

The RealReal

ANNUAL REPORT 2023



The RealReal

Dear Stockholders,

Thank you for your support of our company and continued interest in The RealReal, Inc.

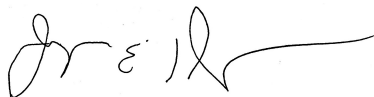
2023 was an exciting year for our company. During 2023 we executed on our strategy to re-focus on our core consignment business, and we refined our growth model by emphasizing profitable supply. As part of these efforts, we reduced company-owned inventory (i.e., direct), overhauled our consignor commission structure, and revamped our approach to sales and marketing. Operationally, we began to deliver efficiencies from our investments in automation and artificial intelligence.

These initiatives have begun to make an impact – for the first time since our IPO in 2019, we reported a full quarter of positive Adjusted EBITDA and positive free cash flow in the fourth quarter of 2023. We saw significant improvement in gross margin for full year 2023 as compared to full year 2022. Additionally, in early 2024, we announced a reworking of our capital structure, creating substantial runway and capital structure flexibility to execute on our strategic vision.

From an organizational standpoint, I joined the company as Chief Executive Officer and member of the Board of Directors in February 2023, and we also welcomed our new Chief Product and Technology Officer, Luke Friang, and our new Chief People Officer, Chatelle Lynch. Additionally, in early 2024, Ajay Gopal joined as our new Chief Financial Officer, and Karen Katz was appointed as Chairperson of the Board of Directors.

In 2024, we continue to focus on profitably growing our core consignment business and achieving operational efficiencies. Through our mission of extending the life of luxury and making fashion more sustainable, The RealReal, Inc. continues to be a leader in the circular economy. I want to reiterate our thanks for your interest in The RealReal, Inc. We are excited about our company's future and making progress on our path to profitability.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Koryl', with a long horizontal flourish extending to the right.

John Koryl
Chief Executive Officer

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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 001-38953

The RealReal, Inc.

(Exact name of Registrant as specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

55 Francisco Street Suite 150

San Francisco, CA

(Address of principal executive offices)

45-1234222

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

94133

(Zip Code)

Registrant's telephone number, including area code: (855) 435-5893

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.00001 par value	REAL	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

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

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

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

The aggregate market value of the common equity held by non-affiliates of the Registrant was approximately \$207,273,202 as of June 30, 2023, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of the shares of common stock on The NASDAQ Stock Market reported for June 30, 2023. Excludes an aggregate of 8,769,715 shares of the registrant's common stock held by officers, directors, affiliated stockholders as of June 30, 2023.

The number of shares of Registrant's Common Stock outstanding as of February 20, 2024 was 104,692,411.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the definitive proxy statement for the registrant's 2024 Annual Meeting of Stockholders.

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Unless the context suggests otherwise, references in this Annual Report on Form 10-K (the “Annual Report”) to “The RealReal,” the “Company,” “we,” “us” and “our” refer to The RealReal, Inc.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial position, business strategy and plans, objectives of management for future operations, long term operating expenses, the opening of additional retail stores in the future, the development of our automation technology, expectations for capital requirements and the use of proceeds from our initial public offering, are forward-looking statements. These 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.

In some cases, you can identify forward-looking statements by terms such as “may,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other similar expressions. The forward-looking statements in this Annual Report on Form 10-K 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. These forward-looking statements speak only as of the date of this Annual Report on Form 10-K and are subject to a number of risks, uncertainties and assumptions described in the section titled “Risk Factors” included under Part I, Item 1A below and elsewhere in this Annual Report on Form 10-K. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

- our future financial performance, including our expectations regarding our revenue, cost of revenue, operating expenses, and our ability to achieve and maintain future profitability, in particular with respect to the impacts of macroeconomic uncertainty and geopolitical instability;
- our ability to return to historic levels of revenue growth and to effectively expand our operations;
- our ability to achieve anticipated savings in connection with our reduction in workforce and associated real estate reduction plan;
- our ability to successfully implement our growth strategies;
- our strategies, plans, objectives and goals;
- the market demand for authenticated, pre-owned luxury goods and new and pre-owned luxury goods in general and the online market for luxury goods;
- our ability to compete with existing and new competitors in existing and new markets and offerings;
- our ability to attract and retain consignors and buyers;
- our ability to increase the supply of luxury goods offered through our online marketplace;
- our ability to timely and effectively scale our operations;
- our ability to enter international markets;
- the accuracy and reliability of our authentication process;
- our ability to optimize, operate and manage our authentication centers;
- our ability to develop and protect our brand;
- our ability to comply with laws and regulations;
- our expectations regarding outstanding litigation;
- the reliable performance of our network infrastructure and content delivery process;
- our ability to detect and prevent data security breaches and fraud;
- our expectations and management of future growth;
- our expectations concerning relationships with third parties;

- economic and industry trends, projected growth or trend analysis;
- seasonal sales fluctuations;
- our ability to add capacity, capabilities and automation to our operations; and
- our ability to attract and retain key personnel.

In addition, statements such as “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Annual Report on Form 10-K and, although 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 a thorough 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. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Annual Report on Form 10-K, whether as a result of any new information, future events or otherwise.

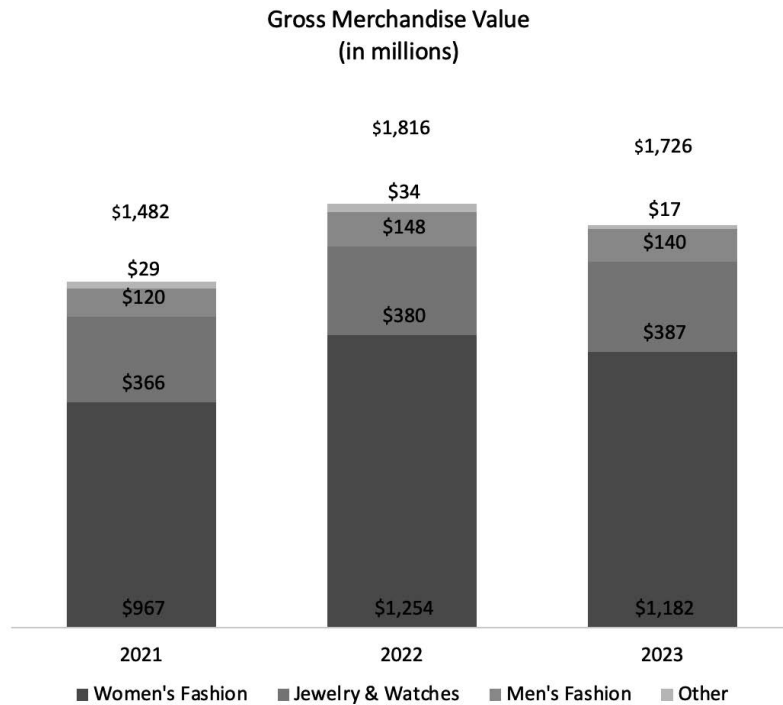
PART I

Item 1. Business.

Overview

The RealReal is the world's largest online marketplace for authenticated, resale luxury goods. We are revolutionizing luxury resale by providing an end-to-end service that unlocks supply and creates a trusted, curated online marketplace for buyers globally. Since our inception, we have cultivated a loyal and engaged consignor and buyer base through continuous investment in our technology platform, logistics infrastructure and people.

We offer a wide selection of authenticated, primarily pre-owned luxury goods on our online marketplace bearing the brands of thousands of luxury and premium designers. The top-selling luxury designers on our online marketplace include Cartier, Chanel, Christian Louboutin, Gucci, Hermès, Louis Vuitton, Prada, Rolex, Tiffany & Co. and Valentino. We offer products across multiple categories including women's fashion, men's fashion, jewelry and watches. We have built a vibrant online marketplace that we believe expands the overall luxury market, promotes the recirculation of luxury goods and contributes to a more sustainable world.



A strong network effect drives the growth of our online marketplace. As we bring more consignors onto our platform, we unlock more high-quality, luxury supply, which increases our merchandise assortment and attracts more buyers. This, in turn, increases sales velocity and commissions for our consignors. In addition, a meaningful share of our consignors are buyers and vice versa, which creates a differentiated flywheel that enhances the network effect of our online marketplace.

We also operate retail stores, including our smaller footprint neighborhood retail stores, or Neighborhood Stores. Our Neighborhood Stores are typically 1,800 to 3,500 square feet with items for sale reflecting a selection of the Company's online assortment and are located in areas we have identified as having a large amount of potential customers. In addition, we operate several larger footprint flagship stores, or Flagship Stores, in Los Angeles, California and New York, New York. Our Flagship Stores are typically 8,000 to 10,000 square feet with thousands of unique items for sale and are located in highly desirable, densely populated locations with strong foot traffic.

Our Market

The existing luxury resale market is outdated, fragmented, difficult to access and laden with counterfeit goods. Primarily due to these challenges, a vast quantity of consignable luxury goods languishes in homes, and buyers can be hesitant to purchase pre-owned luxury goods. We are transforming the luxury resale experience by addressing these challenges.

- ***We provide a seamless consignment experience enabled by our proprietary technology platform and data.*** We leverage our proprietary technology and data analytics to provide world-class service, making consignment easy, convenient, reliable and fast. As a result, we unlock luxury supply from first-time consignors, convert consignors who typically consign at local brick-and-mortar shops to our online marketplace and drive high repeat consignment rates. We leverage data from millions of transactions and current market data to optimize pricing and sales velocity for our consignors.
- ***We offer buyers a vast, yet curated supply of primarily pre-owned luxury goods and instill trust in the buying process.*** All consigned items are put through our authentication process and thoroughly inspected for quality and condition, which builds trust in our buyer base. This trust drives repeat purchases from our buyer base and instills confidence in first-time buyers to purchase pre-owned luxury goods.
- ***We also operate Neighborhood and Flagship Stores.*** Our stores are valuable to us in multiple ways as they help us reach higher value buyers and consignors, increase lifetime value, increase average order value, and lower return rates. We also benefit from increased brand awareness that accelerates overall market growth.

Our Consignors

By making consignment easy, convenient, reliable and fast for our consignors, we aim to unlock a vast quantity of desirable, high-quality, primarily pre-owned luxury goods. Our sales professionals remove friction from the consignment process and build lasting relationships with our consignors. In 2023, approximately 85% of our gross merchandise value ("GMV") came from repeat consignors. Our unique service model incentivizes consumers to consign by making the process easy.

Our sales and service organization is responsible for obtaining exclusive supply for our online marketplace and retail stores. Our sales professionals generate a robust pipeline of new consignors and build lasting relationships, which cannot be easily replicated. They consult on the consignment process and leverage data to advise consignors on pricing, expected selling time and market trends.

- ***We deliver an end-to-end service experience.*** We remove friction from the consignment process by providing multiple consignment methods. We offer concierge at-home consultation and pickup, and virtual consultations with consignors via online face-to-face platforms. Consignors may also drop off items at our luxury consignment offices. Our Neighborhood and Flagship Stores provide an alternative location to drop off consigned items and an opportunity to interact with our authentication experts. Consignors may also utilize our complimentary shipping directly to our authentication centers.
- ***We do the work on behalf of consignors.*** All consigned items are authenticated, written up, photographed, priced, sold and fulfilled on behalf of the individual consignor, making the consignment process seamless. Improvements in our automation of authentication, pricing, copywriting and photo retouching have improved the efficiency of our operations.
- ***We generate high commissions for consignors.*** Our scale and global reach combined with our technology-driven online marketplace and proprietary data enable consignors to realize optimal value for their pre-owned luxury goods. In November 2022, we launched a pricing tool for our consignors that provides transparency and detail on commission rates for specific categories and other aspects of the take rate structure. Our consignors can earn up to 90% of the proceeds from the sale of their consigned items in commissions and achieved an overall commission rate of approximately 63% in 2023.
- ***We offer a range of payment options for consignors and businesses.*** Our consignors are generally paid after an item has sold, however, we also offer trade-in terms and "Get Paid Now" options to both businesses we purchase items directly from and individuals who consign their items with us. "Get Paid Now" is a program whereby items are evaluated, authenticated and priced and the business or consignor receives payment based on this process in advance of the sale of the item.

- ***We drive rapid monetization.*** Our online marketplace efficiently matches supply with demand resulting in sales velocity of approximately 54% and 58% of the products on our online marketplace sold within 30 days, in 2023 and 2022 respectively. In addition to sales velocity, we measure the ratio of demand versus supply in a given period, which we refer to as our online marketplace sell-through ratio. Sell-through ratio is defined as GMV in the measurement period divided by the aggregate initial value of items added to our online marketplace in that period. In 2023 and 2022, our online marketplace sell-through ratios were 92% and 91%, respectively.

Our Buyers

We make it easy for buyers to shop our vast, yet curated selection of authenticated, primarily pre-owned luxury goods. In 2023, we had approximately 1 million active buyers and approximately 87% of our GMV came from repeat buyers. As we continue to unlock exclusive luxury supply, we aim to attract new buyers and drive repeat purchases from our existing buyers.

- ***We offer a seamless buying experience.*** Buyers access our omni-channel online marketplace through our website, mobile app and retail stores, enabling them to purchase anytime, anywhere. Our Neighborhood and Flagship Stores also offer our buyers a sophisticated shopping experience, in a beautifully designed space, where they can shop our dynamic curation of authenticated pre-owned luxury goods across all of our categories.
- ***We build trust through our authentication process.*** We continue to invest and innovate in authentication, both in our people and our technology. We believe we have the most rigorous authentication process in the resale luxury goods marketplace. We have highly trained gemologists, horologists, brand experts and art curators who collectively inspect thousands of items each day. All items pass through a rigorous brand-specific authentication process before they are accepted for consignment. This process includes, among other things, inspecting the item for attributes such as appropriate brand markings, date codes, serial tags and hologram stickers. In 2022, we implemented proprietary AI microphotography to assist in authenticating high-end handbags. As of 2023, over 50% of handbags are first-pass authenticated using AI microphotography. Our gemologists and horologists inspect and authenticate fine jewelry and watches, and each piece we sell comes with an authentication certificate. We utilize state-of-the-art gemological devices, including proprietary gemstone technology, to assist these experts. Additionally, across all of our categories, our experts leverage proprietary item and consignor risk scoring algorithms to assist in authentication. For inventory sold through our drop-ship consignment service that does not pass through our authentication centers, our authentication process includes diligence of our partners and procedures for establishing provenance, as well as quality checks and audits. We have a zero-tolerance policy when it comes to counterfeit goods. Items that are deemed to be counterfeit are removed from our authentication centers.
- ***We provide access to unique, highly coveted and exclusive products.*** We provide buyers with access to a vast, yet curated selection of unique, authenticated, pre-owned luxury goods. In 2023, we sold goods bearing the brands of thousands of luxury and premium designers, including highly coveted items such as rare watches and handbags.
- ***We provide a gateway to luxury brands.*** We believe we are expanding the overall market for both new and pre-owned luxury goods, as the ability to experience and engage with luxury brands through our online marketplace results in an earlier appreciation for high-quality, well-crafted items, and inspires consumers to purchase new luxury items.

Our Technology

Technology powers all aspects of our business, including our complex, single-SKU inventory management system. Our supply comes from thousands of individual consignors and businesses across the United States. Each item we sell is a unique, individual stock keeping unit (“single-SKU”) and is exclusively available on our online marketplace or in our retail stores. Given the complexity of our inventory model, we developed specialized, proprietary applications to optimize inbound processes. We increasingly use our technology platform to automate authentication, pricing, copywriting and photo retouching for goods sold through our online marketplace.

Our powerful data analytics capabilities enable us to improve both consignor and buyer experiences. Our online marketplace generates and aggregates hundreds of millions of unique data points, including data from approximately 1.1 billion views of items by potential buyers on our online marketplace in 2023, which we refer to as item views, and

approximately 37.5 million item sales since our inception. Each consigned item also has up to 50 unique attributes. Informed by this data, we have developed proprietary machine learning technology and business processes to optimize our operations, including supply sourcing, merchandising, authentication, pricing and marketing.

Environmental, Social and Governance

Our stakeholders are essential to our business—shareholders, consignors, buyers, employees and the communities in which we do business. We aspire to operate our business with positive social and environmental impact.

Our board of directors and its committees provide oversight on certain human capital matters, including our diversity and inclusion programs and initiatives. As noted in its charter, our Compensation, Diversity and Inclusion Committee is responsible for reviewing and recommending to our board of directors compensation plans, policies and programs intended to attract, retain and appropriately reward employees, as well as provide oversight of the Company's policies, programs, and initiatives focusing on leadership and workforce diversity and inclusion. Our Corporate Governance and Nominating Committee provides oversight of the Company's policies, programs and initiatives focusing on social responsibility, including environmental, sustainability, social and human rights matters. Our Audit Committee works closely with our management to discuss current and emerging risks related to our workforce and what steps management is taking to manage and reduce the Company's exposure to risk. The actions of these committees and the work of our board of directors and management seek to attract, retain and develop a diverse and inclusive workforce that is motivated to achieve the Company's business objectives.

Our Sustainability Program

We are committed to extending the lifecycle of luxury goods by promoting their recirculation, rather than creating waste. In this way, sustainability is woven into the fabric of our business, and we hope to create a more sustainable future for fashion. Additionally, we believe a growing awareness of the reduced environmental impact of recirculating luxury goods compared to the production of new products significantly contributes to the appeal of consigning and purchasing on our online marketplace.

As we move forward, we strive to continuously review our sustainability commitments, strategies and priorities. Recent sustainability efforts include:

- ***Fair Condition Program.*** This new program has enabled us to offer more secondhand, luxury items and has the effect of increasing the total number of consigned items in the circular economy. To aid buyers in assessing the condition of items in our online marketplace, we assign items a condition level. In the first quarter of 2022, we began accepting items in “fair” condition, which tend to be listed at more accessible price points given their level of wear. In 2023, demand for items in fair condition remained strong.
- ***Sustainability Task Force.*** In 2020, we formed a cross-functional Sustainability Task Force to identify projects throughout the organization that have the potential to reduce our environmental impact. The Sustainability Task Force prioritizes high impact projects and aims to embed a focus on sustainability across the organization. In early 2022, we reorganized the Sustainability Task Force into several individual working groups so we could concentrate our efforts on specific, meaningful projects, including preferred materials, transportation optimization, employee travel, employee experience and waste. In 2023, the Sustainability Task Force focused on reducing energy expenditures and limiting use of packaging materials. Throughout 2022 and 2023, members of the Sustainability Task Force provided periodic updates to our executives and the Corporate Governance and Nominating Committee of the Board of Directors on our progress toward achieving our goals and initiatives.
- ***Sustainability Calculator.*** In 2018, we launched our Sustainability Calculator on National Consignment Day as a tool to quantify the positive impact consignment has on the planet. We developed the Sustainability Calculator to measure the greenhouse gas emissions and water footprint reduction of consignment as compared to producing new products.
- ***National Consignment Day.*** We founded National Consignment Day as a national recognition day that occurs on the first Monday of October. National Consignment Day celebrates the positive impact consigning has on the environment.
- ***Carbon Neutral Pledge.*** In November 2019, we were the first company to take the pledge in the CEO Carbon Neutral Challenge issued by the CEO of Gucci. We pledged to be carbon neutral in 2021, and we reached that goal in 2020 (Scope 1, Scope 2 and certain Scope 3 emissions). Our path to carbon neutrality included implementing reductions and annually offsetting emissions that cannot be eliminated.

- **United Nations Climate Change’s Fashion Industry Charter for Climate Action.** In April 2019, we became the first company in the resale industry to join the United Nations Climate Change’s Fashion Industry Charter for Climate Action, which aims to limit global warming within the fashion industry and inspire climate action. The charter endeavors to achieve a 50% reduction in carbon emissions in the fashion industry by 2030 and net zero emissions by 2050.
- **ReCollections.** Through our ReCollection program, we transform unwearable or damaged items into unique, premium luxury upcycled items. In 2023 and early 2024, we partnered with the Fashion Institute of Technology ("FIT"). As part of a design and upcycling competition, we asked eight FIT students to create one-of-a-kind coats from otherwise unwearable or damaged items. The reimagined and upcycled coats were debuted and sold in January 2024.

Human Capital Resources

Our employees are guided by our mission to empower consignors and buyers to extend the life cycle of luxury goods. We are part of a diverse global community, and we aim to reflect that diversity within our team. We believe diversity and inclusion foster a collaborative culture, which fuels our ability to innovate as we work to create a more sustainable future. We proactively seek feedback and guidance from our employees, who we see as our partners in building a strong organizational culture.

As of December 31, 2023, we had 3,032 full-time equivalent employees. Additionally, we rely on independent contractors and temporary personnel to supplement our workforce, primarily in our authentication centers. None of our employees is represented by a labor union or covered by a collective bargaining agreement. We consider our relations with our employees to be positive.

Diversity and Inclusion

We work to inspire and empower our employees to think creatively and authentically, share their ideas, bring their whole selves to work, and strive for greatness every day. We are proud to have a diverse team, and we recognize there is opportunity for us to continue improving representation, particularly among our senior leadership. We support and celebrate diversity, and are committed to providing an equal employment opportunity regardless of race, color, ancestry, religion, sex, national origin, sexual orientation, age, citizenship, marital status, disability, gender identity or expression, or veteran status. Below is a breakdown of how our team self-identifies as of December 31, 2023 (table does not reflect, of the total individuals surveyed, approximately 9% who chose not to self-identify, approximately 1% who identified as Native American, and approximately 1% who identified as Hawaiian or Pacific Islander):

	All	Corporate	Management	Executives	Board
Black	15%	13%	7%	0%	13%
Hispanic/Latinx	31%	16%	16%	4%	0%
Asian	7%	12%	11%	11%	0%
Two or More Races	4%	6%	4%	4%	0%
White	33%	42%	50%	63%	87%
Female	66%	67%	62%	48%	50%

DEI Vision and Strategy. We believe that creating a more sustainable future by growing the circular economy requires us to bring different perspectives. We believe that a more sustainable future is an equitable one, and that growing the circular economy requires us to unlock the power of differences and solve problems together in new and meaningful ways. We aim to design equitable future through our four-pillar strategy: People, Culture, Commerce and Community. We are committed to building a strong culture of trust, safety, collaboration and belonging to fuel our purpose, people and performance. Since introducing our diversity, equity and inclusion (“DEI”) vision and strategy in 2021, we have taken meaningful action to follow through on those commitments, keeping our employees’ voices at the center of our work, and taking a renewed look at our strategy to ensure continued alignment with our mission. We continue to assess self-reporting options that reflect our diverse workforce and encourage our employees to share how they self-identify, including gender identity, LGBTQ identity, veteran status, and disability status. Since introducing the ability for our employees to share pronouns across our technologies, approximately 62% of our total employee population has chosen to share their pronouns as of December 31, 2023 in support of allyship and gender inclusion.

Employee Resource Groups. Our Employee Resource Groups (“ERGs”) help to engage employees and advance inclusion and belonging through opportunities for education, awareness, development, community and social connection.

Since forming in 2020, our six ERGs have continued to mature and progress into impactful communities that strengthen our culture. In 2023, we welcomed the addition of our seventh ERG, Real Chaverim, a space for our Jewish community and allies to share knowledge and experiences. In 2023, ERG membership and participation remained strong with over 1,000 employees participating in programs focused on leadership, culture, well-being, mental health, and community impact. Our groups collaborated to host compelling conversations with diverse thought leaders and experts, test hybrid and location specific approaches for reaching our distributed workforce, and led several local service projects in our authentication centers during Earth Month in April with community partners.

Culture. In 2023, we conducted our annual employee engagement survey to better understand employees' sentiment across a range of topics and factors; management, teamwork, alignment, enablement and inclusion were among our top scoring factors. In 2023, our engagement efforts focused on well-being, leadership, communication, and inclusion. In 2023, we continued to roll out our DEI learning platform throughout our businesses in 2023, expanding access to individual contributors and enabling more employees to build and develop inclusive leadership skills through self-paced learning to better serve our people, buyers, consignors and communities. As part of our work to build a culture of trust, we encourage employees to share real-time feedback on culture, bias, discrimination and harassment, or behavior that does not reflect our values and policies through our company-wide employee reporting tool.

The RealReal, Inc. Foundation. The RealReal, Inc. Foundation was founded at the time of our initial public offering in 2019 with the aim of advancing equity in the communities in which we operate through access to education. Since its formation, the foundation has provided annual college scholarships and supported numerous community organizations, including the Success Bound Youth Leadership Academy, the Secaucus Youth Alliance, Enterprise for Youth, Friendly House, Education Forward Arizona and the Virgil Abloh™ "Post-Modern" Scholarship Fund, which aims to preserve his vision for a more diverse and equitable fashion industry.

Director Refreshment. When searching for new directors, our board of directors has committed to including in any pool of director candidates for consideration highly qualified candidates who would bring racial, ethnic, and/or gender diversity our board of directors if chosen.

Talent Development and Training

We believe that the training and development of our employees is critical to our long-term success. We offer a variety of employee training programs in addition to the DEI programs discussed above, including onboarding, technical skills training, product and services training, and managerial soft skills training. These programs include training specific to each of our business functions, enabling us to provide our consignors and buyers with a consistent luxury experience. For example, we support our sales professionals by providing a three-week virtual onboarding sequence conducted through peer-to-peer, facilitated and self-learning sessions, followed by continuous professional development programs. In 2023, we provided a Manager Development Series to people managers in retail, sales and operations.

Our authentication teams receive training based on expertise level. Entry-level authenticators receive approximately 40 to 80 hours of training depending on their specialty in fashion or fine jewelry. Progression through the authentication training program is an additional minimum of 80 hours of training and at least three months per level. Training hours and tenure increase with expertise, with a Graduate Gemologist certification from GIA required in the highest levels of specialty in fine jewelry.

Each employee receives training appropriate to the scope and nature of their role. Our Fair Labor Standards Act-exempt employees receive an annual performance review and our people managers have quarterly meetings with their employees to address performance and development, as appropriate. As a part of our onboarding program, we have developed an engagement monitoring plan for our employees in the form of personal check-ins and questionnaires.

Health, Safety and Wellness

We are committed to ensuring the health and safety of all employees and require compliance with all applicable local laws and regulations governing working conditions, working hours, fair wages, and compensation.

We recognize that in addition to minimizing work-related injuries and illness, a safe and healthy work environment supports employee retention and morale and enhances the quality of products and services. We treat all applicable health and safety regulations as a minimum standard as we are committed to high standards for our working environments that protect the well-being of all employees. We encourage consultation and cooperation between management and employees in developing occupational health and safety mechanisms through ongoing dialogue. We

expect senior management to integrate health and safety mechanisms in business activities and monitor the program's effectiveness. In 2022, we implemented the REAL Respect program, which provides community guidelines for our employees, consignors and buyers aimed toward creating a positive and safe experience for all. In 2023, we launched TRR Secure, a smartphone security app that enables field employees to discreetly contact emergency services via multiple channels if they are in a situation that makes them feel uneasy, unsafe or uncomfortable.

We continued to focus on employees' overall well-being in 2023 through a range of programs that support access to care, along with resources and tools to address the following pillars of wellness: physical, mental/emotional, financial, and community.

Seasonality

Historically, we have observed trends in seasonality of supply and demand in our business. Specifically, our supply increases in the third and fourth quarters, and our demand increases in the fourth quarter. As a result of this seasonality, we typically see stronger average order value ("AOV"), and more rapid sell-through in the fourth quarter.

Intellectual Property

Our intellectual property, including copyrights and trademarks, is an important component of our business. We rely on trademark, copyright, trade secrets, patents, patent applications, confidentiality agreements and other practices to protect our brands, proprietary information, technologies and processes. We primarily rely on copyright and trade secret laws to protect our proprietary technologies and processes, including the algorithms we use throughout our business. Our principal trademark assets include the registered trademark "The RealReal" and our logos and taglines. Our trademarks are valuable assets that support our brand and consumers' perception of our services and merchandise. We also hold the rights to the "therealreal.com" Internet domain name and various related domain names, which are subject to Internet regulatory bodies and trademark and other related laws of each applicable jurisdiction. We continually review our development efforts to assess the existence and patentability of new intellectual property and intend to pursue patent protection to the extent we believe it would be beneficial and cost-effective.

We control access to and use of our intellectual property through confidentiality procedures, non-disclosure agreements with third parties and our employment and contractor agreements. We rely on contractual provisions to protect our proprietary technology, brands and creative assets with consignors and buyers.

Corporate Information

We were incorporated in the state of Delaware in March 2011. Our principal executive offices are located at 55 Francisco Street, Suite 150, San Francisco, California 94133, and our telephone number is (855) 435-5893. You may access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports (and amendments and exhibits thereto) filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act with the Securities and Exchange Commission ("SEC"), as well as proxy statements filed by us, free of charge on our website at www.therealreal.com, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Information contained on, or that can be accessed through, our website is not incorporated by reference into this or any other report we file with, or furnish to, the SEC, and you should not consider information on our website to be part of this or any other report we file with, or furnish to, the SEC. Such periodic reports, proxy statements and other information are also available at the SEC's website at <http://www.sec.gov>.

