

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2021

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 600
San Francisco, CA
(Address of principal executive offices)

45-1234222
(I.R.S. Employer
Identification No.)

94133
(Zip Code)

(855) 435-5893

(Registrant's telephone number, including area code)

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

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

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 checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2021, the registrant had 90,809,675 shares of common stock, \$0.00001 par value per share, outstanding.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including statements regarding the ongoing impact of the COVID-19 pandemic on our business, 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,” “could,” “will,” “expects,” “plans,” “anticipates,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” “continue” or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to a number of risks, uncertainties and assumptions described in the section titled “Risk Factors” included under Part II, Item 1A below and elsewhere in this Quarterly Report on Form 10-Q, as well as in our other filings with the Securities and Exchange Commission (SEC). 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 the COVID-19 pandemic;
- our ability to effectively manage or sustain our growth and to effectively expand our operations;
- 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
- 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;
- 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 Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

THE REALREAL, INC.
Condensed Balance Sheets

(In thousands, except share and per share data)
(Unaudited)

	March 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	\$ 547,859	\$ 350,846
Short-term investments	—	4,017
Accounts receivable, net	5,994	7,213
Inventory	49,502	42,321
Prepaid expenses and other current assets	15,267	17,072
Total current assets	618,622	421,469
Property and equipment, net	66,637	63,454
Operating lease right-of-use assets	143,331	118,136
Other assets	2,156	2,050
Total assets	\$ 830,746	\$ 605,109
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 9,260	\$ 14,346
Accrued consignor payable	54,484	57,053
Operating lease liabilities, current portion	15,275	14,999
Other accrued and current liabilities	63,394	61,862
Total current liabilities	142,413	148,260
Operating lease liabilities, net of current portion	140,775	115,084
Convertible senior notes, net	336,112	149,188
Other noncurrent liabilities	1,541	1,284
Total liabilities	620,841	413,816
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, \$0.00001 par value; 500,000,000 shares authorized as of March 31, 2021 and December 31, 2020; 90,675,268 and 89,301,664 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	1	1
Additional paid-in capital	797,918	723,302
Accumulated other comprehensive income	—	11
Accumulated deficit	(588,014)	(532,021)
Total stockholders' equity	209,905	191,293
Total liabilities and stockholders' equity	\$ 830,746	\$ 605,109

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

THE REALREAL, INC.
Condensed Statements of Operations

(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
Revenue:		
Consignment and service revenue	\$ 75,082	\$ 65,086
Direct revenue	23,735	12,942
Total revenue	98,817	78,028
Cost of revenue:		
Cost of consignment and service revenue	20,114	18,088
Cost of direct revenue	20,365	10,954
Total cost of revenue	40,479	29,042
Gross profit	58,338	48,986
Operating expenses:		
Marketing	15,561	12,922
Operations and technology	51,934	40,737
Selling, general and administrative	43,616	35,104
Total operating expenses	111,111	88,763
Loss from operations	(52,773)	(39,777)
Interest income	87	1,286
Interest expense	(3,296)	(20)
Other income (expense), net	17	8
Loss before provision for income taxes	(55,965)	(38,503)
Provision (benefit) for income taxes	28	—
Net loss attributable to common stockholders	\$ (55,993)	\$ (38,503)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.62)	\$ (0.44)
Shares used to compute net loss per share attributable to common stockholders, basic and diluted	90,044,082	86,588,796

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

THE REALREAL, INC.
Condensed Statements of Comprehensive Loss

(In thousands)
(Unaudited)

	<u>Three Months Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
Net loss	\$ (55,993)	\$ (38,503)
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on investments	(11)	314
Comprehensive loss	<u>\$ (56,004)</u>	<u>\$ (38,189)</u>

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

THE REALREAL, INC.
Condensed Statements of Stockholders' Equity

(In thousands, except share amounts)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2020	89,301,664	\$ 1	\$ 723,302	\$ 11	\$ (532,021)	\$ 191,293
Issuance of common stock upon exercise of options	543,963	—	3,973	—	—	3,973
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for employee taxes	829,641	—	—	—	—	—
Stock-based compensation expense	—	—	11,278	—	—	11,278
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
Other comprehensive loss	—	—	—	(11)	—	(11)
Net loss	—	—	—	—	(55,993)	(55,993)
Balance as of March 31, 2021	90,675,268	\$ 1	\$ 797,918	\$ —	\$ (588,014)	\$ 209,905

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

THE REALREAL, INC.
Condensed Statements of Stockholders' Equity

(In thousands, except share amounts)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2019	85,872,320	\$ 1	\$ 693,426	\$ 7	\$ (354,506)	\$ 338,928
Issuance of common stock upon exercise of options	964,085	—	2,564	—	—	2,564
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for employee taxes	14,289	—	(151)	—	—	(151)
Stock-based compensation expense	—	—	3,410	—	—	3,410
Other comprehensive income	—	—	—	314	—	314
Net loss	—	—	—	—	(38,503)	(38,503)
Balance as of March 31, 2020	86,850,694	\$ 1	\$ 699,249	\$ 321	\$ (393,009)	\$ 306,562

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

THE REALREAL, INC.
Condensed Statements of Cash Flows

(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (55,993)	\$ (38,503)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	5,435	4,145
Stock-based compensation expense	10,919	3,410
Reduction of operating lease right-of-use assets	4,755	4,121
Bad debt expense	—	455
Accrued interest on convertible notes	1,469	—
Accretion of debt discounts and issuance costs	1,815	—
Other adjustments	5	(184)
Changes in operating assets and liabilities:		
Accounts receivable, net	1,219	4,235
Inventory	(7,181)	(1,106)
Prepaid expenses and other current assets	1,769	2,356
Other assets	(106)	(365)
Operating lease liability	(3,983)	(2,721)
Accounts payable	(5,072)	(2,206)
Accrued consignor payable	(2,569)	(19,331)
Other accrued and current liabilities	(547)	(8,865)
Other noncurrent liabilities	257	(412)
Net cash used in operating activities	(47,808)	(54,971)
Cash flow from investing activities:		
Purchases of short-term investments	—	(73,280)
Proceeds from maturities of short-term investments	4,000	114,020
Capitalized proprietary software development costs	(2,405)	(1,480)
Purchases of property and equipment	(5,925)	(6,486)
Net cash provided by (used in) investing activities	(4,330)	32,774
Cash flow from financing activities:		
Proceeds from issuance of 2028 convertible senior notes, net of issuance costs	278,844	—
Purchase of capped calls	(33,666)	—
Proceeds from exercise of stock options	3,973	2,564
Taxes paid related to restricted stock vesting	—	(151)
Net cash provided by financing activities	249,151	2,413
Net increase (decrease) in cash, cash equivalents and restricted cash	197,013	(19,784)
Cash, cash equivalents, and restricted cash		
Beginning of period	350,846	154,446
End of period	<u>\$ 547,859</u>	<u>\$ 134,662</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 7	\$ 4
Supplemental disclosures of non-cash investing and financing activities		
Property and equipment additions not yet paid in cash	2,434	2,266
Capitalized proprietary software development costs additions not yet paid in cash	430	756
Issuance costs associated with issuance of 2025 and 2028 convertible senior notes included in other accrued and current liabilities	1,173	—
Stock-based compensation capitalized to proprietary software development costs	359	—

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

THE REALREAL, INC.
Notes to Unaudited Condensed 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, men’s, kids’, jewelry and watches, and home and art. The Company was incorporated in the state of Delaware on March 29, 2011 and is headquartered in San Francisco, California.

Impact of the Coronavirus (“COVID-19”) Pandemic

In the year ended December 31, 2020, the COVID-19 pandemic materially impacted the Company’s business operations and results of operations. Operations in the Company’s authentication centers were initially limited in accordance with shelter-in-place orders resulting in operations below full capacity. In-person concierge consignment appointments were temporarily suspended. Luxury consignment offices and retail stores were temporarily closed. During the second half of fiscal year 2020, operations capacity was no longer limited by restrictions related to COVID-19 and all luxury consignment offices and retail stores were open. In-person concierge consignment appointments were available as an option for our consignor base and were augmented with virtual appointments.

In the first quarter of fiscal year 2021, the Company resumed in-person concierge consignment appointments in various areas. The authentication centers and retail stores experience intermittent closures to perform safety and cleaning procedures.

The Company believes that its financial resources will allow it to manage the anticipated impact of COVID-19 on the Company’s business operations for the foreseeable future. The Company believes its existing cash and cash equivalents as of March 31, 2021 will be sufficient to meet its working capital and capital expenditures needs for at least the next 12 months.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and the requirements of the U.S. Securities and Exchange Commission (the “SEC”) for interim reporting. The Company’s functional and reporting currency is the U.S. dollar.

The condensed balance sheet as of December 31, 2020 included herein was derived from the audited financial statements as of that date. The accompanying unaudited condensed financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company’s financial position, results of operations, comprehensive loss, and stockholders’ equity, and cash flows for the periods presented.

Certain changes in presentation have been made to conform the prior period presentation to the current period reporting. Such reclassifications did not affect total revenues, operating income, or net income. We have made certain presentation changes to reclassify loss (gain) on retirement of property and equipment, accretion of unconditional grant liability, and amortization of premiums (discounts) on short-term investments to other adjustments within operating cash flows in the Condensed Statements of Cash Flows.

These unaudited condensed financial statements should be read in conjunction with the Company’s financial statements and notes included in our Annual Report on Form 10-K filed with the SEC on March 1, 2021.

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, valuation of inventory, software development costs, incremental borrowing rates related to lease liability, fair value of the liability component of convertible senior notes, 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.

Revenue Recognition

The Company generates revenue from the sale of pre-owned luxury goods through its online marketplace and retail stores.

Consignment and Service 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. 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 condensed 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 condensed balance sheets. The impact of the deferral has not been material to the financial statements.

The Company charges shipping fees to buyers and has elected to treat shipping and handling activities performed after control transfers to the buyer as fulfillment activities. All outbound shipping and handling costs are accounted for as fulfillment costs in cost of consignment and service revenue at the time revenue is recognized.

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 the three months ended March 31, 2021 and 2020.

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. 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.

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 and service revenue and direct revenue. Additionally, the Company periodically offers commission exceptions to consignors to optimize its supply. These are treated as reduction of consignment and service revenue, and are reflected in the Company's take rate. 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 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 unredeemed site credits, which were immaterial as of March 31, 2021 and December 31, 2020. 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 March 31, 2021 and December 31, 2020.

Cost of Revenue

Cost of consignment and service revenue consist of shipping costs, 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.

Stock-based Compensation

Stock-based compensation expense related to employees and nonemployees is measured based on the grant-date fair value of the awards. 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. The Company estimates the fair value of stock options granted using the Black-Scholes option pricing model and accounts for forfeitures as they occur. The fair value of restricted stock units ("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. The fair value of each purchase under the employee stock purchase plan (ESPP) is estimated at the beginning of the offering period using the Black-Scholes option pricing model.

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 and amounts invested in U.S. treasury securities.

As of March 31, 2021 and December 31, 2020, the Company had no restricted cash.

Short-term Investments

The Company has classified and accounted for its short-term investments as available-for-sale which are carried at fair value on its condensed balance sheets. Available-for-sale securities with remaining maturities of 12 months or less are classified as short term and available-for-sale securities with remaining maturities greater than 12 months are classified as long term.

Available-for-sale investments are reported at fair value based on quoted market prices and other observable market data. The Company records any unrealized gains and losses within accumulated other comprehensive income (loss) as a component of stockholders' equity, of which there were none as of March 31, 2021 and December 31, 2020. The Company evaluates its short-term investments periodically for possible impairment. If the Company determines that an investment with an amortized cost basis in excess of estimated fair value is caused by expected credit losses, the expected credit loss on the investment is recognized in Other income and expense, net. As of March 31, 2021 and December 31, 2020, the Company had not recorded any impairments due to credit loss.

Inventory

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 or 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. Our provisions to write down obsolete and excess inventory to net realizable value were not material for the three months ended March 31, 2021 and 2020.

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 condensed balance sheets and were \$14.5 million and \$18.3 million as of March 31, 2021 and December 31, 2020, respectively. Included in inventory on the Company's condensed balance sheets are assets totaling \$3.4 million and \$7.4 million as of March 31, 2021 and December 31, 2020, respectively, for the rights to recover products from customers associated with its liabilities for return reserves.

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.

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 condensed balance sheets.

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 condensed 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

Convertible debt instruments that may be settled in cash or other assets, or partially in cash, upon conversion, are separately accounted for as long-term debt and equity components (or conversion feature). The debt component represents the Company's contractual obligation to pay principal and interest and the equity component represents 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.

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 6). 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.

Debt Issuance Costs

Debt issuance costs 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 condensed balance sheets as a direct deduction from the associated debt. A portion of debt issuance costs incurred in connection with the convertible senior notes issued in June 2020 and March 2021 was related to the equity component and was recorded as a reduction to additional paid in capital and is not amortized to interest expense over the estimated life of the related debt.

Concentrations of Credit Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, restricted cash, accounts receivable, and investments. At times, such amount may exceed federally-insured limits. The Company reduces credit risk by placing its cash and cash equivalents, restricted cash, and investments with major financial institutions within the United States.

