding common stock and we are a “controlled company” within the meaning of the corporate governance standards of the New York Stock Exchange (“NYSE”). Under these rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a “controlled company” and may elect not to comply with certain corporate governance requirements, including:

- the requirement that a majority of the board of directors consist of independent directors;
- the requirement that our nominating and corporate governance committee be composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- the requirement that our compensation committee be composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- the requirement for an annual performance evaluation of our governance and compensation committees.

We rely on certain of these exemptions and, as a result, do not have nominating and corporate governance and compensation committees consisting entirely of independent directors. Accordingly, you do not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, the price of our Class A common stock and trading volume could decline.

The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. We do not have any control over these analysts. If few securities analysts cover us, or if industry analysts cease coverage of us, the trading price for our Class A common stock would be negatively affected. If one or more of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, our Class A common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Class A common stock could decrease, which might cause our Class A common stock price and trading volume to decline.

We do not currently intend to pay dividends for the foreseeable future.

We currently intend to retain any future earnings to finance the operation and expansion of our business and we do not currently expect to declare or pay any dividends in the foreseeable future. Moreover, the terms of our existing credit agreement restrict our ability to pay dividends, and any additional debt we may incur in the future may include similar restrictions. In addition, Delaware law may impose requirements that may restrict our ability to pay dividends to holders of our common stock. As a result, stockholders must rely on sales of their Class A common stock after price appreciation, which may never occur as the only way to realize any future gains on their investment. As a result, investors seeking cash dividends should not purchase our Class A common stock.

Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer or proxy contest more difficult, limit attempts by our stockholders to replace or remove our current management and depress the market price of our Class A common stock.

Provisions in our amended and restated certificate of incorporation and our amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control of us or tender offer that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These

provisions could also limit the price that investors might be willing to pay in the future for shares of our Class A common stock, thereby depressing the market price of our Class A common stock. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management. Because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team. Among others, these provisions include that:

- provide for a dual-class common stock structure in which holders of our Class B common stock may have the ability to control the outcome of matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, even if they own significantly less than a majority of the outstanding shares of our common stock;
- restrict the forum for certain litigation against us to Delaware or the federal courts, as applicable;
- our board of directors has the exclusive right to expand the size of our board of directors and to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- our board of directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered three-year terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- our stockholders may act by written consent until such time as holders of our Class B common stock beneficially own less than a majority of the voting power, at which time our stockholders will no longer be able to act by written consent and instead must take action at an annual or special meeting of our stockholders;
- a special meeting of stockholders may be called only by the chair of the board of directors, the chief executive officer, or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- our amended and restated certificate of incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- our board of directors may alter our amended and restated bylaws without obtaining stockholder approval;
- the required approval of the holders of at least two-thirds of the shares entitled to vote at an election of directors to adopt, amend or repeal our amended and restated bylaws or repeal the provisions of our amended and restated certificate of incorporation regarding the election and removal of directors;
- stockholders must provide advance notice and additional disclosures in order to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company; and
- our board of directors is authorized to issue shares of preferred stock and to determine the terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for certain stockholder litigation matters and the federal district courts of the United States are the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or stockholders.

Our amended and restated certificate of incorporation provides that, unless we otherwise consent in writing, (A) (1) any derivative action or proceeding brought on behalf of the Company, (2) any action asserting a claim of breach of a fiduciary duty owed by any current or former director, officer, other employee or stockholder of the Company to the

Company or the Company's stockholders, (3) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws (as either may be amended or restated) or as to which the Delaware General Corporation Law confers exclusive jurisdiction on the Court of Chancery of the State of Delaware or (4) any action asserting a claim governed by the internal affairs doctrine of the law of the State of Delaware shall, to the fullest extent permitted by law, be exclusively brought in the Court of Chancery of the State of Delaware or, if such court does not have subject matter jurisdiction thereof, the federal district court of the State of Delaware; and (B) the federal district courts of the United States shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. Notwithstanding the foregoing, the exclusive forum provision shall not apply to claims seeking to enforce any liability or duty created by the Exchange Act. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers, and other employees, although our stockholders will not be deemed to have waived our compliance with federal securities laws and the rules and regulations thereunder. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, financial condition and results of operations. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of our capital stock shall be deemed to have notice of and consented to the forum provisions in our amended and restated certificate of incorporation.

General Risk Factors

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

Our estimates of market opportunity and forecasts of market growth may prove to be inaccurate. Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates, as well as information obtained from internal sources, market research, publicly available information and industry publications. We believe that these sources and estimates are reliable but have not independently verified them and cannot guarantee their accuracy or completeness. They may also not prove to be accurate, including as a result of any of the risks described in this Quarterly Report on Form 10-Q.