The RealReal and other trademarks or service marks of The RealReal, Inc. appearing in this Annual Report are the property of The RealReal, Inc. This Annual Report contains additional trade names, trademarks and service marks of others, which are the property of their respective owners. Solely for convenience, the trademarks, service marks, logos and trade names referred to in this Annual Report are without the ® and ™ symbols, but such references are not intended to indicate that we will not assert our rights in these trademarks, service marks and trade names.

Item 1A. Risk Factors.

Risk Factors Summary

The following is a summary of the principal risks and uncertainties described in more detail in this Annual Report on Form 10-K.

Risks Relating to Our Business and Industry

- We have a history of losses and we may not be able to achieve or maintain profitability in the future.
- The savings plan we implemented in February 2023 may not result in anticipated savings, could result in total costs and expenses that are greater than expected and could disrupt our business.
- We may not be able to return to historic levels of revenue growth rate or effectively manage growth or new opportunities.
- We may not accurately forecast revenue and appropriately plan our expenses.
- We have experienced seasonal and quarterly variations in our revenue and operating results.
- Greater than expected product returns may exceed our reserve for returns.
- We may require additional capital to support our business growth.
- Public health emergencies or outbreaks of epidemics, pandemics, or contagious diseases such as the COVID-19 pandemic have adversely affected, and could in the future, adversely affect our business and the business of our consignors and buyers.
- The failure of any bank in which we deposit our funds could reduce the amount of cash we have available to pay distributions and make additional investments.

Risks Relating to Our Strategy

- We may be unable to execute on our retail strategy.
- Expansion of our operations internationally will require significant management attention and resources.
- Our growth strategies may not be successfully implemented, help us achieve profitability or generate sustainable revenue and profit.

Risks Relating to Supply

- We may not be able to obtain sufficient new and recurring supply of pre-owned luxury goods.
- We may be unable to attract and retain talented sales professionals.
- Our growth and supply of product offerings are enhanced by our ability to maintain our brand partnerships.

Risks Relating to Demand

- Our continued growth depends on attracting new and retaining repeat buyers.
- National retailers and brands set their own retail prices and promotional discounts on new luxury goods, which could adversely affect our value proposition to consignors and buyers.
- We must successfully gauge and respond to changing preferences among our consignors and buyers.
- We may be unable to replicate our business model for newer categories of consigned goods or different product mixes of consigned goods.
- We rely on consumer discretionary spending, which is adversely affected by economic downturns, including economic recession or depression, and other macroeconomic conditions or trends.
- Our industry is highly competitive and we may not be able to compete effectively.

Risks Related to Marketing and Brand Management

- Our success depends on the accuracy and reliability of our authentication process.
- We may not succeed in promoting and sustaining our brand.
- Our marketing and advertising activity may fail to efficiently drive growth in consignors and buyers.
- We rely on third parties to drive traffic to our website.
- Use of social media, emails and text messages may adversely impact our reputation or subject us to fines.
- The public disclosure of our Environmental, Social and Governance (“ESG”) metrics may subject us to risks.

Risks Related to Our Merchandising and Fulfillment

- We may not be able to attract, train and retain specialized personnel and skilled employees.
- We may not be able to identify and lease authentication centers in suitable geographic regions.

- We may experience damage or destruction to our authentication centers or retail stores in which we store the majority of the consigned luxury goods we offer through our online marketplace.
- Shipping is a critical part of our business and any changes in our shipping arrangements, costs, interruptions in shipping or damage to products in transit could adversely affect our operating results.
- We may be unable to successfully leverage technology to automate and drive efficiencies in our operations.

Risks Related to Data Security, Privacy and Fraud

- We rely on third parties to host our website and mobile app and to process payments.
- Failure of our data security could cause us to incur unexpected expenses or compromise our data assets.
- We may incur significant losses from fraud.

Risks Related to Our Employees

- We may be unable to attract and retain key personnel or effectively manage leadership succession.
- Labor-related matters, including labor disputes, may adversely affect our operations.

Risks Related to Our Intellectual Property

- If we cannot successfully protect our intellectual property, our business could suffer.

Risks Relating to Litigation and Regulatory Uncertainty

- We are currently, and may be in the future, party to lawsuits and other claims.
- Our use and other processing of personal information and other data is subject to laws and obligations relating to privacy and data protection.
- We pay or collect sales taxes in all jurisdictions which require such taxes.
- Failure to comply with applicable laws or regulations may subject us to fines, penalties, loss of licensure, registration, facility closures or other governmental enforcement action.
- Application of existing tax laws, rules or regulations are subject to interpretation by taxing authorities.
- Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.
- If our internal control over financial reporting or our disclosure controls and procedures are not effective, we may not be able to accurately report our financial results, prevent fraud or file our periodic reports in a timely manner, which may cause investors to lose confidence in our reported financial information.

Risks Related to Ownership of Our Common Stock

- The market price of our common stock may be volatile or may decline steeply or suddenly regardless of our operating performance and we may not be able to meet investor or analyst expectations.
- Short sellers of our stock may be manipulative and may drive down the market price of our common stock.
- Delaware law and provisions in our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our common stock.
- Our certificate of incorporation designates the Court of Chancery of the State of Delaware located within the State of Delaware as the exclusive forum for substantially all disputes between us and our stockholders.

Risks Related to Our Outstanding Notes

- We have incurred a significant amount of debt and may incur additional indebtedness in the future.
- Transactions relating to our Notes may dilute the ownership interest of our stockholders.
- The conversion of the Notes, if triggered, may adversely affect our financial condition and operating results.
- The accounting method for the Notes materially affects our reported financial results.
- The capped call transactions may affect the value of the Notes and our common stock.

Investing in our common stock involves a high degree of risk. You should consider and read carefully all of the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission ("SEC"). The risks described below are not the only ones we face. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could materially and adversely affect our business, financial condition or results of operations.

Risks Relating to Our Business and Industry

We have a history of losses and we may not achieve or maintain profitability in the future.

We experienced net losses of \$236.1 million, \$196.4 million and \$168.5 million in 2021, 2022 and 2023, respectively, and as of December 31, 2023 we had an accumulated deficit of \$1,119.6 million. Our key initiatives currently include growing profitable supply, improving efficiencies, and pursuing new revenue streams. If those initiatives or our investments do not prove successful or our market does not develop as we expect, we may not achieve profitability on the timeline we expect or at all, and may continue to experience losses over the long term. Any failure to increase our revenue sufficiently to keep pace with our investments and other expenses could prevent us from achieving or maintaining profitability or positive cash flow on a consistent basis. If we are unable to successfully address these risks and challenges as we encounter them, our business, financial condition and operating results could be adversely affected. We cannot assure you that we will ever achieve or sustain profitability and may continue to incur significant losses going forward.

The savings plan we implemented in February 2023 may not result in anticipated savings, could result in total costs and expenses that are greater than expected and could disrupt our business.

In February 2023, we implemented a reduction in workforce of approximately 7% and a reduction in our real estate presence to reduce our operating expenses. See “Note 11 – Restructuring” for further details.

We may not realize, in full or in part, the anticipated benefits, savings and improvements in our operating structure from these efforts due to unforeseen difficulties, delays or unexpected costs. If we are unable to realize the expected operational efficiencies and cost savings from these efforts, our operating results and financial condition, and cash flows would be adversely affected. In addition to the February 2023 workforce reduction, from time to time we have made workforce reductions, as part of cost cutting initiatives or otherwise. We cannot guarantee that we will not have to undertake additional workforce or real estate reductions in the future.

Furthermore, we may also discover that the workforce reduction will make it difficult for us to pursue new opportunities and initiatives and require us to hire qualified replacement personnel, which may require us to incur additional and unanticipated costs and expenses. We may further discover that, despite the implementation of our workforce reduction, we may require additional capital to continue expanding our business, and we may be unable to obtain such capital on acceptable terms, if at all. In addition, our real estate reduction plan could harm our brand reputation, constrain our ability generate new supply, and reduce demand in buyers. If we decide to open retail locations in the future, we may not be able to secure leases on comparable terms in comparable locations. Our failure to successfully accomplish any of the above activities and goals may have a material adverse impact on our business, financial condition, and results of operations.

We may not be able to return to historic levels of revenue growth rate or effectively manage growth or new opportunities.

Our past revenue growth should not be considered indicative of future performance. While we experienced revenue growth in 2019, 2021 and 2022, our revenue for fiscal 2023 decreased compared to 2022. Our online marketplace represents a substantial departure from the traditional resale market for luxury goods. While our business grew rapidly prior to the COVID-19 pandemic, the resale market for luxury goods may not continue to develop in a manner that we expect or that otherwise would be favorable to our business. Changes in our market make it difficult to assess our future performance. You should consider our business and prospects in light of the risks and difficulties we may encounter. As we grow our business, our revenue growth rates may continue to decline in future periods due to a number of factors, including our inability to attract and retain consignors, general economic conditions, including a recession, increased market adoption against which future growth will be measured, increasing competition, slowing demand for items on our online marketplace from existing and new customers, changes to our commission structure, take rate or business model, changes in our total product mix, including as a result of our strategic shift to focus on higher value item or our failure to capitalize on growth opportunities. Our rapid growth has placed significant demands on our management and our operational and financial infrastructure. Continued growth could strain our ability to maintain reliable service levels for our consignors and buyers, develop and improve our operational, financial and management controls, enhance our reporting systems and procedures and recruit, train and retain highly skilled personnel. Failure to effectively manage the growth of our business and operations would negatively affect our reputation and brand, business, financial condition and operating results.

We may not accurately forecast revenue and appropriately plan our expenses.

We make certain assumptions when planning our expenses based on our expected revenue. These assumptions are partly based on historical results. We rely on a constant supply of consigned goods to sustain and grow our revenue, making our revenue in any given period difficult to predict. Because our operating expenses are relatively fixed in the short

term, any failure to achieve our revenue expectations would have a direct adverse effect on our business, financial condition, operating results and the price of our stock.

We have experienced seasonal and quarterly variations in our revenue and operating results.

Our business is seasonal and historically we have realized a disproportionate amount of our revenue and earnings for the year in the fourth quarter as a result of the holiday season and seasonal promotions. We expect this to continue in the future. If we experience lower than expected revenue during any fourth quarter, it may have a disproportionately large impact on our operating results and financial condition for that year. In any given year, our seasonal sales patterns may become more pronounced, strain our personnel or reduce our profit margins in a given period, which could substantially harm our business, operating results and financial condition. In anticipation of increased activity during the fourth quarter, we also incur significant additional expenses, including additional marketing spend and staffing in our sales and customer support operations. In addition, we may experience an increase in our shipping costs due to complimentary upgrades, split-shipments and additional long-zone shipments necessary to ensure timely delivery for the holiday season. Such increased costs may harm our profitability, especially if we are experiencing lower than expected revenue during the holidays.

Greater than expected product returns may exceed our reserve for returns.

We generally allow buyers to return certain purchases from our website and retail stores under our return policy. We record a reserve for returns against proceeds we receive from the sale of goods on our online marketplace and retail stores when we calculate revenue. We estimate this reserve based on historical return trends and our current expectations. The introduction of new products in the retail market, changes in consumer confidence or other competitive and general economic conditions, and higher than expected returns in connection with fourth quarter holiday buying may cause actual returns to exceed our reserve for returns. Any significant increase in returns that exceeds our reserves could adversely affect our revenue and operating results.

We may require additional capital to support business growth.

We may require additional funds to support our growth and respond to business challenges. To support our future growth, we may need to further develop our online marketplace services, grow our retail presence, expand our categories of pre-owned luxury goods, enhance our operating infrastructure, expand the markets in which we operate and potentially acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds, which may result in significant dilution to existing stockholders or the granting of new equity securities which have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us 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 the future. 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 financing on terms satisfactory to us when we require it, our ability 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.

Public health emergencies or outbreaks of epidemics, pandemics, or contagious diseases such as the COVID-19 pandemic have adversely affected, and could in the future, adversely affect our business and the business of our consignors and buyers.

An epidemic, pandemic or similar serious public health issue, and the measures undertaken by governmental authorities to address it, could significantly disrupt or prevent us from operating our business in the ordinary course for an extended period, and thereby, and/or along with any associated economic and/or social instability or distress, have a material adverse impact on our results of operations, cash flows and financial condition.

The extent to which an epidemic, pandemic or similar serious public health issue could impact our business, results of operations, financial condition and liquidity will depend on numerous evolving factors, known and unknown, that we cannot predict, including the duration and scope of the epidemic, pandemic or similar public health issue; government, business and individual actions that have been and continue to be taken in response; the impact of the public health issue on national and global economic activity; disruption of the financial and labor markets, including the possibility of a national or global economic recession or depression; the limitations on operations requiring employees to perform their duties in-person, such as our warehouse operations; the potential for shipping difficulties, including delayed deliveries to our buyers; and weakened consumer demand. Additionally, the increased number of employees who work remotely during a public health emergency or outbreak could introduce additional operational risk, such as an increased vulnerability to cyber-attacks, and harm productivity and collaboration. In addition, the risks and uncertainties described elsewhere in this “Risk Factors” section may be exacerbated by an epidemic, pandemic or similar serious public health issue.

The failure of any bank in which we deposit our funds could reduce the amount of cash we have available to pay distributions and make additional investments.

The Federal Deposit Insurance Corporation only insures amounts up to \$250,000 per depositor. It is likely that we will have cash and cash equivalents and restricted cash deposited in certain financial institutions in excess of federally insured levels. If any of the banking institutions in which we deposit funds ultimately fails, we may lose any amounts of our deposits over federally insured levels. The loss of our deposits could reduce the amount of cash we have available to distribute or invest and could result in a decline in the value of our stockholders' investment.

Risks Relating to Our Strategy

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

We currently operate a limited number of retail stores, including a number of Neighborhood Stores with smaller footprints. We believe that retail stores are effective at raising brand awareness with consignors and buyers and generating new supply. We also believe that an expansion of our brick-and-mortar presence complements our online marketplace and strengthens the omni-channel consigning and buying experience. We have in the past and may in the future continue to reassess our retail footprint and adjust our retail strategy in particular geographies. The opening and closing of retail stores brings operational challenges. We may have to enter into long-term leases before we know whether our retail strategy or a particular geography will be successful. We face a number of challenges in opening new stores, including locating retail space having a cost and geographic profile that will allow us to operate in highly desirable shopping locations, hire in-store talent and expand our retail operations in a cost-effective manner. We also have faced and may in the future face a number of challenges in closing existing stores, which may include significant exit costs, managing lease obligations and employee-related costs, including in connection with our recently announced real estate reduction plan. Closing existing stores may also limit our ability to attract new members, generate new supply and increase demand. We must provide our consignors and buyers with a consistent luxury experience across our retail locations. In the past, our stores have been the target of theft and have also experienced property damage. Any such future incidents may result in a disruption to our retail operations and significant costs if not covered by our insurance policies. In addition, the offering of unique, single-SKU products 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 authentication centers. If we are not able to manage or execute on our retail strategy, our business, operating results, prospects and reputation may be harmed.

Expansion of our operations internationally will require significant management attention and resources.

While we have members from outside the United States who purchase items from our online marketplace, we have not expanded our physical operations internationally. If we choose to do so, we would need to adapt to various local cultures, languages, standards, laws and regulations and policies. Our business model we employ may not appeal to consignors and buyers outside of the United States. Furthermore, to succeed with clients in international locations, it will be necessary to locate authentication centers in foreign markets and hire local employees in those markets, and we may have to invest in such facilities before demonstrating that we can successfully run operations outside of the United States. If we invest substantial time and resources to establish and expand our operations internationally and are unable to do so successfully and in a timely manner, our operating results would suffer.

Our growth strategies may not be successfully implemented, help us achieve profitability or generate sustainable revenue and profit.

Our growth strategies, including our initiatives to pursue new revenue streams, are evolving. For example, we have recently introduced third party advertising on our online marketplace. However, these efforts might not be successful, have been, in the case of our third-party advertising, and in other cases perceived negatively by potential consignors and buyers using our online marketplace, or we may not be able to pursue them at all. We may limit the user data shared with third-party advertising partners, which could have a negative effect on our ability to maximize our advertising revenue. In addition, we seek to balance new initiatives with our desire to provide an optimal user experience on our online marketplace, and we may not be successful in achieving a balance that continues to retain and attract consignors and buyers. If our growth strategies, including our initiatives to pursue new revenue streams, are not successful, do not generate sustainable revenue or help us achieve profitability, it could have a material adverse impact on our business and operating results.

Risks Relating to Supply

We may not be able to obtain sufficient new and recurring supply of pre-owned luxury goods.

Our success depends on our ability to generate a consistent supply of luxury goods to sell through our stores and online marketplace. To do this we must cost-effectively attract, retain and grow relationships with consignors. To expand our consignor base, we must appeal to and engage individuals new to consignment, or who have consigned through traditional brick-and-mortar shops but are unfamiliar with our business. We find new consignors by converting buyers utilizing our online marketplace, shopping in our retail stores, or utilizing our luxury consignment offices. We also reach new consignors through paid advertising, marketing materials, digital marketing, referral programs, organic word-of-mouth and other methods, such as mentions in the press, Internet search engine results and through our brand partnerships. We cannot be certain that these efforts will yield new consignors or be cost-effective. Moreover, new consignors may not choose to consign with us a second time or as frequently, or consign as many items or the same value of items, as has historically been the case with existing consignors. Therefore, the revenue generated from new consignors may not be as high as the revenue generated historically from our existing consignors or as high as we expect. Most of the luxury goods we offer through our online marketplace are initially sourced from consignors who are individuals. As a result, we may be subject to periodic fluctuations in the number, brands and quality of goods sold through our online marketplace on behalf of our consignors. In addition, a significant number of our new and existing consignors greatly prefer our concierge consultation method for consigning luxury goods, which involves our sales professionals meeting with our consignors in their homes. In November 2022, we updated our take rate structure with the goals of optimizing take rate, limiting consignment of lower value items, and increasing supply of higher value items. If our updated take rate structure is not successful in increasing the consignment of such items, our brand and reputation could be adversely affected, we may generate less revenue than expected, and we may choose to further refine the structure. We have a buy upfront program in an effort to generate additional supply. If we fail to attract new consignors or drive repeat consignments in a cost-effective manner, or fail to convert buyers to consignors, our ability to grow our business and our operating results would be adversely affected.

We may be unable to attract and retain talented sales professionals.

We rely on our sales professionals to drive our supply of luxury goods by identifying, developing and maintaining relationships with our consignors. The process of identifying and hiring sales professionals with the combination of skills and attributes required in these roles can be difficult and can require significant time. In addition, competition for qualified employees and personnel in the retail industry is intense and turnover amongst our sales professionals within a few years is not uncommon. If we are not successful in attracting and retaining effective sales professionals, the quantity and quality of the luxury goods sold through our online marketplace may be negatively impacted, which would have a material adverse effect on our business and operating results.

Our growth and supply of product offerings are enhanced by our ability to maintain our brand partnerships.

We have established brand partnerships with certain brands, and may seek to add additional brand partnerships in the future. We believe that these partnerships are important to increasing our supply and growing our business. We make direct purchases of products from our brand partners, which helps us to drive supply and expand our product offerings. To establish and maintain these partnerships, brands must trust, among other things, our authentication process and that we provide a level of customer service that matches those generally provided by luxury brands, for both consignors and buyers, online and in-store. If we are unable to provide value to our existing partners or to add new partners, the growth of our business may be harmed.

Risks Relating to Demand

Our continued growth depends on attracting new and retaining repeat buyers.

To expand our buyer base, we must appeal to and attract buyers who do not typically purchase luxury goods, who have historically purchased only new luxury goods or who used other means to purchase pre-owned luxury goods, such as traditional brick-and-mortar consignment shops, auction houses and the websites of other secondary marketplaces. We reach new buyers in part through television and digital advertising, other paid marketing, press coverage, referral programs, organic word of mouth, our brand partnerships and other methods of discovery, such as converting consignors to buyers. We expect to continue investing in these and other marketing channels in the future and cannot be certain that these efforts will yield more buyers or be cost-effective. Moreover, new buyers may not purchase through our online marketplace as frequently or spend as much with us as historically has been the case with existing buyers. As a result, the revenue generated from new buyer transactions may not be as high as the revenue generated from transactions with our existing buyers. Failure to attract new buyers and to maintain relationships with existing buyers would adversely affect our operating results and our ability to attract and retain consignors.

National retailers and brands set their own retail prices and promotional discounts on new luxury goods, which could adversely affect our value proposition to consignors and buyers.

National retailers and brands set pricing for new luxury goods that they sell and from time to time offer sales and promotional pricing, particularly during the fourth quarter holiday season, when we have historically made a substantial portion of our annual sales. Promotional pricing by these parties may lower the value of products consigned with us and our inventory and, in turn, reduce the value proposition for both our consignors and buyers. We have in the past experienced a reduction in our GMV and AOV due to fluctuations in the price of new luxury goods sold by retailers and brands, and we could experience similar reductions and fluctuations in the future. However, the timing and magnitude of such discounting can be difficult to predict and can be brought on by unique factors such as a retailer or brand going out of business and liquidating its inventory, which may happen to a greater extent as a result of macroeconomic uncertainty, inflation, geopolitical instability due in part to the conflict between Russia and Ukraine, the Israel-Hamas war and weakened consumer demand. Any of the foregoing risks could adversely affect our business, financial condition and operating results.

We must successfully gauge and respond to changing preferences among our consignors and buyers.

Our success is in large part dependent upon our ability to anticipate and identify trends in the market for pre-owned luxury goods in a timely manner and to obtain consignments of luxury goods that address those trends. We use data science to predict consignor and buyer preferences, and there can be no assurance that our data science will accurately anticipate consignor or buyer needs. Our business model limits our responsiveness to changing preferences, as the majority of our inventory consists of unique, single-SKU items. While we attempt to source goods that complement our existing inventory, we cannot ensure we will do so successfully. To the extent we do not accurately predict and successfully respond to the evolving preferences of our consignors and buyers, our ability to grow our business and our operating results would be adversely affected.

We may be unable to replicate our business model for newer categories of consigned goods or different product mixes of consigned goods.

In November 2022, we updated our take rate structure with the goals of optimizing take rate, limiting consignment of lower value items, and increasing supply of higher value items. If such higher value items are not attractive to our existing consignors or buyers, or if such items do not attract new consignors or buyers, our revenues may fall short of expectations, our brand and reputation could be adversely affected and we may incur expenses that are not offset by revenues. In addition, our business may be adversely affected if we are unable to attract new and repeat consignors that supply the necessary high-quality, appropriately priced and in-demand luxury merchandise in this high value category. Additionally, as we enter into new categories, potential consignors may demand higher commissions than our current categories, which would adversely affect our take rate and operating results. Expansion of our offerings may also strain our management and operational resources, specifically the need to hire and manage additional authentication and market experts. We may also face novel challenges in our authentication process and methods as we expand our product offerings. In addition, we may experience greater competition in specific categories from companies that are more experienced in these categories. If any of these were to occur, it could damage our reputation, limit our growth and have an adverse effect on our operating results.

We rely on consumer discretionary spending, which is adversely affected by economic downturns, including economic recession or depression, and other macroeconomic conditions or trends.

Our business and operating results are subject to global economic conditions and their impact on consumer discretionary spending, particularly in the luxury goods market. Some of the factors that may reduce luxury spending include economic downturns, including economic recession or depression, high levels of unemployment, higher consumer debt levels, higher levels of inflation, reductions in net worth, declines in asset values, including home values, and related market and economic uncertainty, including as a result of geopolitical instability and disruptions in the financial industry. Many of these factors have occurred, and may occur in the future, as a result of the COVID-19 pandemic and recent macroeconomic uncertainty, rising interest rates, inflationary pressures, credit constraints and geopolitical instability due in part to the conflict between Russia and Ukraine and the Israel-Hamas war. Such economic uncertainty and the resulting decrease in the rate of new luxury goods purchases in the primary market may have a corresponding impact on luxury resale, which could manifest in a number of ways, including fewer individuals choosing to consign their goods with us, resulting in a decrease of items available in our online marketplace, fewer individuals choosing to buy pre-owned luxury goods, resulting in lower active buyer growth and order volume, and lower AOV due to a combination of lower average selling price per item and/or fewer items per average order, any of which could have an adverse effect on our business and operating results.

Additionally, adverse economic changes could reduce consumer confidence, and could thereby negatively affect our operating results. In the event of a prolonged economic downturn or acute recession, significant inflation, or decreased supply, consumer spending habits could be adversely affected, and we could experience lower than expected revenue. Any of these developments could harm our business, financial condition and operating results.

Our industry is highly competitive and we may not be able to compete effectively.

We compete with vendors of new and pre-owned luxury goods, including branded luxury goods stores, department stores, traditional brick-and-mortar consignment stores, pawn shops, auction houses, specialty retailers, discount chains, independent retail stores, the online offerings of traditional retail competitors, resale players focused on niche or single categories, as well as technology-enabled marketplaces that may offer the same or similar luxury goods and services that we offer. Many of our competitors have longer operating histories, larger fulfillment infrastructures, greater brand recognition and technical capabilities, faster or lower-cost shipping, larger selections of goods for sale, greater financial, marketing, institutional and other resources and larger buyer bases than we do. As the market evolves, new competitors may emerge, including traditional retail competitors who expand their offerings to include resale. Some of our competitors may have greater resources than we do, which may allow them to derive greater revenue and profits from their existing buyer bases, acquire consignors at lower costs, achieve more favorable total product mixes or respond more quickly than we can to new or emerging technologies, such as artificial intelligence and machine learning, and changes in consumer shopping behavior or preferences. These competitors may also adopt more aggressive pricing policies, commission structures or take rates, which may allow them to build larger consignor or buyer bases or generate revenue from their existing buyer bases more effectively than we do. New competitors may force us to decrease our take rates to remain competitive and negatively impact on our financial performance. If we fail to respond to competition effectively, our business and operating results may be adversely affected.

Risks Relating to Marketing and Brand Management

Our success depends on the accuracy and reliability of our authentication process.

Our success depends on our ability to accurately and cost-effectively determine whether an item offered for consignment is an authentic product or genuine gemstone, piece of jewelry or work of art. From time to time, we receive counterfeit goods for consignment. While we continue to invest and innovate heavily in our authentication processes and methods, and we reject any goods we believe to be counterfeit, we cannot be certain that every counterfeit item consigned to us will be identified. In addition, when our authentication method does not involve taking physical possession of goods prior to the sale, our ability to identify counterfeits may decrease, and order cancellations may increase. As the sophistication of counterfeiters increases, it may be increasingly difficult to identify counterfeit products. We refund the cost of a product to a buyer if the buyer questions its authenticity and returns the item. The sale of any counterfeit goods may damage our reputation as a trusted online marketplace for authenticated, pre-owned luxury goods which may impact our ability to attract and maintain consignors, buyers and brand partners. Additionally, we have been and may in the future be subject to negative press or public allegations, including on social media, that our authentication processes and methods are inadequate. Any material failure or perceived failure in our authentication processes and methods could cause buyers and consignors to lose confidence in our platform and adversely affect our revenue.

We may not succeed in promoting and sustaining our brand.

We believe that growing The RealReal brand is critical to driving consignor and buyer engagement as well as attracting brand partners. An important goal of our brand promotion strategy is establishing and maintaining trust with our consignors, buyers and brand partners. Growing our brand will depend largely on our ability to continue providing our consignors with service that is consistent with the level of luxury associated with the goods they are consigning and delivering value for the goods they consign, all in a timely and consistent manner. For buyers, growing our brand requires that we foster trust through authentication, timely and reliable fulfillment of orders, and responsive and effective customer service. To establish and maintain relationships with existing and future brand partners, brands must trust our authentication process and that we provide a level of customer service that matches those generally provided by luxury brands, for both consignors and buyers, online and in-store. If we fail to provide consignors or buyers with the service and experience they expect, or experience consignor or buyer complaints or negative publicity about our products, services, delivery times or customer support, whether justified or not, the value of our brand would be harmed and our business may suffer.

Our marketing and advertising activity may fail to efficiently drive growth in consignors and buyers.

Our future growth and profitability depend in large part upon the effectiveness and efficiency of our marketing, promotion, public relations and advertising programs. We closely monitor the effectiveness of our advertising campaigns and changes in the advertising market, and adjust or re-allocate our advertising spend across channels, customer segments and geographic markets in real-time in an effort to optimize the effectiveness of these activities. We may increase marketing or advertising spend in future periods to drive growth. Even if our marketing and advertising expenses result in increased sales, the increase might not offset our related expenditures. We also face the unique challenge of attracting consignors and buyers to our online marketplace who may be unfamiliar with both our brand and our consignment business

model. If we struggle to attract new consignors and buyers to our luxury resale model, or are unable to maintain our marketing and advertising channels on cost-effective terms or replace or supplement existing marketing and advertising channels with similarly or more effective channels, our marketing and advertising expenses could increase substantially, our consignor and buyer base could be adversely affected, and our business, operating results, financial condition and brand could suffer.

We rely on third parties to drive traffic to our website.

We rely in part on digital advertising, including search engine marketing, to promote awareness of our online marketplace, grow our business, attract new consignors and buyers and increase engagement with existing consignors and buyers. In particular, we rely on search engines and major mobile app stores as important marketing channels. If search engines change their algorithms, terms of service, display or the featuring of search results, determine we are out of compliance with their terms of service or if competition increases for advertisements, we may be unable to cost-effectively add consignors and buyers to our website and apps, which would harm our business, operating results and prospects.