As of March 31, 2021 and December 31, 2020, 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 three months ended March 31, 2021 and 2020.

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies accounting for convertible instruments. Under this ASU, the embedded conversion features will no longer be separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives or that do not result in substantial premiums accounted for as paid-in capital. Consequently, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost and a convertible preferred stock will be accounted for as a single equity instrument measured at its historical cost, as long as no other features require bifurcation and recognition as derivatives. ASU 2020-06 removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception and it also simplifies the diluted earnings per share calculation in certain areas. The ASU will be effective for annual reporting periods beginning after December 15, 2021 and early adoption is permitted. The Company is currently evaluating the impact of this standard on its financial statements. It is expected that upon adoption, the Company's Convertible Senior Notes, as discussed in Note 7, will no longer be bifurcated into an equity and a debt component, but rather accounted for as a single liability.

Note 3. Cash, Cash Equivalents and Short-term Investments

The following tables summarize the estimated value of the Company's cash, cash equivalents and short-term investments (in thousands):

	March 31, 2021			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Cash and cash equivalents:				
Cash	\$ 343,491	\$ —	\$ —	\$ 343,491
Money market funds	204,368	—	—	204,368
Total cash and cash equivalents	<u>\$ 547,859</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 547,859</u>

	December 31, 2020			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Cash and cash equivalents:				
Cash	\$ 150,520	\$ —	\$ —	\$ 150,520
Money market funds	200,326	—	—	200,326
Total cash and cash equivalents	<u>\$ 350,846</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 350,846</u>
Short-term investments:				
Corporate bonds	\$ 4,006	\$ 11	\$ —	\$ 4,017
Total short-term investments	<u>\$ 4,006</u>	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ 4,017</u>

As of December 31, 2020, the contractual maturity for the short-term investments is less than one year. For the three months ended March 31, 2021 and 2020, the Company recognized no material realized gains or losses on short-term investments.

Note 4. Fair Value Measurement

Assets and liabilities recorded at fair value on a recurring basis on the condensed 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 March 31, 2021, the Company's cash equivalents solely consisted of money market funds, which amounted to \$204.4 million. Money market funds are measured at net asset value per share and are excluded from cash equivalents in the fair value hierarchy table.

The following table provides the financial instruments measured at fair value (in thousands) as of December 31, 2020:

	December 31, 2020			Total
	Level 1	Level 2	Level 3	
Assets (1)				
Short-term investments:				
Corporate bonds	\$ —	\$ 4,017	\$ —	\$ 4,017
Total short-term investments	\$ —	\$ 4,017	\$ —	\$ 4,017

(1) Money market funds are measured at net asset value per share and are excluded from cash equivalents in the fair value hierarchy table. The amounts of the money market funds (in thousands) was \$200,326 at 12/31/20.

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 condensed balance sheets (in millions):

	March 31, 2021	
	Net Carrying Amount	Estimated Fair Value
2025 Convertible senior notes	\$ 150.3	\$ 186.1
2028 Convertible senior notes	\$ 185.8	\$ 286.4

The principal amounts of the 2025 convertible senior notes and the 2028 convertible senior 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 and the unamortized debt discount (See Note 6).

As of March 31, 2021, the fair value of the 2025 convertible senior notes and the 2028 convertible senior notes, which differs from their carrying value is determined by prices for the convertible senior notes observed in market trading. The market for trading of the convertible senior notes is not considered to be an active market and therefore the estimate of fair value is based on Level 2 inputs, such as interest rates based on the market price on the last trading day for the period. Based on the closing price of the Company's common stock on March 31, 2021, the if-converted values of the 2025 Notes exceeded the principal amounts by \$47.1 million.

Note 5. Condensed 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):

	March 31, 2021	December 31, 2020
Proprietary software	\$ 27,075	\$ 24,218
Furniture and equipment	30,485	27,687
Automobiles	668	668
Leasehold improvements	55,748	52,828
	113,976	105,401
Less: accumulated depreciation and amortization	(47,339)	(41,947)
Property and equipment, net	\$ 66,637	\$ 63,454

Depreciation and amortization expense on property and equipment was \$5.4 million and \$4.1 million for the three months ended March 31, 2021 and 2020, respectively.

Other Accrued and Current Liabilities

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

	March 31, 2021	December 31, 2020
Returns reserve	\$ 14,479	\$ 18,327
Accrued compensation	16,786	13,406
Accrued marketing and outside services	9,947	10,790
Site credit liability	6,159	5,475
Accrued sales tax and other taxes	7,246	6,870
Deferred revenue	2,008	1,617
Accrued interest	1,685	216
Other	5,084	5,161
Other accrued and current liabilities	<u>\$ 63,394</u>	<u>\$ 61,862</u>

Note 6. Convertible Senior Notes, Net

2025 Convertible Senior Notes

In June 2020, the Company issued an aggregate principal of \$172.5 million of its 3.00% Convertible Senior Notes due 2025 (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.

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 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 2025 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 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, the 2025 Notes will be convertible only under the following circumstances:

- During any calendar quarter (and only during such calendar quarter) beginning after September 30, 2020, 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, until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert all or a portion of their 2025 Notes, in multiples of \$1,000 principal amount, at any time, regardless of the foregoing circumstances. Upon conversion, the 2025 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 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 the 2025 Notes to convert were not met as of March 31, 2021.

The 2025 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 2025 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 2025 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 notes 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 then outstanding to become due and payable immediately.

In accounting for the issuance of the 2025 Notes, the Company separately accounted for the liability and equity components of the 2025 Notes by allocating the proceeds between the liability component and the embedded conversion options, or equity component, due to Company's ability to settle the 2025 Notes in cash, its common stock, or a combination of cash and common stock at Company's option. The allocation was done by first estimating the fair value of the liability component and the residual value was assigned to the equity component. The value of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature using a discounted cash flow approach to derive the value of a debt instrument using the expected cash flows and the estimated yield related to the convertible notes. The interest rate of 5.67% was used to compute the initial fair value of the liability component of \$152.7 million, with a corresponding amount recorded as a discount on the initial issuance of the 2025 Notes of approximately \$19.8 million. The debt discount was recorded to equity and is being amortized to the debt liability over the life of the Notes using the effective interest method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

The net carrying amount of the liability component of the 2025 Notes was as follows:

	March 31, 2021	December 31, 2020
Principal	\$ 172,500	\$ 172,500
Unamortized debt discount	(17,074)	(17,945)
Unamortized debt issuance costs	(5,105)	(5,367)
Net carrying amount	<u>\$ 150,321</u>	<u>\$ 149,188</u>

The net carrying amount of the equity component of the 2025 Notes was as follows:

	March 31, 2021
Proceeds allocated to the conversion options (debt discount)	\$ 19,787
Issuance costs	(767)
Net carrying amount	<u>\$ 19,020</u>

In connection with the issuance of the 2025 Notes, the Company incurred approximately \$6.7 million of debt issuance costs, which primarily consisted of initial purchasers' discounts and legal and other professional fees. 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 totaling approximately \$0.8 million was recorded as a reduction to additional paid-in capital. The portion of these costs initially allocated to the liability component totaling approximately \$5.9 million was recorded as a reduction in the carrying value of the debt on the condensed balance sheets and is amortized to interest expense using the effective interest method over the expected life of the 2025 Notes or approximately its five-year term. The effective interest rate on the liability component of the 2025 Notes for the period from the date of issuance through March 31, 2021 was 6.4%.

The following table sets forth the amounts recorded in interest expense related to the 2025 Notes:

	Three Months Ended March 31, 2021
Contractual interest expense	\$ 1,294
Amortization of debt discount	871
Amortization of debt issuance costs	263
Total interest and amortization expense	<u>\$ 2,428</u>

Future minimum payments under the 2025 Notes as of March 31, 2021, are as follows:

Fiscal Year	Amount
Remainder of 2021	\$ 5,175
2022	5,175
2023	5,175
2024	5,175
2025	175,088
Total future payments	195,788
Less amounts representing interest	(23,288)
Total principal amount	<u>\$ 172,500</u>

2028 Convertible Senior Notes

In March 2021, the Company issued an aggregate principal of \$287.5 million of its 1.00% Convertible Senior Notes due 2028, 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 issued in the Note Offering 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 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 2028 Notes in connection with such corporate event.

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 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 December 1, 2027, the 2028 Notes will be convertible only under the following circumstances:

- During any calendar quarter (and only during such calendar quarter) beginning after June 30, 2021, 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 December 1, 2027, until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert all or a portion of their 2028 Notes, in multiples of \$1,000 principal amount, at any time, regardless of the foregoing circumstances. Upon conversion, the 2028 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 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 2028 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 2028 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 2028 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 notes 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 2028 Notes then outstanding to become due and payable immediately.

In accounting for the issuance of the 2028 Notes, the Company separately accounted for the liability and equity components of the 2028 Notes by allocating the proceeds between the liability component and the embedded conversion options, or equity component, due to Company's ability to settle the 2028 Notes in cash, its common stock, or a combination of cash and common stock at Company's option. The allocation was done by first estimating the fair value of the liability component and the residual value was assigned to the equity component. The value of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The allocation was performed in a manner that reflected the Company's non-convertible debt borrowing rate for similar debt. The interest rate of 7.18% was used to compute the initial fair value of the liability component of \$191.3 million, with a corresponding amount recorded as a discount on the initial issuance of the 2028 Notes of approximately \$96.2 million. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

The net carrying amount of the liability component of the 2028 Notes was as follows:

	March 31, 2021
Principal	\$ 287,500
Unamortized debt discount	(95,522)
Unamortized debt issuance costs	(6,188)
Net carrying amount	<u>\$ 185,790</u>

The net carrying amount of the equity component of the 2028 Notes was as follows:

	March 31, 2021
Proceeds allocated to the conversion options (debt discount)	\$ 96,162
Issuance costs	(3,131)
Net carrying amount	<u>\$ 93,031</u>

In connection with the issuance of the 2028 Notes, the Company incurred approximately \$9.4 million of debt issuance costs, which primarily consisted of initial purchasers' discounts and legal and other professional fees. 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 totaling approximately \$3.1 million was recorded as a reduction to additional paid-in capital. The portion of these costs allocated to the liability component totaling approximately \$6.2 million was recorded as a reduction in the carrying value of the debt on the condensed balance sheets and is amortized to interest expense using the effective interest method over the expected life of the 2028 Notes or approximately its seven-year term. The effective interest rate on the liability component of the 2028 Notes for the period from the date of issuance through March 31, 2021 was 7.5%.

The following table sets forth the amounts recorded in interest expense related to the 2028 Notes from the date of issuance through March 31, 2021:

	Three Months Ended March 31, 2021
Contractual interest expense	\$ 176
Amortization of debt discount	640
Amortization of debt issuance costs	41
Total interest and amortization expense	<u>\$ 857</u>

Future minimum payments under the 2028 Notes as of March 31, 2021, are as follows:

Fiscal Year	Amount
Remainder of 2021	\$ 1,382
2022	2,875
2023	2,875
2024	2,875
2025	2,875
2026	2,875
2027	2,875
2028	288,937
Total future payments	<u>307,569</u>
Less amounts representing interest	(20,069)
Total principal amount	<u>\$ 287,500</u>

Capped Call Transactions with Respect to the 2025 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 (2025 Capped Calls and 2028 Capped Calls) with respect to its common stock with certain financial institutions (collectively, the "Counterparties"). The Company paid an aggregate amount of approximately \$22.5 million and \$33.7 million in connection with the 2025 Capped Calls and 2028 Capped Calls to the Counterparties, respectively. 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 and 2028 Notes, respectively. The 2025 and 2028 Capped Calls are subject to anti-dilution adjustments that are intended to be substantially identical to those in the 2025 and 2028 Notes, and are exercisable upon conversion of the 2025 and 2028 Notes. The 2025 and 2028 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 2025 and 2028 Capped Calls are subject to certain specified additional disruption events that may give rise to a termination of the 2025 and 2028 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 and 2028 Capped Calls 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 and 2028 Capped Call transactions.

Note 7. Share-based Compensation Plans

2011 Equity Incentive Plan

In 2011, the Company adopted the Equity Incentive Plan (2011 Plan) authorizing the granting of incentive stock options (ISOs) and non-statutory stock options (NSOs) to eligible participants for up to 12,987,255 shares of common stock. Under the 2011 Plan, incentive stock options and non-statutory stock options are to be granted at an exercise price that is no less than 100% of the fair value of the stock at the date of grant. Options generally vest over four years and are exercisable for up to 10 years after the date of grant. Incentive stock options granted to stockholders who own more than 10% of the outstanding stock of the Company at the time of grant must be issued at an exercise price no less than 110% of the fair value of the stock on the date of grant. The 2011 Plan has been replaced by the Company's 2019 Plan as defined below with respect to future equity awards.

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. On August 4, 2020, the Company's board of directors approved an increase of shares available for grant under the 2019 Plan by 4,293,616 shares.

