BLB&G Bernstein Litowitz Berger & Grossmann LLP

Retail Wholesale Department Store Union Local 338 Retirement Fund v. Stitch Fix, Inc.

COURT: United States District Court for the Northern District of California
CASE NUMBER: 5:22-cv-04893
CLASS PERIOD: 06/09/2020 - 06/09/2022
CASE LEADERS: Rebecca E. Boon
CASE TEAM: Alec Coquin

This is a securities class action brought on behalf of investors in Stitch Fix, Inc. ("Stitch Fix" or the "Company"), which is pending in the Northern District of California before the Honorable P. Casey Pitts. The action alleges violations of the Securities Exchange Act of 1934 and seeks to recover damages against Stitch Fix and its founder, Executive Chairperson, and former CEO Defendant Katrina Lake and former CEO and board member Defendant Elizabeth Spaulding (collectively, "Defendants") on behalf of purchasers of Stitch Fix Class A common stock between June 9, 2020, and June 9, 2022, inclusive (the "Class Period").

This case arises from misstatements and omissions by the senior executives of Stitch Fix about a new business line called "Direct Buy," later renamed to Freestyle, that Defendants and analysts celebrated as the "pivotal transformation" of the Company. Led by its new CEO, Defendant Elizabeth Spaulding, Stitch Fix assured investors that Direct Buy was "additive," "incremental" and "complementary" to its core product, the "Fix." In fact, the opposite was true because Defendants knew from extensive internal test results that Direct Buy was cannibalizing the Fix business. When the truth was revealed to investors through multiple partial disclosures, Lead Plaintiffs and the Class suffered significant losses as the Company's market capitalization declined by over $6 billion, or approximately 90%.

The market learned the truth through four partial disclosures, beginning on March 8, 2021, when Stitch Fix announced that the launch of Direct Buy would be delayed as the Company attempted to "evolv[e] our client onboarding process and user interface." The delayed launch also resulted in a reduction in financial guidance. In response to this disclosure, the price of Stitch Fix stock declined 28%. Then, on December 7, 2021, Defendant Spaulding revealed that as a result of the "expansion into Freestyle," the Company "may experience short-term impacts of cannibalization." In response to this disclosure, the price of Stitch Fix stock declined 24%. But Defendants continued to assure investors that Direct Buy and Fix were "complementary" and "additive." Analysts accordingly were both surprised by Defendants' revelations and reassured that the Company would be able to resolve the potential cannibalization issue in the short term.

Then, on March 8, 2022, Defendant Spaulding shocked investors when she disclosed that the Company was continuing to experience cannibalization that had not been resolved in the short term. Defendant Spaulding revealed that the Company had created a "friction" between Fix and Freestyle customers because Defendants chose to direct customers who came to the Company website to buy a Fix to Freestyle instead. These would-be clients ended up buying nothing and as Defendant Spaulding acknowledged, "conversion of new visitors for Fix and Freestyle is not where we want it to be." As a result of these disclosures, the price of Stitch Fix stock declined by 6%.

Finally, the full truth was revealed on June 9 and 10, 2022, when Defendant Spaulding announced significant layoffs and disclosed with respect to Freestyle that "the conversion of new visitors was not where we wanted it to be in the second quarter[.]" Defendant Spaulding explained that Stitch Fix had modified the Company website's onboarding path to address the reality that Freestyle was cannibalizing Fix, but even so, the Company is "still not yet at our desired conversion level." Accordingly, the Company issued new downward revisions to guidance. As a result of these disclosures, the price of Stitch Fix stock declined 27%.

In the aftermath of the fraud, Defendant Spaulding was forced to resign from her position as CEO and Stitch Fix has effectively abandoned Freestyle as a business strategy. On January 5, 2023, the Company issued a press release announcing that Defendant Spaulding was not the right person to lead the Company's "ambitious transformation." Further, Defendant Lake, as interim CEO, announced on March 7, 2023 that the Company would "refocus" on the Fix, and that Stitch Fix would no longer think of Freestyle as a "separate business unit" because it "was less effective" as a "customer acquisition vehicle."

On May 22, 2023, the Court appointed as lead plaintiffs Retail Wholesale Department Store Union ("RWDSU") Local 338 Retirement Fund, RWDSU Local 338 Health & Welfare Fund, RWDSU Local 338 General Fund, and RWDSU Local 338 Benefits Trust Fund (the "Local 338 Funds"), and approved BLB&G as lead counsel. On May 26, 2023, the Court entered a schedule under which Lead Plaintiffs' amended complaint was filed on August 15, 2023. Defendants filed their motion to dismiss on November 1, 2023. Lead Plaintiffs filed a brief opposing the motion to dismiss on December 22, 2023, and Defendants filed a reply brief on February 6, 2024. A hearing on Defendants' motion to dismiss was held on April 18, 2024.

On July 16, 2024, the Court granted Defendants motion to dismiss the amended complaint with leave to amend.

On July 24, 2024, the Court entered a schedule under which Lead Plaintiffs' second amended complaint was filed on September 13, 2024. Defendants filed their motion to dismiss on November 8, 2024. Lead Plaintiffs' brief opposing the motion to dismiss is scheduled to be filed on December 23, 2024. Defendants' reply brief is scheduled to be filed on January 31, 2025.

A date for oral argument on Defendants' motion to dismiss the second amended complaint has not yet been set.

Case Documents

- September 13, 2024 - Second Amended Class Action Complaint
- August 15, 2023 - Amended Class Action Complaint
- August 26, 2022 - Initial Complaint
- August 26, 2022 - PSLRA Notice