Use of social media, emails and text messages may adversely impact our reputation or subject us to fines.

We use social media, emails, push notifications and text messages as part of our omni-channel approach to marketing. As laws and regulations evolve to govern the use of these channels, the failure by us, our employees or third parties acting at our direction to comply with applicable laws and regulations in the use of these channels could adversely affect our reputation or subject us to fines or other penalties. In addition, our employees or third parties acting at our direction may knowingly or inadvertently make use of social media in ways that could lead to the loss or infringement of intellectual property, as well as the public disclosure of proprietary, confidential or sensitive personal information of our business, employees, consignors, buyers or others. Information concerning us or our consignors and brands, whether accurate or not, may be posted on social media platforms at any time. The harm may be immediate without affording us an opportunity for redress or correction and could have a material adverse effect on our reputation, business, operating results, financial condition and prospects.

The public disclosure of our Environmental, Social and Governance (“ESG”) metrics may subject us to risks.

We voluntarily report certain metrics and goals for ESG. This transparency is consistent with our commitment to operate our business with positive economic, social, and environmental impact. The perception held by our consignors or buyers, other key stakeholders, or the communities in which we do business may depend, in part, on the metrics and goals we have chosen to aspire to and whether or not we meet our goals on a timely basis, if at all. Also, by electing to set goals and publicly disclose our ESG metrics, we may face increased scrutiny related to environmental, social, and governance activities. In addition, we may be required to disclose various ESG metrics, progress against goals and other detailed information under applicable laws and regulations. For example, the State of California has adopted new climate change disclosure requirements, which mandate public disclosure of certain greenhouse gas emissions data and climate-related financial risk reports. Our compliance with these and other ESG-related laws, regulations and policies could be costly, and any failure to meet our goals, change in our ESG priorities or strategies, or perception that we fail to act responsibly in the areas in which we report, may negatively affect our reputation and the value of our brand, including by impacting employee engagement and retention, the willingness of our consignors and buyers and our partners and vendors to do business with us, or investors’ willingness to purchase or hold shares of our common stock, any of which could adversely affect our business, financial performance, and growth.

Risks Related to Our Merchandising and Fulfillment

We may not be able to attract, train and retain specialized personnel and skilled employees.

To grow our business, we must continue to improve and expand our merchandising and fulfillment operations, information systems and skilled personnel in the jurisdictions in which we operate so that we have the skilled talent necessary to effectively operate our business. The operation of our business is complex and requires the coordination of multiple functions that are highly dependent on numerous employees and personnel. Each luxury item that we offer through our online marketplace is unique and requires multiple touch points, including, among others, inspection, evaluation, authentication, photography, pricing, copywriting, application of a unique single-SKU and fulfillment. The market for employees is increasingly competitive and highly dependent on geographic location. Some of our employees have specific knowledge and skills that would make it more difficult to hire replacement personnel capable of effectively performing the same tasks without substantial training. We also provide specific training to our employees in each of our business functions in order to provide our consignors and buyers with a consistent luxury experience. If we fail to successfully locate, hire, train and retain personnel in the future, our operations would be negatively impacted, which would have an adverse effect on our business, financial condition and operating results.

We may not be able to identify and lease authentication centers in suitable geographic regions.

We lease facilities to store and accommodate the logistics infrastructure required to merchandise and ship pre-owned luxury goods we sell through our online marketplace. Our ability to successfully grow our business depends on the availability and cost of leasing additional authentication centers that meet our criteria for a geographic location with access to a large, qualified talent pool as well as square footage, cost and other factors. We currently have four authentication centers - one in Arizona and three in New Jersey. Optimal space may become scarce, and where it is available, the lease terms offered by landlords may become increasingly competitive. Companies who have more financial resources and negotiating leverage than us may be more attractive tenants and, as a result, may outbid us for the facilities we seek. We also may be unable to renew our existing leases or renew them on satisfactory terms. Failure to secure adequate authentication centers could have an adverse effect on our business and operating results.

We may experience damage or destruction to our authentication centers or retail stores in which we store the majority of the consigned luxury goods we offer through our online marketplace.

We store the majority of the luxury goods we offer through our online marketplace in our authentication centers in Arizona and New Jersey, with a smaller portion of luxury goods offered for sale in our retail stores. Any large scale damage to or catastrophic loss of goods stored in such authentication centers or retail stores or any other location where goods offered through our online marketplace are stored, due to natural disasters, especially as catastrophic weather events become more frequent due to climate change, or man-made causes such as arson or theft would result in liability to our consignors for the expected commission liability for the lost items, reduction in the value of our inventory and a significant disruption to our business. In addition, while we take measures to avoid damage, conduct inspections of consigned goods and inspect returned products, we cannot control items while they are out of our possession or prevent all damage while items are stored in our authentication centers. For example, we have in the past and may in the future experience contamination, such as mold, bacteria, viruses, insects and other pests, in the goods shipped to us by our consignors, which may cause contamination of other goods stored in our authentication centers or while shipping to buyers. We may incur additional expenses and our reputation could be harmed if buyers or potential buyers believe that the luxury goods we offer on behalf of our consignors are not of high-quality or may be damaged or contain contaminants. Additionally, given the nature of the unique consigned luxury goods we offer on our online marketplace, our ability to restore the supply of consigned luxury goods on our online marketplace would take time and would result in a limitation and delay of available supply for buyers which would negatively impact our revenue and operating results. While we carry insurance for the consigned luxury goods stored in these authentication centers as well as for business interruption and loss of income, our liabilities and expenses resulting from a catastrophic event could exceed our maximum insurance coverage amounts which could have a material adverse impact on our business and operating results.

Shipping is a critical part of our business and any changes in our shipping arrangements, costs, interruptions in shipping or damage to products in transit could adversely affect our operating results.

Our business depends on shipping vendors to meet our shipping needs. If we are not able to maintain acceptable pricing and other terms or if our vendors experience performance problems or other difficulties, including as a result of inflation, a labor strike by employees of our shipping vendors or rising shipping costs, it could negatively impact our operating results and our consignors' and buyers' experience. If we partner with additional vendors or switch vendors in response to such impact, we may experience a disruption in shipping, which may negatively impact our reputation with consignors and buyers. We face particular challenges in shipping internationally, including delays in shipments and customer service issues relating to the imposition of duties, which can be substantial for luxury items. Because of the seasonality of our business, any disruption to delivery services due to adverse weather, especially as climate change increases the frequency of such adverse weather, could result in delays that could adversely affect our reputation or operational results. In addition, most of the items we sell are considered highly valuable and require special handling and delivery. From time to time, such goods are damaged in transit which can increase return rates, increase our costs and harm our brand. Returned goods may also be damaged in transit as part of the return process which can significantly impact the price we are able to charge for such goods on our online marketplace. If our goods are not delivered to buyers in a timely fashion or are damaged or lost during the consignment or the delivery process, our consignors or buyers could become dissatisfied and cease using our services, which would adversely affect our business and operating results.

We may be unable to successfully leverage technology to automate and drive efficiencies in our operations.

We are building automation, artificial intelligence, machine learning and other capabilities to drive efficiencies in our merchandising and fulfillment operations. As we continue to add capacity, capabilities and automation, our operations will become increasingly complex and challenging. While we expect these technologies to improve productivity in many of our merchandising operations, including pricing, copywriting, authentication, photography and photo retouching, any flaws or failures of such technologies could cause interruptions in and delays to our operations which may harm our business. We have created our own purpose-built technology to operate our business, which may lack efficiency or become obsolete as

we grow and we also rely on technology from third parties. If these technologies do not perform in accordance with our expectations, third parties change the terms and conditions that govern their relationships with us, or if competition increases for the technology and services provided by third parties, our business may be harmed. In addition, the evolution of these technologies may create unforeseen competitive pressures or cause disruption.

Risks Related to Data Security, Privacy and Fraud

We rely on third parties to host our website and mobile app and to process payments.

Our brand and ability to attract and retain consignors and buyers depends in part on the reliable performance of our network infrastructure and content delivery process. The continuing and uninterrupted performance of our online marketplace is critical to our success. We have experienced, and expect that in the future we will experience, interruptions, delays and outages in service and availability from time to time due to a variety of factors, including infrastructure changes, human or software errors, website hosting disruptions and capacity constraints which could affect the availability of services on our platform and prevent or inhibit the ability of members to access our online marketplace or complete purchases on our website and app. Volume of traffic and activity on our online marketplace spikes on certain days and during certain periods of the year, such as during a Black Friday promotion and generally during the fourth quarter due to the seasonality of our business, and any interruption would be particularly problematic if it were to occur at such a high volume time.

We rely on third-party payment processors to process payments made by buyers or to consignors on our online marketplace. The software and services provided by our third-party payment processors may not meet our expectations, contain errors or vulnerabilities, be compromised or experience outages. Any of these risks could cause us to lose our ability to accept online payments, make payments to consignors or conduct other payment transactions, any of which could make our platform less convenient and attractive and adversely affect our ability to attract and retain buyers and consignors.

Failure of our data security could cause us to incur unexpected expenses or compromise our data assets.

In the ordinary course of our business, we collect, process and store certain personal information (including credit card information) and other data relating to individuals, such as our consignors, buyers and employees. We also maintain other information, such as our trade secrets and confidential business information, that is sensitive and that we seek to protect. We rely substantially on commercially available systems, software, including third-party open source software, tools and monitoring to provide security for our processing, transmission and storage of personal information and other confidential information. We or our vendors, including cloud storage providers, could be the subject to attacks from computer viruses, break-ins phishing attacks, social engineering, ransomware attacks, unauthorized use, attempts to overload services with denial-of-service or other attacks, which may allow hackers or other unauthorized parties, including our employees, to gain access to personal information or other data, including payment card data or confidential business information. Further, the use of open-source software may also present additional security risks because the public availability of such software may make it easier for hackers and other third parties to compromise our platform. Our members use our web and mobile e-commerce applications to consign and shop with us. These applications may become subject to account takeovers, denials of service, content scraping, or other attacks, which may result in our members' accounts being compromised.

We and our vendors have faced these attacks previously and regularly must defend against or respond to such incidents. We expect to incur ongoing costs associated with the detection and prevention of security breaches and other security-related incidents. The techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not identified until they are launched against a target, and we and our vendors may be unable to anticipate these techniques or to implement adequate preventative measures. Any actual or perceived compromise of our systems or data security measures or those of third parties with whom we do business, or any failure to prevent or mitigate the loss of personal or other confidential information and delays in detecting or providing notice of any such compromise or loss could disrupt our operations, damage our reputation, cause some participants to decrease or stop their use of our online marketplace and subject us to litigation, government action, increased transaction fees, remediation costs, regulatory fines or penalties or other additional costs and liabilities that could adversely affect our business, financial condition and operating results. While we carry insurance related to potential data breaches, the insurance we do carry may not be adequate to cover all possible losses that our business could suffer.

We may incur significant losses from fraud.

We may fail to prevent consignors from consigning stolen or counterfeit goods. Government regulators and law enforcement officials may allege that our services violate, or aid and abet violations of certain laws, including laws restricting or prohibiting the transferability and, by extension, the resale, of stolen goods. Our form of consignor agreement

includes a representation that the consignor has the necessary right and title to the goods they may consign, and we include such a rule and requirement in our terms of service prohibiting the listing of stolen or otherwise illegal products. In addition, we have implemented protective measures to detect such products. If these measures prove inadequate, we may be required to spend substantial resources to take additional protective measures which could negatively impact our operations. In addition, negative publicity relating to the actual or perceived listing or sale of stolen or counterfeit goods could damage our reputation and make our consignors and buyers reluctant to use our services.

We have in the past incurred, and may in the future incur, losses from various types of fraudulent transactions, including the use of stolen credit card numbers, claims that a consignment of a good was not authorized and that a buyer did not authorize a purchase. Under current credit card practices, we are liable for fraudulent credit card transactions because we do not obtain a cardholder's signature. Our failure to adequately prevent fraudulent transactions could damage our reputation, result in litigation or regulatory action or lead to expenses that could substantially impact our operating results.

Risks Relating to Our Employees

We may be unable to attract and retain key personnel or effectively manage leadership succession.

Our success depends in part on our ability to attract and retain key personnel on our executive team. Senior employees have left our company in the past and others may leave in the future. We often cannot anticipate such departures and may not be able to promptly replace key leadership personnel. The loss of one or more of our key personnel or the inability to promptly identify a suitable successor to a key role could have an adverse effect on our business.

Labor-related matters, including labor disputes, may adversely affect our operations.

None of our employees are currently represented by a union. If our employees decide to form or affiliate with a union, we cannot predict the negative effects such future organizational activities will have on our business and operations. If we were to become subject to work stoppages, we could experience disruption in our operations, including delays in merchandising operations and shipping, and increases in our labor costs, which could have a material adverse effect on our business, financial condition or results of operations. In addition, increased inflation rates could adversely affect us by increasing costs, including labor and employee benefit costs.

Risks Relating to Our Intellectual Property

If we cannot successfully protect our intellectual property, our business could suffer.

We rely on a combination of intellectual property rights, contractual protections and other practices to protect our brand, proprietary information, technologies and processes. We primarily rely on copyright and trade secret laws to protect our proprietary technologies and processes, including the algorithms we use throughout our business. Others may independently develop the same or similar technologies and processes, or may improperly acquire and use information about our technologies and processes, which may allow them to provide a service similar to ours, which could harm our competitive position. Our principal trademark assets include the registered trademark "The RealReal" and our logos and taglines. We also hold the rights to the "therealreal.com" Internet domain name and various related domain names, which are subject to Internet regulatory bodies and trademark and other related laws of each applicable jurisdiction. Our trademarks are valuable assets that support our brand and consumers' perception of our services and merchandise. If we are unable to protect our trademarks or domain names, our brand recognition and reputation would suffer, we would incur significant expense reestablishing brand equity and our operating results would be adversely impacted.

Risks Relating to Litigation and Regulatory Uncertainty

We are currently, and may be in the future, party to lawsuits and other claims.

We rely on the fair use doctrine when we routinely refer to third-party intellectual property, such as trademarks, on our platform. Third parties may dispute the scope of that doctrine and challenge our ability to reference their intellectual property in the course of our business. For instance, from time to time, we are contacted by companies controlling brands of goods consignors sell, demanding that we cease referencing those brands in connection with such sales, whether in advertising or on our website. We have consistently responded by reference to the holding in *Tiffany (NY), Inc. v. eBay* that factual use of a brand to describe and sell a used good is not false advertising. These matters have generally been resolved with no further communications, but some have resulted in litigation against us. For example, in November 2018, Chanel filed a lawsuit against us in the U.S. District Court for the Southern District of New York bringing various trademark and advertising-related claims under the Lanham Act and New York state law analogues. The final outcome of this litigation,

including our liability, if any, with respect to Chanel’s claims, is uncertain. An unfavorable outcome in this or similar litigation could adversely affect our business and could lead to other similar lawsuits. See “Part II, Item 1 – Legal Proceedings” for a description of the Chanel litigation.

In addition, the Company, its officers and directors and the underwriters of the Company’s initial public offering (“IPO”) were named as defendants in numerous purported securities class actions in connection with the Company’s IPO (the “Securities Litigation”). See “Part II, Item 1 – Legal Proceedings” for a description of the Securities Litigation.

In addition, we have in the past and could face in the future a variety of employee claims against us, including general discrimination, privacy, wage and hour, labor and employment, disability claims and claims related to the Employee Retirement Income Security Act of 1974. Further, the comprehensive safety measures and protocols that we have implemented may not be successful and we could face litigation or other claims related to unsafe working conditions, inadequate protection of our employees, or other similar or related claims. Any claims could also result in litigation against us or regulatory proceedings being brought against us by various federal and state agencies that regulate our business, including the U.S. Equal Employment Opportunity Commission. Often these cases raise complex factual and legal issues and create risks and uncertainties. In addition, stockholders have filed securities class action litigation against us following periods of market volatility. We have been the target of litigation associated with these fluctuations and market volatility and may be the target of this type of litigation in the future.

Defending litigation is costly and can impose a significant burden on management and employees, and there can be no assurances that favorable final outcomes will be obtained. The results of any such litigation, investigations and other legal proceedings are inherently unpredictable and expensive. Although we have insurance, it provides for a substantial retention of liability and is subject to limitations and may not cover a significant portion, or any, of the expenses we may incur or be subject to in connection with shareholder class action or other litigation to which we are party. In addition, plaintiffs may seek, and we may become subject to, preliminary or provisional rulings in the course of any such litigation, including potential preliminary injunctions requiring us to cease some or all of our operations or discontinue selling consigned goods from certain brands. We may decide to settle such lawsuits and disputes on terms that are unfavorable to us. Similarly, if any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that may not be reversed upon appeal. The terms of such a settlement or judgment may require us to cease some or all of our operations, discontinue selling consigned goods from certain brands or pay substantial amounts to the other party. In addition, we may have to seek a license to continue practices found to be in violation of a third-party’s rights, which may not be available on reasonable terms or at all and may significantly increase our operating costs and expenses. As a result, we may also be required to develop alternative practices or discontinue existing practices. The development of alternative practices could require significant effort and expense or may not be feasible. Our business, financial condition or operating results could be adversely affected as a result of an unfavorable resolution of the disputes and litigation referred to above.

Our use and other processing of personal information and other data is subject to laws and obligations relating to privacy and data protection.

Numerous state, federal and international laws, rules and regulations govern privacy, data protection and the collection, use and protection of personal information and other types of data we collect, use, disclose and otherwise process. These laws, rules and regulations are constantly evolving, and we expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the EU and other jurisdictions. For example, California enacted legislation that came into effect January 2020, the California Consumer Privacy Act (the “CCPA”), that requires covered companies to provide disclosures to California consumers and afford such consumers qualified privacy rights, such as rights of access, deletion and to opt-out of the sales of their personal information. The CCPA was amended by the California Privacy Rights Act (the “CPRA”), which went into effect on January 1, 2023. The CCPA, as amended, removes the exclusion of employment data from its auspices, adds new consumer privacy rights (such as the right to correct inaccurate personal information, or the right to opt out of the “sharing” of personal information for the purposes of cross-context behavioral advertising), expands business’s obligations to secure contractual obligations from service providers and third parties, and expands business’s obligations with respect to opt-out preference signals. The new California Privacy Protection Agency completed its first round of rule making but has left many new requirements, such as data privacy and security risk assessments and the right to opt out of certain data profiling activities, for its second round of rule making, which began in March 2023. It remains unclear how these new amendments will be interpreted or when the second round of rule making activity will conclude. The CCPA may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. Similarly, several other U.S. states, including Virginia, Connecticut, Colorado, Utah, Iowa, Indiana, Montana, Oregon, Tennessee and Texas have passed similar consumer data privacy laws that also extend privacy rights to individuals, including the rights to opt out of targeted advertising. Finally, the European Commission adopted a General Data Protection Regulation that became fully effective on May 25, 2018, imposing stringent EU data protection

requirements. Recent litigation in the EU has driven significant changes in enforcement and interpretation, and we cannot yet fully determine the impact these or future laws, rules and regulations may have on our business or operations.

Given the increased regulatory focus on the use of data for advertising, we may be subject to new and unexpected regulations, including proposals for regulation of artificial intelligence or other automated decision making processes. Future laws, regulations, standards and other obligations could, for example, impair our ability to collect or use information that we utilize to create targeted marketing and advertising and offer certain bespoke product features and other capabilities to drive efficiencies in our merchandising operations, thereby impairing our ability to maintain and attract new consignors and buyers, which could have a material adverse effect on our business and operating results.

These laws, rules and regulations may be inconsistent from one jurisdiction to another, subject to differing interpretations and may be interpreted to conflict with our practices. Any failure or perceived failure by us or any third parties with which we do business to comply with these laws, rules and regulations, or with other obligations to which we or such third parties are or may become subject, may result in actions against us by governmental entities, or litigation, and the expenditure of legal and other costs and of substantial time and resources, and fines, penalties or other liabilities.

Further, in view of new or modified federal, state or foreign laws and regulations, industry standards, contractual obligations and other legal obligations, or any changes in their interpretation, we may find it necessary or desirable to change our business activities and practices or to expend significant resources to modify our product or services and otherwise adapt to these changes. We may be unable to make such changes and modifications in a commercially reasonable manner or at all, and our ability to develop new products and features could be limited.

We pay or collect sales taxes in all jurisdictions which require such taxes.

An increasing number of states have considered or adopted laws that impose tax collection obligations on out-of-state sellers of goods. Additionally, in 2018, the Supreme Court of the United States ruled in *South Dakota v. Wayfair, Inc. et al* (“Wayfair”), that online sellers can be required to collect sales tax despite not having a physical presence in the state of the customer. In response to Wayfair, or otherwise, states or local governments and taxing authorities may adopt, or begin to enforce, laws requiring us to calculate, collect and remit taxes on sales in their jurisdictions. While we currently collect and remit sales taxes in every state that requires sales taxes to be collected, including states where we do not have a physical presence, the adoption of new laws by, or a successful assertion by the taxing authorities of one or more state or local governments requiring us to collect more taxes could result in substantial additional tax liabilities, including taxes on past sales, as well as penalties and interest, which could have a material adverse impact on our business and operating results.

Failure to comply with applicable laws or regulations may subject us to fines, penalties, loss of licensure, registration, facility closures or other governmental enforcement action.

The sale of consigned goods through our online marketplace is subject to regulation, including by regulatory bodies such as the U.S. Consumer Product Safety Commission, the Federal Trade Commission, the U.S. Fish and Wildlife Service and other international, federal, state and local governments and regulatory authorities. These laws and regulations are complex, vary from state to state and change often. We receive luxury goods on consignment from numerous consignors located in all 50 U.S. states and Puerto Rico, and the goods we receive from our consignors may contain materials such as fur, skin, ivory and other exotic animal product components, that are subject to regulation. Our standard consignor terms and conditions require consignors to comply with applicable laws when consigning their goods. Failure of our consignors to comply with applicable laws, regulations and contractual requirements could lead to litigation or other claims against us, resulting in increased legal expenses and costs. Moreover, failure by us to effectively monitor the application of these laws and regulations to our business, and to comply with such laws and regulations, may negatively affect our brand and subject us to penalties and fines.

Numerous U.S. states and municipalities, including California, New York and Florida, have regulations regarding the handling and sale of secondhand goods, and licensing requirements for secondhand dealers. Such government regulations could require us to change the way we conduct business, or our buyers to conduct their purchases in ways that increase costs, such as prohibiting or otherwise restricting the sale or shipment of certain items in some locations. To the extent we fail to comply with requirements for secondhand dealers, we may experience unanticipated permanent or temporary shutdowns of our facilities which may negatively affect our ability to increase the supply of our goods, result in negative publicity and subject us to penalties and fines.

Additionally, the luxury goods our consignors sell could be subject to recalls and other remedial actions and product safety, labeling and licensing concerns may require us to voluntarily remove selected goods from our online marketplace. Such recalls or voluntary removal of goods 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 have a material adverse effect on our operating results.

Application of existing tax laws, rules or regulations are subject to interpretation by taxing authorities.

The application of the income and tax laws is subject to interpretation. Although we believe our tax methodologies are compliant, a taxing authority's final determination in the event of a tax audit could materially differ from our past or current methods for determining and complying with our tax obligations, including the calculation of our tax provisions and accruals, in which case we may be subject to additional tax liabilities, possibly including interest and penalties. Furthermore, taxing authorities have become more aggressive in their interpretation and enforcement of such laws, rules and regulations over time, as governments are increasingly focused on ways to increase revenues. This has contributed to an increase in audit activity and stricter enforcement by taxing authorities. As such, additional taxes or other assessments may be in excess of our current tax reserves or may require us to modify our business practices to reduce our exposure to additional taxes going forward, any of which may have a material adverse effect on our business, results of operations, financial condition and prospects.

In addition, many of the underlying laws, rules and regulations imposing taxes and other obligations were established before the growth of the Internet and e-commerce. U.S. federal, state and local taxing authorities are currently reviewing the appropriate treatment of companies engaged in Internet commerce and considering changes to existing tax or other laws that could levy sales, income, consumption, use or other taxes relating to our activities, and/or impose obligations on us to collect such taxes. If such tax or other laws, rules or regulations are amended, or if new unfavorable laws, rules or regulations are enacted, the results could increase our tax payments or other obligations, prospectively or retrospectively, subject us to interest and penalties, decrease the demand for our services if we pass on such costs to our buyers or consignors, result in increased costs to update or expand our technical or administrative infrastructure or effectively limit the scope of our business activities if we decided not to conduct business in particular jurisdictions. As a result, these changes may have a material adverse effect on our business, results of operations, financial condition and prospects.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

We have incurred substantial net operating losses ("NOLs") during our history. Unused NOLs may carry forward to offset future taxable income if we achieve profitability in the future, unless they expire under applicable tax laws. However, under the rules of Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"), if a corporation undergoes an "ownership change," generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period, the corporation's ability to use its NOLs and other pre-change tax attributes to offset its post-change taxable income or taxes may be limited. The applicable rules generally operate by focusing on changes in ownership among stockholders considered by the rules as owning, directly or indirectly, 5% or more of the stock of a company, as well as changes in ownership arising from new issuances of stock by the company. In addition, the Tax Cuts and Jobs Act imposes certain limitations on the deduction of NOLs generated in tax years that began on or after January 1, 2018, including a limitation on use of NOLs to offset 80% of taxable income and the disallowance of NOL carryback. Although NOLs generated in tax years before 2018 may still be used to offset future income without limitation, the Tax Cuts and Jobs Act may limit our ability to use our NOLs to offset any future taxable income.

If our internal control over financial reporting or our disclosure controls and procedures are not effective, we may not be able to accurately report our financial results, prevent fraud or file our periodic reports in a timely manner, which may cause investors to lose confidence in our reported financial information.

We are subject to the reporting requirements under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and the rules and regulations of the applicable listing standards of The Nasdaq Stock Market. Section 404 of the Sarbanes-Oxley Act requires that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluations, document our controls and perform testing of our key controls over financial reporting to allow for management and our independent public accounting firm to report on the effectiveness of our internal control over financial reporting. If we are not able to continue to comply with the requirements of Section 404 of the Sarbanes-Oxley Act or if we encounter difficulties in the timely and accurate reporting of our financial results, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, our investors could lose confidence in our reported financial information, the market price of our stock may decline and we could be subject to lawsuits, sanctions or investigations by regulatory authorities, which would require additional financial and management resources.

Risks Relating to Ownership of Our Common Stock

The market price of our common stock may be volatile or may decline steeply or suddenly regardless of our operating performance and we may not be able to meet investor or analyst expectations.

If you purchase shares of our common stock, you may not be able to resell those shares at or above the price you paid. The market price of our common stock may fluctuate or decline significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our consignor or buyer base, the level of consignor and buyer engagement, revenue or other operating results;
- adverse economic and market conditions, including declines in consumer discretionary spending, currency fluctuations, inflation, disruptions in the financial industry and geopolitical instability;
- the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors;
- variations between our actual operating results and the expectations of securities analysts, investors and the financial community;
- any forward-looking financial or operating information we may provide to the public or securities analysts, any changes in this information or our failure to meet expectations based on this information;
- additional shares of our common stock being sold into the market by us or our existing stockholders, or the anticipation of such sales;
- hedging activities by market participants;
- sudden increased or decreased interest in our stock from retail investors;
- substantial fluctuations in the daily trading volume of our common stock;
- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in operating performance and stock market valuations of companies in our industry, including our competitors;
- price and volume fluctuations in the stock market, including as a result of trends in the economy;
- lawsuits threatened or filed against us;
- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events or threats to public health.

In addition, price and volume fluctuations in the stock markets have affected and may continue to affect many online marketplace and other technology companies' stock prices. Stock prices often fluctuate in ways unrelated or disproportionate to the companies' operating performance. Moreover, because of these fluctuations, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. This variability and unpredictability could also result in our failing to meet the expectations of industry or financial analysts or investors for any period. If our revenue or operating results fall below the expectations of analysts or investors or below any forecasts we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our common stock could decline substantially. Such a stock price decline could occur even when we have met any previously publicly stated revenue or earnings forecasts that we may provide.

Short sellers of our stock may be manipulative and may drive down the market price of our common stock.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed or intends to borrow from a third party. A short seller hopes to profit from a decline in the value of the securities they are shorting. As it is in the short seller's interest for the price of the stock to decline, some short sellers publish opinions or characterizations regarding the relevant issuer intended to create negative market momentum. Issuers, like us, with securities that have historically had limited trading volumes and/or have been susceptible to relatively high volatility levels can be particularly vulnerable to such short seller attacks. Short selling may also lead to fluctuations of our stock price, particularly if retail investors or others holding "long" positions in our common stock seek to counter short selling activity by purchasing additional shares, thus making it more difficult and more expensive for short sellers to profit. No assurances can be made that declines in the market price of our common stock will not occur in the future in connection with such activity.

Delaware law and provisions in our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our common stock.