Employee Stock Purchase Plan

In connection with the Company's initial public offering, the Company adopted the Employee Stock Purchase Plan (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 plan is considered compensatory and, as such, the purchase discount from market price purchased by employees will be recorded as compensation expense. 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. On August 4, 2020, the Company's board of directors approved an increase in the shares available for grant under the ESPP by 858,723 shares. The initial offering period ran from May 15, 2020 to November 14, 2020. There were no shares purchased by employees under the ESPP during the three months ended March 31, 2021 and 2020. The Company selected the Black-Scholes option-pricing model as the method for determining the estimated fair value for the Company's 2019 ESPP. As of March 31, 2021, total unrecognized compensation costs related to the 2019 ESPP was \$0.1 million which will be amortized over a weighted average period of 0.1 years.

Stock-based Compensation

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

	Three Months Ended March 31,	
	2021	2020
Marketing	\$ 736	\$ 188
Operations and technology	4,696	1,478
Selling, general and administrative	5,487	1,744
Total	<u>\$ 10,919</u>	<u>\$ 3,410</u>

During the three months ended March 31, 2021, the Company capitalized \$0.4 million of stock-based compensation expense to proprietary software. During the three months ended March 31, 2020, we did not capitalize any stock-based compensation expense.

Note 8. 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 \$7.3 million and \$6.0 million for the three months ended March 31, 2021 and 2020, respectively. The Company also incurred \$1.3 million and \$0.9 million of variable lease costs for the three months ended March 31, 2021 and 2020, respectively. The variable lease costs are comprised primarily of the Company's proportionate share of operating expenses, property taxes and insurance.

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

Fiscal Year	Amount
Remainder of 2021	\$ 17,216
2022	26,796
2023	25,388
2024	25,134
2025	25,810
Thereafter	78,814
Total future minimum payments	<u>\$ 199,158</u>
Less: Imputed interest	<u>(43,108)</u>
Present value of operating lease liabilities	<u>\$ 156,050</u>

As of March 31, 2021, the Company has entered into operating lease agreements that have not yet commenced. The Company will determine the classification at the commencement date for each lease, but currently expects these leases to be classified as operating leases. Pending execution of the landlord's obligations to prepare leased spaces for occupancy, the Company expects these leases to commence on various dates in the year ended December 31, 2021.

As of March 31, 2021, the Company's estimated undiscounted lease payments for leases that have not yet commenced were as follows (in thousands):

Fiscal Year	Lease payments for leases not yet commenced
Remainder of 2021	\$ 342
2022	725
2023	760
2024	692
2025	575
Thereafter	1,907
Total undiscounted lease payments expected to be capitalized	<u>\$ 5,001</u>

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

	<u>Three Months Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
Operating cash flows used for operating leases	\$ 6,541	\$ 4,597
Operating lease assets obtained in exchange for operating lease liabilities	\$ 29,950	\$ 18,122

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

	<u>March 31, 2021</u>
Weighted average remaining lease term	7.6 years
Weighted average discount rate	6.6%

The Company has leases for certain vehicles that are classified as finance leases. The finance lease right-of-use asset and finance lease liabilities for these vehicle leases are immaterial as of March 31, 2021 and December 31, 2020.

Note 9. Commitments and Contingencies

Noncancelable Purchase Commitments

The Company has commitments for cloud services and other services in the ordinary course of business with varying expiration terms through 2023. As of March 31, 2021, there were no material changes to the Company’s noncancelable purchase commitments disclosed in the financial statements in the Annual Report on Form 10-K.

Other Commitments

In January 2018, the Company and the University of Arizona Foundation entered into an endowment agreement (the “Endowment Agreement”) to establish a fund (the “Fund”) to create and grow a gemology degree program in the Department of Geosciences at the University of Arizona (the “University”). The Company agreed to donate a total of \$2.0 million, payable in four annual installments of \$0.5 million starting in January 2018.

There are no conditions that the University must meet to receive the funds nor any penalties to the University for nonperformance. The Endowment Agreement directs the use of the funds but contains no binding restrictions on the use of the funds. On the execution of the Endowment Agreement, the Company recognized \$1.7 million expense for the estimated fair value of the grant, using a discount rate of 10%, to selling, general and administrative expenses in the statements of operations. The Company recognized a corresponding liability for the remaining installment payments and will recognize accretion of the liability as interest expense over the remaining term of the Endowment Agreement.

Interest expense related to the accretion of the grant liability was not material in the three months ended March 31, 2021 and 2020. As of March 31, 2021, there was no outstanding liability, as the final annual installment of \$0.5 million was made during the three months ended March 31, 2021. As of December 31, 2020, the outstanding liability was \$0.5 million, which is included in other accrued and current liabilities on the condensed balance sheets.

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. (“Chanel”) filed a lawsuit against the Company 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. Chanel alleges, among other things, that the Company has misrepresented certain counterfeit Chanel products as authentic Chanel products, that the Company’s resale of Chanel products confuses consumers into believing that Chanel is affiliated with the Company and involved in authenticating consignors’ goods and that only Chanel is capable of authenticating second-hand Chanel goods. The Court issued an Opinion & Order on March 30, 2020 denying in part and granting in part the Company’s motion to dismiss. The Company filed its answer and affirmative defenses on May 29, 2020. Chanel’s claims are now in the discovery phase. On

November 3, 2020, with the court's permission, the Company filed a motion to amend its answer to add counterclaims against Chanel alleging anticompetitive conduct in violation of the federal and state antitrust laws as well as tortious interference. That motion was granted on February 24, 2021, permitting the Company to file its amended pleading. The Company filed its Amended Answer, Affirmative Defenses, and Counterclaims on February 25, 2021. On March 8, 2021, Chanel filed a motion to dismiss the Company's counterclaims and to strike one of the Company's affirmative defenses. The Company filed its opposition to Chanel's motion on April 1, 2021. A decision on that motion is pending. A joint stipulation and order staying the case for three months was entered on April 5, 2021, while the parties attempt mediation. This litigation is in its early stages and the final outcome, including the Company's liability, if any, with respect to Chanel's claims, is uncertain. Chanel could in the future assert additional trademark and advertising or other claims against the Company in this or other proceedings. 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.

On September 10, 2019, a purported shareholder class action complaint was filed against the Company, its officers and directors and the underwriters of its IPO in the Superior Court of the State of California in the County of San Mateo. Three additional purported class actions, also alleging claims arising from the IPO were subsequently filed in Marin County and San Francisco County Superior Courts. The San Mateo case was voluntarily dismissed, refiled in Marin County Superior Court and consolidated with the cases there. On January 10, 2020, the Marin County plaintiffs filed a consolidated amended complaint. The plaintiffs in the San Francisco Superior Court case have filed a request for dismissal. Separately an additional purported class action was filed in the United States District Court for the Northern District of California on November 25, 2019. On February 12, 2020, a lead plaintiff was appointed in the federal action and an Amended Consolidated Complaint was filed on March 31, 2020. Defendants' filed a demurrer and motion to strike in the state court action on March 13, 2020 and filed a motion to stay the proceedings in favor of the federal action on May 1, 2020. On August 4, 2020, the court granted defendants' motion to stay the state court action and deferred ruling on the demurrer and motion to strike pending the outcome of the federal court action. A motion to dismiss the Amended and Consolidated Complaint in the federal court action was filed on May 15, 2020. On March 31, 2021, the court entered an order on the motion to dismiss, dismissing the Securities Exchange Act of 1934 (the "Exchange Act") claims and some of the claims alleged under the Securities Act of 1933 (the "Securities Act"). The court provided plaintiffs with an opportunity to amend the complaint and, on April 30, 2021, plaintiffs filed a Second Amended Complaint in federal court. The state court complaint, and the Second Amended Complaint in federal court each allege claims under the Securities Act of 1933 on behalf of a purported class of shareholders who acquired the Company's stock pursuant to or traceable to the registration statement for the Company's IPO. The federal complaint also alleges claims under the Exchange Act on behalf of a purported class of shareholders who purchased the Company's stock from June 27, 2019 through November 20, 2019. The complaints seek, among other things, damages and interest, rescission, and attorneys' fees and costs. On September 10, 2020 and December 7, 2020, purported shareholders filed putative derivative actions in the United States District Court for the District of Delaware. The derivative complaints allege factual allegations largely tracking the above referenced lawsuits. The two derivative cases have been consolidated and the consolidated case has been stayed. While the Company intends to vigorously defend against the litigation described above, the cases are at a very early stage and there can be no assurance that the Company will be successful in its defense. For this same reason, the Company cannot currently estimate the loss or the 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 10. Income Taxes

The quarterly income tax provision reflects an estimate of the corresponding quarter's state taxes in the United States. The Company has reviewed all positive and negative evidence associated with the realizability of its deferred tax assets, and continues to maintain a full valuation allowance as of March 31, 2021.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act (the "Act") was signed into law. The Act provides various forms of income tax relief to companies including additional carryback opportunities for net operating losses (NOLs), and the potential offset of 100% of taxable income with NOLs (as opposed to only 80% before the Act's enactment). The Act also temporarily increases the interest deductibility threshold from 30% to 50% of adjusted taxable income. Further, some companies can immediately expense qualified improvement property, instead of depreciating those costs over 39 years, for income tax purposes. Additionally, if improvement property is capitalized, the life to be used for amortization has been reduced from 39 years to 15 years.

Given the Company's tax attributes, specifically large net operating loss carryforwards, the Act and related provisions do not create immediate material tax relief. However, the Company continues to monitor the various tax provisions.

Note 11. 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):

	<u>Three Months Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
Numerator		
Net loss attributable to common stockholders	\$ (55,993)	\$ (38,503)
Denominator		
Weighted-average common shares outstanding used to calculate net loss per share attributable to common stockholders, basic and diluted	90,044,082	86,588,796
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.62)	\$ (0.44)

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):

	<u>March 31,</u>	
	<u>2021</u>	<u>2020</u>
Options to purchase common stock	4,807,661	7,988,747
Restricted stock units	6,784,012	1,752,275
Estimated shares issuable under the Employee Stock Purchase Plan	61,766	—
Assumed conversion of the Convertible Senior Notes	18,746,323	—
Total	30,399,762	9,741,022

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 12. Subsequent Events

Revolving Credit Agreement

In April 2021, the Company entered into a loan and security 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 expires in April 2023.

Item 2. 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 condensed financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our audited financial statements and related notes and our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2021. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. See the discussion under “Note Regarding Forward-Looking Statements” elsewhere in this Quarterly Report on Form 10-Q for more information. 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 particularly in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Our historical results are not necessarily indicative of the results that may be expected for any period in the future, and our interim results are not necessarily indicative of the results we expect for the full calendar year or any other period.

Overview

We are the world’s largest online marketplace for authenticated, consigned 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 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. We offer products across multiple categories including women’s, men’s, kids’, jewelry and watches, and home and art. 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 in-home consultation and pickup, subject to safety requirements related to the COVID pandemic, and meetings with consignors via online face-to-face platforms, or Virtual Consultations. Consignors may also drop off items at our luxury consignment offices. Our Flagship and Neighborhood Stores provide an alternative location to drop off consigned items and an opportunity to interact with our experts. Consignors may also utilize our complimentary shipping directly to our authentication centers. We leverage our proprietary transactional database and market insights from approximately 18.4 million item sales since 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 and service 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 the three months ended March 31, 2021 and 2020, our overall take rate on consigned goods was 34.3% and 36.2%, respectively. The decrease in our take rate was due to the higher sales mix of lower take rate categories such as handbags, fine jewelry, and sneakers. Additionally, we earn revenue from shipping fees and 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.** In certain cases, such as 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.

We generate revenue from orders processed through our website, mobile app and retail stores located in New York City, Los Angeles, Chicago, Palo Alto, Newport Beach, Greenwich, and San Francisco. Our omni-channel experience enables buyers to purchase anytime and anywhere. We have a global base of more than 22.6 million members as of March 31, 2021. 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 March 31, 2021, we have cumulatively paid more than \$1.9 billion in commissions to our consignors. Our GMV increased by 27% to \$327.3 million from \$257.6 million in the three months ended March 31, 2021 and 2020, respectively. Additionally, NMV increased by 32% to \$244.2 million from \$184.6 million as returns decreased year over year primarily due to a higher mix of non-returnable items, including handbags and certain promoted items. Our total revenue increased by 27% to

\$98.8 million from \$78.0 million in the three months ended March 31, 2021 and 2020, respectively. In the three months ended March 31, 2021 and 2020, our gross profit was \$58.3 million and \$49.0 million, respectively, representing an increase of 19%. See “—Impact of COVID-19 on our Business” below.

Impact of COVID-19 on Our Business

In the year ended December 31, 2020, the COVID-19 pandemic adversely impacted our business operations and results. Operations in the Company’s fulfillment facilities were initially limited in accordance with shelter-in-place orders resulting in operations below full capacity. In-person concierge consignment appointments were temporarily suspended and our retail stores and luxury consignment offices were temporarily closed. GMV decreased in 2020 due to the adverse impacts of the COVID-19 pandemic on our business. During the second half of 2020, operations capacity was no longer limited by restrictions related to COVID-19 and all luxury consignment offices and retail stores were open. In-person concierge consignment appointments were available as an option for our consignor base and were augmented with virtual appointments.