The variables that go into the calculation of our market opportunity are also subject to change over time, and there is no guarantee that any particular number or percentage of addressable customers covered by our market opportunity estimates will purchase our products at all or generate any particular level of net revenues for us. In addition, our ability to expand in any of our target markets depends on a number of factors, including the cost, performance and perceived value associated with our products and traditional medical apparel. Even if the markets in which we compete meet the size estimates and growth forecasted, our business could fail to grow at similar rates, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. Accordingly, our forecasts of market growth should not be taken as indicative of our future growth.

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

Our principal offices and our fulfillment center are located in Southern California, an area which has a history of earthquakes, and are thus vulnerable to damage. Natural disasters, such as earthquakes, wildfires, hurricanes, tornadoes, storms, droughts, floods and other adverse weather and climate conditions; unforeseen public health crises, such as epidemics and pandemics, including the ongoing COVID-19 pandemic; political crises, such as terrorist attacks, war and other political instability; or other catastrophic events, whether occurring in the United States or internationally, could disrupt our operations in any of our offices and fulfillment center or the operations of one or more of our third-party providers or vendors. Certain of these events may become more frequent or intense due to climate change. Climate change may also contribute to chronic changes in the physical environment, such as changes in ambient temperature and precipitation patterns as well as sea-level rise, which may also have adverse impacts on our operations. In particular, these and other types of catastrophic events could impact our merchandise supply chain, including the ability of third parties to manufacture and ship merchandise and our ability to ship products to customers from or to the impacted region, or generally. For example, the ongoing COVID-19 pandemic has negatively impacted global supply chains and from time to time caused challenges to logistics, including causing ocean freight reliability and capacity issues, increased volatility in ocean freight transit times, port congestion, increased ocean and air freight rates, labor shortages and ocean freight delays.

As a result, certain of our ocean freight providers, as well as some of our suppliers and manufacturers, have from time to time experienced delays and shutdowns, and could experience delays and shutdowns again in the future.

An increase in the frequency of such events may result in changes to the cost and availability of insurance. In addition, these types of events could negatively impact customer spending in the impacted regions or globally. To the extent any of these events occur, our business, financial condition and results of operations could be adversely affected.

We are subject to periodic claims and litigation that could result in unexpected expenses and could ultimately be resolved against us.

We have been, are and may in the future become involved in litigation and other proceedings, including matters related to commercial disputes, product liability, intellectual property, trade, customs laws and regulations, employment, regulatory compliance, securities and other claims related to our business, as well as stockholder derivative suits. See Part II, Item 1. "Legal Proceedings" in this Quarterly Report on Form 10-Q for additional information about our legal proceedings. We have also been subject to stockholder demands seeking access to the Company's books and records pursuant to Delaware Code Title 8, Section 220. While we intend to vigorously defend against such claims, these or any other proceeding or audit could result in significant settlement amounts, damages, fines, penalties or other relief such as an injunction, divert financial and management resources and result in significant legal fees. An unfavorable outcome of any particular proceeding could exceed the limits of our insurance policies, or our insurance carriers may decline to fund such final settlements or judgments or all or part of the legal costs associated with the proceeding, which could have an adverse impact on our business, financial condition and results of operations. In addition, any such proceeding could negatively impact our brand equity and our reputation.

Our insurance may not provide adequate coverage against claims.

Our operations may expose us to product liability claims and litigation or regulatory actions relating to personal injury. We believe that we maintain insurance customary for businesses of our size and type. However, there are types of losses we may incur that cannot or may not be insured against or that we believe are not economically reasonable to insure. Moreover, any loss incurred could exceed policy limits and policy payments made to us may not be made on a timely basis. In addition, some of our agreements with our suppliers may not indemnify us from product liability for a particular supplier's merchandise or our suppliers may not have sufficient resources or insurance to satisfy their indemnity and defense obligations.

We incur significant additional costs as a result of being a public company, and our management is required to devote substantial time to compliance with our public company responsibilities and corporate governance practices.

We incur significant costs associated with corporate governance requirements that are applicable to us as a public company, including rules and regulations of the SEC, under the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Customer Protection Act of 2010, the Securities Act and the Exchange Act, as well as the rules of the NYSE. These rules and regulations significantly increase our accounting, legal and financial compliance costs and make some activities more time consuming. For example, the SEC has adopted new rules that will require us to provide greater disclosures around cybersecurity risk management, strategy and governance, as well as disclose the occurrence of material cybersecurity incidents. We cannot predict or estimate the amount of additional costs we will incur in order to comply with these or other SEC or NYSE rules or the timing of such costs.