Our certificate of incorporation and bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions include the following:

- establish a classified board of directors so that not all directors are elected at one time;
- permit the board of directors to establish the number of directors and fill any vacancies and newly-created directorships;
- provide that directors may only be removed for cause;
- require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- authorize the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- prohibit stockholders from calling special meetings of stockholders;
- prohibit stockholder action by written consent;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws;
- restrict the forum for certain litigation against us to Delaware; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Our certificate of incorporation designates the Court of Chancery of the State of Delaware located within the State of Delaware as the exclusive forum for substantially all disputes between us and our stockholders.

Our certificate of incorporation provides that, the Court of Chancery of the State of Delaware is the sole and exclusive forum for any derivative action or proceeding, any action asserting a claim of breach of a fiduciary duty, any action arising pursuant to any provision of the Delaware General Corporation Law (“DGCL”), our certificate of incorporation or our bylaws, any other action that is governed by the internal affairs doctrine or any other action asserting an “internal corporate claim,” as defined in the DGCL. These exclusive-forum provisions do not apply to claims under the Securities Act of 1933 (the “Securities Act”) or the Exchange Act. Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to this provision. This exclusive-forum provision may limit a stockholder’s ability to bring a claim in a judicial forum of its choosing for disputes with us or our directors, officers or other employees. If a court were to find the exclusive-forum provision to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could harm our results of operations.

Risks Related to Our Outstanding Notes

We have incurred a significant amount of debt and may incur additional indebtedness in the future.

In June 2020, we issued \$172.5 million in aggregate principal amount of 3.00% Convertible Senior Notes due 2025, and in March 2021, we issued \$287.5 million in aggregate principal amount of 1.00% Convertible Senior Notes due 2028, each issuance in an offering exempt from registration. We may be required to use a substantial portion of our cash flows from operations to pay interest and principal on our indebtedness. Such payments will reduce the funds available to use for working capital, capital expenditures and other corporate purposes and limit our ability to obtain additional financing, which may in turn limit our ability to implement our business strategy, heighten our vulnerability to downturns in our business, the industry, or in the general economy, limit our flexibility in planning for, or reacting to, changes in our business and the industry and prevent us from taking advantages of business opportunities as they arise. If we are unable to generate such cash flow to service our debt, we may be required to adopt one or more alternatives, such as selling assets, incurring additional debt, restructuring debt or issuing additional equity on terms that may be onerous or highly dilutive.

These alternatives may be insufficient to overcome macroeconomic conditions that may affect us. The duration and severity of macroeconomic uncertainty, any ensuing economic downturns, including economic recession or depression, could directly impact our ability to implement alternatives to service our debt. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

Transactions relating to our Notes may dilute the ownership interest of our stockholders.

The conversion of some or all of our outstanding Notes would dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of any such Notes. If the Notes become convertible under the terms of the indenture, and if holders subsequently elect to convert the Notes, we could be required to deliver to them a significant number of shares of our common stock. Any sales or anticipated sales in the public market of the common stock issuable upon conversion could adversely affect prevailing market prices for our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions.

The conversion of the Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert their Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation in cash, which could adversely affect our liquidity. In addition, even if holders of the Notes do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which could result in a material reduction in our net working capital.

The accounting method for the Notes materially affects our reported financial results.

Prior to the adoption of ASU 2020-06, under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 470-20, Debt with Conversion and Other Options, we accounted for the liability and equity components of the Notes separately because the Notes may be settled entirely or partially in cash upon conversion in a manner that reflects our economic interest cost. This bifurcation resulted in a debt discount for Notes. See “Note 2— Summary of Significant Accounting Policies— Convertible Senior Notes.” We used the effective interest method to amortize the debt discount to interest expense over the amortization period, which is the expected life of the Notes. However, we adopted ASU 2020-06 as of January 1, 2022, under which we now account for the Notes as a single liability measured at their amortized cost. Upon adoption, we recorded a cumulative effect adjustment of \$13.4 million as a reduction to accumulated deficit and a reduction to additional paid in capital of \$112.1 million related to amounts attributable to the value of the conversion options that had previously been recorded in equity. Additionally, we recorded an increase to the Notes balance by an aggregate amount of \$98.6 million as a result of the reversal of the separation of the convertible debt between debt and equity. As a result of the adoption of ASU 2020-06, we also derecognized \$27.5 million of deferred tax liabilities and recognized \$0.2 million of deferred tax assets, resulting in a \$27.7 million increase to the net deferred tax assets and a corresponding increase of \$27.7 million in the offsetting valuation allowance.

The adoption of this standard also significantly decreased the amount of non-cash interest expense to be recognized in periods beginning on or after January 1, 2022 as a result of eliminating the discount associated with the equity component. In addition, following adoption, we are required to calculate diluted earnings per share using the “if converted” method, which assumes that all of the Notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be anti-dilutive, which can adversely affect our diluted earnings per share. Future amendments to the accounting treatment for the Notes, could adversely affect our financial results, the trading price of our common stock and the trading price of the Notes.

The capped call transactions may affect the value of the Notes and our common stock.

In connection with the pricing of the Notes, we entered into privately negotiated capped call transactions with certain counterparties. The capped call transactions cover the number of shares of our common stock initially underlying the Notes. The capped call transactions are expected to offset the potential dilution to our common stock upon any conversion of the Notes. In connection with establishing their initial hedges of the capped call transactions, the counterparties or their respective affiliates entered into various derivative transactions with respect to our common stock. The counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various

derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so on each exercise date of the capped call transactions), or following any termination of any portion of the capped call transactions in connection with any repurchase, redemption or early conversions of the Notes or otherwise. This activity could also cause or avoid an increase or a decrease in the market price of our common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 1C. Cybersecurity

Risk Management and Strategy

We have developed processes for assessing, identifying and managing material risks from cybersecurity threats. We review our security plans and strategies as threats and conditions evolve. The following is a summary of our cybersecurity risk management and strategy processes:

Enterprise Risk Management: Our enterprise risk management program includes management of material risks from cybersecurity threats alongside other Company risks as part of our overall risk assessment process. In 2023, our Internal Audit team completed an Enterprise Risk Assessment to identify and prioritize the most critical risks that could impact our ability to achieve our business priorities and make risk-informed strategic decisions. With management's input, our Board and Internal Audit team have identified cybersecurity as one of the risks that merits the highest level of prioritization. Informed by this designation, our Internal Audit team tracks cybersecurity key indicators and engages in discussions on the status, priorities and impact of cybersecurity risk response plans; reports key information to management throughout the year to inform decision making; and reports to the Audit Committee on a quarterly basis and to the full Board on the results and progress of the risk mitigation process.

In addition, we employ a range of tools and services to inform our assessment, identification and management of material risks from cybersecurity threats, which include from time to time:

- monitoring emerging data protection laws, including the California Consumer Privacy Act and the General Data Protection Regulation, and implementing responsive changes to our processes;
- undertaking periodic reviews of our policies and statements related to cybersecurity;
- conducting cybersecurity management and incident training for employees involved in our systems and processes that handle sensitive data;
- conducting phishing email simulations for employees and contractors with access to corporate email systems;
- requiring employees, as well as third-parties who provide services on our behalf, to treat information and data with care; and
- conducting tabletop exercises to simulate a response to a cybersecurity incident and using the findings to improve our processes and technologies.

Incident Response Team and Outside Resources: We have formed an Incident Response Team that monitors and mitigates material risks from cybersecurity threats. This team is composed of members from the information security, engineering and legal teams. The Incident Response Team and our internal legal team work in tandem to estimate the severity and materiality of a cybersecurity incident, create a response plan and inform other stakeholders as appropriate, including the Audit Committee or the full Board. In addition, we engage several third party service providers to monitor cybersecurity threats in the market more broadly, including in relation to phishing, data leaks on the dark web, firewalls, code security and endpoint protection. To identify risks from cybersecurity threats associated with these third-party service providers, we conduct pre-contract screening and due diligence and post-contract monitoring.

Cybersecurity Task Force: We have formed a cross-functional Cybersecurity Task Force that focuses on long-term cybersecurity strategy. The Cybersecurity Task Force is composed of members from the information security, engineering and legal teams and reports to our Chief Technology and Product Officer. The Cybersecurity Task Force meets periodically to discuss developments and best practices in cybersecurity incident response. In addition, the Cybersecurity Task Force reviews the business impact and severity of potential cybersecurity incidents, as reported by our automated systems, utilization of the bug bounty program, and public reports on the threat landscape.

For a discussion of whether and how any risks from cybersecurity threats, including as a result of any previous cybersecurity incidents, have materially affected or are reasonably likely to materially affect the Company, including our business strategy and results of operations, see “Risk Factors – Risks Related to Data Security, Privacy and Fraud,” which are incorporated by reference into this Item 1C.

In the three most recently completed fiscal years, we have not experienced any material cybersecurity incidents and the expenses we have incurred from cybersecurity incidents were immaterial. This includes penalties and settlements, of which there were none.

Corporate Governance

Our Board of Directors provides oversight of risks from cybersecurity threats, in coordination with our Audit Committee and management team. The following is a summary of our governance processes related to cybersecurity risk management:

Board: Our full Board receives biannual updates on cybersecurity from our Chief Technology and Product Officer (the “CTPO”) or head of cybersecurity (the “CISO”) to, among other items, review cybersecurity incidents, review key metrics on our cybersecurity program and related risk management programs, and discuss our cybersecurity programs and goals. Our Board also regularly reviews cyber-related risks as part of our enterprise risk management program on a quarterly basis and receives updates from our Internal Audit team on the results of the risk monitoring and mitigation process, as described in more detail above.

Audit Committee: Our Audit Committee provides additional oversight of material risks from cybersecurity threats and engages with our CTPO or CISO regarding risk management of cybersecurity issues and to discuss potential updates to the Company’s cybersecurity risk management program, including as a result of any Cybersecurity Task Force findings. The Audit Committee receives a quarterly report from the Company’s cybersecurity team, which includes the CTPO, CISO, and members of the information security team, that summarizes progress on cyber-related key performance indicators, including product security, cloud security, risk and compliance, identity issues, and cyber defense. The Audit Committee updates the full Board on matters relating to material cybersecurity risks at least quarterly.

Management: Our CTPO is responsible for assessing and managing the Company’s material risks from cybersecurity threats, and our CISO reports directly to our CTPO regarding such threats. Our CTPO is informed about and monitors the prevention, detection, mitigation and remediation of cybersecurity incidents through the management of and participation in the Company’s Internal Audit team, Incident Response Team and Cybersecurity Task Force, as described above. As discussed above, our CTPO or CISO reports biannually to the full Board and quarterly to the Audit Committee about risks from cybersecurity threats among other cybersecurity related matters. To the extent a material cybersecurity incident occurs, our CTPO and broader management team would inform the chair of our Audit Committee of the nature, scope and impact of the incident, and involve the other members of the Audit Committee or the full Board as necessary to evaluate the risks and determine next steps. Our CTPO has served in this role since 2023 and has more than 20 years of experience in various senior leadership roles involving managing cybersecurity and compliance teams, including as Head of Tech and Digital at Lovevery and as Chief Technology and Product Officer at Zulilly.

Item 2. Properties.

Our corporate headquarters are located in San Francisco, California and are leased for a term that expires in 2027 with a right of renewal. We lease an aggregate of approximately 1.4 million square feet of space for storage, merchandising operations and fulfillment located in Arizona and New Jersey. The lease to our Arizona facility expires in 2031, and leases to our three New Jersey facilities each expire in 2029, all with a right of renewal. We lease additional offices located in Los Angeles and New York City, and we have leased several retail spaces and luxury consignment offices in other high traffic areas, including in New York City and Los Angeles.

Item 3. Legal Proceedings.

From time to time, the Company is subject to, and is presently involved in, litigation and other legal proceedings and from time to time, the Company receives inquiries from government agencies. Accounting for contingencies requires the Company to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. The Company records a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company discloses material contingencies when a loss is not probable but reasonably possible.

On November 14, 2018, Chanel, Inc. sued the Company in the U.S. District Court for the Southern District of New York. The Complaint alleged federal and state law claims of trademark infringement, unfair competition, and false advertising. On February 1, 2019, Chanel, Inc. filed its First Amended Complaint that included substantially similar claims against the Company. On March 4, 2019, the Company filed a Motion to Dismiss the First Amended Complaint, which was granted in part and dismissed in part on March 30, 2020. The surviving claims against the Company include trademark infringement under 15 U.S.C. § 1114, false advertising under 15 U.S.C. § 1125, and unfair competition under New York common law. On May 29, 2020, the Company filed its Answer to the Amended Complaint. On November 3, 2020, the Company sought leave to amend its Answer to assert counterclaims against Chanel, Inc. for violations of the Sherman Act, 15 U.S.C. §§ 1 & 2, the Donnelly Act, N.Y. Gen. Bus. Law. § 340, and New York common law. The motion for leave to amend was granted on February 24, 2021. On February 25, 2021, the Company filed its First Amended Answer, Affirmative Defenses and Counterclaims against Chanel. The Company's Counterclaims allege violations of the Sherman Act, 15 U.S.C. §§ 1 & 2, the Donnelly Act, N.Y. Gen. Bus. Law. § 340, and New York common law. On March 18, 2021, Chanel moved to dismiss the Company's Counterclaims and moved to strike the Company's unclean hands affirmative defense. Decisions on Chanel's motion to dismiss and motion strike are pending. The parties agreed to a stay in April 2021 to engage in settlement discussions. After several mediation sessions, the parties were unable to reach a resolution, and the stay was lifted in November 2021. Chanel then sought a partial stay of discovery on the Company's counterclaims and unclean hands defense while Chanel's motion to dismiss and strike those claims are pending, and on March 10, 2022, the Court granted Chanel's request. The parties have continued to engage in fact discovery regarding Chanel's counterfeiting and false advertising claims against the Company. Fact discovery was scheduled to be completed by August 15, 2023. However, on July 19, 2023, the Court ordered a stay of the case at the parties' request to enable the parties to attempt mediation again. The parties are working to schedule mediation in the first half of 2024. The final outcome of this litigation, including our liability, if any, with respect to Chanel's claims, is uncertain. An unfavorable outcome in this or similar litigation could adversely affect the Company's business and could lead to other similar lawsuits. The Company is not able to predict or reasonably estimate the ultimate outcome or possible losses relating to this claim.

Beginning on September 10, 2019, purported shareholder class action complaints were filed against the Company, its officers and directors and the underwriters of its IPO in the San Mateo Superior Court, Marin County Superior Court, and the United States District Court for the Northern District of California. On July 27, 2021, the Company reached an agreement in principle to settle the shareholder class action. On November 5, 2021, plaintiff filed the executed stipulation of settlement and motion for preliminary approval of the settlement with the federal court. On March 24, 2022, the court entered an order preliminarily approving the settlement. On July 28, 2022, the court entered an order finally approving the settlement and dismissing the case. The financial terms of the stipulation of settlement provide that the Company will pay \$11.0 million within thirty (30) days of the later of preliminary approval of the settlement or plaintiff's counsel providing payment instructions. The Company paid the settlement amount on March 29, 2022 with available resources and recorded approximately \$11.0 million for the year ended December 31, 2021 under our Operating expenses as a Legal settlement. One of the plaintiffs in the Marin County case opted out of the federal settlement and is pursuing the claim in Marin County Superior Court. The stay of the state court case has been lifted, and the opt out plaintiff filed an amended complaint on October 31, 2022 alleging putative class claims under the Securities Act of 1933 (the "Securities Act") on behalf of the two shareholders who opted out of the settlement and those who purchased stock from November 21, 2019 through March 9, 2020, based on purported new revelations. The claims are for alleged violations of Sections 11 and 15 of the Securities Act. On February 23, 2024, plaintiff filed a motion for class certification, which has been set for hearing on May 28, 2024. While the Company intends to defend vigorously against this litigation, there can be no assurance that the Company will be successful in its defense. For this reason, the Company cannot currently estimate the loss or range of possible losses it may experience in connection with this litigation.

Item 4. Mine Safety Disclosures.

None.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock, par value \$0.00001 per share, is listed on the Nasdaq Global Select Market, under the symbol “REAL” and began trading on June 28, 2019. Prior to that date, there was no public trading market for our common stock.

Stockholders

As of the close of business on February 20, 2024, there were 137 stockholders of record of our common stock. The actual number of holders of our common stock is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers or other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

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

Securities Authorized for Issuance under Equity Compensation Plans

The information required by this item with respect to our equity compensation plans will be incorporated by reference to our 2024 proxy statement set forth in the section titled “Equity Compensation Plan Information” that will be filed with the SEC within 120 days of the year ended December 31, 2023 (the “Proxy Statement”).

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 6. Reserved

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of our financial condition and results of operations should be read together with our financial statements and related notes and other financial information included in this Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report, particularly in the section titled “Risk Factors.” Our historical results are not necessarily indicative of the results that may be expected for any period in the future.

Overview

We are the world’s largest online marketplace for authenticated, resale luxury goods. We are revolutionizing luxury resale by providing an end-to-end service that unlocks supply from consignors and creates a trusted, curated online marketplace for buyers globally. Since our inception in 2011, we have cultivated a loyal and engaged consignor and buyer base through our investments in our technology platform, logistics infrastructure and people. We offer a wide selection of authenticated, primarily pre-owned luxury goods on our online marketplace bearing the brands of thousands of luxury and premium designers. We offer products across multiple categories including women’s and men’s fashion, fine jewelry and watches. We have built a vibrant online marketplace that we believe expands the overall luxury market, promotes the recirculation of luxury goods and contributes to a more sustainable world.

We have transformed the luxury consignment experience by removing the friction and pain points inherent in the traditional consignment model. For consignors, we offer concierge at-home consultation and pickup as well as virtual consultations via online face-to-face platforms. Consignors may also drop off items at our luxury consignment offices. Our Neighborhood and Flagship Stores provide an alternative location to drop off consigned items and an opportunity to interact with our authentication experts. Consignors may also utilize our complimentary shipping directly to our authentication centers. We leverage our proprietary transactional database and market insights from approximately 37.5 million item sales since our inception to deliver optimal pricing and rapid sell-through. For buyers, we offer highly coveted and exclusive authenticated pre-owned luxury goods at attractive values, as well as a high-quality experience befitting the products we offer. Our online marketplace is powered by our proprietary technology platform, including consumer facing applications and purpose-built software that supports our complex, single-SKU inventory management system.

The substantial majority of our revenue is generated by consignment sales. We also generate revenue from other services and direct sales.

- **Consignment revenue.** When we sell goods through our online marketplace or retail stores on behalf of our consignors, we retain a percentage of the proceeds, which we refer to as our take rate. Take rates vary depending on the total value of goods sold through our online marketplace on behalf of a particular consignor as well as the category and price point of the items. In 2023 and 2022, our overall take rate on consigned goods was 37.5% and 36.0% respectively. The increase in our take rate was due to the update of our consignor commission structure (effective November 1, 2022). Additionally, we earn revenue from our subscription program, First Look, in which we offer buyers early access to the items we sell in exchange for a monthly fee.
- **Direct revenue.** When we accept out of policy returns from buyers, or when we make direct purchases from businesses and consignors, we take ownership of goods and retain 100% of the proceeds when the goods subsequently sell through our online marketplace or retail stores.
- **Shipping services revenue.** When we deliver purchased items to our buyers, we charge shipping fees to buyers for the outbound shipping and handling services. We also generate shipping services revenue from the shipping fees for consigned products returned by our buyers to us within policy. Shipping services revenue excludes the effect of buyer incentives and sales tax.

We generate revenue from orders processed through our website, mobile app and retail stores. Our omni-channel experience enables buyers to purchase anytime and anywhere. We have a global base of more than 35.2 million members as of December 31, 2023. We count as a member any user who has registered an email address on our website or downloaded our mobile app, thereby agreeing to our terms of service.

Through December 31, 2023, we have cumulatively paid approximately \$4.0 billion in commissions to our consignors. Our GMV decreased to \$1.7 billion in 2023 from \$1.8 billion in 2022. Our AOV increased to \$523 in 2023

from \$483 in 2022. In 2023 and 2022, our total revenue was \$549.3 million and \$603.5 million, respectively, representing a decrease of 9% in 2023. In 2023 and 2022, our gross profit was \$376.3 million and \$348.7 million, respectively, representing an increase of 8% in 2023.

Impact of Public Health Emergencies and Macroeconomic Conditions on Our Business

The impact of public health emergencies or outbreaks of epidemics, pandemics, or contagious diseases such as the COVID-19 pandemic has affected, and may continue to affect our business and results of operations. During any public health emergency, our top priority is to protect the health and safety of our employees and our customers. Macroeconomic uncertainty and inflationary pressure have and may in the future drive lower demand for the end customer and increase costs of labor and shipping.

Business Developments

On February 15, 2023, we implemented a savings plan intended to reduce operating expenses by (a) terminating approximately 230 employees, representing approximately 7% of our workforce, and (b) reducing our real estate presence (see Note 10 — Leases, for further information). We may not be able to fully realize the cost savings and benefits initially anticipated from the savings plan, and the expected costs may be greater than expected. See “Risk Factors—Risks Related to Our Business and Industry— The savings plan we implemented in February 2023 may not result in anticipated savings, could result in total costs and expenses that are greater than expected and could disrupt our business.”

Other Factors Affecting Our Performance

Other key business and marketplace factors, independent of the health and economic impact of public health emergencies and macroeconomic conditions, impact our business. To analyze our business performance, determine financial forecasts and help develop long-term strategic plans, we focus on the factors described below. While each of these factors presents significant opportunity for our business, collectively, they also pose important challenges that we must successfully address in order to sustain our growth, improve our operating results and achieve and maintain our profitability.

Consignors and Buyers

Consignor growth and retention. We grow our sales by increasing the supply of luxury goods offered through our consignment online marketplace. We grow our supply both by attracting new consignors and by creating lasting engagement with existing consignors. We generate leads for new consignors principally through our advertising activity. We convert those leads into active consignors through the activities of our sales professionals, who are trained and incentivized to identify and source high-quality, coveted luxury goods from consignors. Our sales professionals form a consultative relationship with consignors and deliver a high-quality, rapid consigning experience. Our existing relationships with consignors allow us to unlock valuable supply across multiple categories, including women’s fashion, men’s fashion, and jewelry and watches.

We measure the ratio of demand versus supply in a given period, which we refer to as our online marketplace sell-through ratio. Sell-through ratio is defined as GMV in the period divided by the aggregate initial value of items added to our online marketplace in the period. In 2023 and 2022, our marketplace sell-through ratios were 92% and 91%, respectively.

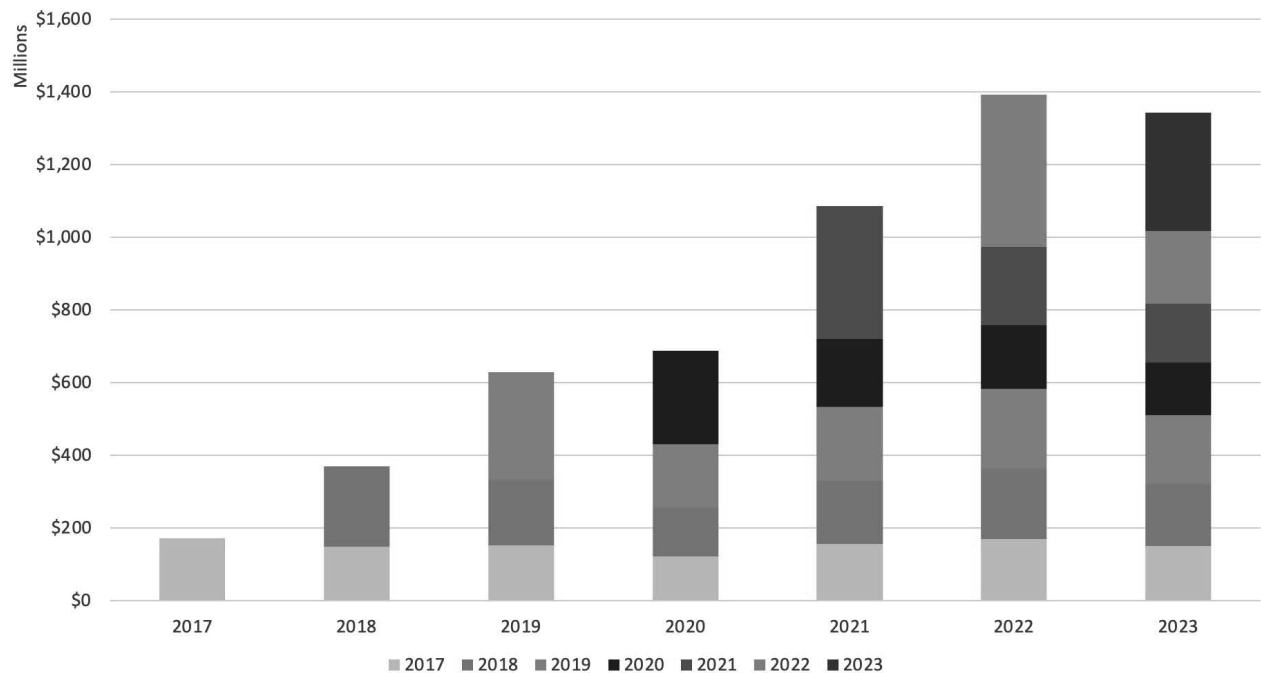
Our growth has been driven in significant part by repeat sales by existing consignors concurrent with growth of our consignor base. In 2023 and 2022, repeat consignors accounted for approximately 84% and 83% of GMV, respectively.

Buyer growth and retention. We grow our business by attracting and retaining buyers. We attract and retain buyers by offering highly coveted, authenticated, pre-owned luxury goods at attractive values and delivering a high-quality, luxury experience. We measure our success in attracting and retaining buyers by tracking buyer satisfaction and purchasing activity over time. We have experienced higher than average buyer satisfaction, as evidenced by our buyer net promoter score of 51 in 2023, and compared to our online shopping industry average of 45 according to NICE Satmetrix U.S. Consumer 2023 data. If we fail to continue to attract and retain our buyer base to our online marketplace, our operating results would be adversely affected.

The graph below shows trends in purchasing activity for buyer cohorts for each year beginning in 2017. Each cohort represents all buyers that first purchased across our online marketplace in the designated year and the aggregate

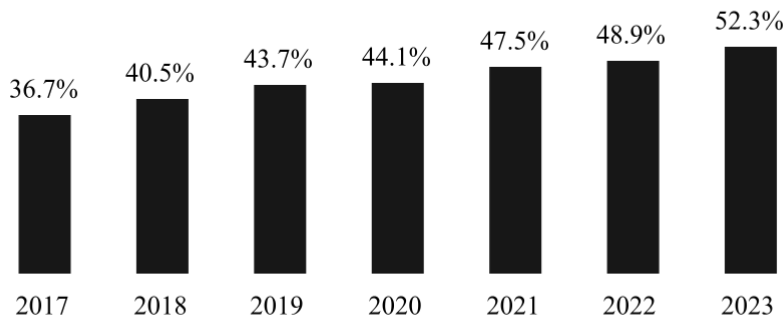
GMV purchased by such cohort for the initial year and each year thereafter. As illustrated in the graph below, we have seen consistent retention of buyer activity across cohorts through 2023. In 2020, buyer retention was impacted by the adverse impacts of COVID-19 on supply, and as a result, GMV.

Annual GMV by Buyer Cohort Year (\$ in millions)



We believe there is substantial opportunity to grow our business by having buyers also become consignors and vice versa. As of December 31, 2023, 15% of our buyers had become consignors and 49% of our consignors had become buyers. The graph below shows the percentage of GMV in each year from buyers who have participated as both buyers and consignors on our online marketplace. GMV attributable to consigning activity of such buyers is not included.

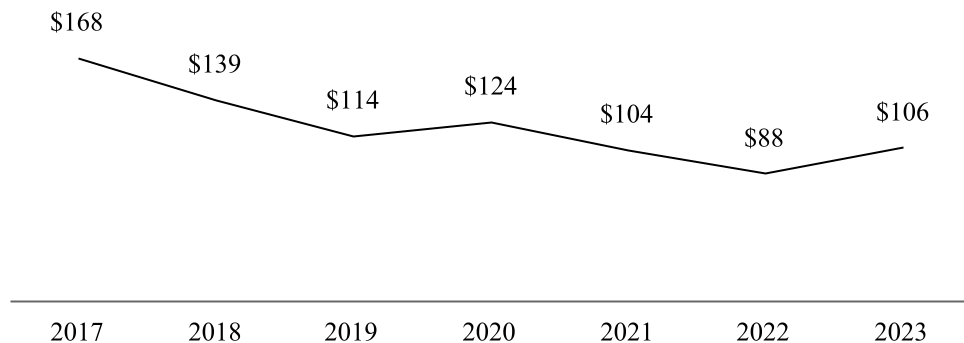
Buyers Who Are Also Consignors (% of GMV)



Buyer acquisition cost. Our financial performance depends on effectively managing the expenses we incur to attract and retain buyers. We closely monitor our efficiency in acquiring new buyers. Our buyer acquisition cost (“BAC”) for a given period is comprised of our total advertising spend for acquiring both buyers and consignors, which is principally the cost of television, digital and direct mail advertising, divided by the number of buyers acquired in that

period. We adjust or re-allocate our advertising in real-time to optimize our spend across channels, buyer demographics and geographies to improve our return on advertising spend.