In the three months ended March 31, 2021, the Company resumed in-person concierge consignment appointments. GMV trends have improved significantly as GMV increased approximately 27% in the three months ended March 31, 2021 compared to the same period last year. Despite the continuing impact of COVID-19 on the overall economy, we also saw growth in active buyers.

While government restrictions have in many locations been removed or eased, the future impact of the COVID-19 pandemic remains highly uncertain, and our business and results of operations, including our net revenues, earnings and cash flows, could be adversely impacted. We are continuing to closely monitor the effects of the ongoing pandemic and its impact on our business. Travel and border closures do not significantly affect our business as we operate a U.S. focused marketplace.

Throughout the pandemic, our top priority has been to protect the health and safety of our employees and our customers. We have enforced social distancing in our authentication centers, enabled virtual consignment appointments, implemented curbside pick-up of products from our consignors, and enabled our corporate employees to work remotely. The impact of these actions on our workforce are difficult to assess. However, we do not believe that these remote work arrangements have adversely affected our ability to maintain our financial reporting systems, internal control over financial reporting and disclosure controls and procedures. In addition, we do not expect to encounter any significant challenges to our ability to maintain these systems and controls.

We also do not expect the pandemic to affect the assets on our condensed balance sheets and our ability to timely account for those assets. We evaluate our estimates and assumptions used in preparing our financial statements on an ongoing basis. We do not anticipate any material impairments with respect to inventory, long-lived assets, right-of-use assets, or changes in accounting judgments that would have a material impact on our financial statements.

Other Factors Affecting Our Performance

Other key business and marketplace factors, independent of the health and economic impact of the COVID-19 pandemic, 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.

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 within the home, including women’s, men’s, kids’, jewelry and watches, and home and art. We leverage our proprietary transactional database and market insights based on more than 18.4 million item sales since inception to deliver consignors optimal pricing and rapid sell-through.

Our growth has been driven in significant part by repeat sales by existing consignors concurrent with growth of our consignor base. The percentage of GMV from repeat consignors in the three months ended March 31, 2021 was 84% as compared to 82% for the three months ended March 31, 2020.

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 high buyer satisfaction, as evidenced by our buyer net promoter score of 71 in 2020.

We believe there is substantial opportunity to grow our business by having buyers also become consignors and vice versa. As of March 31, 2021, 13% of our buyers had become consignors and 56% of our consignors had become buyers. If we fail to continue to attract and retain our buyer base to our online marketplace, our operating results would be adversely affected.

Scaling operations and technology. To support the future growth of our business, we are expanding our capacity through investments in physical infrastructure, talent and technology. We principally conduct our intake, authentication, merchandising and fulfillment operations in our four leased authentication centers located in California and New Jersey comprising an aggregate of approximately 1 million square feet of space. We secured leases on more than half of this space in 2018. In October 2020, we secured a lease in Arizona for an additional authentication center and incurred occupancy costs upon taking possession during the three months ended March 31, 2021. The market for real estate to support operations centers such as ours is competitive, and we plan to continue to secure and efficiently bring online additional capacity to support future growth. In 2017 and 2018, we opened our flagship retail stores in New York and Los Angeles. We opened a second retail store with a smaller footprint in New York in May 2019. We opened two additional flagship stores in 2020 in San Francisco and Chicago, and a neighborhood store in Palo Alto. Additionally, we opened three neighborhood stores in Newport Beach, New York City, and Greenwich during the three months ended March 31, 2021. We intend to open additional retail stores in the future. In addition to scaling our physical infrastructure, growing our single-SKU business operations and developing our SKU-depth capabilities require that we attract, train and retain highly-skilled personnel for purposes of authentication, copywriting, merchandising, pricing and fulfilling orders. We invest substantially in technology to automate our operations and support growth. We continue to strategically invest in technology despite the difficult operating environment resulting from COVID-19, as innovation positions us to scale and support growth once the economy normalizes.

Seasonality. Before the COVID-19 pandemic, 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. We also incur higher operating expenses in the last four months of the year as we increase advertising spend to attract consignors and buyers and increase headcount in sales and operations to handle the higher volumes. However, the adverse impacts of COVID-19 on our business have made it difficult to evaluate the impact of seasonality in our business.

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 the three months ended March 31, 2021 and 2020.

	Three Months Ended			
	March 31, 2021		March 31, 2020	
	(In thousands, except AOV and percentages)			
GMV	\$	327,327	\$	257,606
NMV	\$	244,162	\$	184,625
Number of Orders		690		574
Take Rate		34.3%		36.2%
Active Buyers		687		602
AOV	\$	474	\$	449

GMV

GMV, or gross merchandise value, 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. 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. We believe this is the primary measure of the scale and growth of our online marketplace and the 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 and Service Revenue.

NMV

NMV, or net merchandise value, 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.

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. Our take rate structure is a tiered commission structure for consignors, where the more they sell the higher percent commission they earn. Consignors start at a 55% commission (which equals a 45% take rate for us) and can earn up to a 70% commission. This tiered structure applies unless it is overridden by a commission exception.

Commission exceptions from the tiered commission structure optimize supply and drive take rate changes. Examples of current commission exceptions include a flat 40% commission on all items under \$145, and an 85% commission on watches over \$2,495. 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 shipping fees and sales taxes. Our focus on luxury goods across multiple categories drives a consistently high AOV. Our AOV reflects both the average price of items sold as well as the number of items per order. Our high AOV is a key driver of our operating leverage.

Adjusted EBITDA

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, employer payroll tax on employee stock transactions, and certain one-time expenses. The employer payroll tax expense related to employee stock transactions are tied to the vesting or exercise of underlying equity awards and the price of our common stock at the time of vesting, which may vary from period to period independent of the operating performance of our business. Adjusted EBITDA provides a basis for comparison of our business operations between current, past and future periods by excluding items that we do not believe are indicative of our core operating performance. Adjusted EBITDA is a non-GAAP measure. The following table provides a reconciliation of net loss to Adjusted EBITDA (in thousands):

	Three Months Ended	
	March 31,	
	2021	2020
Adjusted EBITDA Reconciliation:		
Net loss	\$ (55,993)	\$ (38,503)
Depreciation and amortization	5,435	4,145
Stock-based compensation	10,919	3,410
Payroll taxes expense on employee stock transactions ⁽¹⁾	506	—
Legal settlement	288	1,110
Interest income	(87)	(1,286)
Interest expense	3,296	20
Other (income) expense, net	(17)	(8)
Provision for income taxes	28	—
Adjusted EBITDA	\$ (35,625)	\$ (31,112)

(1) We exclude employer payroll tax expense related to employee stock-based transactions because we believe that excluding this item provides meaningful supplemental information regarding our operating results. In particular, this expense is dependent on the price of our common stock at the time of vesting or exercise, which may vary from period to period, and other factors that are beyond our control and do not correlate to the operation of the business. When evaluating the performance of our business and making operating plans, we do not consider these items. Similar charges were not adjusted in prior periods as they were not material.

Components of our Operating Results

Revenue

Our revenue is comprised of consignment and service revenue and direct revenue.

- *Consignment and service 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 shipping fees we charge to buyers. We also generate service 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. Additionally, we make direct purchases from businesses and consignors. We recognize direct revenue upon shipment based on the gross purchase price paid by buyers, net of allowances for product returns, buyer incentives and adjustments.

Cost of Revenue

Cost of consignment and services revenue consists of shipping costs, 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.

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 decrease as a percentage of revenue over the longer term.

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 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. While we have implemented cost saving measures to address the challenges from the COVID-19 pandemic, we expect operations and technology expense to increase in future periods to support our growth, including bringing on additional authentication centers and 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 decrease as a percentage of revenue over the longer term.

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. While these expenses may vary from year to year as a percentage of revenue, we expect these expenses to decrease as a percentage of revenue over the longer term.

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 following tables set forth our results of operations (in thousands) and such data as a percentage of revenue for the periods presented:

	Three Months Ended March 31,	
	2021	2020
Revenue:		
Consignment and service revenue	\$ 75,082	\$ 65,086
Direct revenue	23,735	12,942
Total revenue	98,817	78,028
Cost of revenue:		
Cost of consignment and service revenue	20,114	18,088
Cost of direct revenue	20,365	10,954
Total cost of revenue	40,479	29,042
Gross profit	58,338	48,986
Operating expenses:		
Marketing	15,561	12,922
Operations and technology	51,934	40,737
Selling, general and administrative	43,616	35,104
Total operating expenses	111,111	88,763
Loss from operations	(52,773)	(39,777)
Interest income	87	1,286
Interest expense	(3,296)	(20)
Other income (expense), net	17	8
Loss before provision for income taxes	(55,965)	(38,503)
Provision (benefit) for income taxes	28	—
Net loss	\$ (55,993)	\$ (38,503)

	Three Months Ended March 31,	
	2021	2020
Revenue:		
Consignment and service revenue	76.0%	83.4%
Direct revenue	24.0	16.6
Total revenue	100.0	100.0
Cost of revenue:		
Cost of consignment and service revenue	20.4	23.2
Cost of direct revenue	20.6	14.0
Total cost of revenue	41.0	37.2
Gross profit	59.0	62.8
Operating expenses:		
Marketing	15.7	16.6
Operations and technology	52.6	52.2
Selling, general and administrative	44.1	45.0
Total operating expenses	112.4	113.8
Loss from operations	(53.4)	(51.0)
Interest income	0.1	1.6
Interest expense	(3.3)	—
Other income (expense), net	—	—
Loss before provision for income taxes	(56.7)	(49.3)
Provision (benefit) for income taxes	—	—
Net loss	(56.7)%	(49.3)%

Comparison of the Three Months Ended March 31, 2021 and 2020

Consignment and Service Revenue

Consignment and service revenue increased by \$10.0 million, or 15%, in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The increase in revenue was driven primarily by a 27% increase in GMV, partially offset by a decrease in take rate and an increase in buyer incentives. GMV growth was driven by a 20% increase in orders and a 6% increase in AOV. Our take rate decreased to 34.3% from 36.2% in the three months ended March 31, 2021 compared to the same period last year due to the higher sales mix of lower take rate categories such as handbags, fine jewelry, and sneakers. Buyer incentives increased by \$4.1 million, or 98%, in the three months ended March 31, 2021 compared to the same period last year, due to elevated redemption rates during the three months ended March 31, 2021 for buyer incentives issued during the fourth quarter of 2020.

Direct Revenue

Direct revenue increased by \$10.8 million, or 83%, in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The increase was primarily driven by the higher sales mix of company-owned inventory due to direct purchases from businesses and consignors, along with higher sales of aged inventory primarily resulting from out of policy returns. We recognize direct revenue on a gross basis upon shipment of the purchased good to the buyer. We expect direct revenue as a percent of total revenue to vary from period to period and our mix of direct revenue as a percentage of total GMV could increase in 2021.

Cost of Consignment and Service Revenue

Cost of consignment and service revenue increased by \$2.0 million, or 11%, in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The increase was primarily attributable to increases in shipping costs driven by fulfillment of a larger number of orders and credit card fees driven by growth in our business. Gross margin increased by 1.0% in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The increase was primarily attributable to an overall improvement in shipping costs.

Cost of Direct Revenue

Cost of direct revenue increased by \$9.4 million, or 86%, in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. Gross margin decreased by 1.2% for the three months ended March 31, 2021 compared to the same periods last year, primarily due to lower product margins on sales of aged inventory.

Marketing

Marketing expense increased by \$2.6 million, or 20%, in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The increase was primarily due to increased advertising costs as we seek to grow the number of buyers and consignors.

As a percent of revenue, marketing expense decreased to 15.7% from 16.6% in the three months ended March 31, 2021 and 2020, respectively. 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

Operations and technology expense increased by \$11.2 million, or 27%, in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The increase was primarily due to higher employee compensation related expenses, including stock-based compensation expense and higher occupancy costs due to the inclusion of our additional retail stores and authentication center in Arizona.

As a percent of revenue, operations and technology expense increased to 52.6% from 52.2% in the three months ended March 31, 2021 and 2020, respectively. 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

Selling, general and administrative expense increased by \$8.2 million, or 23%, in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. The increase was primarily due to higher employee compensation related expenses, including stock-based compensation expense, offset by a decrease in legal charges due to a \$1.1 million settlement in the three months ended March 31, 2020.

As a percent of revenue, selling, general and administrative expense decreased to 44.1% from 45.0% in the three months ended March 31, 2021 and 2020, respectively. These expenses may vary from period to period as a percentage of revenue.

Interest Income

Interest income decreased \$1.2 million, or 93%, for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020 due to lower rates and lower average investment balances.

Interest Expense

Interest expense increased \$3.3 million, and over 100%, for the three months ended March 31, 2021 compared to the three months ended March 31, 2020, primarily due to the contractual interest expense and amortization of the debt discount related to the 3.00% convertible senior notes issued in June 2020 and the 1.00% convertible senior notes issued in March 2021.

Other Income (Expense), Net

Other income (expense), net was flat in the three months ended March 31, 2021 as compared to the three months ended March 31, 2020.