As of December 31, 2022, we lost our status as an "emerging growth company" as defined in the JOBS Act and as such, we no longer are entitled to rely on exemptions from certain compliance requirements that are applicable to companies that are emerging growth companies, including, but not limited to, not being required to have our independent registered public accounting firm audit our internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation. As a public company without emerging growth company status, we are required to increase our disclosures in periodic reports, proxy statements and other SEC filings compared to our historical filings. These increased disclosure requirements may place a burden on our financial and management resources. If our additional disclosures in future SEC filings are perceived as insufficient or inadequate by investors or regulatory authorities, the market price of our stock could decline and we could be subject to actions by stockholders or regulatory authorities.

We also expect these rules and regulations to make it more expensive for us to maintain directors' and officers' liability insurance. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. In addition, our management team needs to devote substantial attention to interacting with public company analysts and investors and complying with the increasingly complex laws pertaining to public companies, which may divert attention away from the day-to-day management of our business. Increases in costs incurred or diversion of management's attention as a result of being a publicly traded company may adversely affect our business, financial condition and results of operations.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below the expectations of our investors and securities analysts, resulting in a decline in the trading price of our Class A common stock.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as discussed in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2022 Annual Report on Form 10-K, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, net revenues and expenses that are not readily apparent from other sources. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our Class A common stock.

Our reported financial results may be negatively impacted by changes in GAAP.

GAAP is subject to interpretation by the Financial Accounting Standards Board ("FASB"), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. FASB has in the past issued new or revised accounting standards that superseded existing guidance and significantly impacted the reporting of financial results. Any future change in GAAP principles or interpretations could also have a significant effect on our reported financial results and may even affect the reporting of transactions completed before the announcement or effectiveness of a change. It is difficult to predict the impact of future changes to accounting principles or our accounting policies, any of which could negatively affect our reported results of operations.

We are obligated to maintain effective internal control over financial reporting and any failure to maintain effective internal controls may cause investors to lose confidence in the accuracy and completeness of our reported financial information and the market price of our Class A common stock may be negatively affected.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in our internal controls, pursuant to Section 404 of the Sarbanes-Oxley Act ("Section 404"). Section 404 also requires that we provide a management report on the effectiveness of our internal control over financial reporting, including disclosure of any material weaknesses identified by our management in our internal control over financial reporting. In addition, because we are no longer an "emerging growth company" as of December 31, 2022, Section 404 also requires our independent registered public accounting firm to provide an attestation report on the effectiveness of our internal control over financial reporting on an annual basis, which started with the 2022 Annual Report.

Our compliance with Section 404 requires significant documentation, testing and possible remediation, requiring us to incur substantial costs and expend significant management efforts. We have engaged outside consultants, and have hired accounting and financial staff with appropriate public company experience and technical accounting knowledge needed to maintain the system and process documentation necessary to perform the evaluation needed to comply with Section 404.

In connection with the implementation of the necessary procedures and practices related to internal control over financial reporting, we may identify deficiencies that we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, we may encounter problems or delays in completing the remediation of any deficiencies identified by our independent registered public accounting firm in connection with the issuance of their attestation report. Our testing, or the subsequent testing (if required) by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses.

If we identify one or more material weaknesses in our internal control over financial reporting, our management will be unable to conclude that our internal control over financial reporting is effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may conclude that there are material weaknesses with respect to our internal controls or the level at which our internal controls are documented, designed, implemented or reviewed. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm were to express an adverse opinion on the effectiveness of our internal control over financial reporting because we had one or more material weaknesses, investors could lose confidence in the accuracy and completeness of our financial disclosures, which could cause the price of our Class A common stock to decline. Internal control deficiencies could also result in a restatement of our financial results in the future or restrict our future access to the capital markets.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

We are subject to the periodic reporting requirements of the Exchange Act. We have designed our disclosure controls and procedures to provide reasonable assurance that information we must disclose in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

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

We intend to continue making investments to support our business growth and may require additional funds to support this growth. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and extent of international expansion efforts and other growth initiatives, the expansion of our marketing activities and overall economic conditions. To the extent that current and anticipated future sources of liquidity are insufficient to fund our future business activities and requirements, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our Class A common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, and our business and prospects could fail or be adversely affected.

Failure to effectively and efficiently address environmental, sustainability and social matters could adversely impact us.