Buyer Acquisition Cost



Scaling operations and technology. To support the future growth of our business, we continue to invest in physical infrastructure, talent and technology. We principally conduct our intake, authentication, merchandising and fulfillment operations in our leased authentication centers located in Arizona and New Jersey comprising an aggregate of approximately 1.4 million square feet of space. We also operate retail stores in several geographies. In addition to scaling our physical infrastructure, growing our single-SKU business operations requires that we attract, train and retain highly-skilled personnel for purposes of authentication, copywriting, merchandising, pricing and fulfilling orders. We have invested substantially in technology to automate our operations and support growth, including proprietary machine learning technology to support efficiency and quality. We continue to strategically invest in technology, as innovation positions us to scale and support growth into the future.

Seasonality. Historically, we have observed trends in seasonality of supply and demand in our business. Specifically, our supply increases in the third and fourth quarters, and our demand increases in the fourth quarter. As a result of this seasonality, we typically see stronger AOV and more rapid sell-through in the fourth quarter.

Key Financial and Operating Metrics

The key operating and financial metrics that we use to assess the performance of our business are set forth below for 2023, 2022, and 2021.

	Year Ended December 31,		
	2023	2022	2021
	(In thousands, except AOV and percentages)		
GMV	\$ 1,725,983	\$ 1,815,983	\$ 1,482,432
NMV	\$ 1,269,880	\$ 1,335,506	\$ 1,092,353
Consignment revenue	\$ 415,572	\$ 384,979	\$ 302,221
Direct revenue	\$ 79,160	\$ 158,726	\$ 120,844
Shipping services revenue	\$ 54,572	\$ 59,788	\$ 44,627
Number of orders	3,300	3,757	2,981
Take rate	37.5 %	36.0 %	34.7 %
Active buyers	922	998	797
AOV	\$ 523	\$ 483	\$ 497

GMV

GMV represents the total amount paid for goods across our online marketplace in a given period. We do not reduce GMV to reflect product returns or order cancellations, which totaled 26.4%, 26.5%, and 26.3% of GMV in 2023, 2022, and 2021, respectively. GMV includes amounts paid for both consigned goods and our inventory net of platform-wide discounts and excludes the effect of buyer incentives, shipping fees and sales tax. Platform-wide discounts are made available to all buyers on the online marketplace, and impact commissions paid to consignors. Buyer incentives apply to specific buyers and consist of coupons or promotions that offer credits in connection with purchases on our platform. In addition to revenue, we believe this is an important measure of the scale and growth of our online marketplace and a key indicator of the health of our consignor ecosystem. We monitor trends in GMV to inform budgeting and operational decisions to support and promote growth in our business and to monitor our success in adapting our business to meet the needs of our consignors and buyers. While GMV is the primary driver of our revenue, it is not a proxy for revenue or revenue growth. See Note 2—Summary of Significant Accounting Policies—Revenue Recognition—Consignment Revenue.

NMV

Net merchandise value (“NMV”) represents the value of sales from both consigned goods and our inventory net of platform-wide discounts less product returns and order cancellations and excludes the effect of buyer incentives, shipping fees and sales tax. We believe NMV is a supplemental measure of the scale and growth of our online marketplace. Like GMV, NMV is not a proxy for revenue or revenue growth.

Consignment Revenue

Consignment revenue is generated from the sale of pre-owned luxury goods through our online marketplace and retail stores on behalf of consignors. We retain a portion of the proceeds received, which we refer to as our take rate. We recognize consignment revenue, net of allowances for product returns, order cancellations, buyer incentives and adjustments. We also generate revenue from subscription fees paid by buyers for early access to products.

Direct Revenue

Direct revenue is generated from the sales of company-owned inventory. We recognize direct revenue upon shipment of the goods sold, based on the gross purchase price net of allowances for product returns, buyer incentives and adjustments.

Shipping Services Revenue

Shipping services revenue is generated from shipping fees we charge to buyers for outbound shipping and handling activities related to delivering purchased items to our buyers. We also generate shipping services revenue from the

shipping fees for consigned products returned by our buyers to us within policy. We recognize shipping services revenue over time as the shipping activity occurs. Shipping services revenue excludes the effect of buyer incentives and sales tax.

Number of Orders

Number of orders means the total number of orders placed across our online marketplace and retail stores in a given period. We do not reduce number of orders to reflect product returns or order cancellations.

Take Rate

Take rate is a key driver of our revenue and provides comparability to other marketplaces. The numerator used to calculate our take rate is equal to net consignment sales and the denominator is equal to the numerator plus consignor commissions. Net consignment sales represent the value of sales from consigned goods net of platform-wide discounts less consignor commission, product returns and order cancellations. We exclude direct revenue from our calculation of take rate because direct revenue represents the sale of inventory owned by us, which costs are included in cost of direct revenue. Our take rate reflects the high level of service that we provide to our consignors across multiple touch points and the consistently high velocity of sales for their goods. In November 2022, we updated our take rate structure with the goals of optimizing take rate, limiting consignment of lower value items, and increasing supply of higher value items. We continue to assess the impact of our updated take rate structure and may implement further changes in the future. Previously, our take rate was primarily based on a tiered commission structure for consignors, where the more they sell the higher percent commission they earn. Consignors typically started at a 55% commission (which equals a 45% take rate for us) and could earn up to a 70% commission. In addition, there were commission exceptions from the tiered commission structure based on category and price point of the items.

Our take rate structure is primarily based on the category and the price point of the sold items. For example, under the updated take rate structure, consignors can earn 20% commission on all sold items under \$100, and up to 90% commission on watches sold for over \$7,500. We launched a pricing tool for our consignors that provides detail on commission rates for specific categories and other aspects of the take rate structure. Consignors are eligible to receive additional commissions based on total net sales under an added tiered commission structure. Management assesses changes in take rates by monitoring the volume of GMV and take rate across each discrete commission grouping, encompassing commission tiers and exceptions.

Active Buyers

Active buyers include buyers who purchased goods through our online marketplace during the 12 months ended on the last day of the period presented, irrespective of returns or cancellations. We believe this metric reflects scale, brand awareness, buyer acquisition and engagement.

Average Order Value (“AOV”)

Average order value (“AOV”) means the average value of all orders placed across our online marketplace and retail stores, excluding the effect of buyer incentives, shipping fees and sales taxes. Our focus on luxury goods across multiple categories drives a consistently strong AOV. Our AOV reflects both the average price of items sold as well as the number of items per order. Our AOV is a key driver of our operating leverage.

Components of our Operating Results

Revenue

Our revenue is comprised of consignment revenue, direct revenue, and shipping services revenue.

- *Consignment revenue.* We generate the substantial majority of our revenue from the sale of pre-owned luxury goods through our online marketplace and retail stores on behalf of consignors. For consignment sales, we retain a percentage of the proceeds received, which we refer to as our take rate. We recognize consignment revenue, net of allowances for product returns, order cancellations, buyer incentives and adjustments. Additionally, we generate revenue from subscription fees paid by buyers for early access to products, but to date our subscription revenue has not been material.
- *Direct revenue.* We generate direct revenue from the sale of items that we own, which we refer to as our inventory. We generally acquire inventory when we accept out of policy returns from buyers, and when we make direct purchases from businesses and consignors. We recognize direct revenue upon shipment based on the gross purchase price paid by buyers for goods, net of allowances for product returns, buyer incentives and adjustments.
- *Shipping services revenue.* We generate shipping services revenue from the outbound shipping and handling fees we charge when delivering purchased items to our buyers. We also generate shipping services revenue from the shipping fees for consigned products returned by our buyers to us within policy. We recognize shipping services revenue over time as the shipping activity occurs. Shipping services revenue excludes the effect of buyer incentives and sales tax.

Cost of Revenue

Cost of consignment revenue consists of credit card fees, packaging, customer service personnel-related costs, website hosting services, and consignor inventory adjustments related to lost or damaged products. Cost of direct revenue consists of the cost of goods sold, credit card fees, packaging, customer service personnel-related costs, website hosting services, and inventory adjustments for lower of cost or net realizable value provisions and for lost or damaged products. Cost of shipping services revenue consists of the outbound shipping and handling costs to deliver purchased items to our buyers, the shipping costs for consigned products returned by our buyers to us within policy, and an allocation of the credit card fees associated with the shipping fee charged.

Marketing

Marketing expense comprises the cost of acquiring and retaining consignors and buyers, including the cost of television, digital and direct mail advertising. Marketing expense also includes personnel-related costs for employees engaged in these activities. We expect these expenses to continue to decrease as a percentage of revenue.

Operations and Technology

Operations and technology expense principally includes personnel-related costs for employees involved with the authentication, merchandising and fulfillment of goods sold through our online marketplace and retail stores, as well as our general information technology expense. Operations and technology expense also includes allocated facility and overhead costs, costs related to our retail stores, facility supplies, inbound consignment shipping costs, and depreciation of hardware and equipment, as well as research and development expense for technology associated with managing and improving our operations. We capitalize a portion of our proprietary software and technology development costs. As such, operations and technology expense also includes amortization of capitalized technology development costs. We expect operations and technology expense to increase in future periods to support our growth, including continuing to invest in automation and other technology improvements to support and drive efficiency in our operations. These expenses may vary from year to year as a percentage of revenue, depending primarily upon when we choose to make more significant investments. We expect these expenses to continue to decrease as a percentage of revenue.

Selling, General and Administrative

Selling, general and administrative expense is principally comprised of personnel-related costs for our sales professionals and employees involved in finance and administration. Selling, general and administrative expense also includes allocated facilities and overhead costs and professional services, including accounting and legal advisors. We expect these expenses to continue to decrease as a percentage of revenue.

Restructuring

Restructuring expense is primarily comprised of right-of-use asset and fixed asset impairments, severance benefits, and other related charges, including net gain on lease terminations. Impairment losses are measured and recorded for the excess of carrying value over its fair value, estimated based on expected future cash flows using discount rate and other quantitative and qualitative factors. The assumptions used such as projected future cash flows, discount rates, and determination of appropriate market comparable, are subject to volatility and may differ from actual results.

Legal Settlement

Legal settlement expense primarily includes actual or estimated losses related to legal settlements when they become probable and estimable.

Provision for Income Taxes

Our provision for income taxes consists primarily of state minimum taxes in the United States. We have a full valuation allowance for our net deferred tax assets primarily consisting of net operating loss carryforwards, accruals and reserves, stock-based compensation, fixed assets, and other book-to-tax timing differences. We expect to maintain this full valuation allowance for the foreseeable future.

Results of Operations

The results of operations presented below should be reviewed in conjunction with the financial statements and notes included elsewhere in the Annual Report. Prior year comparisons for 2022 and 2021 are included in “Part II, Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. The following tables set forth our results of operations (in thousands) and such data as a percentage of revenue for the periods presented:

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Revenue:			
Consignment revenue	\$ 415,572	\$ 384,979	\$ 302,221
Direct revenue	79,160	158,726	120,844
Shipping services revenue	54,572	59,788	44,627
Total revenue	<u>549,304</u>	<u>603,493</u>	<u>467,692</u>
Cost of revenue:			
Cost of consignment revenue	58,120	56,963	44,985
Cost of direct revenue	74,343	141,661	101,427
Cost of shipping services revenue	40,563	56,178	47,803
Total cost of revenue	<u>173,026</u>	<u>254,802</u>	<u>194,215</u>
Gross profit	376,278	348,691	273,477
Operating expenses:			
Marketing	58,275	62,988	62,749
Operations and technology	257,041	278,628	233,687
Selling, general and administrative	182,453	194,886	176,246
Restructuring	43,462	896	2,314
Legal settlement	1,340	456	13,389
Total operating expenses	<u>542,571</u>	<u>537,854</u>	<u>488,385</u>
Loss from operations	(166,293)	(189,163)	(214,908)
Interest income	8,805	3,191	365
Interest expense	(10,701)	(10,472)	(21,531)
Other income, net	—	171	23
Loss before provision for income taxes	<u>(168,189)</u>	<u>(196,273)</u>	<u>(236,051)</u>
Provision for income taxes	283	172	56
Net loss	<u>\$ (168,472)</u>	<u>\$ (196,445)</u>	<u>\$ (236,107)</u>

	Year Ended December 31,		
	2023	2022	2021
Revenue:			
Consignment revenue	76 %	64 %	65 %
Direct revenue	14	26	26
Shipping services revenue	10	10	9
Total revenue	100	100	100
Cost of revenue:			
Cost of consignment revenue	11	9	10
Cost of direct revenue	14	24	22
Cost of shipping services revenue	7	9	10
Total cost of revenue	32	42	42
Gross profit	68	58	58
Operating expenses:			
Marketing	11	11	13
Operations and technology	47	46	50
Selling, general and administrative	33	33	38
Restructuring	8	—	—
Legal settlement	—	—	3
Total operating expenses	99	90	104
Loss from operations	(31)	(32)	(46)
Interest income	2	1	—
Interest expense	(2)	(2)	(5)
Other income, net	—	—	—
Loss before provision for income taxes	(31)	(33)	(51)
Provision for income taxes	—	—	—
Net loss	(31)%	(33)%	(51)%

Comparison of 2023 and 2022

Consignment Revenue

	Year Ended December 31,		Change	
	2023	2022	Amount	%
(In thousands, except percentage)				
Consignment revenue, net	\$ 415,572	\$ 384,979	\$ 30,593	8%

Consignment revenue increased by \$30.6 million, or 8%, in 2023 compared to 2022. The increase in revenue was driven primarily by an increase in consignment GMV, and improvement in our take rate during the year ended December 31, 2023. Overall GMV decreased by 5% during the year ended December 31, 2023. The decrease in GMV is driven by a decrease in direct GMV, partially offset by the increase in consignment GMV.

Returns and cancellations as a percentage of GMV for the year ended December 31, 2023 was 26.4%, compared to 26.5% for the year ended December 31, 2022. Our take rate increased to 37.5% from 36.0% during the year ended December 31, 2023 compared to last year due to the update of our consignor commission structure which went into effect on November 1, 2022.

Direct Revenue

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(In thousands, except percentage)			
Direct revenue	\$ 79,160	\$ 158,726	\$ (79,566)	(50)%

Direct revenue decreased by \$79.6 million, or 50%, in 2023 compared to 2022. The decrease was primarily driven by our planned actions to minimize vendor-purchased company-owned inventory as the margin profile of our direct revenue is lower than consignment revenue. We recognize direct revenue upon shipment of the purchased good to the buyer. Direct revenue as a percentage of total revenue may vary from period to period primarily based on the amount of consignment revenue.

Shipping Services Revenue

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(In thousands, except percentage)			
Shipping services revenue	\$ 54,572	\$ 59,788	\$ (5,216)	(9)%

Shipping services revenue decreased by \$5.2 million, or 9%, in 2023 compared to 2022 primarily due to a decrease in the number of orders.

Cost of Consignment Revenue

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(In thousands, except percentage)			
Cost of consignment revenue	\$ 58,120	\$ 56,963	\$ 1,157	2%
As a percent of consignment revenue	14 %	15 %		

Cost of consignment revenue increased by \$1.2 million, or 2%, in 2023 compared to 2022. The increase was primarily attributable to the 8% increase in consignment revenue compared to the prior year, partially offset by efficiencies in our cost leverage.

Consignment revenue gross margin increased by 81 basis points in the year ended December 31, 2023 compared to the year ended December 31, 2022, primarily driven by the 8% increase in consignment revenue.

Cost of Direct Revenue

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(In thousands, except percentage)			
Cost of direct revenue	\$ 74,343	\$ 141,661	\$ (67,318)	(48)%
As a percent of direct revenue	94 %	89 %		

Cost of direct revenue decreased by \$67.3 million, or 48%, in 2023 compared to 2022. The decrease was primarily attributable to the 50% decrease in direct revenue compared to the prior year as a result of our planned actions to minimize vendor-purchased company-owned inventory.

Direct revenue gross margin decreased by 467 basis points in the year ended December 31, 2023 compared to the year ended December 31, 2022, primarily driven by strategic liquidation of company owned inventory sold at discounted prices, which resulted in the sell through of inventory that was previously reserved. The margin profile of our direct revenue is lower than the margin profile of our consignment revenue.

Cost of Shipping Services Revenue

	Year Ended December 31,		Change	
	2023	2022	Amount	%
(In thousands, except percentage)				
Cost of shipping services revenue	\$ 40,563	\$ 56,178	\$ (15,615)	(28)%
As a percent of shipping services revenue	74 %	94 %		

Cost of shipping services revenue decreased by \$15.6 million, or 28%, in the year ended December 31, 2023 compared to the year ended December 31, 2022. The decrease is primarily due to a decrease in the number of orders, and due to realizing benefits of cost savings initiatives.

Shipping services revenue gross margin increased by 1,963 basis points in the year ended December 31, 2023 compared to the year ended December 31, 2022, primarily due to decreased costs related to cost savings initiatives.

Total Gross Margin

Our total gross margin increased by 1,072 basis point in the year ended December 31, 2023 compared to the year ended December 31, 2022 primarily driven by the increase in higher margin consignment revenue and decrease in lower margin direct revenue. Gross margin may vary from period to period.

Marketing

	Year Ended December 31,		Change	
	2023	2022	Amount	%
(In thousands, except percentage)				
Marketing	\$ 58,275	\$ 62,988	\$ (4,713)	(7)%

Marketing expense decreased by \$4.7 million, or 7%, in 2023 compared to 2022. The decrease was primarily due to a decrease in advertising costs and lower employee compensation related expenses due to a decrease in headcount.

As a percentage of revenue, marketing remained flat at 11% in the years ended December 31, 2023 and 2022. These expenses may vary from period to period as a percentage of revenue, depending primarily upon our marketing investments. We expect these expenses to decrease as a percentage of revenue over the longer term.

Operations and Technology

	Year Ended December 31,		Change	
	2023	2022	Amount	%
(In thousands, except percentage)				
Operations and technology	\$ 257,041	\$ 278,628	\$ (21,587)	(8)%

Operations and technology expense decreased by \$21.6 million, or 8%, in 2023 compared to 2022. The decrease was primarily due to lower employee compensation related expenses due to a decrease in headcount related to the savings plan implemented during 2023. The decrease was also attributed to lower rent and lease related expenses due to retail store closures related to the savings plan implemented during 2023.

As a percentage of revenue, operations and technology expense increased to 47% in 2023 from 46% in 2022 due to a decrease in direct revenue. These expenses may vary from period to period as a percentage of revenue, depending primarily upon when we choose to make more significant investments. We expect these expenses to decrease as a percentage of revenue over the longer term.

Selling, General and Administrative

	Year Ended December 31,		Change	
	2023	2022	Amount	%
(In thousands, except percentage)				
Selling, general and administrative	\$ 182,453	\$ 194,886	\$ (12,433)	(6)%

Selling, general and administrative expense decreased by \$12.4 million, or 6%, in 2023 compared to 2022. The decrease was due to lower employee compensation expenses due to a decrease in headcount related to the savings plan implemented during 2023. The decrease was also attributed to lower rent and lease related expenses due to office closures related to the savings plan implemented during 2023.

As a percentage of revenue, selling, general and administrative remained flat at 33% in the years ended December 31, 2023 and 2022. These expenses may vary from period to period as a percentage of revenue. We expect these expenses to decrease as a percentage of revenue over the long term.

Restructuring

	Year Ended December 31,		Change	
	2023	2022	Amount	%
(In thousands, except percentage)				
Restructuring	\$ 43,462	\$ 896	\$ 42,566	4,751%

Restructuring increased by \$42.6 million, or over 100%, in 2023 compared to 2022. The increase was primarily due to charges to reduce our real estate presence and operating expenses through the closure of certain retail and office locations and workforce reduction. Restructuring consisted of right-of-use asset impairment charge of \$31.1 million, leasehold improvements impairment charge of \$8.6 million, employee severance of \$3.0 million, and other related charges of \$1.5 million, partially offset by a \$0.7 million gain on lease terminations. As of the date of this annual report, the real estate reduction plan we implemented in February 2023 is substantially complete.

Interest Income

	Year Ended December 31,		Change	
	2023	2022	Amount	%
(In thousands, except percentage)				
Interest income	\$ 8,805	\$ 3,191	\$ 5,614	176%

Interest income increased by \$5.6 million, or over 100%, in the year ended December 31, 2023 compared to the year ended December 31, 2022. The increase was primarily driven by higher average interest rates.

Interest Expense

	Year Ended December 31,		Change	
	2023	2022	Amount	%
(In thousands, except percentage)				
Interest expense	\$ (10,701)	\$ (10,472)	\$ 229	2%

Interest expense increased by \$0.2 million, or 2%, for the year ended December 31, 2023 compared to the year ended December 31, 2022.

Other Income, Net

	Year Ended December 31,		Change	
	2023	2022	Amount	%
(In thousands, except percentage)				
Other income, net	\$ —	\$ 171	\$ (171)	-100%

Other income decreased by \$0.2 million, or 100%, in the year ended December 31, 2023 compared to the year ended December 31, 2022.

Legal Settlement

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(In thousands, except percentage)			
Legal settlement	\$ 1,340	\$ 456	\$ 884	194 %

Legal settlement expense increased by \$0.9 million, or over 100%, in 2023 compared to 2022. This increase was primarily due to settlements of two former employees' individual claims and California Private Attorney General Actions initiated against the Company.

Liquidity and Capital Resources

As of December 31, 2023, we had cash and cash equivalents of \$175.7 million and an accumulated deficit of \$1,119.6 million. We had restricted cash of \$14.9 million as of December 31, 2023, consisting of cash deposited with a financial institution as collateral for our letters of credit, facility leases and credit cards. Since our inception, we have generated negative cash flows from operations and have primarily financed our operations through equity and convertible debt financings. In July 2019, we received net proceeds of \$315.5 million upon completion of our IPO on July 2, 2019. In June 2020, we received net proceeds of \$143.3 million from the issuance of our 3.00% Convertible Senior Notes due 2025 (the "2025 Notes") and the related capped call transactions. In March 2021, we received net proceeds of \$244.5 million from our 1.00% Convertible Senior Notes due 2028 (the "2028 Notes" and together with the 2025 Notes, the "Notes") and the related capped call transactions.

On February 29, 2024, we entered into an exchange agreement with certain holders of our Notes (the "Holders" and such agreement the "Exchange Agreement"). Under the terms of the Exchange Agreement the Holders agreed to exchange \$145,751,000 aggregate principal amount of the 2025 Notes and \$6,480,000 aggregate principal amount of the 2028 Notes for \$135,000,000 aggregate principal amount of our new senior notes due 2029 (the "2029 Notes", and such transaction the "Exchange"). Additionally, in connection with the Exchange, we issued warrants to acquire an aggregate of up to 7,894,737 shares of the Company's common stock to the Holders. The Exchange was consummated on February 29, 2024. The 2029 Notes bear cash interest at a rate of 8.75% per annum payable semi-annually in arrears and bear interest at a rate of 4.25% payable in kind.

We expect that operating losses and negative cash flows from operations could continue in the foreseeable future. We believe our existing cash and cash equivalents as of December 31, 2023 will be sufficient to meet our working capital and capital expenditures needs for at least the next 12 months.

Our primary capital requirements include contractual obligations related to our operating leases, payments on our debt, certain non-cancellable contracts and compensation and benefits payments to support our strategic plans. The remaining 2025 Notes not exchanged will mature on June 15, 2025, unless earlier redeemed or repurchased by the Company or converted and the remaining 2028 Notes not exchanged will mature on March 1, 2028, unless earlier redeemed or repurchased by the Company or converted. Our future capital requirements and the adequacy of available funds will depend on many factors, including, but not limited to, those set forth under the heading "Risk Factors" in this Annual Report, and our ability to grow our revenues and the timing of investments to support growth in our business, such as the build-out of our authentication centers and, to a lesser extent, the opening of new retail stores. We may seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, financial condition and results of operations could be adversely affected.

In April 2021, the Company entered into a loan and security agreement ("Revolving Credit Agreement") with a lender, to provide a revolving line of credit of up to \$50 million. As of June 30, 2023, \$0 had been drawn on the Revolving Credit Agreement, and the credit facility has expired and was not renewed.

Cash Flows

The following table summarizes our cash flows for the periods indicated. Prior year comparisons are included in "Park II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Net cash (used in) provided by:			
Operating activities	\$ (61,268)	\$ (91,557)	\$ (142,151)
Investing activities	(42,128)	(36,922)	(43,437)
Financing activities	226	4,101	252,913
Net (decrease) increase in cash and cash equivalents	<u>\$ (103,170)</u>	<u>\$ (124,378)</u>	<u>\$ 67,325</u>

Net Cash Used in Operating Activities

During 2023, net cash used in operating activities was \$61.3 million, which consisted of a net loss of \$168.5 million, adjusted by non-cash charges of \$136.3 million and cash outflows due to a net change of \$29.1 million in our operating assets and liabilities. The net change in our operating assets and liabilities was primarily the result of cash outflows due to a decrease of \$26.5 million in operating lease liabilities, a decrease of \$4.4 million in consignee payables, an increase of \$7.0 million in accounts receivable, and an increase of \$3.1 million in other assets, partially offset by cash inflows due to a decrease of \$10.9 million in inventory driven by a decrease in direct purchases of inventory from vendors. Our primary uses of cash in operating activities include operating costs such as operating lease obligations, compensation and benefits, marketing, and other expenditures necessary to support our business growth.

Net Cash Used in Investing Activities

During 2023, net cash used in investing activities was \$42.1 million, which consisted of \$29.2 million for purchases of property and equipment, net, including leasehold improvements, and \$13.0 million for capitalized proprietary software costs.

Net Cash Provided by Financing Activities

During 2023, net cash provided by financing activities was \$0.2 million, which primarily consisted of \$0.9 million of proceeds from the issuance of common stock related to the Company's employee stock purchase plan, partially offset by \$0.7 million of taxes related to restricted stock units vesting.

Non-GAAP Financial Measures

Adjusted EBITDA

Adjusted EBITDA is a key performance measure that our management uses to assess our operating performance. Because Adjusted EBITDA facilitates internal comparisons of our historical operating performance on a more consistent basis, we use this measure as an overall assessment of our performance, to evaluate the effectiveness of our business strategies and for business planning purposes and for incentive and compensation purposes. Adjusted EBITDA may not be comparable to similarly titled metrics of other companies.

Adjusted EBITDA means net loss before interest income, interest expense, other (income) expense net, provision for income taxes, and depreciation and amortization, further adjusted to exclude stock-based compensation, payroll taxes on employee stock transactions, restructuring, CEO separation benefits, CEO transition costs, and certain one-time expenses. Adjusted EBITDA provides a basis for comparison of our business operations between current, past and future periods by excluding items that we believe are not indicative of our core operating performance. Adjusted EBITDA is a non-GAAP measure. Adjusted EBITDA has certain limitations as the measure excludes the impact of certain expenses that are included in our statements of operations that are necessary to run our business and should not be considered as an alternative to net loss or any other measure of financial performance calculated and presented in accordance with GAAP.

In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis and, in the case of exclusion of the impact of stock-based compensation and the related employer payroll tax expense on employee stock transactions, excludes an item that we do not consider to be indicative of our core operating performance. Investors should, however, understand that stock-based compensation and the related employer payroll tax expense will be a significant recurring expense in our business and an important part of the compensation provided to our employees. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

The following table provides a reconciliation of net loss to Adjusted EBITDA (in thousands):

	Year Ended December 31,		
	2023	2022	2021
(In thousands)			
Adjusted EBITDA Reconciliation:			
Net loss	\$ (168,472)	\$ (196,445)	\$ (236,107)
Add (deduct):			
Depreciation and amortization	31,695	27,669	23,531
Interest income	(8,805)	(3,191)	(365)
Interest expense	10,701	10,472	21,531
Provision for income taxes	283	172	56
EBITDA	(134,598)	(161,323)	(191,354)
Stock-based compensation ⁽¹⁾	34,273	46,138	48,802
CEO separation benefits ⁽²⁾	—	948	—
CEO transition costs ⁽³⁾	159	1,551	—
Payroll taxes on employee stock transactions	195	451	1,168
Legal fees reimbursement benefit ⁽⁴⁾	—	(1,400)	(1,204)
Legal settlements ⁽⁵⁾	1,340	456	13,389
Restructuring ⁽⁶⁾	43,462	896	2,314
Other expense, net	—	(171)	(23)
Adjusted EBITDA	(55,169)	(112,454)	(126,908)

(1) The stock-based compensation expense for the year ended December 31, 2022 includes a one-time charge of \$1.0 million related to the modification of certain equity awards pursuant to the terms of the transition and separation agreement entered into with our founder, Julie Wainwright, in connection with her resignation as Chief Executive Officer ("CEO") on June 6, 2022 (the "Separation Agreement").

(2) The CEO separation benefit charges for the year ended December 31, 2022 consist of base salary, bonus and benefits for the 2022 fiscal year, as well as an additional twelve months of base salary and benefits payable to Julie Wainwright pursuant to the Separation Agreement.

(3) The CEO transition charges for the year ended December 31, 2022 consist of general and administrative fees, including legal and recruiting expenses, as well as retention bonuses for certain executives incurred in connection with our founder's resignation on June 6, 2022. The CEO transition charges for the year ended December 31, 2023 consists of retention bonuses for certain executives incurred in connection with our founder's resignation in 2022.