Liquidity and Capital Resources

As of March 31, 2021, we had unrestricted cash and cash equivalents of \$547.9 million and an accumulated deficit of \$588.0 million. Since inception, we have generated negative cash flows from operations and have primarily financed our operations through several rounds of venture capital financing. 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 3% convertible senior notes due 2025 and the related cap call transactions. In March 2021, we received net proceeds of \$244.5 million from the issuance of the 1% convertible senior notes due in 2028 and the related cap call transactions.

We expect that operating losses and negative cash flows from operations could continue in the foreseeable future as we navigate the challenges presented by COVID-19 and invest in expansion activities in the longer term. We believe our existing cash and cash equivalents as of March 31, 2021 will be sufficient to meet our working capital and capital expenditures needs for at least the next 12 months.

Our future capital requirements will depend on many factors, including, but not limited to, our ability to grow our revenues and the timing of investments to support growth in our business, such as the build-out of new 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.

Cash Flows

The following table summarizes our cash flows for the periods indicated.

	Three Months Ended March 31,	
	2021	2020
Net cash provided by (used in):		
Operating activities	\$ (47,808)	\$ (54,971)
Investing activities	(4,330)	32,774
Financing activities	249,151	2,413
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 197,013</u>	<u>\$ (19,784)</u>

Net Cash Used in Operating Activities

During the three months ended March 31, 2021, net cash used in operating activities was \$47.8 million, which consisted of a net loss of \$56.0 million, adjusted by non-cash charges of \$24.4 million and cash outflows due to a net change of \$16.2 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 an increase of \$7.2 million in inventory, a decrease of \$5.1 million in accounts payable, a decrease of \$4.0 million in operating lease liability, and a decrease of \$2.6 million in accrued consignor payable.

During the three months ended March 31, 2020, net cash used in operating activities was \$55.0 million, which consisted of a net loss of \$38.5 million, adjusted by non-cash charges of \$11.9 million and cash outflows due to a net change of \$28.4 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 decreases of \$19.3 million in accrued consignor payable and \$8.9 million increase in other accrued and current liabilities, partially offset by cash inflows due to a decrease of \$4.2 million in accounts receivable.

Net Cash Used in Investing Activities

During the three months ended March 31, 2021, net cash used in investing activities was \$4.3 million, which consisted of \$4.0 million proceeds from maturities on short-term investment, partially offset by \$5.9 million for purchases of property and equipment, net, including leasehold improvements and \$2.4 million for capitalized proprietary software development costs.

During the three months ended March 31, 2020, net cash provided by investing activities was \$32.8 million, which consisted of \$114.0 million proceeds from maturities on short-term investments partially offset by \$73.3 million for purchases of short-term investments, \$6.5 million for purchases of property and equipment, net, including leasehold improvements, and \$1.5 million for capitalized proprietary software development costs.

Net Cash Provided by Financing Activities

During the three months ended March 31, 2021, net cash provided by financing activities was \$249.2 million, which primarily consisted of proceeds of \$278.8 million from the issuance of the 1.00% convertible senior notes, net of issuance costs, \$4.0 million from the exercise of stock options partially offset by \$33.7 million for the purchase of capped calls related to the Notes issuance.

During the three months ended March 31, 2020, net cash provided by financing activities was \$2.4 million, which primarily consisted of \$2.6 million from the exercise of stock options and warrants partially offset \$0.2 million for taxes paid related to restricted stock vesting.

Convertible Senior Notes

As of March 31, 2021, we had 3.00% convertible senior notes due 2025 outstanding in an aggregate principal amount of \$172.5 million and 1.00% convertible senior notes due 2028 outstanding in an aggregate principal amount of \$287.5 million. A portion of the net proceeds from the sale of these convertible senior notes was used to fund the net cost of entering into the capped call transactions described below. We intend to use the remainder of the net proceeds for general corporate purposes.

The 2025 Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at the Company's election, at an initial conversion rate of 56.2635 shares of our common stock per \$1,000 principal amount of the convertible senior notes, which is equivalent to an initial conversion price of approximately \$17.77 per share of our common stock. The initial conversion price of the notes represents a premium of approximately 27.5% over the \$13.94 closing price of our common stock on June 10, 2020. The 2028 Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at the Company's election, at an initial conversion rate of 31.4465 shares of our common stock per \$1,000 principal amount of the convertible senior notes, which is equivalent to an initial conversion price of approximately \$31.80 per share of our common stock. The initial conversion price of the notes represents a premium of approximately 32.5% over the \$24.00 closing price of our common stock on March 3, 2021.

In connection with the convertible senior notes, we entered into privately negotiated capped call transactions, with certain of the initial purchasers or their affiliates. The capped call transactions cover, subject to anti-dilution adjustments, the number of shares of common stock underlying the convertible senior notes sold in the offering. The capped call transactions are generally expected to reduce potential dilution to our common stock upon any conversion of the notes and/or offset any cash payments we are required to make in excess of the principal amount of converted notes, as the case may be, with such reduction and/or offset subject to a cap. The cap price of the capped call transactions related to the 2025 Notes was initially \$27.88 per share, which represents a premium of 100.0% over the closing price of our 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 capped call transactions related to the 2028 Notes was initially \$48.00 per share, which represents a premium of 100.0% over the closing price of our 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.

For additional details related to our convertible senior notes, please see "Note 6 – Convertible Senior Notes, net" to the condensed financial statements included in this report.

Contractual Obligations and Commitments

As of March 31, 2021, there have been no material changes from the contractual obligations and commitments previously disclosed in our Annual Report on 10-K.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet financing arrangements or any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and 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. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Revenue Recognition

Consignment and Service Revenue

We generate the majority of our revenue from consignment services for the sale of pre-owned luxury goods on behalf of consignors through our online consignment marketplace and retail stores. For consignment sales, we retain a portion of the proceeds received, which we refer to as our take rate, and remit the balance to the consignors. We recognize consignment revenue upon purchase of the goods by the buyer based on our take rate, net of allowances for product returns, order cancellations, buyer incentives and adjustments.

Direct Revenue

We also generate revenue from the sales of company-owned inventory. We recognize direct revenue upon shipment of the goods sold through our online marketplace and retail stores, based on the gross purchase price net of allowances for product returns, buyer incentives and adjustments.

Recent Accounting Pronouncements

For more information on recently issued accounting pronouncements, see Note 2 to our unaudited condensed financial statements “Summary of Significant Accounting Policies” in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks in the ordinary course of our business, including fluctuations in interest rates. Such fluctuations to date have not been significant. The COVID-19 pandemic presents new and emerging uncertainty in the financial markets. See further discussion in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A “Risk Factors.”

As of March 31, 2021, we had unrestricted cash and cash equivalents of approximately \$547.9 million, which carry a degree of interest rate risk. A hypothetical 10% change in interest rates would not have a material impact on our financial condition or results of operations due to the short-term nature of our investment portfolio.

In addition, we have no direct financial statement risk associated with changes in interest rates with respect to our convertible senior notes, which bear interest at fixed rates. However, the fair market value of the convertible senior notes will fluctuate primarily as a result of changes in interest rates or the market price of our stock.

We do not believe that inflation has had a material effect on our business, results of operations or financial condition. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs. Our inability or failure to do so could harm our business, results of operations or financial condition.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Our management, including our principal executive officer and principal financial officer, do 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 designed 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 collusion of two or more people or by management override of the 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. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are from time to time subject to, and are presently involved in, litigation and other legal proceedings and from time to time, we receive inquiries from government agencies. See “Note 9—Commitments and Contingencies”.

In November 2018, Chanel, Inc. (“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. Chanel alleges, among other things, that we have misrepresented certain counterfeit Chanel products as authentic Chanel products, that our resale of Chanel products confuses consumers into believing that Chanel is affiliated with us and involved in authenticating consignors’ goods and that only Chanel is capable of authenticating second-hand Chanel goods. The Court issued an Opinion & Order on March 30, 2020 denying in part and granting in part the Company’s motion to dismiss. The Company filed its answer and affirmative defenses on May 29, 2020. Chanel’s claims are now in the discovery phase. On November 3, 2020, with the court’s permission, the Company filed a motion to amend its answer to add counterclaims against Chanel alleging anticompetitive conduct in violation of the federal and state antitrust laws as well as tortious interference. That motion was granted on February 24, 2021, permitting the Company to file its amended pleading. The Company filed its Amended Answer, Affirmative Defenses, and Counterclaims on February 25, 2021. On March 8, 2021, Chanel filed a motion to dismiss the Company’s counterclaims and to strike one of the Company’s affirmative defenses. The Company filed its opposition to Chanel’s motion on April 1, 2021. A decision on that motion is pending. A joint stipulation and order staying the case for three months was entered on April 5, 2021, while the parties attempt mediation. This litigation is in its early stages and the final outcome, including our liability, if any, with respect to Chanel’s claims, is uncertain. Chanel could in the future assert additional trademark and advertising or other claims against us in this or other proceedings. An unfavorable outcome in this or similar litigation could adversely affect our business and could lead to other similar lawsuits.

On September 10, 2019, a purported shareholder class action complaint was filed against us, our officers and directors and the underwriters of our IPO in the Superior Court of the State of California in the County of San Mateo. Three additional purported class actions, also alleging claims arising from the IPO were subsequently filed in Marin County and San Francisco County Superior Courts. The San Mateo case was voluntarily dismissed, refiled in Marin County Superior Court and consolidated with the cases there. On January 10, 2020, the Marin County plaintiffs filed a consolidated amended complaint. The plaintiffs in the San Francisco Superior Court case have filed a request for dismissal. Separately an additional purported class action was filed in the United States District Court for the Northern District of California on November 25, 2019. On February 12, 2020, a lead plaintiff was appointed in the federal action and an Amended Consolidated Complaint was filed on March 31, 2020. Defendants’ filed a demurrer and motion to strike in the state court action on March 13, 2020 and filed a motion to stay the proceedings in favor of the federal action on May 1, 2020. On August 4, 2020, the court granted defendants’ motion to stay the state court action and deferred ruling on the demurrer and motion to strike pending the outcome of the federal court action. A motion to dismiss the Amended and Consolidated Complaint in the federal court action was filed on May 15, 2020. On March 31, 2021, the court entered an order on the motion to dismiss, dismissing the Securities Exchange Act of 1934 (the “Exchange Act”) claims and some of the claims alleged under the Securities Act of 1933 (the “Securities Act”). The court provided plaintiffs with an opportunity to amend the complaint and, on April 30, 2021, plaintiffs filed a Second Amended Complaint in federal court. The state court complaint and the Second Amended Complaint in federal court each allege claims under the Securities Act on behalf of a purported class of shareholders who acquired our stock pursuant to or traceable to the registration statement for our IPO. The federal complaint also alleges claims under the Exchange Act on behalf of a purported class of shareholders who purchased our stock from June 27, 2019 through November 20, 2019. The complaints seek, among other things, damages and interest, rescission, and attorneys’ fees and costs. On September 10, 2020 and December 7, 2020, purported shareholders filed putative derivative actions in the United States District Court for the District of Delaware. The derivative complaints allege factual allegations largely tracking the above referenced lawsuits. The two derivative cases have been consolidated and the consolidated case has been stayed. While we intend to vigorously defend against the litigation described above, the cases are at a very early stage and there can be no assurance that we will be successful in our defense. For this same reason, we cannot currently estimate the loss or the range of possible losses we may experience in connection with this litigation.

We are currently involved in, and may in the future be involved in, legal proceedings in the ordinary course of business. While it is not possible to determine the outcome of any legal proceedings brought against us, we believe that, except for the matters described above, the resolution of all such matters will not have a material adverse effect on our financial position or liquidity, but could be material to our results of operations in any one accounting period. Regardless of final outcomes, however, any such legal proceedings may nonetheless impose a significant burden on management and employees and may come with costly defense costs or unfavorable preliminary and interim rulings. There are inherent uncertainties in these legal matters, some of which are beyond management’s control, making the ultimate outcomes difficult to predict. Moreover, management’s views and estimates related to these matters may change in the future, as new events and circumstances arise and as the matters continue to develop.

Item 1A. Risk Factors.

The Company has reviewed and updated its risk factors as previously disclosed in its 2020 Annual Report on Form 10-K. 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 Quarterly Report on Form 10-Q, our 2020 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 the COVID-19 Pandemic

Our operations have been, and may continue to be, adversely affected by the COVID-19 pandemic.

We currently have four authentication centers, one in California and three in New Jersey and will be opening one in Arizona in the near future. In addition, we operate a growing number of retail stores in select locations in the United States. For consignors, we also provide drop off of consigned goods at any one of our numerous luxury consignment offices (“LCOs”). In response to the COVID-19 pandemic, state and local governments have imposed significant limitations on business operations. As of the date of this filing, our authentication centers, retail stores and LCOs are all operating subject to certain restrictions, such as modified operating models and hours and enhanced safety and cleaning protocols. We have also taken actions to facilitate the continued operation of our business, including implementing social distancing measures, offering virtual consignment appointments to augment our concierge service, providing curbside pick-up for both our consignors and buyers, and enabling employees to work remotely to the extent possible. In addition to these operational challenges, the COVID-19 pandemic also threatens the health of our employees, consignors and buyers. Our business is critically dependent on our employees who staff our facilities and stores. It is unclear whether further limitations will be imposed in the near future due to the current resurgence of the COVID-19 virus and any new variants. The nature, scope and duration of the effects of the COVID-19 pandemic on our operations is highly uncertain and could have a material adverse effect on our business and operating results.