There has been increasing public focus on a variety of environmental, social and governance ("ESG") matters affecting public companies. Expectations regarding voluntary ESG initiatives and disclosures may result in increased costs (including but not limited to increased costs related to compliance, stakeholder engagement, contracting and insurance), changes in demand for certain products, enhanced compliance or disclosure obligations, or other adverse impacts to our business, financial condition or results of operations.

While we have from time to time engaged and may in the future engage in voluntary initiatives (such as voluntary disclosures, certifications or goals, among others) to improve the ESG profile of our company and/or products, such initiatives or achievements of such initiatives may be costly and may not have the desired effect. For example, expectations around our management of ESG matters continues to evolve rapidly. In addition, we may commit to certain initiatives or goals, and we may not ultimately be able to achieve such commitments or goals due to factors that are within or outside of our control. Moreover, statements that we may make or actions that we may take based on expectations, assumptions or third-party information that we believe to be reasonable may subsequently be determined to be erroneous or be subject to misinterpretation. Even if this is not the case, our statements or actions may subsequently be determined to be insufficient

by various stakeholders, and we may be subject to investor or regulator scrutiny on our ESG initiatives and disclosures, even if such initiatives were voluntary.

Further, certain market participants, including major institutional investors and capital providers, use third-party benchmarks and scores to assess companies' ESG profiles in making investment or voting decisions. Unfavorable ESG ratings could lead to negative investor sentiment towards us, which could negatively impact our share price as well as our access to and cost of capital. To the extent ESG matters negatively impact our reputation, it may also impede our ability to compete effectively to attract and retain employees or customers, which may adversely impact our operations.

In addition, we expect there will be increasing levels of regulation, disclosure-related and otherwise in the U.S. and abroad, with respect to ESG matters. For example, the SEC has proposed rules that would require companies to provide significantly expanded climate-related disclosures in their periodic reporting, which may require us to incur significant additional costs to comply with, including the implementation of significant additional internal controls regarding matters that have not been subject to such controls in the past, and which may impose increased oversight obligations on our management and board of directors. In addition, the California legislature has recently passed a number of climate disclosure bills that may require us to report on our greenhouse gas emissions, climate-related financial risks and other climate-related matters. These and other changes in stakeholder expectations may also lead to increased costs and scrutiny that could heighten all of the risks identified in this risk factor. Additionally, many of our suppliers may be subject to similar expectations, which may augment or create additional risks.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities.

Recent Sales of Unregistered Securities; Purchases of Equity Securities by the Issuer or Affiliated Purchaser

None.

Use of Proceeds

On June 1, 2021, we completed our IPO. All shares sold were registered pursuant to a registration statement on Form S-1 (File No. 333-255797), as amended, (the "Registration Statement") declared effective by the SEC on May 26, 2021.

The net proceeds from our IPO have been invested in investment grade, interest-bearing instruments. There has been no material change in the expected use of the net proceeds from our IPO as described in our Registration Statement.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

During the three months ended September 30, 2023, no director or “officer” (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” each as defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed / Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of FIGS, Inc.	10-K	001-40448	3.1	2/28/2023	
3.2	Amended and Restated Bylaws of FIGS, Inc.	10-K	001-40448	3.2	44985	
4.1	Form of Certificate of Common Stock.	S-1	333-255797	4.1	5/5/2021	
4.2	Amended and Restated Stockholders' Agreement by and between FIGS, Inc. and certain security holders of FIGS, Inc., dated October 23, 2020.	S-1/A	333-255797	4.2	5/20/2021	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.					**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.					**
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.					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					*
<hr/>						
*	Filed herewith.					
**	Furnished herewith.					

SIGNATURES

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

FIGS, INC.

Date: November 2, 2023

By: /s/ Catherine Spear
Name: Catherine Spear
Title: Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 2, 2023

By: /s/ Daniella Turenshtine
Name: Daniella Turenshtine
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Catherine Spear, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FIGS, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2023

By: /s/ Catherine Spear

Catherine Spear

Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Daniella Turenshtine, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FIGS, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2023

By: /s/ Daniella Turenshtine

Daniella Turenshtine

Chief Financial Officer

(Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of FIGS, Inc. (the "Company") for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Catherine Spear, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2023

By: /s/ Catherine Spear

Catherine Spear

Chief Executive Officer

(Principal Executive Officer)

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of FIGS, Inc. (the "Company") for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniella Turenshtine, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2023

By: /s/ Daniella Turenshtine

Daniella Turenshtine

Chief Financial Officer

(Principal Financial and Accounting Officer)