(4) During the year ended December 31, 2022, we received insurance reimbursement of \$1.4 million related to a legal settlement expense. During the year ended December 31, 2021, we received insurance reimbursement of \$4.3 million related to legal fees for a certain matter, of which \$3.1 million were applied to legal expenses for the year ended December 31, 2021.

(5) The legal settlement charges for the year ended December 31, 2023 reflect legal settlement expenses arising from the settlement of two former employees' individual claims and California Private Attorney General Actions initiated against the Company on behalf of such former employees and those similarly situated. The legal settlement charges for the year ended December 31, 2021 reflect legal settlement expenses arising from the settlement of a putative shareholder class action and derivative case.

(6) Restructuring for the year ended December 31, 2023 consists of impairment of right-of-use assets and property and equipment, employee severance charges, gain on lease terminations, and other charges, including legal and transportation expenses. Restructuring for the year ended December 31, 2022 consists of employee severance payments and benefits. Restructuring for the year ended December 31, 2021 consist of the costs to transition operations from the Brisbane warehouse to our new Phoenix warehouse.

Material Contractual and Other Obligations

Our material contractual and other obligations as of December 31, 2023 consist of:

- *Operating Leases.* As of December 31, 2023, our cash requirements related to our operating leases on our authentication centers, retail stores, and corporate offices that are included in our balance sheet were \$146.7 million, of which \$27.0 million is expected to be paid within the next 12 months.
- *Convertible Senior Notes.* As of December 31, 2023, our cash requirements related to our Convertible Senior Notes that are included on our balance sheet and the related periodic interest payments were \$480.7 million, of which \$8.1 million is expected to be paid within the next 12 months. Our 2025 Notes will mature on June 15, 2025, unless earlier redeemed or repurchased by the Company or converted and our 2028 Notes will mature on March 1, 2028, unless earlier redeemed or repurchased by the Company or converted. On February 29, 2024, we entered in an exchange agreement with certain holders of our Notes (see Note 16 – Subsequent Events for further information).
- *Non-cancellable purchase commitments.* Our cash requirements related to certain other non-cancellable purchase commitments associated primarily with software services and hosting arrangements, were approximately \$21.5 million, of which approximately \$7.9 million is expected to be paid within the next 12 months.

Critical Accounting Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of these financial statements requires our management to make judgments and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated, and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these judgments and estimates under different assumptions or conditions and any such differences may be material.

For the year ended December 31, 2023, we have not identified critical accounting estimates that involve a significant level of estimation uncertainty and would have a material impact on our results. Refer to our significant accounting policies are more fully described in Note 2—Summary of Significant Accounting Policies.

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies" to our financial statements included elsewhere in this Annual Report on Form 10-K for recently issued accounting pronouncements not yet adopted as of the date of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 8. Financial Statements and Supplementary Data.

Please refer to the Financial Statements and Notes to Financial Statements in this Form 10-K which is incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer (“CEO”) and interim Chief Financial Officer, who acts as our principal financial officer (“Interim CFO”), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2023. Based on this evaluation, our CEO and Interim CFO concluded that, as of December 31, 2023, our disclosure controls and procedures were effective at the reasonable assurance level in ensuring that (a) the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control Over Financial Reporting

Management, including our CEO and Interim CFO, who acts as our principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. GAAP.

Under the supervision and with the participation of our management, including our CEO and Interim CFO, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on evaluation under these criteria, management determined that our internal control over financial reporting was effective as of December 31, 2023.

KPMG LLP, our independent registered public accounting firm, has audited management's assertion on the effectiveness of our internal control over financial reporting as of December 31, 2023, as stated in their report which is included in Part IV —Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the year ended December 31, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and our Interim Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by the collusion of two or more people or by management override of controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. Other Information.

Rule 10b5-1 Trading Plans

On November 27, 2023, James Miller, a member of the Company's Board of Directors, adopted a new trading plan for the sale of securities that is intended to satisfy the affirmative defense conditions of Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Miller Plan"). The Miller Plan provides for the sale of up to a maximum of 74,586 shares of the Company's common stock that he has received or will receive following the vesting of restricted stock units. The first possible trade date under the Miller Plan is March 5, 2024, and the end date of the Miller Plan is November 27, 2024, subject to certain conditions.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this Item is incorporated herein by reference to our fiscal year 2024 proxy statement to be filed with the SEC within 120 days of the fiscal year ended December 31, 2023 (the “Proxy Statement”).

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference to our Proxy Statement.

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

The information required by this Item is incorporated herein by reference to our Proxy Statement.

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

The information required by this Item is incorporated herein by reference to our Proxy Statement.

Item 14. Principal Accounting Fees and Services.

Our independent registered public accounting firm is KPMG LLP, San Francisco, CA, Auditor ID: 185.

The information required by this Item is incorporated herein by reference to our Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

- (a) Please refer to the Financial Statements, Notes to Financial Statements and the Exhibit Index in this Form 10-K which is incorporated herein by reference.
- (b) Please refer to the Exhibit Index in this Form 10-K which is incorporated herein by reference.

Item 16. Form 10-K Summary

None.

Exhibit Index

Exhibit Number	Description	Form	File No.	Incorporated by Reference		Filed Herewith
				Exhibit	Filing Date	
3.1	Form of Amended and Restated Certificate of Incorporation of The RealReal, Inc., as currently in effect.	S-1	333-231891	3.2	June 17, 2019	
3.2	Form of Amended and Restated Bylaws of The RealReal, Inc. as currently in effect.	S-1	333-231891	3.4	June 6, 2019	
4.1	Form of Common Stock Certificate.	S-1	333-231891	4.1	June 17, 2019	
4.2	Seventh Amended and Restated Investor Rights Agreement, dated March 22, 2019 among The RealReal, Inc. and certain holders of its capital stock.	S-1	333-231891	4.7	May 31, 2019	
4.3	Indenture dated June 15, 2020, between The RealReal, Inc. and U.S. Bank National Association as Trustee, including form of 3.00% Convertible Senior Note due 2025.	8-K	001-38953	4.1	June 16, 2020	
4.4	Description of Securities.	10-Q	001-38953	4.2	August 7, 2020	
4.5	Indenture dated March 8, 2021, between The RealReal, Inc. and U.S. Bank National Association as Trustee, including form of 1.00% Convertible Senior Note due 2028.	8-K	001-38953	4.1	March 8, 2021	
4.6	Form of 1.00% Convertible Senior Note due 2028 (included in Exhibit 4.1).	8-K	001-38953	4.1	March 8, 2021	
10.1+	The RealReal, Inc. 2011 Equity Incentive Plan and related form agreements.	S-1	333-231891	10.1	May 31, 2019	
10.2#	Loan and Security Agreement dated as of September 19, 2013 by and between The RealReal, Inc. and Square 1 Bank.	S-1	333-231891	10.3	May 31, 2019	
10.3#	First Amendment to Loan and Security Agreement dated as of March 13, 2014 by and between The RealReal, Inc. and Square 1 Bank.	S-1	333-231891	10.4	May 31, 2019	
10.4#	Second Amendment to Loan and Security Agreement dated as of August 5, 2014 by and between The RealReal, Inc. and Square 1 Bank.	S-1	333-231891	10.5	May 31, 2019	
10.5#	Third Amendment to Loan and Security Agreement dated as of September 25, 2014 by and between The RealReal, Inc. and Square 1 Bank.	S-1	333-231891	10.6	May 31, 2019	
10.6#	Fourth Amendment to Loan and Security Agreement dated as of December 28, 2015 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.7	May 31, 2019	

Exhibit Number	Description	Form	File No.	Incorporated by Reference		Filed Herewith
				Exhibit	Filing Date	
10.7#	Fifth Amendment to Loan and Security Agreement dated as of July 18, 2016 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.8	May 31, 2019	
10.8#	Sixth Amendment to Loan and Security Agreement dated as of September 16, 2016 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.9	May 31, 2019	
10.9#	Seventh Amendment to Loan and Security Agreement dated as of March 28, 2017 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.10	May 31, 2019	
10.10#	Eighth Amendment to Loan and Security Agreement dated as of July 27, 2017 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.11	May 31, 2019	
10.11#	Ninth Amendment to Loan and Security Agreement dated as of March 5, 2018 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.12	May 31, 2019	
10.12#	Tenth Amendment to Loan and Security Agreement dated as of July 25, 2018 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.13	May 31, 2019	
10.13#	Eleventh Amendment to Loan and Security Agreement dated as of August 9, 2018 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.14	May 31, 2019	
10.14#	Twelfth Amendment to Loan and Security Agreement dated as of December 19, 2018 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.15	May 31, 2019	
10.15#	Lease Agreement dated as of March 18, 2014 by and between The RealReal, Inc. and 35 Enterprise Avenue, L.L.C.	S-1	333-231891	10.16	May 31, 2019	
10.16#	Lease Modification Agreement dated as of March 8, 2018 by and between The RealReal, Inc. and 35 Enterprise Avenue, L.L.C.	S-1	333-231891	10.17	May 31, 2019	
10.17#	Lease Agreement dated as of June 5, 2018 by and between The RealReal, Inc. and Hartz Enterprise LLC.	S-1	333-231891	10.19	May 31, 2019	
10.18#	Lease Agreement dated as of September 14, 2018 by and between The RealReal, Inc. and Prologis Perth Amboy Associates, LLC.	S-1	333-231891	10.20	May 31, 2019	
10.19+	The RealReal, Inc. 2019 Equity Incentive Plan.	S-1	333-231891	10.21	June 17, 2019	

Exhibit Number	Description	Form	File No.	Incorporated by Reference		Filed Herewith
				Exhibit	Filing Date	
10.20+	The RealReal, Inc. Employee Stock Purchase Plan.	S-1	333-231891	10.22	June 17, 2019	
10.21+	The RealReal, Inc. 2019 Equity Incentive Plan Stock Option Agreement and related form agreements.	10-Q	001-38953	10.1	August 14, 2019	
10.22+	The RealReal, Inc. Employee Stock Purchase Plan, as amended and restated on February 19, 2020.	10-K	001-38953	10.25	March 11, 2020	
10.23+	The RealReal, Inc. 2019 Equity Incentive Plan for Non-Employee Director Deferred Restricted Stock Unit Award Agreement and Deferral Election Form	10-Q	011-38953	10.1	November 7, 2023	
10.24	Form of Base Capped Call Confirmation, dated June 10, 2020 between The RealReal, Inc. and each of the Counterparties.	8-K	001-38953	10.1	June 16, 2020	
10.25	Form of Additional Capped Call Confirmation, dated June 18, 2020 between The RealReal, Inc. and each of the Capped Call Counterparties.	8-K	001-38953	10.1	June 23, 2020	
10.26#	Lease Agreement dated as of November 2, 2020 by and between The RealReal, Inc. and Liberty Property Limited Partnership.	10-Q	001-38953	10.1	November 10, 2020	
10.27	Form of Base Capped Call Confirmation, dated March 8, 2021 between The RealReal, Inc. and each of the Counterparties.	8-K	001-38953	10.1	March 8, 2021	
10.28	Form of Additional Capped Call Confirmation, dated March 12, 2021 between The RealReal, Inc. and each of the Capped Call Counterparties.	8-K	001-38953	10.1	March 16, 2021	
10.29+	Form of Severance and Change in Control Agreement approved by the Company's board of directors on May 5, 2021.	10-Q	001-38953	10.1	May 10, 2021	
10.30+	Transition and Separation Agreement by and between The RealReal, Inc. and Robert Julian dated September 28, 2023.	8-K	001-38953	10.1	September 29, 2023	
10.31+	Consulting Services Agreement by and between The RealReal, Inc. and Robert Julian dated September 28, 2023	8-K	001-38953	10.20	September 29, 2023	
10.32+	The RealReal, Inc. 2019 Equity Incentive Plan Performance-Based Restricted Stock Unit Award Agreement	10-K	001-38953	10.34	February 28, 2022	
10.33+	The RealReal, Inc. 2019 Equity Incentive Plan Restricted Stock Unit Award	10-Q	001-38953	10.1	August 9, 2022	

Exhibit Number	Description	Form	File No.	Incorporated by Reference		Filed Herewith
				Exhibit	Filing Date	
10.34+	Offer Letter dated January 24, 2023 between the Company and John E. Koryl	8-K	001-38953	10.1	January 25, 2023	
10.35+	Form of Indemnification Agreement entered into by and between The RealReal, Inc. and its directors and executive officers.	10-K	100-38953	10.35	February 28, 2023	
10.37+	Form of Stand-Alone Performance-Based Restricted Stock Unit Award Agreement, by and between the Company and John Koryl.	S-8	333-270281	99.1	March 3, 2023	
10.38+	Form of Stand-Alone Restricted Stock Unit Award Agreement, by and between the Company and John Koryl.	S-8	333-270281	99.2	March 3, 2023	
10.39+	Form of Stand-Alone Restricted Stock Unit Award Agreement, by and between the Company and Luke Friang.	S-8	333-270281	99.3	March 3, 2023	
10.40+	Offer Letter by and between The RealReal, Inc. and Ajay Gopal dated February 19, 2024.	8-K	100-38953	10.1	February 21, 2024	
10.41*	Form of Exchange Agreement by and between The RealReal Inc. and the Noteholder, as defined therein, dated February 29, 2024.					X
10.42	Indenture by and between The RealReal, Inc., the Guarantors party thereto and Glas Trust Company LLC dated February 29, 2024.					X
10.43	Warrant Agency Agreement by and between The RealReal, Inc., Computershare, In., and Computershare Trust Company, N.A. dated February 29, 2024.					X
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
97	The RealReal, Inc. Clawback Policy					X

Exhibit Number	Description	Form	File No.	Incorporated by Reference		Filed Herewith
				Exhibit	Filing Date	
101.INS	XBRL Instance Document					X
101.SC H	XBRL Taxonomy Extension Schema Document					X
101.CA L	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DE F	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LA B	XBRL Taxonomy Extension Label Linkbase Document					X
101.PR E	XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.INS, 101.SCH, 101.CAL, 101.DEF, 101.LAB, and 101.PRE).					

+ Indicates management contract or compensatory plan.

Certain information contained in this agreement has been omitted because it both (i) is not material and (ii) would be competitively harmful if publicly disclosed.

* Certain schedules and exhibits omitted pursuant to Item 601(a)(5) of Regulation S-K promulgated by the SEC. The Company agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors
The RealReal, Inc.:

Opinion on the Financial Statements

We have audited the accompanying balance sheets of The RealReal, Inc. (the Company) as of December 31, 2023 and 2022, the related statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2024 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

Sufficiency of the audit evidence over the IT elements of revenue recognition

As discussed in Note 2 to the financial statements, the Company recognizes consignment revenue by providing a service to sell pre-owned luxury goods on behalf of consignors to buyers through its online marketplace and retail stores. Direct revenue is recognized from the sale of Company-owned inventory on its online marketplace and retail stores. The Company reported \$549 million in total revenue for the year ended December 31, 2023.

We identified the evaluation of the sufficiency of audit evidence over the information technology (IT) elements of revenue recognition as a critical audit matter. A high degree of complex auditor judgment was required to evaluate the nature and extent of audit evidence obtained related to consignment and direct revenue due to the complexity and number of IT systems. IT professionals with specialized skills and knowledge were required to understand and assess the Company's internally developed IT systems used in the revenue recognition process.

The following are the primary procedures we performed to address this critical audit matter. We applied auditor judgment to determine the nature and extent of procedures to be performed over the IT elements of revenue recognition. We involved IT professionals with specialized skills and knowledge, who assisted in:

- gaining an understanding of the systems used in the Company’s recognition of revenue
- evaluating the design and testing the operating effectiveness of certain internal controls related to the IT applications used in the revenue recognition process. This included general IT controls, IT application controls, data configurations, and interface controls over the transfer of relevant data between systems.

We performed a software-assisted data analysis to test the relationships among certain revenue transactions. On a sample basis, we also tested certain revenue transactions by comparing the recorded amounts to underlying documentation. We evaluated the sufficiency of audit evidence obtained by assessing the results of procedures performed, including the appropriateness of the nature and extent of such evidence.

/s/ KPMG LLP

We have served as the Company’s auditor since 2013.

San Francisco, California
March 1, 2024

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors
The RealReal, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited The RealReal, Inc.'s (the Company) internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the balance sheets of the Company as of December 31, 2023 and 2022, the related statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively, the financial statements), and our report dated March 1, 2024 expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

San Francisco, California
March 1, 2024

THE REALREAL, INC.
Balance Sheets

(In thousands, except share and per share data)

	December 31, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 175,709	\$ 293,793
Accounts receivable	17,226	12,207
Inventory, net	22,246	42,967
Prepaid expenses and other current assets	20,766	23,291
Total current assets	235,947	372,258
Property and equipment, net	104,087	112,679
Operating lease right-of-use assets	86,348	127,955
Restricted cash	14,914	—
Other assets	5,627	2,749
Total assets	\$ 446,923	\$ 615,641
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	\$ 8,961	\$ 11,902
Accrued consignor payable	77,122	81,543
Operating lease liabilities, current portion	20,094	20,776
Other accrued and current liabilities	82,685	93,292
Total current liabilities	188,862	207,513
Operating lease liabilities, net of current portion	104,856	125,118
Convertible senior notes, net	452,421	449,848
Other noncurrent liabilities	4,083	3,254
Total liabilities	750,222	785,733
Commitments and contingencies (Note 12)		
Stockholders' deficit:		
Common stock, \$0.00001 par value; 500,000,000 shares authorized as of December 31, 2023 and December 31, 2022; 104,670,500 and 99,088,172 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively	1	1
Additional paid-in capital	816,325	781,060
Accumulated deficit	(1,119,625)	(951,153)
Total stockholders' deficit	(303,299)	(170,092)
Total liabilities and stockholders' deficit	\$ 446,923	\$ 615,641

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

THE REALREAL, INC.
Statements of Operations

(In thousands, except share and per share data)

	Years Ended December 31,		
	2023	2022	2021
Revenue:			
Consignment revenue	\$ 415,572	\$ 384,979	\$ 302,221
Direct revenue	79,160	158,726	120,844
Shipping services revenue	54,572	59,788	44,627
Total revenue	<u>549,304</u>	<u>603,493</u>	<u>467,692</u>
Cost of revenue:			
Cost of consignment revenue	58,120	56,963	44,985
Cost of direct revenue	74,343	141,661	101,427
Cost of shipping services revenue	40,563	56,178	47,803
Total cost of revenue	<u>173,026</u>	<u>254,802</u>	<u>194,215</u>
Gross profit	<u>376,278</u>	<u>348,691</u>	<u>273,477</u>
Operating expenses:			
Marketing	58,275	62,988	62,749
Operations and technology	257,041	278,628	233,687
Selling, general and administrative	182,453	194,886	176,246
Restructuring	43,462	896	2,314
Legal settlements	1,340	456	13,389
Total operating expenses	<u>542,571</u>	<u>537,854</u>	<u>488,385</u>
Loss from operations	(166,293)	(189,163)	(214,908)
Interest income	8,805	3,191	365
Interest expense	(10,701)	(10,472)	(21,531)
Other income, net	—	171	23
Loss before provision for income taxes	<u>(168,189)</u>	<u>(196,273)</u>	<u>(236,051)</u>
Provision for income taxes	283	172	56
Net loss attributable to common stockholders	<u>\$ (168,472)</u>	<u>\$ (196,445)</u>	<u>\$ (236,107)</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (1.65)</u>	<u>\$ (2.05)</u>	<u>\$ (2.58)</u>
Shares used to compute net loss per share attributable to common stockholders, basic and diluted	<u>101,806,000</u>	<u>95,921,246</u>	<u>91,409,624</u>

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

THE REALREAL, INC.
Statements of Comprehensive Loss

(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Net loss	\$ (168,472)	\$ (196,445)	\$ (236,107)
Other comprehensive loss, net of tax:			
Unrealized loss on investments	—	—	(11)
Comprehensive loss	\$ (168,472)	\$ (196,445)	\$ (236,118)

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

THE REALREAL, INC.
Statements of Stockholders' Equity (Deficit)
(In thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance as of December 31, 2020	89,301,664	\$ —	\$ 723,302	\$ 11	\$ (532,021)	\$ 191,293
Purchase of capped calls	—	—	(33,666)	—	—	(33,666)
Equity component of convertible senior notes, net of issuance costs of \$3,131	—	—	93,031	—	—	93,031
Issuance of common stock upon exercise of options	1,221,365	—	6,009	—	—	6,009
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for employee taxes	2,237,748	—	(8)	—	—	(8)
Issuance of common stock for exercises under ESPP	199,289	—	2,341	—	—	2,341
Stock-based compensation expense	—	—	50,246	—	—	50,246
Other comprehensive loss	—	—	—	(11)	—	(11)
Net loss	—	—	—	—	(236,107)	(236,107)
Balance as of December 31, 2021	92,960,066	\$ —	\$ 841,255	\$ —	\$ (768,128)	\$ 73,128
Cumulative effect adjustment due to adoption of ASU 2020-06	—	—	(112,052)	—	13,420	(98,632)
Issuance of common stock upon exercise of options	1,929,265	—	2,906	—	—	2,906
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for employee taxes	3,587,964	—	(216)	—	—	(216)
Issuance of common stock for exercises under ESPP	610,877	—	1,400	—	—	1,400
Stock-based compensation expense	—	—	47,767	—	—	47,767
Net loss	—	—	—	—	(196,445)	(196,445)
Balance as of December 31, 2022	99,088,172	\$ —	\$ 781,060	\$ —	\$ (951,153)	\$ (170,092)
Issuance of common stock upon exercise of options	8,511	—	19	—	—	19
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for employee taxes	4,708,141	—	(690)	—	—	(690)
Issuance of common stock for exercises under ESPP	865,676	—	886	—	—	886
Stock-based compensation expense	—	—	35,050	—	—	35,050
Net loss	—	—	—	—	(168,472)	(168,472)
Balance as of December 31, 2023	104,670,500	\$ —	\$ 816,325	\$ —	\$ (1,119,625)	\$ (303,299)

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

THE REALREAL, INC.
Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net loss	\$ (168,472)	\$ (196,445)	\$ (236,107)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	31,695	27,669	23,531
Stock-based compensation expense	34,273	46,138	48,802
Reduction of operating lease right-of-use assets	16,746	19,602	19,439
Bad debt expense	1,962	1,680	1,034
Accrued interest on convertible notes	—	—	950
Loss on disposal of property and equipment and impairment of capitalized proprietary software	223	702	546
Accretion of debt discounts and issuance costs	2,573	2,368	13,989
Property, plant, equipment, and right-of-use asset impairments	39,739	—	—
Provision for inventory write-downs and shrinkage	9,783	4,077	510
Gain on lease termination	(738)	—	—
Other adjustments	—	—	10
Changes in operating assets and liabilities:			
Accounts receivable	(6,981)	(6,120)	(1,588)
Inventory, net	10,938	23,971	(29,204)
Prepaid expenses and other current assets	2,001	(2,952)	(4,009)
Other assets	(3,050)	(409)	(638)
Operating lease liability	(26,478)	(17,764)	(15,285)
Accounts payable	(425)	4,947	(9,989)
Accrued consignor payable	(4,421)	10,501	13,989
Other accrued and current liabilities	(464)	(9,823)	30,922
Other noncurrent liabilities	(172)	301	947
Net cash used in operating activities	(61,268)	(91,557)	(142,151)
Cash flow from investing activities:			
Proceeds from maturities of short-term investments	—	—	4,000
Capitalized proprietary software development costs	(12,951)	(14,061)	(9,967)
Purchases of property and equipment	(29,177)	(22,861)	(37,470)
Net cash used in investing activities	(42,128)	(36,922)	(43,437)
Cash flow from financing activities:			
Proceeds from issuance of 2028 convertible notes, net of issuance costs	—	—	278,234
Purchase of capped calls in conjunction with the issuance of the 2028 convertible senior notes	—	—	(33,666)
Proceeds from exercise of stock options	19	2,906	6,009
Proceeds from issuance of stock in connection with the Employee Stock Purchase Program	886	1,400	2,341
Taxes paid related to restricted stock vesting	(679)	(205)	(5)
Net cash provided by financing activities	226	4,101	252,913
Net increase (decrease) in cash, cash equivalents, and restricted cash	(103,170)	(124,378)	67,325
Cash, cash equivalents, and restricted cash			
Beginning of period	293,793	418,171	350,846
End of period	\$ 190,623	\$ 293,793	\$ 418,171
Supplemental disclosures of cash flow information			
Cash paid for interest	\$ 8,127	\$ 8,104	\$ 6,584
Cash paid for income taxes	227	256	94
Supplemental disclosures of non-cash investing and financing activities			
Purchases of property and equipment included in accounts payable and other accrued and current liabilities	1,757	13,860	1,922
Purchases of capitalized proprietary software development costs included in accounts payable and other accrued and current liabilities	1,122	1,590	1,647
Stock-based compensation capitalized to proprietary software development costs	777	1,629	1,444
Tax withholding liability for restricted stock	11	11	3

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

THE REALREAL, INC.
Notes to Financial Statements

Note 1. Description of Business and Basis of Presentation

Organization and Description of Business

The RealReal, Inc. (the “Company”) is an online marketplace for authenticated, consigned luxury goods across multiple categories, including women’s fashion, men’s fashion, and jewelry and watches. The Company was incorporated in the state of Delaware on March 29, 2011 and is headquartered in San Francisco, California.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and, in the opinion of management, reflect all adjustments necessary to state fairly the Company’s financial position, results of operations, comprehensive loss, stockholders’ equity (deficit), and cash flows for the periods presented. The Company’s functional and reporting currency is the U.S. dollar.

The Company has made a presentation change to reclassify provision for inventory write-downs and shrinkage from inventory, net within operating cash flows in the statements of cash flows. Additionally, the Company has made a presentation change to the Company's statements of operations to reclassify its restructuring expenses from marketing, operations and technology, and sales, general and administrative operating expenses. Changes to reclassify amounts in the prior periods have been made to conform to the current period presentation.

Note 2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to revenue recognition, including the returns reserve, standalone selling price related to consignment revenue transactions, valuation of inventory, software development costs, stock-based compensation, incremental borrowing rates related to lease liability, valuation of deferred taxes, and other contingencies. The Company evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors and adjusts those estimates and assumptions when facts and circumstances dictate. Actual results could differ from those estimates.

Net Loss per Share Attributable to Common Stockholders

The Company follows the two-class method when computing net loss per common share when shares are issued that meet the definition of participating securities. The two-class method determines net loss per common share for each class of common stock and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. The two-class method requires income (loss) available or attributable to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

The Company’s convertible senior notes are participating securities as they give the holders the right to receive dividends if dividends or distributions declared to the common stockholders is equal to or greater than the last reported sale price of the Company’s common stock on the trading day immediately preceding the ex-dividend date for such dividend or distribution as if the instruments had been converted into shares of common stock. No undistributed earnings were allocated to the participating securities as the contingent event is not satisfied as of the reporting date.

For periods in which the Company reports net losses, diluted net loss per common share attributable to common stockholders is the same as basic net loss per common share attributable to common stockholders, because potentially dilutive common shares and assumed conversion of the convertible senior notes are not assumed to have been issued within the calculation, if their effect is anti-dilutive.

Segments

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

Revenue Recognition

The Company generates revenue from the sale of pre-owned luxury goods through its online marketplace and retail stores. Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company enters into contracts that include products and services that are capable of being distinct and accounted for as separate performance obligations as described below. The transaction price requires an allocation across consignment services, sales of Company-owned inventory, and shipping services. Estimation is required in the determination of the services' stand-alone selling price ("SSP").

Consignment Revenue

The Company provides a service to sell pre-owned luxury goods on behalf of consignors to buyers through its online marketplace and retail stores. The Company retains a percentage of the proceeds received as payment for its consignment service, which the Company refers to as its take rate. SSP is estimated using observable stand-alone consignment sales which are conducted without shipping services. The Company reports consignment revenue on a net basis as an agent and not the gross amount collected from the buyer. Title to the consigned goods remains with the consignor until transferred to the buyer upon purchase of the consigned goods and expiration of the allotted return period. The Company does not take title of consigned goods at any time except in certain cases where returned goods become Company-owned inventory.

The Company recognizes consignment revenue upon purchase of the consigned good by the buyer as its performance obligation of providing consignment services to the consignor is satisfied at that point. Consignment revenue is recognized net of estimated returns, cancellations, buyer incentives and adjustments. The Company recognizes a returns reserve based on historical experience, which is recorded in other accrued and current liabilities on the balance sheets (see Note 5). Sales tax assessed by governmental authorities is excluded from revenue.

Certain transactions provide consignors with a material right resulting from the tiered consignor commission plan. Under this plan, the amount an individual consignor receives for future sales of consigned goods may be dependent on previous consignment sales for that consignor within his/her consignment period. Accordingly, in certain consignment transactions, a small portion of the Company's consignment revenue is allocated to such material right using the portfolio method and recorded as deferred revenue, which is recorded in other accrued and current liabilities on the balance sheets. The impact of the deferral has not been material to the financial statements.