The COVID-19 pandemic has impacted, and may continue to impact, our business.

The COVID-19 pandemic and related government-mandated measures, such as business closures and shelter in-place guidelines, have created significant market volatility, uncertainty and economic disruption. The extent to which the COVID-19 pandemic impacts 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 pandemic; government, business and individual actions that have been and continue to be taken in response to the pandemic; the impact of the pandemic on national and global economic activity; unprecedented unemployment levels; disruption of the financial 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, under current state and local government orders, employees who are not required to perform their duties in-person, are required to work remotely for an indefinite period of time, which could introduce additional operational risk, such as an increased vulnerability to cyber-attacks, and harm productivity and collaboration. Our ability to return to normalized operations and the timing of such a return cannot be predicted at this time. In addition, the risks and uncertainties described elsewhere in this “Risk Factors” section may be heightened as a result of the impacts of the COVID-19 pandemic. At this time, we cannot reasonably estimate the full extent of impact of the COVID-19 pandemic on our business, operations and financial results.

Risks Relating to Our Revenue and Operating Results

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

We experienced net losses of \$75.8 million, \$98.4 million, \$175.8 million, and \$56.0 million in 2018, 2019, 2020, and the three months ended March 31, 2021 respectively, and as of March 31, 2021 we had an accumulated deficit of \$588.0 million. Despite the impacts of the COVID-19 pandemic on our operations, we continue to align our strategy to capitalize on growth opportunities. If our investments do not prove successful or our market does not develop as we expect, we 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.

We may not be able to sustain our revenue growth rate or effectively manage growth or new opportunities.

While we experienced negative revenue growth in 2020, this follows revenue growth in 2018 and 2019. Such recent revenue growth should not be considered indicative of our future performance. 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. Our relatively short operating history and the 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. Aside from the negative impact the COVID-19 pandemic has had and may continue to have on our revenues, as we grow our business, our future revenue growth rates may slow due to a number of factors, including the maturation of our business, increased market adoption against which future growth will be measured, increasing competition or our failure to capitalize on growth opportunities, such as increasing company-owned inventory. Our rapid growth has placed significant demands on our management and our operational and financial infrastructure. Continued growth could also 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 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, may strain our personnel and may cause a shortfall in revenue related to expenses 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 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 to us from the sale of goods on our online marketplace in calculating revenue. We estimate this reserve based on historical return trends. 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, including the difficulties we have experienced as a result of the COVID-19 pandemic. 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 continue to support our business growth and to respond to business challenges could be significantly limited, and our business and prospects could fail or be adversely affected.

Risks Relating to Our Strategy

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

While we currently operate a limited number of retail stores, we plan to increase the number of new retail stores, including “neighborhood stores” with smaller square footage. We believe that retail stores are critical for our growth expansion of our business, 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 may, however, have to enter into long-term leases before we know whether our retail strategy or a particular geography will be successful. We also face a number of challenges in opening 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. Prior to the COVID-19 pandemic, competition for retail locations had been increasing, making it more difficult to locate and secure retail space on acceptable pricing and other terms. Even if we are able to secure attractive retail locations, the opening of new

stores brings operational challenges. In expanding our locations, we must provide our consignors and buyers with a consistent luxury experience. 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 growth 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.

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 LCOs. We also reach new consignors through paid advertising, 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 recently increased our paid marketing expenses by investing more in television advertising and digital marketing and we expect to increase our spending on these and other paid marketing channels in the future. We cannot be certain that these efforts will yield more 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. Due to the COVID-19 pandemic, we have modified our concierge consultation method for consigning luxury goods to operate on a “no contact” basis. It is unclear what impact this modified “no contact” concierge consultation method will have on our operations and these new and existing consignors may not be as willing, or willing at all, to utilize our other methods for consignment. We have also added a buy upfront program in an effort to generate additional supply. The effectiveness of this program, including its commission structure, is still uncertain. 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 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 depend on our ability to maintain our brand partnerships.

We have established brand partnerships with Gucci, Stella McCartney and Burberry and seek to add additional 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 unable 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 heavily 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 offer sales and promotional pricing, particularly during the 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 anticipate 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 the COVID-19 pandemic 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. We are also sourcing an increasing amount of goods directly from brands. 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 luxury goods.

Our women's category accounted for approximately 65% of our GMV in 2020. We intend to deepen our penetration in other high-value categories such as men's, jewelry and watches, and home and art and continue to explore additional categories of luxury goods. If these additional categories of pre-owned luxury goods are not accepted by our existing consignors or buyers, or if such categories 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 these additional categories, and these categories of goods may also have a different range of margin profiles than the goods currently sold through our online marketplace. 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 authenticating goods 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, reductions in net worth, declines in asset values, including home values, and related market and economic uncertainty. Many of these factors have occurred, and may continue to become more prevalent, as a result of the COVID-19 pandemic. 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 Average Order Volume (“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.

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 or respond more quickly than we can to new or emerging technologies and changes in consumer shopping behavior. These competitors may also adopt more aggressive pricing policies, 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 we reject any goods we believe to be counterfeit, we cannot be certain that we will identify every counterfeit item that is consigned to us. 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 are inadequate. Any material failure or perceived failure in our authentication operations 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 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 advertising, promotion, public relations and marketing programs and we are investing heavily in these activities. 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 expect to increase advertising spend in future periods to continue driving our 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. Any failure to meet our goals or to act responsibly in the areas in which we report, may negatively affect our reputation and the value of our brand, including 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 inspection, evaluation, authentication, photography, pricing, copywriting, application of a unique single-SKU and fulfillment. Prior to the COVID-19 pandemic, we had rapidly increased our operations employee headcount to support the growth of our business. However, due to the impacts of the COVID-19 pandemic on our operations, we have recently implemented a number of measures to realign our cost structure and preserve liquidity, which included the reduction of our overall headcount and furloughing of employees. Prior to the COVID-19 pandemic, the market for employees had been increasingly competitive and was 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 need to increase our headcount after the COVID-19 pandemic has subsided, and 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 the pre-owned luxury goods we sell through our online marketplace. Our ability to successfully grow our business also 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 California and three in New Jersey and are in the process of opening a new facility in Arizona. Optimal space is becoming increasingly scarce, and where it is available, the lease terms offered by landlords are 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 all 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 California 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, 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 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 the goods stored in our authentication centers or while shipping to buyers. We may incur additional expenses and our reputation could be harmed if buyers and potential buyers believe that the luxury goods we offer on behalf of our consignors is 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, our liabilities exceed the maximum insurance coverage amount which would materially adversely impact our business and operating results.

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

We currently rely on a single vendor to meet our shipping needs. If we are not able to maintain acceptable pricing and other terms or if they experience performance problems or other difficulties, including as a result of the COVID-19 pandemic, it could negatively impact our operating results and our consignors' and buyers' experience. If we partner with multiple vendors or switch vendors in response, 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 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 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, 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, but 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.

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 buyers 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 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, tools and monitoring to provide security for our processing, transmission and storage of personal information and other confidential information. We or our vendors could be the subject of hacking, social engineering, phishing attacks or other attacks, which may allow hackers or other unauthorized parties to gain access to personal information or other data, including payment card data or confidential business information. 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. 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 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 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 to 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 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. In particular, our Founder and Chief Executive Officer, Julie Wainwright, has unique and valuable experience from creating and leading our company from its inception through today. If she were to depart or otherwise reduce her focus on The RealReal, our business may be disrupted.

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 materially adversely affect our business, financial condition or results of operations.

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. 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") have been 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 in response to the COVID-19 pandemic may not be successful in preventing the spread of the virus among our employees 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 new disclosures to California consumers and afford such consumers qualified new privacy rights, such as rights of access, deletion and to opt-out of the sales of their personal information. The CCPA includes provisions that sunset at the end of 2020, may be amended or replaced, and Attorney General regulations have not yet been finalized. It remains unclear what, if any, modifications will be made to the CCPA or how it will be interpreted. 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, the European Commission adopted a General Data Protection Regulation that became fully effective on May 25, 2018, imposing stringent EU data protection requirements. We cannot yet fully determine the impact these or future laws, rules and regulations may have on our

business or operations. 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, the Supreme Court of the United States recently 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 materially 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 the States of 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, which may be intensified as a result of the COVID-19 pandemic and resulting economic strain. 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 ecommerce. 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 recent legislation may limit our ability to use our NOLs to offset any future taxable income.

Our results of operations may be adversely affected by changes in generally accepted accounting principles.

Generally accepted accounting principles are subject to interpretation by the Financial Accounting Standards Board (“FASB”), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported results of operations and could affect the reporting of transactions completed before the announcement of a change. It is difficult to predict the impact of future changes to accounting principles or our accounting policies, any of which could negatively affect our reported results of operations.

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 recently became a “large accelerated filer” under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which requires us to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”). 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 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 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 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. You may not be able to resell your shares at or above the price you paid and may lose all or part of your investment.

If you purchase shares of our common stock, you may not be able to resell those shares at or above the price you paid. We cannot assure you that the market price of our shares will equal or exceed prices in privately negotiated transactions of our shares that have occurred from time to time before our IPO. 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;
- 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;

- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- additional shares of our common stock being sold into the market by us or our existing stockholders, or the anticipation of such sales, including if existing stockholders sell shares into the market when the applicable “lock-up” periods associated with our IPO ends;
- hedging activities by market participants;
- 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 overall stock market, including as a result of trends in the economy as a whole;
- 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, such as the current COVID-19 pandemic.

In addition, price and volume fluctuations in the stock markets have affected and 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. In the past, stockholders have filed securities class action litigation 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. Securities litigation against us could result in substantial costs and divert our management’s attention from other business concerns, which could harm our business. See the risk factor entitled “*We are currently, and may be in the future, party to lawsuits and other claims that are expensive and time consuming, could lead to adverse publicity, and, if resolved adversely, could have a significant impact on our business, financial condition or operating results.*”

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 with the intention of buying identical securities at a later date to return to the lender. A short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is therefore in the short seller’s interest for the price of the stock to decline, some short sellers publish, or arrange for the publication of, opinions or characterizations regarding the relevant issuer, its business prospects and similar matters calculated to or which may create negative market momentum, which may permit them to obtain profits for themselves as a result of selling the stock short. 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. The publication of such commentary has, and may in the future, cause a temporary, or possibly long term, decline in the market price of our common stock. 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 commentary by short sellers or otherwise.

If securities or industry analysts either do not publish research about us or publish inaccurate or unfavorable research about us, our business or our market, or if they change their recommendations regarding our common stock adversely, the trading price or trading volume of our common stock could decline.

The trading market for our common stock is influenced in part by the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors. If one or more analysts initiate research with an unfavorable rating or downgrade our common stock, provide a more favorable recommendation about our competitors or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. If any analyst who covers us, or may cover us,

were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the trading price or trading volume of our common stock to decline.

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 members of our board of 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, which requires all stockholder actions to be taken at a meeting of our stockholders;
- 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, which could limit our stockholders’ ability to choose the judicial forum for disputes with us or our directors, officers or employees.

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by law, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another state court located within the State of Delaware or, if no court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) shall be the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf under Delaware law, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (3) any action arising pursuant to any provision of the Delaware General Corporation Law (“DGCL”), our certificate of incorporation or our bylaws, (4) any other action asserting a claim that is governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware) or (5) any other action asserting an “internal corporate claim,” as defined in Section 115 of the DGCL, in all cases subject to the court having jurisdiction over indispensable parties named as defendants. These exclusive-forum provisions do not apply to claims under 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, which may discourage lawsuits against us and our directors, officers and other employees. If a court were to find the exclusive-forum provision in our certificate of incorporation 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 in the future incur additional indebtedness. We may not have sufficient cash flow from our business to make payments on our substantial debt when due.

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 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. Our ability to make payments of the principal of, to pay interest on or to refinance the Notes, or future indebtedness, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. 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 for working capital, capital expenditures, expansion plans and other investments, 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. Our business may not be able to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity on terms that may be onerous or highly dilutive. 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 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. Additionally, anticipated conversion of such Notes into shares of our common stock could depress the price of our common stock.

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

None.

Use of Proceeds from our IPO

The offer and sale of the shares in the IPO was registered under the Securities Act pursuant to a registration statement on Form S-1 (File No.333-231891), which was declared effective by the SEC on June 27, 2019. The remainder of the information required by this item regarding the use of our initial public offering proceeds has been omitted pursuant to SEC rules because such information has not changed since our last periodic report was filed.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On May 6, the Company and its CFO, Matt Gustke, mutually decided that Mr. Gustke would leave the Company. It is currently anticipated that Mr. Gustke will continue to serve as the Company's CFO until the end of 2021 or until a successor is appointed. Upon departure, Mr. Gustke will be entitled to receive the severance benefits, described below, under the Company's Severance and CIC Agreement.

On May 5, 2021, the Company's board of directors approved a form of Severance and Change in Control Agreement (the "Severance and CIC Agreement") for our executive officers, including our named executive officers. The Severance and CIC Agreement provides for severance, in the event of a termination of employment without cause or a resignation for good reason, in the form of: (i) twelve (12) months' salary continuation for our CEO and six (6) months' salary continuation for our other executive officers; and (ii) a lump sum payment equal to twelve (12) months' COBRA premiums for our CEO and six (6) months' COBRA premiums for our other executives. In the event of a termination without cause or a resignation for good reason, in each case, within three (3) months prior or twelve (12) months following a change in control, the Severance and CIC Agreement provides severance in the form of: (i) eighteen (18) months' salary continuation for our CEO and twelve (12) months' salary continuation for our other

executive officers; (ii) a lump sum payment equal to eighteen (18) months' COBRA premiums for our CEO and twelve (12) months' COBRA premiums for our other executives; (iii) target annual cash incentive bonus and (iv) full acceleration of outstanding equity awards. The term of the Severance and CIC Agreement is three (3) years. As part of the Severance and CIC Agreement each of our executive officers will agree to customary non-competition and non-solicitation covenants that run through the date ending twelve (12) months following termination from the Company. The form of Severance and CIC is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

Item 6. Exhibits.

Furnish the exhibits required by Item 601 of Regulation S-K (§ 229.601 of this chapter).

Exhibit Number	Description
10.1*+	Form of Severance and Change in Control Agreement approved by the Company's board of directors on May 5, 2021.
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.
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.
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.
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.
101.INS	Inline XBRL Instance Document: the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set

* Filed herewith.

+ Indicates management contract or compensatory plan.

SIGNATURES

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

The RealReal, Inc.

Date: May 10, 2021

By: _____
/s/ Julie Wainwright
Julie Wainwright
President and Chief Executive Officer

Date: May 10, 2021

By: _____
/s/ Matt Gustke
Matt Gustke
Chief Financial Officer

Form of Severance and Change in Control Agreement approved by the Company's board of directors on May 5, 2021

**SEVERANCE AND
CHANGE-IN-CONTROL AGREEMENT**

THIS SEVERANCE AND CHANGE-IN-CONTROL AGREEMENT (this "**Agreement**"), dated as of [] (the "**Effective Date**"), is made by and between The RealReal, Inc., a corporation organized under the laws of the State of Delaware (the "**Company**") and [] ("**Executive**").

WHEREAS, the Board of Directors of the Company (the "**Board**") has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of Executive, notwithstanding the possibility, threat or occurrence of a termination of employment or the occurrence of a Change in Control (as defined below) of the Company;

WHEREAS, the Board believes that it is in the best interests of the Company and its stockholders to provide Executive with an incentive to continue Executive's employment and to motivate Executive to maximize the value of the Company for the benefit of its stockholders; and

WHEREAS, the Board further believes that it is imperative to provide Executive with certain severance benefits upon termination of Executive's employment, and with certain additional benefits upon a termination of employment in connection with a Change in Control of the Company, to provide Executive with enhanced financial security and incentive to remain with the Company.

NOW, THEREFORE, in consideration of the promises, agreements and conditions contained in this Agreement, the Company and Executive agree as follows:

**SECTION I
DEFINITIONS**

For the purposes of this Agreement the following definitions shall apply:

1.1 "**Accrued Obligations**" means (a) any unpaid base salary through the Date of Termination, payable within 30 days following the Date of Termination, or on such earlier date as may be required by applicable law; (b) any Annual Bonus for a prior year earned but unpaid, payable at the time such bonuses would have been paid if Executive was still employed with the Company; (c) reimbursement for any unreimbursed business expenses incurred through the Date of Termination, payable in accordance with the Company's policy; and (d) all vested benefits under the Company's retirement, health and welfare and equity-based employee benefit plans to which Executive is entitled, payable in accordance with the terms of such plan or program.

1.2 "**Affiliate**" means any entity controlled by, controlling, or under common control with, the Company.

1.3 “**Annual Bonus**” means Executive’s annual bonus under the Company’s or an Affiliate’s annual executive bonus program, as in effect from time to time, under which Executive is covered.

1.4 “**Annual Salary**” means Executive’s annual base salary, exclusive of any bonus pay, commissions or other additional compensation, in effect on the Date of Termination.

1.5 “**Cause**” means the occurrence of any one or more of the following events:

(a) Executive’s act, or failure to act, that was performed in bad faith and to the material detriment of the Company or any of its Affiliates;

(b) Executive’s material violation of any law or regulation applicable to the business of the Company or any of its Affiliates;

(c) Executive’s material violation of a material Company policy;

(d) Executive’s material breach of any confidentiality agreement or invention assignment agreement between Executive and the Company (or any Affiliate of the Company); or

(e) Executive’s admission or conviction of, or entering a plea of guilty or nolo contendere to, a felony or Executive’s commission of any act of moral turpitude.

1.6 “**Change in Control**” means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(a) An acquisition (other than directly from the Company) of any voting securities of the Company (the “**Voting Securities**”) by any “Person” (having the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d)) immediately after which such Person has beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) (“**Beneficial Ownership**” and/or “**Beneficially Owned**”) of 50% or more of the combined voting power of the Company’s then outstanding Voting Securities; *provided*, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a Non-Control Acquisition shall not constitute an acquisition which would cause a Change in Control. For purposes of this Agreement, the term “**Non-Control Acquisition**” shall mean an acquisition by (i) the Company or any Subsidiary; (ii) an employee benefit plan (or a trust forming a part thereof) maintained by the Company or any Subsidiary; or (iii) any Person in connection with a Non-Control Transaction (as hereinafter defined);

(b) The individuals who, as of the Effective Date, are members of the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; *provided*, that if the election, or nomination for election by the Company’s stockholders, of any new director was approved by a vote of at least a majority of the Incumbent Board, such new director shall, for purposes of this clause (b), be considered a member of the Incumbent Board; and *provided, further*, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened election contest (as described in former Rule 14a-11 promulgated under the Exchange Act) (“**Election Contest**”) or other actual or threatened

solicitation of proxies or consents by or on behalf of a Person other than the Board (a “**Proxy Contest**”), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest;

(c) Consummation of a merger, consolidation or reorganization involving the Company, unless such transaction is a Non-Control Transaction. For purposes of this Agreement, the term “**Non-Control Transaction**” shall mean a merger, consolidation or reorganization of the Company in which: (i) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least 50% of the combined voting power of the voting securities of the corporation or entity resulting from such merger, consolidation or reorganization (the “**Surviving Company**”) over which any Person has Beneficial Ownership in substantially the same proportion as their Beneficial Ownership of the Voting Securities immediately before such merger, consolidation or reorganization; (ii) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least a majority of the members of the board of directors or equivalent body of the Surviving Company; and (iii) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Company or any Person who, immediately prior to such merger, consolidation or reorganization, had Beneficial Ownership of 50% or more of the then outstanding Voting Securities) has Beneficial Ownership of 50% or more of the combined voting power of the Surviving Company’s then outstanding voting securities; or

(d) The sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Subsidiary).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the “**Subject Person**”) acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person; *provided*, that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur. Furthermore, to the extent necessary to ensure compliance with Section 409A, a Change in Control will only be deemed to occur for purposes of this Agreement to the extent it is also a change in control event as defined in Treasury Regulation Section 1.409A-3(i)(5)(i).

1.7 “**Change in Control Protection Period**” means the period commencing three (3) months prior to a Change in Control and ending twelve (12) months after a Change in Control.

1.8 “**COBRA**” means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended from time to time.

1.9 “**Code**” means the Internal Revenue Code of 1986, as amended from time to time, and the regulations issued thereunder.

1.10 “**Date of Termination**” means the effective date of Executive’s termination of employment and service with the Company and its Affiliates.

1.11 “**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time, and the regulations issued thereunder.

1.12 “**Good Reason**” means any of the following:

(a) A requirement by the Company or an Affiliate of the Company that Executive relocate or commute to a location more than 50 miles away from Executive’s work location as of the Effective Date, unless Executive has consented in writing to such requirement;

(b) A material reduction by the Company in Executive’s base salary (other than a reduction in connection with substantially proportionate reductions to the base salary of substantially all other executives of the Company), unless Executive has consented in writing to such reduction; or

(c) A material diminution in Executive’s authority, duties or responsibilities inconsistent with Executive’s authority, duties or responsibilities immediately prior to such material diminution (including any material diminution in Executive’s authority, duties or responsibilities occurring as a result of a corporate transaction, measured in the context of the combined organization resulting from such transaction), unless Executive has consented in writing to such diminution.

Good Reason shall not exist unless Executive gives the Company notice of the event giving rise to Good Reason within sixty (60) days of the date Executive has knowledge of such event. Such notice shall specifically delineate such claimed breach and shall inform the Company that it is required to cure such breach within ninety (90) days (the “**Cure Period**”) after such notice is given. If such breach is not so cured, Executive may resign for Good Reason within three (3) months following the end of the Cure Period. If such breach is cured within the Cure Period or if such breach is not cured but Executive does not resign for Good Reason within three (3) months following the end of the Cure Period, Good Reason shall not exist hereunder.

1.13 “**Section 409A**” means Section 409A of the Code and any regulations or other formal guidance promulgated thereunder.

1.14 “**Section 280G**” means Section 280G of the Code and any regulations or other formal guidance promulgated thereunder.

1.15 “**Subsidiary**” means any corporation, limited liability company, partnership, joint venture, or similar entity in which the Company owns, directly or indirectly, an equity interest possessing more than 50% of the combined voting power of the total outstanding equity interests of such entity.

1.16 “**Target Bonus**” means Executive’s target Annual Bonus under the Company’s or Affiliate’s annual bonus program, as in effect from time to time, under which Executive is covered.

SECTION II SEVERANCE PAYMENTS AND BENEFITS

2.1 Change in Control Protection Period. If, during a Change in Control Protection Period, the Company terminates Executive’s employment without Cause or Executive terminates his employment for Good Reason, then the Company shall pay or provide the following amounts and benefits to Executive, in addition to the Accrued Obligations, subject to the occurrence of the Change in Control:

(a) Severance Payment. Executive will be paid an amount equal to [eighteen (18) months][twelve (12) months] Executive’s Annual Salary *plus* Executive’s Target Bonus in effect immediately prior to the Date of Termination, in a lump sum within sixty (60) days following the Date of Termination.

(b) Bonus for Year of Termination. Executive will be paid a pro-rata portion of the Target Bonus in effect on the Date of Termination, determined by multiplying the amount of the Target Bonus by a fraction, the numerator of which is the number of days from January 1 of the year during which the Date of Termination occurs to the Date of Termination and the denominator of which is three hundred and sixty-five (365). The pro-rated bonus shall be paid in a lump sum within sixty (60) days following the Date of Termination.

(c) COBRA Equivalent. Whether or not Executive elects coverage under COBRA under any group health plan of the Company or an Affiliate, the Company will pay Executive a taxable lump sum equal to the portion of the monthly cost of Executive’s group health plan coverage, as in effect on the Date of Termination, that is subsidized by the Company for similarly situated active employees as of the Date of Termination multiplied by [eighteen (18)][twelve (12)]. The COBRA equivalent payment shall be made in a lump sum within sixty (60) days following the Date of Termination.

(d) Equity Awards. Notwithstanding anything to the contrary in any equity plan of the Company or its Affiliates or Executive’s award agreement thereunder, any and all outstanding equity awards granted to Executive under any equity plan of the Company or its Affiliates will be treated as follows: (i) all time-based vesting conditions applicable to such awards will be treated as satisfied in full and shall lapse on the Date of Termination; and (ii) any performance-based vesting conditions applicable to such awards shall be deemed to have been satisfied at target through the Date of Termination. Such awards will be settled in accordance with, and otherwise be subject to, the terms of the equity plan of the Company or its Affiliates and Executive’s award agreement thereunder; *provided*, however, that any vested restricted stock units that are not subject to Section 409A shall be settled upon Executive within sixty (60) days following the Date of Termination.

2.2 Outside of Change in Control Protection Period. If the Company terminates Executive’s employment without Cause, or Executive terminates employment for Good Reason, in

either case other than during a Change in Control Protection Period, then the Company shall pay or provide the following amounts and benefits to Executive, in addition to the Accrued Obligations:

(a) Severance. Executive will be paid an amount equal to [twelve (12) months][six (6) months] Executive's Annual Salary in effect immediately prior to the Date of Termination in a lump sum within sixty (60) days following the Date of Termination.

(b) COBRA Equivalent. Whether or not Executive elects coverage under COBRA under any group health plan of the Company or an Affiliate, the Company will pay Executive a taxable lump sum equal to the portion of the monthly cost of Executive's group health plan coverage, as in effect on the Date of Termination, that is subsidized by the Company for similarly situated active employees as of the Date of Termination multiplied by [twelve (12)][six (6)]. The COBRA equivalent payment shall be made in a lump sum within sixty (60) days following the Date of Termination.

(c) Equity Awards. All outstanding equity awards granted to Executive under any equity plan of the Company or its Affiliates shall vest, be forfeited or settled in accordance with the terms of the equity plan of the Company or its Affiliates and the applicable award agreements.