The Company also generates subscription revenue from monthly memberships allowing buyers early access to shop for luxury goods. The buyers receive the early access and other benefits over the term of the subscription period, which represents a single stand-ready performance obligation. Therefore, the subscription fees paid by the buyer are recognized over the monthly subscription period. Subscription revenue was not material in 2023, 2022, and 2021.

Direct Revenue

The Company generates direct revenue from the sale of Company-owned inventory. The Company recognizes direct revenue on a gross basis upon shipment of the purchased good to the buyer as the Company acts as the principal in the transaction. SSP is estimated using observable stand-alone sales of Company-owned inventory which are conducted without shipping services, when available, or a market assessment approach. Direct revenue is recognized net of estimated returns, buyer incentives and adjustments. Sales tax assessed by governmental authorities is excluded from revenue. Cost of direct revenue is also recognized upon shipment to the buyer in an amount equal to that paid to the consignor from the original consignment sale, an amount equal to that paid as a direct purchase from a third party, or the lower of cost of the inventory purchased and its net realizable value.

Shipping Services Revenue

The Company provides a service to ship purchased items to buyers and a service to ship items from buyers back to the Company. The Company determines itself to be the principal in this arrangement. The Company charges a fee to buyers

for this service and has elected to treat shipping and handling activities performed as a separate performance obligation. For shipping services revenue, the Company's SSP is estimated using a market approach considering external and internal data points on the stand-alone sales price of the shipping service. All outbound shipping and handling costs for buyers are accounted for as cost of shipping services and recognized as the shipping activity occurs. The Company also generates shipping services revenue from the shipping fees for consigned products returned by buyers to the Company within policy. The Company recognizes shipping revenue and associated costs over time as the shipping activity occurs, which is generally one to three days after shipment.

Incentives

Incentives, which include platform-wide discounts and buyer incentives, may periodically be offered to buyers. Platform-wide discounts are made available to all buyers on the online marketplace. Buyer incentives apply to specific buyers and consist of coupons or promotions that offer credits in connection with purchases on the Company's platform, and do not impact the commissions paid to consignors. These are treated as a reduction of consignment revenue and direct revenue. Additionally, the Company periodically offers commission exceptions to the standard consignment rates to consignors to optimize its supply. These are treated as a reduction of consignment revenue at the time of sale. The Company may offer a certain type of buyer incentive in the form of site credits to buyers on current transactions to be applied towards future transactions, which are included in other accrued and current liabilities on the balance sheets.

Contract Liabilities

The Company's contractual liabilities primarily consist of deferred revenue for material rights primarily related to the tiered consignor commission plan, which are recognized as revenue using a portfolio approach based on the pattern of exercise, and certain buyer incentives. Contract liabilities are recorded in other accrued and current liabilities on the balance sheets and are generally expected to be recognized within one year. Contract liabilities were immaterial as of December 31, 2023 and December 31, 2022.

Cost of Revenue

Cost of consignment revenue consist of credit card fees, packaging, customer service personnel-related costs, website hosting services, and consignor inventory adjustments relating to lost or damaged products. Cost of direct revenue consists of the cost of goods sold, credit card fees, packaging, customer service personnel-related costs, website hosting services, and inventory adjustments. Cost of shipping services revenue consists of the outbound shipping and handling costs to deliver purchased items to buyers, the shipping costs for consigned products returned by buyers to the Company within policy, and an allocation of the credit card fees associated with the shipping fee charged.

Marketing

Marketing expense is comprised of the cost of acquiring new consignors and buyers for our online platform and physical stores, including the cost of television, digital and direct mail advertising. Marketing expense also includes personnel-related costs, including stock-based compensation, of employees engaged in these activities. Advertising costs are expensed as incurred and were \$48.4 million, \$49.0 million, and \$46.2 million in 2023, 2022, and 2021, respectively.

Operations and Technology

Operations and technology expense is comprised of costs associated with the authentication, merchandising and fulfillment of goods sold through our online marketplace and retail stores, as well as general information technology expense. The principal component of operations and technology expense is personnel-related costs, including stock-based compensation, of employees engaged in these activities. Operations and technology expense also includes allocated facility and overhead costs, costs related to our retail stores, facility supplies, inbound consignment shipping costs, and depreciation of hardware and equipment, as well as research and development expense for technology associated with managing and improving our operations. In 2023, 2022, and 2021, the Company capitalized proprietary software developments costs of \$13.3 million, \$15.6 million, and \$12.7 million, respectively. As such, operations and technology expense also includes amortization of capitalized technology development costs, which is taken on straight-line basis over three years once the technology is ready for its intended use.

Selling, General and Administrative

Selling, general and administrative expense is principally comprised of the personnel-related costs for employees involved in sales, finance and administration, and includes stock-based compensation expense. Selling, general and

administrative expense also includes allocated facility and overhead costs and professional services, including accounting and legal advisors.

Stock-based Compensation

The Company incurs stock-based compensation expense from stock options, restricted stock units (“RSUs”), performance based restricted stock units (“PSUs”) subject to performance or market conditions, and employee stock purchase plan (“ESPP”) purchase rights. Stock-based compensation expense related to employees and nonemployees is measured based on the grant-date fair value of the awards. The Company estimates the fair value of stock options granted and the purchase rights issued under the ESPP using the Black-Scholes option pricing model. The fair value of RSUs is estimated based on the fair market value of the Company’s common stock on the date of grant, which is determined based on the closing price of the Company’s common stock. Compensation expense is recognized in the statements of operations over the period during which the employee is required to perform services in exchange for the award (the vesting period of the applicable award) using the straight-line method for awards with only a service condition.

To determine the grant-date fair value of the Company's stock-based payment awards for PSUs subject to performance conditions, the quoted stock price on the date of grant is used. The stock-based compensation expense for PSUs with performance conditions is recognized based on the estimated number of shares that the Company expects will vest and is adjusted on a quarterly basis using the estimated achievement of financial performance targets. For PSUs subject to market conditions, the grant-date fair value is determined using the Monte Carlo simulation model which utilizes multiple input variables to estimate the probability that market conditions will be achieved. These variables include the Company's expected stock price volatility over the expected term of the award, the risk-free interest rate for the expected term of the award, and expected dividends. For PSUs with market conditions, the stock-based compensation expense is recognized on a tranche by tranche basis over the requisite service period using the fair value derived from the Monte Carlo simulation model. The compensation expense will be recognized regardless of whether the market condition is ever satisfied, provided the requisite service period is satisfied. For all awards, the Company accounts for forfeitures as they occur.

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments purchased with original maturities of three months or less from the purchase date to be cash equivalents. Cash equivalents primarily consist of investments in short-term money market funds.

Restricted cash consists of cash deposited with a financial institution as collateral for the Company’s letters of credit for its facility leases and the Company’s credit cards. The Company had \$14.9 million and \$0 in restricted cash as of December 31, 2023 and 2022, respectively.

The following table provides a reconciliation of cash, cash equivalents and restricted cash for the year ended December 31, 2023 that sum to the total of the same amounts shown in the statements of cash flows (in thousands):

	December 31, 2023	December 31, 2022	December 31, 2021
Cash and cash equivalents	\$ 175,709	\$ 293,793	\$ 418,171
Restricted cash	14,914	—	—
Total cash, cash equivalents and restricted cash	<u>\$ 190,623</u>	<u>\$ 293,793</u>	<u>\$ 418,171</u>

Accounts Receivable

Accounts receivables are recorded at the amounts billed to buyers and do not bear interest. Accounts receivables result from credit card transactions, the majority of which are settled within two business days.

Inventory, Net

Inventory consists of finished goods arising from goods returned after the title has transferred from the buyer to the Company as well as finished goods from direct purchases from vendors and consignors. The cost of inventory is an amount equal to that paid to the consignor or vendors. Inventory is valued at the lower of cost and net realizable value using the specific identification method and the Company records provisions, as appropriate, to write down obsolete and excess inventory to estimated net realizable value. After the inventory value is reduced, adjustments are not made to increase it from the estimated net realizable value. Additionally, inventory is recorded net of an allowance for shrinkage which represents the risk of physical loss of inventory. Provisions for inventory shrinkage are estimated based on historical

experience and are adjusted based upon physical inventory counts. Provisions to write down inventory to net realizable value and provisions for inventory shrinkage were \$9.8 million and \$4.1 million during the year end December 31, 2023 and 2022, respectively.

Return reserves, which reduce revenue and cost of sales, are estimated using historical experience. Liabilities for return allowances are included in other accrued and current liabilities on the balance sheets and were \$22.2 million as of December 31, 2023 and 2022. Included in inventory on the Company's balance sheets are assets totaling \$5.2 million and \$6.1 million as of December 31, 2023 and 2022, respectively, for the rights to recover products from customers associated with its liabilities for return reserves.

Property and Equipment, Net

Property and equipment, net is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the respective assets. Repair and maintenance costs are expensed as incurred.

The estimated useful lives of our assets are as follows:

Proprietary software	3 years
Furniture and equipment	3-5 years
Vehicles	5 years
Leasehold improvements	Shorter of lease term or estimated useful life

Software Development Costs

Proprietary software includes the costs of developing the Company's internal proprietary business platform and automation projects. The Company capitalizes qualifying proprietary software development costs that are incurred during the application development stage. Capitalization of costs begins when two criteria are met: (1) the preliminary project stage is completed and (2) it is probable that the software will be completed and used for its intended function. Such costs are capitalized in the period incurred. Capitalization ceases and amortization begins when the software is substantially complete and ready for its intended use, including the completion of all significant testing. Costs related to preliminary project activities and post-implementation operating activities are expensed as incurred.

Impairment of Long-lived Assets

The carrying amounts of long-lived assets, including right-of-use assets, property and equipment, net and capitalized proprietary software, are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful life is shorter than originally estimated. Recoverability of assets to be held and used is measured by comparing the carrying amount of assets to future undiscounted net cash flows the assets are expected to generate over their remaining life.

If the assets are considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired assets. If the useful life is shorter than originally estimated, the Company amortizes the remaining carrying value over the revised shorter useful life.

Leases

Contracts that have been determined to convey the right to use an identified asset are evaluated for classification as an operating or finance lease. For the Company's operating leases, the Company records a lease liability based on the present value of the lease payments at lease inception, using the applicable incremental borrowing rate. The Company estimates the incremental borrowing rate by developing its own synthetic credit rating, corresponding yield curve, and the terms of each lease at the lease commencement date. The corresponding right-of-use asset is recorded based on the corresponding lease liability at lease inception, adjusted for payments made to the lessor at or before the commencement date, initial direct costs incurred and any tenant incentives allowed for under the lease. The Company does not include optional renewal terms or early termination provisions unless the Company is reasonably certain such options would be exercised at the inception of the lease. Operating lease right-of-use assets, current portion of operating lease liabilities, and operating lease liabilities, net of current portion are included on the Company's balance sheet.

The Company has elected the practical expedients that allows for the combination of lease components and non-lease components and to record short-term leases as lease expense on a straight-line basis on the statements of operations. Variable lease payments are recorded as expense as they are incurred.

The Company has finance leases for vehicles and equipment, and the amounts of finance lease right-of-use assets and finance lease liabilities have been immaterial to date.

Convertible Senior Notes, Net

Prior to the adoption of ASU 2020-06 on January 1, 2022, convertible debt instruments that may be settled in cash or other assets, or partially in cash, upon conversion, were separately accounted for as long-term debt and equity components (or conversion feature). The debt component represented the Company's contractual obligation to pay principal and interest and the equity component represented the Company's option to convert the debt security into equity of the Company or the equivalent amount of cash. Upon issuance, the Company allocated the debt component on the basis of the estimated fair value of a similar liability that does not have an associated convertible feature and the remaining proceeds are allocated to the equity component. The bifurcation of the debt and equity components resulted in a debt discount for the aforementioned notes. The Company uses the effective interest method to amortize the debt discount to interest expense over the amortization period which is the expected life of the debt. Following the adoption of ASU 2020-06, there is no bifurcation of the liability and equity components of the 3.00% Convertible Senior Notes due 2025 (the "2025 Notes") and the 1.00% Convertible Senior Notes due 2028 (the "2028 Notes" and, together with the 2025 Notes, the "Notes"), and the entire principal of the Notes are accounted for as long-term debt.

Capped Call Transactions

In June 2020 and March 2021, in connection with the issuance of its convertible senior notes, the Company entered into Capped Call Transactions (see Note 7). The Capped Call Transactions are expected generally to reduce the potential dilution to the holders of the Company's common stock upon any conversion of the convertible senior notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted convertible senior notes, with such reduction and/or offset subject to a cap based on the cap price. The capped calls are classified in stockholders' equity as a reduction to additional paid-in capital and are not subsequently remeasured as long as the conditions for equity classification continue to be met. The Company monitors the conditions for equity classification, which continue to be met as of December 31, 2023.

Debt Issuance Costs

Debt issuance costs, which consist of direct incremental legal, consulting, banking and accounting fees related to the anticipated debt offering, are amortized to interest expense over the estimated life of the related debt based on the effective interest method. The Company presents debt issuance costs on the balance sheets as a direct deduction from the associated debt. The Company adopted ASU 2020-06 as of January 1, 2022 using the modified retrospective method. Prior to the adoption of ASU 2020-06 on January 1, 2022, a portion of debt issuance costs incurred in connection with the convertible senior notes issued in June 2020 and March 2021 was allocated to the equity component and was recorded as a reduction to additional paid in capital and was not amortized to interest expense over the estimated life of the related debt. Following the adoption of ASU 2020-06, the debt issuance costs previously allocated to the equity component of both series of Notes were reclassified to debt. As such, all of the debt issuance costs are recorded as a direct deduction from the related principal debt amounts on the balance sheet, and are all amortized to interest expense over the estimated remaining life of the related debt.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in loss in the period of enactment. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Concentrations of Credit Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, restricted cash and accounts receivable. At times, such amount may exceed federally-insured limits. The Company is monitoring ongoing events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions or other companies in the financial services industry or the financial services industry generally. The Company reduces credit risk by placing its cash, cash equivalents, restricted cash and investments with major financial institutions with high credit ratings within the United States. The Company has not experienced any realized losses on cash, cash equivalents and restricted cash to date; however, no assurances can be provided.

As of December 31, 2023 and December 31, 2022, there were no customers that represented 10% or more of the Company's accounts receivable balance and there were no customers that individually exceeded 10% of the Company's total revenue for each of the years ended December 31, 2023, 2022, and 2021.

Recently Issued Accounting Pronouncements

In November 2023, the FASB issued ASU 2023-07, Improvements to Reportable Segment Disclosures. This new guidance is designed to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses that are regularly provided to the chief operating decision maker. Additionally, public entities with a single reportable segment must provide all the disclosures required by ASU 2023-07, as well as all existing segment disclosures in accordance with Accounting Standards Codification 280. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024 on a retrospective basis. Early adoption is permitted. The Company expects the adoption of the standard to result in additional segment footnote disclosures. The Company does not expect the adoption of this guidance to have a material impact on our financial statements.

In December 2023, the FASB issued ASU 2023-09, Improvements to Income Tax Disclosures. This new guidance is designed to enhance the transparency and decision usefulness of income tax disclosures. The amendments of this update are related to the rate reconciliation and income taxes paid, requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its financial statements.

Note 3. Cash and Cash Equivalents

The following tables summarize the estimated value of the Company's cash and cash equivalents (in thousands) and do not include restricted cash. There are no unrealized gains or losses related to the restricted cash balance.

	December 31, 2023			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Cash and cash equivalents:				
Cash	\$ 50,947	\$ —	\$ —	\$ 50,947
Money market funds	124,762	—	—	124,762
Total cash and cash equivalents	<u>\$ 175,709</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 175,709</u>

	December 31, 2022			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Cash and cash equivalents:				
Cash	\$ 275,742	\$ —	\$ —	\$ 275,742
Money market funds	18,051	—	—	18,051
Total cash and cash equivalents	<u>\$ 293,793</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 293,793</u>

Note 4. Fair Value Measurement

Assets and liabilities recorded at fair value on a recurring basis on the balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The authoritative guidance on fair value measurements establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

Level 1—Observable inputs such as unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2—Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

There were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy during the periods presented.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of December 31, 2023 and December 31, 2022, the Company's cash equivalents solely consisted of money market funds, which amounted to \$124.8 million and \$18.1 million, respectively. Money market funds are measured at net asset value per share.

Fair Value Measurements of Other Financial Instruments

The following table presents the carrying amounts and estimated fair values of the financial instruments that are not recorded at fair value on the balance sheets (in millions):

	December 31, 2023	
	Net Carrying Amount	Estimated Fair Value
2025 Convertible senior notes	\$ 170.6	\$ 128.2
2028 Convertible senior notes	\$ 281.9	\$ 100.0

The principal amounts of the 2025 Notes and the 2028 Notes are \$172.5 million and \$287.5 million, respectively. The difference between the principal amounts of the convertible senior notes and their respective net carrying amounts are the unamortized debt issuance costs.

As of December 31, 2023, the fair value of the 2025 Notes and 2028 Notes, which differs from their carrying value is determined based on the quoted bid prices of the Notes in an over-the counter market using the latest trading information of the reporting period.

Note 5. Balance Sheet Components

Property and Equipment, Net

Property and equipment, net is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the respective assets. Property and equipment, net consists of the following (in thousands):

	December 31, 2023	December 31, 2022
Proprietary software	\$ 44,964	\$ 39,017
Furniture and equipment	47,389	47,692
Automobiles	2,069	2,119
Leasehold improvements	84,138	86,986
Property and equipment, gross	178,560	175,814
Less: accumulated depreciation and amortization	(74,473)	(63,135)
Property and equipment, net	<u>\$ 104,087</u>	<u>\$ 112,679</u>

Depreciation and amortization expense on property and equipment was \$31.0 million, \$26.9 million, and \$23.5 million for the years ended December 31, 2023, 2022 and 2021, respectively.

During the year ended December 31, 2023, the Company recorded \$8.6 million of impairment of leasehold improvements and disposal of fixed assets related to the closures of several of its office and retail locations as part of the savings plan the Company implemented. The impairment charges are included in restructuring in the statements of operations.

Other Accrued and Current Liabilities

Other accrued and current liabilities consist of the following (in thousands):

	December 31, 2023	December 31, 2022
Returns reserve	\$ 22,204	\$ 22,233
Accrued compensation	20,086	15,111
Accrued legal	614	484
Accrued sales tax and other taxes	8,118	8,531
Site credit and gift card liability	14,058	13,223
Accrued marketing and outside services	5,012	8,729
Accrued shipping	4,244	5,715
Accrued interest	1,166	1,166
Deferred revenue	2,214	3,549
Accrued property and equipment	1,066	11,417
Other	3,903	3,134
Other accrued and current liabilities	<u>\$ 82,685</u>	<u>\$ 93,292</u>

Note 6. Debt

Revolving Credit Agreement

In April 2021, the Company entered into a loan and security agreement ("Revolving Credit Agreement") with a lender, to provide a revolving line of credit of up to \$50 million. Advances on the line of credit bear interest payable monthly at a variable annual rate equal to the greater of the prime rate plus 0.50% or 4.25%. The credit facility was set to expire in April 2023. In April 2023 the Company signed an amendment with the lender to extend the credit facility through

June 2023. As of June 30, 2023, \$0 had been drawn on the Revolving Credit Agreement, and the credit facility has expired and was not renewed.

Note 7. Convertible Senior Notes, Net

In June 2020, the Company issued an aggregate principal of \$172.5 million of its 2025 Notes, pursuant to an indenture between the Company and U.S. Bank National Association, as trustee, in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”). The 2025 Notes include \$22.5 million in aggregate principal amount of the 2025 Notes sold to the initial purchasers resulting from the exercise in full of their option to purchase additional Notes. The 2025 Notes will mature on June 15, 2025, unless earlier redeemed or repurchased by the Company or converted.

The Company received net proceeds from the 2025 Notes offering of approximately \$165.8 million, after deducting the initial purchasers’ discount and commission and offering expenses. The Company used approximately \$22.5 million of the net proceeds from the 2025 Notes offering to fund the net cost of entering into the capped call transactions described below. The Company intends to use the remainder of the net proceeds for general corporate purposes.

In March 2021, the Company issued an aggregate principal of \$287.5 million of its 2028 Notes, pursuant to an indenture between the Company and U.S. Bank National Association, as trustee, in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The 2028 Notes include \$37.5 million in aggregate principal amount of the 2028 Notes sold to the initial purchasers resulting from the exercise in full of their option to purchase additional Notes. The 2028 Notes will mature on March 1, 2028, unless earlier redeemed or repurchased by the Company or converted.

The Company received net proceeds from the 2028 Notes offering of approximately \$278.1 million, after deducting the initial purchasers’ discount and commission and offering expenses. The Company used approximately \$33.7 million of the net proceeds from the 2028 Notes offering to fund the net cost of entering into the capped call transactions described below. The Company intends to use the remainder of the net proceeds for general corporate purposes.

The 2025 Notes accrue interest at a rate of 3.00% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, beginning on December 15, 2020. The initial conversion rate applicable to the 2025 Notes is 56.2635 shares of common stock per \$1,000 principal amount of 2025 Notes (which is equivalent to an initial conversion price of approximately \$17.77 per share of the Company’s common stock). The 2028 Notes accrue interest at a rate of 1.00% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2021. The initial conversion rate applicable to the 2028 Notes is 31.4465 shares of common stock per \$1,000 principal amount of 2028 Notes (which is equivalent to an initial conversion price of approximately \$31.80 per share of the Company’s common stock). The conversion rate is subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest. In addition, upon the occurrence of a corporate event, the Company will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its Notes in connection with such corporate event.

The 2025 Notes will be redeemable, in whole or in part, at the Company’s option at any time, and from time to time, on or after June 20, 2023, and the 2028 Notes will be redeemable, in whole or in part, at the Company’s option at any time, and from time to time, on or after March 5, 2025, in each case if the last reported sale price per share of the Company’s common stock exceeds 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately before the date the Company sends the related redemption notice. In addition, calling any Note for redemption will constitute a make-whole fundamental change with respect to that Note, in which case the conversion rate applicable to the conversion of that Note will be increased in certain circumstances if it is converted after it is called for redemption.

Prior to March 15, 2025, in the case of the 2025 Notes, and December 1, 2027, in the case of the 2028 Notes, the applicable Notes will be convertible only under the following circumstances:

- During any calendar quarter (and only during such calendar quarter), if the last reported sale price per share of the Company’s common stock exceeds 130% of the applicable conversion price on each applicable trading day for at least 20 trading days (whether or not consecutive) in the period of the 30 consecutive trading day period ending on, and including, the last trading day of the immediately preceding calendar quarter;

- During the five business day period after any five consecutive trading day period in which, for each day of that period, the trading price per \$1,000 principal amount of Notes for such trading day was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on such trading day;
- Upon the occurrence of specified corporate transactions; or
- If the Company calls any notes for redemption.

On and after March 15, 2025, in the case of the 2025 Notes, and December 1, 2027, in the case of the 2028 Notes, until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert all or a portion of their Notes, in multiples of \$1,000 principal amount, at any time, regardless of the foregoing circumstances. Upon conversion, the Notes will be settled, at the Company's election, in cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock. It is the Company's current intent to settle conversions of the 2025 Notes and the 2028 Notes through combination settlement, which involves repayment of the principal portion in cash and any excess of the conversion value over the principal amount in shares of its common stock. The conditions allowing holders of either the 2025 Notes or the 2028 Notes to convert were not met as of December 31, 2023.

The Notes are unsecured and unsubordinated obligations of the Company and will rank senior in right of payment to any of future indebtedness of the Company that is expressly subordinated in right of payment to the Notes; rank equal in right of payment to any existing and future unsecured indebtedness of the Company that is not so subordinated; be effectively subordinated in right of payment to any secured indebtedness of the Company to the extent of the value of the assets securing such indebtedness; and be structurally subordinated to all existing and future indebtedness and other liabilities and obligations incurred by future subsidiaries of the Company.

If bankruptcy, insolvency, or reorganization occurs with respect to the Company (and not solely with respect to a significant subsidiary of the Company), then the principal amount of, and all accrued and unpaid interest on, all of the Notes then outstanding will immediately become due and payable without any further action or notice by any person. If an event of default (other than bankruptcy, insolvency, or reorganization with respect to the Company and not solely with respect to a significant subsidiary of the Company) occurs and is continuing, then, with the exception of certain reporting events of default, the trustee, by notice to the Company, or noteholders of at least 25% of the aggregate principal amount of 2025 Notes or 2028 Notes, as applicable, then outstanding, by notice to us and the trustee, may declare the principal amount of, and all accrued and unpaid interest on, all of the 2025 Notes or 2028 Notes, as applicable, the outstanding to become due and payable immediately.

Prior to the adoption of ASU 2020-06 on January 1, 2022 and in accounting for the issuance of the 2025 Notes and the 2028 Notes, the Company separately accounted for the liability and equity components of the Notes. The debt discount was recorded to equity and was amortized to the debt liability over the life of the Notes using the effective interest method. The equity component was not remeasured as long as it continued to meet the conditions for equity classification.

In connection with the issuance of the 2025 and 2028 Notes, the Company incurred approximately \$6.7 million and \$9.4 million of debt issuance costs, respectively, which primarily consisted of initial purchasers' discounts and legal and other professional fees. Prior to the adoption of ASU 2020-06 on January 1, 2022, the Company allocated these costs to the liability and equity components based on the allocation of the proceeds. The portion of these costs allocated to the equity component was recorded as a reduction to additional paid-in capital. The portion of these costs initially allocated to the liability component was recorded as a reduction in the carrying value of the debt on the balance sheets and was amortized to interest expense using the effective interest method over the expected life of the Notes.

On January 1, 2022, the Company adopted ASU 2020-06 based on a modified retrospective transition method. Upon adoption, the Company recorded a cumulative effect of \$13.4 million as a reduction to accumulated deficit and a reduction to additional paid in capital of \$112.1 million related to amounts attributable to the value of the conversion options that had previously been recorded in equity. Under such transition, prior period information for both the 2025 and 2028 Notes has not been retrospectively adjusted.

In accounting for the 2025 Notes after the adoption of ASU 2020-06, the 2025 Notes are accounted for as a single liability, and the carrying amount of the Notes is \$170.6 million as of December 31, 2023, with principal of \$172.5 million, net of unamortized issuance costs of \$1.9 million. The 2025 Notes were classified as long term liabilities as of December 31, 2023. The issuance costs related to the 2025 Notes are being amortized to interest expense over the expected life of the 2025 Notes or approximately its five-year term at an effective interest rate of 3.74%. In accounting for the 2028

Notes after the adoption of ASU 2020-06, the 2028 Notes are accounted for as a single liability, and the carrying amount of the Notes is \$281.9 million as of December 31, 2023, with principal of \$287.5 million, net of unamortized issuance costs of \$5.6 million. The 2028 Notes were classified as long term liabilities as of December 31, 2023. The issuance costs related to the 2028 Notes are being amortized to interest expense over the expected life of the 2028 Notes or approximately its seven-year term at an effective interest rate of 1.45%.

The following tables present the outstanding principal amount, unamortized debt issuance costs, and net carrying amount of the 2025 Notes and the 2028 Notes as of the dates indicated (in thousands):

	2025 Notes	
	December 31, 2023	December 31, 2022
Principal	\$ 172,500	\$ 172,500
Unamortized debt issuance costs	(1,936)	(3,204)
Net carrying amount	\$ 170,564	\$ 169,296

	2028 Notes	
	December 31, 2023	December 31, 2022
Principal	\$ 287,500	\$ 287,500
Unamortized debt issuance costs	(5,643)	(6,948)
Net carrying amount	\$ 281,857	\$ 280,552

The following tables set forth the amounts recorded in interest expense related to the 2025 Notes as of the dates indicated (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Contractual interest expense	\$ 5,175	\$ 5,175	\$ 5,175
Amortization of debt discount	—	—	3,594
Amortization of debt issuance costs	1,268	1,080	1,082
Total interest and amortization expense	\$ 6,443	\$ 6,255	\$ 9,851

The following tables set forth the amounts recorded in interest expense related to the 2028 Notes as of the dates indicated (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Contractual interest expense	\$ 2,875	\$ 2,875	\$ 2,332
Amortization of debt discount	—	—	8,759
Amortization of debt issuance costs	1,305	1,288	554
Total interest and amortization expense	\$ 4,180	\$ 4,163	\$ 11,645

Future minimum payments under the 2025 Notes and the 2028 Notes as of December 31, 2023, are as follows (in thousands):

Fiscal Year	Amount	
	2025 Notes	2028 Notes
2024	5,175	2,875
2025	175,088	2,875
2026	—	2,875
2027	—	2,875
2028	—	288,937
Total future payments	180,263	300,437
Less amounts representing interest	(7,763)	(12,937)
Total principal amount	\$ 172,500	\$ 287,500

Capped Call Transactions with Respect to the 2025 Notes and 2028 Notes

In connection with the issuance of the 2025 Notes and 2028 Notes, including the initial purchasers' exercise of the option to purchase additional Notes, the Company entered into capped call transactions with respect to its common stock with certain financial institutions (collectively, the "Counterparties"). The Company paid an aggregate amount of approximately \$22.5 million to the Counterparties in connection with the 2025 capped call transactions (the "2025 Capped Calls") and \$33.7 million to the Counterparties in connection with the 2028 capped call transactions and (the "2028 Capped Calls" and, together with the 2025 Capped Calls, the "Capped Calls"). The 2025 Capped Calls and 2028 Capped Calls cover approximately 9,705,454 shares and 9,040,869 shares of the Company's common stock at a strike price that corresponds to the initial conversion price of the 2025 Notes and the 2028 Notes, respectively. The 2025 Capped Calls and the 2028 Capped Calls are subject to anti-dilution adjustments that are intended to be substantially identical to those in the 2025 Notes and the 2028 Notes, as applicable, and are exercisable upon conversion of the 2025 Notes or the 2028 Notes, as applicable. The Capped Calls are subject to adjustment upon the occurrence of specified extraordinary events affecting the Company, including merger events, tender offer and announcement events. In addition, the Capped Calls are subject to certain specified additional disruption events that may give rise to a termination of the Capped Calls, including nationalization, insolvency or delisting, changes in law, failures to deliver, insolvency filings and hedging disruptions. The 2025 Capped Calls settle in components commencing on April 16, 2025 with the last component scheduled to expire on June 12, 2025. The 2028 Capped Calls settle in components commencing on December 31, 2027 with the last component scheduled to expire on February 28, 2028.

The cap price of the 2025 Capped Call is initially \$27.88 per share, which represents a premium of 100.0% over the closing price of the Company's common stock of \$13.94 per share on June 10, 2020, and is subject to certain adjustments under the terms of the capped call transactions. The cap price of the 2028 Capped Call is initially \$48.00 per share, which represents a premium of 100.0% over the closing price of the Company's common stock of \$24.00 per share on March 3, 2021, and is subject to certain adjustments under the terms of the capped call transactions. The Company expects to receive from the Counterparties a number of shares of the Company's common stock or, at the Company's election (subject to certain conditions), cash, with an aggregate market value (or, in the case of cash settlement, in an amount) approximately equal to the product of such excess times the number of shares of the Company's common stock relating to the 2025 Capped Call and 2028 Capped Call being exercised.

These Capped Call instruments meet the conditions outlined in ASC 815-40 to be classified in stockholders' equity, are not accounted for as derivatives, and are not subsequently remeasured as long as the conditions for equity classification continue to be met. The Company recorded a reduction to additional paid-in capital of approximately \$22.5 million and \$33.7 million related to the premium payments for the 2025 Capped Call and 2028 Capped Call transactions.

Note 8. Common Stock

The Company had reserved shares of common stock for issuance, on an as-converted basis, as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Options issued and outstanding	1,119,676	1,754,776
Outstanding restricted stock units	12,695,176	11,369,021
Shares available for grant under the 2019 equity incentive plan	7,654,656	5,035,545
Shares available for issuance under 2019 ESPP	3,654,915	3,529,709
Total	<u>25,124,423</u>	<u>21,689,051</u>

Note 9. Share-based Compensation Plans

2019 Equity Incentive Plan

In connection with the Company's initial public offering, the Company adopted the 2019 Equity Incentive Plan (the "2019 Plan"). The 2019 Plan allows the Company to grant stock options, stock appreciation rights, restricted stock, restricted stock units and performance awards to participants. Subject to the terms and conditions of the 2019 Plan, the initial number of shares authorized for grants under the 2019 Plan is 8,000,000. These available shares increase annually by

an amount equal to the lesser of 8,000,000 shares, 5% of the number of shares of the Company's common stock outstanding on the immediately preceding December 31, or the number of shares determined by the Company's board of directors.

The Company's board of directors approved an increase of shares available for grant under the 2019 Plan by 4,465,083 shares on May 5, 2021, by 4,648,003 shares on February 23, 2022, and by 4,954,409 shares on February 13, 2023.

Activity under the Company's stock option plan is set forth below:

	Number of Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Balances at December 31, 2022	1,754,776	8.21	4.0	\$ 1
Options granted	—	—		
Options exercised	(8,511)	2.28		
Options cancelled	(626,589)	9.04		
Balances at December 31, 2023	1,119,676	7.79	4.2	15
Options vested and exercisable— December 31, 2023	1,119,676	7.79	4.2	15

There were no stock options granted in 2023 and in 2022. There was no aggregate intrinsic value of options exercised for the year ended December 31, 2023. The aggregate intrinsic value of options exercised for the years ended December 31, 2022 and 2021 was \$5.3 million and \$20.5 million, respectively. The aggregate intrinsic value of options exercised is the difference between the fair value of the underlying common stock on the date of exercise and the exercise price for in-the-money stock options.

In February 2022, the Company granted PSUs with financial performance targets to certain employees of the Company. The number of units issued will depend on the achievement of financial metrics relative to the approved performance targets, and can range from 0% to 150% of the target amount. The PSUs are subject to continuous service with the Company and will vest after approximately three years. The PSUs are measured using the fair value at the date of grant. The compensation expense associated with PSUs is recognized based on the estimated number of shares that the Company expects will vest and may be adjusted based on interim estimates of performance against the performance condition. During the year ended December 31, 2023, the Company has not recognized stock-based compensation expense as attainment of financial performance targets is not considered probable.

In March 2023, the Company granted PSUs under the 2019 Plan subject to the achievement of both market and service conditions to certain employees of the Company. The number of units vested will depend on the achievement of approved market conditions and continuous service with the Company. The PSUs are eligible to vest in three tranches over a five-year performance period. The PSUs are measured using the Monte Carlo simulation to obtain the fair value at the date of grant based on the probability that the market conditions will be met. The compensation expense associated with the PSUs is based on the fair value and is recognized over the requisite service period. The compensation expense will be recognized regardless of whether the market condition is ever satisfied, provided the requisite service period is satisfied.

Inducement Grants

In March 2023, the Company granted stock-based awards outside of the 2019 Plan to the Company's new Chief Executive Officer and the Chief Technology and Product Officer. These awards were granted as inducements material to their commencement of employment and entry into offer letters with the Company, in accordance with Nasdaq Listing Rule 5635(c)(4).

The inducement pool consisted of a total of 3,075,000 shares of the Company's common stock, which includes (a) 1,500,000 shares of PSUs granted to the Chief Executive Officer that are eligible to vest based on market and service conditions in four tranches over a five-year performance period and (b) 1,575,000 shares of RSUs (1,250,000 RSUs to the Chief Executive Officer and 325,000 RSUs to the Chief Technology and Product Officer) generally subject to the same terms and conditions as grants that are made under the 2019 Plan. As of December 31, 2023, the unrecognized expense for the PSUs is \$1.3 million and the unrecognized expense for RSUs is \$2.0 million.

RSUs

A summary of RSU activity for the year ended December 31, 2023 is as follows:

	Number of Shares	Restricted Stock Units Weighted- Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Unvested December 31, 2022	11,369,021	\$ 8.39	\$ 14,178
Granted	10,863,664	1.62	
Vested	(5,098,002)	7.51	
Forfeited	(4,439,507)	5.19	
Unvested December 31, 2023	12,695,176	\$ 4.07	\$ 25,517

Included in the table above for the year ended December 31, 2023 are approximately 1,998,000 PSUs granted and no PSUs forfeited. The weighted average grant date fair value per share of the PSUs granted in the year ended December 31, 2023 was \$1.63.

The total fair value as of the respective vesting dates of RSUs that vested during the year ended December 31, 2023 was \$9.5 million.

Employee Stock Purchase Plan

In connection with the Company's initial public offering, the Company adopted the Employee Stock Purchase Plan (the "ESPP"). The Employee Stock Purchase Plan permits employees to purchase shares of common stock during six-month offering periods at a purchase price equal to the lesser of (1) 85% of the fair market value of a share of common stock on the first business day of such offering period and (2) 85% of the fair market value of a share of common stock on the last business day of such offering period. The initial number of shares of common stock that could be issued under the employee stock purchase plan was 1,750,000 shares. These available shares increase by an amount equal to the lesser of 1,750,000 shares, 1% of the number of shares of common stock outstanding on the immediately preceding December 31, or the number of shares determined by the Company's board of directors.

The Company's board of directors approved an increase in the shares available for grant under the ESPP by 893,016 shares on May 5, 2021, by 929,601 shares on February 23, 2022, and by 990,882 shares on February 13, 2023.

During the years ended December 31, 2023, 2022 and 2021, employees purchased 865,676, 610,877, and 199,289 shares, respectively, at an average price of \$1.02, \$2.29 and \$11.74, respectively.

As of December 31, 2023, the Company had an immaterial amount of unrecognized stock-based compensation cost related to purchase rights under the employee stock purchase plan.

Stock-based Compensation

In determining the fair value of the stock-based awards, the Company uses the Black-Scholes option-pricing model and assumptions discussed below.

Fair Value of Common Stock—The fair value of the shares of common stock has historically been determined by the Company's board of directors as there was no public market for the common stock. Subsequent to our IPO, the fair value per share of common stock is the closing price of the Company's common stock as reported on the applicable grant date.

Expected Term—The expected term represents the period that the Company's stock options are expected to be outstanding and is determined using the simplified method (based on the mid-point between the vesting date and the end of the contractual term) as the Company has concluded that its stock option exercise history does not provide a reasonable basis upon which to estimate expected term.

Volatility—Because the Company was privately held and did not have an active trading market for its common stock for a sufficient period of time, the expected volatility was estimated based on the average volatility for comparable publicly-traded companies, over a period equal to the expected term of the stock option grants.

Risk-free Rate —The risk-free rate assumption is based on the U.S. Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of the option.

Dividends —The Company has never paid dividends on its common stock and does not anticipate paying dividends on common stock. Therefore, the Company uses an expected dividend yield of zero.

The following assumptions were used to estimate the fair value of stock options granted in 2019, as there were no stock options granted in 2023, 2022 and 2021:

	Year Ended December 31, 2019
Expected term (in years)	5.0 – 6.1
Expected volatility	44.2% – 47.8%
Average risk-free rate	1.9% – 2.6%
Dividend yield	—

As of December 31, 2023, the Company had approximately \$40.3 million of unrecognized stock-based compensation expense related to RSUs and PSUs, which the Company expects to recognize over the remaining weighted-average vesting period of approximately 2.1 years. As of December 31, 2023, the Company had no unrecognized stock-based compensation expense related to options.

Total stock-based compensation expense by function was as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Marketing	\$ 1,550	\$ 2,209	\$ 2,557
Operations and technology	12,534	19,822	21,395
Selling, general and administrative	20,189	24,107	24,850
Total	<u>\$ 34,273</u>	<u>\$ 46,138</u>	<u>\$ 48,802</u>

During the year ended December 31, 2022, the Company recognized compensation expense of \$1.0 million within selling, general and administrative associated with the modification of certain outstanding equity awards pursuant to the terms of the transition and separation agreement the Company entered into with its founder, Julie Wainwright, in connection with her resignation as Chief Executive Officer on June 6, 2022.

During the years ended December 31, 2023, 2022 and 2021, the Company capitalized \$0.8 million, \$1.6 million, and \$1.4 million of stock-based compensation expense to proprietary software, respectively.

Note 10. Leases

The Company leases its corporate offices, retail spaces and authentication centers under various noncancelable operating leases with terms ranging from one year to fifteen years.

The Company recorded operating lease costs of \$22.8 million and \$29.0 million for the years ended December 31, 2023 and 2022, respectively. The Company incurred \$5.2 million and \$5.6 million of variable lease costs for the years ended December 31, 2023 and 2022, respectively, which is comprised primarily of the Company's proportionate share of operating expenses, property taxes and insurance.

Due to the office and store closures in the year ended December 31, 2023, the Company reviewed its right-of-use assets for impairment. Impairment losses are measured and recorded for the excess of carrying value over its fair value, estimated based on expected future cash flows using discount rate and other quantitative and qualitative factors. As a result, the Company recorded \$31.1 million related to the impairment of certain office and store right-of-use assets during the year ended December 31, 2023. The impairment charges are included in restructuring in the statements of operations.

During the year ended December 31, 2023, the Company entered into agreements to amend certain of its operating leases. The lease for the Company's corporate headquarters in San Francisco, CA was amended to remove one floor of leased space, and the lease for the Company's offices in New York, NY, was amended to remove two floors of leased space. Additionally, the Company terminated the operating leases for retail locations in Austin, TX, Atlanta, GA, and

Miami, FL. The Company treated the lease termination amendments as lease modifications for accounting purposes as of the applicable effective dates of such terminations which resulted in a decrease of \$7.7 million to the related lease liabilities, and a decrease of \$1.4 million to the related right-of-use assets for the year ended December 31, 2023. The Company recorded a net gain on the lease terminations of \$0.7 million during the year ended December 31, 2023. The net gain on lease terminations is included in restructuring in the statement of operations.

Maturities of operating lease liabilities by fiscal year for the Company's operating leases are as follows (in thousands):

Fiscal Year	Amount
2024	26,964
2025	27,787
2026	27,614
2027	23,608
2028	20,866
Thereafter	19,866
Total future minimum payments	<u>\$ 146,705</u>
Less: Imputed interest	<u>(21,755)</u>
Present value of operating lease liabilities	<u>\$ 124,950</u>

Supplemental cash flow information related to the Company's operating leases are as follows (in thousands):

	Year Ended Year ended December 31,		
	2023	2022	2021
Operating cash flows used for operating leases	\$ 34,118	\$ 27,097	\$ 25,386
Operating lease assets obtained in exchange for operating lease liabilities	\$ 6,272	\$ 2,245	\$ 46,614

The weighted average remaining lease term and discount rate for the Company's operating leases are as follows:

	As of December 31, 2023	As of December 31, 2022
Weighted average remaining lease term	5.5 years	6.2 years
Weighted average discount rate	6.1 %	6.2 %

The Company has leases for certain vehicles and equipment that are classified as finance leases. The finance lease right-of-use asset and finance lease liabilities for these vehicle and equipment leases are immaterial as of December 31, 2023 and 2022.

Note 11. Restructuring

In February 2023, the Company announced a savings plan to reduce its real estate presence and operating expenses through closure of certain retail and office locations (referred to as the "Real Estate Reduction Plan") and workforce reduction. During the year ended December 31, 2023, the Company closed two flagship stores (San Francisco, California and Chicago, Illinois), two neighborhood stores (Atlanta, Georgia and Austin, Texas), and two luxury consignment offices (Miami, Florida and Washington, D.C.), including any co-located logistics hubs, and reduced its office spaces in San Francisco, California.

For the year ended December 31, 2023, the Company recognized \$43.5 million in restructuring which consisted of right-of-use asset impairment charge of \$31.1 million, leasehold improvements impairment charge of \$8.6 million, employee severance of \$3.0 million, and other related charges of \$1.5 million, partially offset by a \$0.7 million gain on lease terminations. The restructuring related charges were recorded on a separate line item in the Company's statement of operations.

Note 12. Commitments and Contingencies

Noncancelable Purchase Commitments

Our contractual commitments primarily consist of software and other services in the ordinary course of business that are noncancellable with varying expiration dates through 2027. As of December 31, 2023, the future minimum payments under the Company's noncancelable purchase commitments were as follows (in thousands):

Year Ending December 31,	Purchase Commitments
2024	\$ 7,944
2025	8,344
2026	4,018
2027	1,158
2028	—
Total future minimum payments	<u>\$ 21,464</u>

Contingencies

From time to time, the Company is subject to, and it is presently involved in, litigation and other legal proceedings and from time to time, the Company receives inquiries from government agencies. Accounting for contingencies requires the Company to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. The Company records a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company discloses material contingencies when a loss is not probable but reasonably possible.

On November 14, 2018, Chanel, Inc. sued the Company in the U.S. District Court for the Southern District of New York. The Complaint alleged federal and state law claims of trademark infringement, unfair competition, and false advertising. On February 1, 2019, Chanel, Inc. filed its First Amended Complaint that included substantially similar claims against the Company. On March 4, 2019, the Company filed a Motion to Dismiss the First Amended Complaint, which was granted in part and dismissed in part on March 30, 2020. The surviving claims against the Company include trademark infringement under 15 U.S.C. § 1114, false advertising under 15 U.S.C. § 1125, and unfair competition under New York common law. On May 29, 2020, the Company filed its Answer to the Amended Complaint. On November 3, 2020, the Company sought leave to amend its Answer to assert counterclaims against Chanel, Inc. for violations of the Sherman Act, 15 U.S.C. §§ 1 & 2, the Donnelly Act, N.Y. Gen. Bus. Law. § 340, and New York common law. The motion for leave to amend was granted on February 24, 2021. On February 25, 2021, the Company filed its First Amended Answer, Affirmative Defenses and Counterclaims against Chanel. The Company's Counterclaims allege violations of the Sherman Act, 15 U.S.C. §§ 1 & 2, the Donnelly Act, N.Y. Gen. Bus. Law. § 340, and New York common law. On March 18, 2021, Chanel moved to dismiss the Company's Counterclaims and moved to strike the Company's unclean hands affirmative defense. Decisions on Chanel's motion to dismiss and motion strike are pending. The parties agreed to a stay in April 2021 to engage in settlement discussions. After several mediation sessions, the parties were unable to reach a resolution, and the stay was lifted in November 2021. Chanel then sought a partial stay of discovery on the Company's counterclaims and unclean hands defense while Chanel's motion to dismiss and strike those claims are pending, and on March 10, 2022, the Court granted Chanel's request. The parties have continued to engage in fact discovery regarding Chanel's counterfeiting and false advertising claims against the Company. Fact discovery was scheduled to be completed by August 15, 2023. However, on July 19, 2023, the Court ordered a stay of the case at the parties' request to enable the parties to attempt mediation again. The parties are working to schedule mediation in the first half of 2024. The final outcome of this litigation, including our liability, if any, with respect to Chanel's claims, is uncertain. An unfavorable outcome in this or similar litigation could adversely affect the Company's business and could lead to other similar lawsuits. The Company is not able to predict or reasonably estimate the ultimate outcome or possible losses relating to this claim.

Beginning on September 10, 2019, purported shareholder class action complaints were filed against the Company, its officers and directors and the underwriters of its IPO in the San Mateo Superior Court, Marin County Superior Court, and the United States District Court for the Northern District of California. On July 27, 2021, the Company reached an agreement in principle to settle the shareholder class action. On November 5, 2021, plaintiff filed the executed stipulation of settlement and motion for preliminary approval of the settlement with the federal court. On March 24, 2022, the court entered an order preliminarily approving the settlement. On July 28, 2022, the court entered an order finally approving the settlement and dismissing the case. The financial terms of the stipulation of settlement provide that the Company will pay

\$11.0 million within thirty (30) days of the later of preliminary approval of the settlement or plaintiff's counsel providing payment instructions. The Company paid the settlement amount on March 29, 2022 with available resources and recorded approximately \$11.0 million for the year ended December 31, 2021 under our Operating expenses as a Legal settlement. One of the plaintiffs in the Marin County case opted out of the federal settlement and is pursuing the claim in Marin County Superior Court. The stay of the state court case has been lifted, and the opt out plaintiff filed an amended complaint on October 31, 2022 alleging putative class claims under the Securities Act of 1933 (the "Securities Act") on behalf of the two shareholders who opted out of the settlement and those who purchased stock from November 21, 2019 through March 9, 2020, based on purported new revelations. The claims are for alleged violations of Sections 11 and 15 of the Securities Act. On February 23, 2024, plaintiff filed a motion for class certification, which has been set for hearing on May 28, 2024. While the Company intends to defend vigorously against this litigation, there can be no assurance that the Company will be successful in its defense. For this reason, the Company cannot currently estimate the loss or range of possible losses it may experience in connection with this litigation.

Indemnifications

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to vendors, directors, officers and other parties with respect to certain matters including, but not limited to, losses arising out of the breach of such agreements, intellectual property infringement claims made by third parties and other liabilities relating to or arising from the Company's various services, or its acts or omissions. The Company has not incurred any material costs as a result of such indemnifications and have not accrued any liabilities related to such obligations in its financial statements.

Note 13. Income Taxes

The components of the Company's income tax provision consisted of (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Current:			
Federal	\$ —	\$ —	\$ —
State	283	172	56
Total current tax expense	283	172	56
Deferred:			
Federal	—	—	—
State	—	—	—
Total deferred tax expense	—	—	—
Total provision for income taxes	\$ 283	\$ 172	\$ 56

The reconciliation of the Federal statutory income tax provision for the Company's effective income tax provision (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Tax at federal statutory rate	\$ (35,290)	\$ (41,209)	\$ (49,480)
State taxes, net of federal effect	(9,554)	(11,257)	(13,704)
Stock-based compensation	8,956	419	(2,698)
Non-deductible items	504	524	3,661
Tax credits	(531)	(563)	—
Convertible Notes	—	—	16,782
Adoption of ASU 2020-06	—	(28,045)	—
Provision to return adjustments	9,259	—	—
Valuation allowance	26,501	80,254	42,327
Other	438	49	3,168
Provision for income taxes	\$ 283	\$ 172	\$ 56

The Company's deferred tax assets and liabilities (in thousands):

	December 31,	
	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	\$ 232,259	\$ 219,872
Fixed assets and intangibles	6,364	3,904
Capitalized research and development ⁽¹⁾	13,835	7,899
Accruals and reserves	12,477	10,867
Stock options	840	2,474
Operating lease liabilities	33,683	39,143
Capped calls	15,065	15,082
Convertible debt	2,329	1,675
Tax credits	2,569	1,416
Gross deferred tax assets	319,421	302,332
Less: valuation allowance	(292,297)	(265,796)
Total deferred tax assets	27,124	36,536
Deferred tax liabilities:		
Operating lease right-of-use assets	(24,416)	(34,330)
Other	(2,708)	(2,206)
Gross deferred tax liabilities	(27,124)	(36,536)
Net deferred tax assets	\$ —	\$ —

(1) Under the Tax Cuts and Jobs Act of 2017, research and development costs are no longer fully deductible and are required to be capitalized and amortized for U.S. tax purposes effective January 1, 2022. The mandatory capitalization requirement increases our gross deferred tax assets, which are fully offset by the valuation allowance.

In assessing the realizability of deferred tax assets, the Company evaluates all available positive and negative evidence by considering whether it is more likely than not that some portion or all of the deferred tax assets will not be recognized. The ultimate realization of deferred tax assets is dependent upon future taxable income, future reversals of existing taxable temporary difference, taxable income in carryback years and tax-planning strategies. The Company believes it is more likely than not that the deferred tax assets in the U.S. will not be realized; accordingly, a valuation allowance has been established against our U.S. deferred tax assets. The net change in the valuation allowance for the years ended December 31, 2023 and December 31, 2022 was an increase of \$26.5 million and an increase of \$80.3 million, respectively.

As of December 31, 2023 and 2022, the Company has a net operating loss carryforward of \$871.3 million and \$827.6 million for federal tax purposes, respectively, and \$817.5 million and \$770.0 million for state tax purposes, respectively. If not utilized, these losses will expire beginning in 2024 for state tax purposes. However, beginning in tax year 2018 and forward, the Federal law has changed such that net operating losses generated after December 31, 2017 may be carried forward indefinitely. Accordingly, \$168.2 million of the federal net operating losses will begin to expire in 2032. However, \$703.1 million of the federal net operating losses will not expire.

As of December 31, 2023 and 2022, the Company has a credit carryforward of \$4.3 million and \$2.0 million for federal tax purposes, respectively, and \$1.0 million and \$1.0 million for state tax purposes, respectively. If not utilized, these credits will expire beginning in 2041 for federal tax purposes and do not expire for state tax purposes.

The Tax Reform Act of 1986 limits the use of net operating losses and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. During 2019, the Company analyzed whether any of the reported net operating losses would be limited because of these rules. Based on the analysis the Company believes \$3.3 million of the Federal and \$2.1 million of California net operating losses will not be available to offset future taxable income because of the limitation. The reported net operating losses have been adjusted based on this analysis.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, state and local, jurisdictions, where applicable. As of December 31, 2023 and 2022, all years generally remain open to examination. Additionally, net operating loss

carryforwards are subject to examination by the Internal Revenue Service and the California Franchise Tax Board for up to three and four years, respectively, after utilization.

Uncertain Income Tax Positions

The following table reflects the changes to the Company's unrecognized tax benefits (in thousands):

	December 31,	
	2023	2022
Unrecognized tax benefits beginning balance	\$ 1,525	\$ —
Increases related to current year tax positions	531	563
Increases related to prior year tax positions	622	962
Unrecognized tax benefits ending balance	<u>\$ 2,678</u>	<u>\$ 1,525</u>

As of December 31, 2023 and 2022, the Company had unrecognized tax benefits of \$2.7 million and \$1.5 million, respectively, none of which, if recognized, would favorably impact the Company's effective tax rate. The unrecognized tax benefits relate to federal and state research and development credits. The Company's policy is to include interest and penalties as a component to the statement of operations, however there were no associated interest and penalties during the years ended December 31, 2023 and 2022. The Company estimates that there will be no material changes in its uncertain tax positions in the next 12 months.

Note 14. Net Loss Per Share Attributable to Common Stockholders

A reconciliation of the numerator and denominator used in the calculation of the basic and diluted net loss per share attributable to common stockholders is as follows (in thousands, except share and per share data):

	Year Ended December 31,		
	2023	2022	2021
Numerator			
Net loss attributable to common stockholders	\$ (168,472)	\$ (196,445)	\$ (236,107)
Denominator			
Weighted-average common shares outstanding used to calculate net loss per share attributable to common stockholders, basic and diluted	101,806,000	95,921,246	91,409,624
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (1.65)</u>	<u>\$ (2.05)</u>	<u>\$ (2.58)</u>

The following securities were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented, because including them would have been anti-dilutive (on an as-converted basis):

	December 31,		
	2023	2022	2021
Options to purchase common stock	1,119,676	1,754,776	4,131,501
Restricted stock units	12,695,176	11,369,021	8,187,586
Estimated shares issuable under the Employee Stock Purchase Plan	367,074	695,782	147,871
Assumed conversion of the Convertible Senior Notes	18,746,323	18,746,323	18,746,323
Total	<u>32,928,249</u>	<u>32,565,902</u>	<u>31,213,281</u>

The Convertible Senior Notes issued in June 2020 and in March 2021 are convertible, based on the applicable conversion rate, into cash, shares of the Company's common stock or a combination thereof, at the Company's election. The impact of the assumed conversion to diluted net loss per share is computed on an as-converted basis.

Note 15. Retirement Plan

The Company has a defined-contribution 401(k) retirement plan covering substantially all of its employees. Eligible employees are permitted to contribute up to an amount not to exceed an annual statutory maximum. The Company matches employee contributions at a rate of 25% of vested contributions, up to a maximum of \$1,000 per participant per year. The Company's contributions to the 401(k) plan were \$0.8 million, \$1.6 million, and \$1.1 million for the years ended December 31, 2023, 2022, and 2021, respectively.

Note 16. Subsequent Events

On February 29, 2024, the Company entered into an exchange agreement with certain holders of its Notes to exchange (i) \$145,751,000 in aggregate principal amount of the 2025 Notes and (ii) \$6,480,000 in aggregate principal amount of the 2028 Notes (together, the “Exchanged Notes”) for \$135,000,000 in aggregate principal amount of new senior notes due 2029 (“2029 Notes”), pursuant to an indenture. The exchange was consummated on February 29, 2024.

The 2029 Notes bear cash interest (“Cash Interest”) at a rate of 8.75% per annum payable semi-annually in arrears. In addition, the Notes bear interest at a rate of 4.25% payable in kind (“PIK Interest”). Additionally, the Company issued warrants to acquire an aggregate of up to 7,894,737 shares of the Company’s common stock to the holders of the Exchanged Notes.

Forward Looking Statements

This Annual Report contains forward-looking statements relating to, among other things, the future performance of The RealReal, Inc. that are based on the company's current expectations, forecasts and assumptions and involve risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “intend,” “potential,” “continue,” “ongoing” or the negative of these terms or other comparable terminology. These statements include, but are not limited to, statements about future operating and financial results, including our strategies, plans, commitments, objectives and goals, in particular in the context of the recent geopolitical events and uncertainty surrounding macroeconomic trends, the debt exchange, inflation, our ability to achieve anticipated savings in connection with our real estate reduction plan and associated workforce reduction, and our ability to return to historic levels of revenue growth and to effectively expand our operations. Actual results could differ materially from those predicted or implied and reported results should not be considered as an indication of future performance. Other factors that could cause or contribute to such differences include, but are not limited to, inflation, macroeconomic uncertainty, geopolitical instability, any failure to generate a supply of consigned goods, pricing pressure on the consignment market resulting from discounting in the market for new goods, failure to efficiently and effectively operate our merchandising and fulfillment operations, labor shortages and other reasons.

More information about factors that could affect the company's operating results is included under the captions “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” in the company's most recent Annual Report on Form 10-K for the year ended December 31, 2023 and subsequent Quarterly Reports on Form 10-Q, copies of which may be obtained by visiting the company's Investor Relations website at investor.therealreal.com or the SEC's website at www.sec.gov. Undue reliance should not be placed on the forward-looking statements in this press release, which are based on information available to the company on the date hereof. The company assumes no obligation to update such statements.

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