2.3 Termination for Any Other Reason. If Executive's employment and service with the Company and its Affiliates is terminated for any reason other than by the Company without Cause or by Executive for Good Reason, including due to Executive's retirement, death or disability, no amounts or benefits will be payable or provided under this Agreement, except the Accrued Amounts.

2.4 Release. Notwithstanding anything contained in this Agreement to the contrary, the Company shall not be obligated to provide any payments or benefits to Executive under Section 2.1 or Section 2.2 hereof other than the Accrued Obligations unless Executive executes and delivers to the Company a general release of claims in favor of the Company and its Affiliates and their respective employees, officers and directors in such form as is reasonably requested by the Company, and such release becomes irrevocable by its terms, no later than sixty (60) days after the Date of Termination.

2.5 No Duplication. In no event shall payments and benefits provided in accordance with this Agreement be made in respect of more than one of Section 2.1 or 2.2.

2.6 Offset. Notwithstanding the provisions of this Section II, the Company's obligation to make the severance payments and benefits described herein shall be reduced by any amounts owed by Executive to the Company and its Affiliates; *provided*, however, that offsets of amounts owed by Executive that are nonqualified deferred compensation (within the meaning of Section 409A) shall only be made in accordance with Section 409A.

SECTION III TAX INFORMATION

3.1 Tax Withholding. The Company shall deduct from payments to be paid to Executive or any beneficiary all federal, state and local withholding and other taxes and charges required to be deducted under applicable law.

3.2 Section 409A.

(a) The intent of the parties is that payments and benefits under this Agreement shall comply with or be exempt from Section 409A, and this Agreement shall be interpreted in accordance with such intentions. Notwithstanding the foregoing, neither the Company or its Affiliates nor their respective directors, officers, employees or advisers shall be held liable for any taxes, interest, penalties or other monetary amounts owed by Executive (or any other individual claiming a benefit through Executive) as a result of this Agreement.

(b) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits subject to Section 409A upon or following a termination of employment unless such termination is also a “separation from service,” within the meaning of Section 409A, from the Company, and references to the “Date of Termination,” a “termination,” “termination of employment” or like terms shall mean “separation from service,” within the meaning of Section 409A, from the Company.

(c) Whenever a payment under this Agreement specifies a payment period with reference to a number of days, the actual date of payment within the specified period shall be within the sole discretion of the Company. In the event the payment period under this Agreement commences in one calendar year and ends in a second calendar year, the payment shall not be paid until the second calendar year. For purposes of Section 409A, Executive’s right to receive installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments.

(d) If Executive is deemed on the Date of Termination to be a “specified employee” within the meaning of that term under Section 409A(a)(2)(B) of the Code, then with regard to any payment or benefit subject to Section 409A that is payable on account of a “separation from service,” such payment or benefit shall be made or provided at the date which is the earlier of (i) the expiration of the six (6)-month period measured from the date of such “separation from service” of Executive; and (ii) the date of Executive’s death (the “**Delay Period**”). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this section (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid to Executive in a lump sum without interest, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

3.3 Section 280G.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that the amount of any compensation, payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, calculated in a manner consistent with Section 280G (the “**Aggregate Payments**”), would be subject to the excise tax imposed by Section 4999 of the Code, then the Aggregate Payments shall be reduced (but not below zero) so that the sum of all of the Aggregate Payments shall be \$1.00 less than the amount at which Executive becomes subject to the excise tax imposed by Section 4999 of the Code; *provided that* such reduction shall only occur if it would result in Executive receiving a higher After-Tax Amount (as defined below) than Executive would receive if

the Aggregate Payments were not subject to such reduction. In such event, the Aggregate Payments shall be reduced in the following order, in each case, in reverse chronological order beginning with the Aggregate Payments that are to be paid the furthest in time from consummation of the transaction that is subject to Section 280G: (i) cash payments not subject to Section 409A of the Code; (ii) cash payments subject to Section 409A of the Code; (iii) equity-based payments and acceleration; and (iv) non-cash forms of benefits; *provided that* in the case of all the foregoing Aggregate Payments all amounts or payments that are not subject to calculation under Treas. Reg. §1.280G-1, Q&A-24(b) or (c) shall be reduced before any amounts that are subject to calculation under Treas. Reg. §1.280G-1, Q&A-24(b) or (c).

(b) For purposes of this Section 3.3, the “**After-Tax Amount**” means the amount of the Aggregate Payments less all federal, state, and local income, excise and employment taxes imposed on Executive as a result of Executive’s receipt of the Aggregate Payments. For purposes of determining the After-Tax Amount, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individuals for the calendar year in which the determination is to be made, and state and local income taxes at the highest marginal rates of individual taxation in the state and locality applicable to Executive on the Date of Termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

(c) The determination as to whether a reduction in the Aggregate Payments shall be made pursuant to this Section 3.3 shall be made by a nationally recognized accounting firm selected by the Company (the “**Accounting Firm**”), which shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the Date of Termination, if applicable, or at such earlier time as is reasonably requested by the Company or Executive. Any determination by the Accounting Firm shall be binding upon the Company and Executive.

SECTION IV RESTRICTIVE COVENANTS

4.1 Confidential Information.

(a) Executive acknowledges that the Company and its Affiliates continually develop Confidential Information (as defined below), that Executive may develop Confidential Information for the Company or its Affiliates and that Executive may learn of Confidential Information during the course of Executive’s employment. Executive will comply with the policies and procedures of the Company and its Affiliates for protecting Confidential Information and shall not disclose to any person or use, other than as required by applicable law or for the proper performance of Executive’s duties and responsibilities to the Company and its Affiliates, any Confidential Information obtained by Executive incident to Executive’s employment or other association with the Company or any of its Affiliates. Executive understands that this restriction shall continue to apply after Executive’s employment terminates, regardless of the reason for such termination. The confidentiality obligation under this Section 4.1 shall not apply to information which is generally known or readily available to the public at the time of disclosure or becomes generally known through no wrongful act on the part of Executive or any other person having an obligation of confidentiality to the Company or any of its Affiliates or is required to be disclosed in order to enforce this Agreement.

(b) All documents, records, tapes and other media of every kind and description relating to the business, present or otherwise, of the Company or its Affiliates and any copies, in whole or in part, thereof (the “**Documents**”), whether or not prepared by Executive, shall be the sole and exclusive property of the Company and its Affiliates. Executive shall safeguard all Documents and shall surrender to the Company at the time Executive’s employment terminates, or at such earlier time or times as the Board or its designee may specify, all Documents then in Executive’s possession or control.

(c) “**Confidential Information**” means any and all information of the Company and its Affiliates that is not generally known by those with whom the Company or any of its Affiliates competes or does business, or with whom the Company or any of its Affiliates plans to compete or do business and any and all information, publicly known in whole or in part or not, which, if disclosed by the Company or any of its Affiliates would assist in competition against them. Confidential Information includes without limitation such information relating to (i) the development, research, testing, manufacturing, marketing and financial activities of the Company and its Affiliates; (ii) the products and services of the Company and its Affiliates; (iii) the costs, sources of supply, financial performance and strategic plans of the Company and its Affiliates; (iv) the identity and special needs of the customers of the Company and its Affiliates; and (v) the people and organizations with whom the Company and its Affiliates have business relationships and the nature and substance of those relationships. Confidential Information also includes any information that the Company or any of its Affiliates has received, or may receive hereafter, belonging to customers or others with any understanding, express or implied, that the information would not be disclosed.

4.2 Non-Competition and Non-Solicitation.

(a) Executive agrees and acknowledges that the business (the “**Business**”) of the Company is any business activity engaged in, or actively contemplated by the Company (or any Subsidiary) to be engaged in, by the Company (or any Subsidiary) and with which Executive or was involved on or prior to the Date of Termination.

(b) Executive agrees that, except as the Company expressly agrees in writing, during the Restricted Period (defined below), Executive shall not within the Territory (defined below), directly or indirectly, as an owner, partner, affiliate, stockholder, joint venturer, director, employee, consultant, contractor, principal, trustee or licensor, or in any other similar capacity whatsoever of or for any person or entity (other than for the Company):

(i) engage in, own, manage, operate, sell, finance, control, advise or participate in the ownership, management, operation, sales, finance or control of, be employed or employed by, or be connected in any manner with, any business that competes with the Business (each, a “**Competitor**”). Notwithstanding this Section 4.2(b)(i), Executive may accept employment with a Competitor whose business is diversified, provided that (A) such employment is with a portion of the Competitor’s business that does not provide products or services that are the same as, are similar to, or compete with the Company’s products or services (“**Competing Products or Services**”); and (B) prior to Executive’s acceptance of such employment with Competitor, the Company receives separate written assurances satisfactory to the Company from such Competitor and from Executive that Executive will not provide any Competing Products or Services;

(ii) approach, solicit, divert, interfere with, or take away, the business or patronage of any of the actual or prospective members, customers, or clients of the Company, with whom Executive had material Business-related contact and/or about which Executive had access to and/or knowledge of Confidential Information, for a purpose that is competitive with the Business; or

(iii) solicit (whether as an employee, consultant, agent, independent contractor, or otherwise) any person who is, or who at any time during the six (6)-month period prior to the Date of Termination had been, employed or engaged by the Company, or induce or take any action which is intended to induce any such person to terminate his or her employment or relationship, or otherwise cease his or her relationship, with the Company, or interfere in any manner with the contractual or employment relationship between the Company and any employee of or any other person engaged by the Company.

“**Restricted Period**” shall mean the period of time beginning on the Effective Date and ending on the date that is twelve (12) months following the Date of Termination.

“**Territory**” shall mean all of the states of the United States of America and any other country or territory with respect to which Executive has been materially engaged in Business-related activities on behalf of the Company and/or about which Executive has had access to and/or knowledge of Confidential Information.

(c) Notwithstanding anything to the contrary in Section 4.2(b) of this Agreement, Executive is permitted to own, individually, as a passive investor (with no director designation rights, voting rights or veto rights or other special governance or voting rights), up to a one percent (1%) interest in any publicly traded entity that is a Competitor.

4.3 Executive shall disclose in writing all of Executive’s relationships as a director, employee, consultant, contractor, principal, trustee, licensor, agent, or otherwise, with a Competitor or any other business entity, to the Company until the end of the Restricted Period. Executive shall not disparage the Company or any of its officers, directors, or employees; *provided*, however, that this Section 4.3 shall not prohibit or constrain truthful testimony by Executive compelled by any valid legal process or valid legal dispute resolution process. Notwithstanding anything herein to the contrary, nothing in this Section IV shall prevent either party hereto from enforcing such party’s rights or remedies hereunder or that such party may otherwise be entitled to enforce or assert under any other agreement or applicable law, or shall limit such rights or remedies in any way.

4.4 During the Restricted Period, Executive shall notify in writing any prospective new employer or entity otherwise seeking to engage Executive that the provisions of this Section IV exist prior to accepting employment or such other engagement.

4.5 The terms of this Section IV are reasonable and necessary in light of Executive’s position with the Company and responsibility and knowledge of the operations of the Company and its Subsidiaries and are not more restrictive than necessary to protect the legitimate interests of the parties hereto. In addition, any breach of the covenants contained in this Section IV would cause irreparable harm to the Company, its Subsidiaries and Affiliates and there would be no adequate remedy at law or in damages to compensate the Company, its Subsidiaries and Affiliates for any such

breach. In the event of a breach or threatened breach by Executive of any of the provisions of this Agreement, Executive hereby consents and agrees that money damages would not afford an adequate remedy and that the Company shall be entitled to seek a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages, and without the necessity of posting any bond or other security, where permissible under applicable law. Any equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages, or other available relief. Notwithstanding the foregoing, this Agreement is not intended to, and shall be interpreted in a manner that does not, limit or restrict Executive from exercising any legally protected whistleblower rights (including pursuant to Rule 21F under the Exchange Act).

4.6 Survival of Restrictive Covenants. Upon termination of Executive's employment for any reason whatsoever, the obligations of Executive pursuant to this Section IV shall survive and remain in effect for the periods described herein.

4.7 No Waiver of Legal Remedies. The restrictions in this Agreement are in addition to and not in lieu of any other obligation of Executive to protect confidential information and trade secrets and any rights and remedies which the Company may have at law or in equity. Nothing in this Agreement is intended to or should be interpreted as diminishing any rights and remedies the Company has. Enforcement of rights and remedies pursuant to this Agreement by the Company and/or any other entity shall not be construed as a waiver of any other rights or remedies at law or equity.

4.8 Protected Rights. Notwithstanding any other provision of this Agreement, nothing contained in this Agreement limits Executive's ability to file a charge or complaint with the Securities and Exchange Commission or any other federal, state or local government agency or commission (collectively, "**Government Agencies**"), or prevents Executive from providing truthful testimony in response to a lawfully-issued subpoena or court order. Further, this Agreement does not limit Executive's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing non-privileged documents or other information, without notice to the Company.

4.9 Defend Trade Secrets Act. Executive is hereby notified that under the Defend Trade Secrets Act: (a) no individual will be held criminally or civilly liable under federal or state trade secret law for disclosure of a trade secret (as defined in the Economic Espionage Act) that is: (i) made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and made solely for the purpose of reporting or investigating a suspected violation of law; or (ii) made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal; and (b) an individual who pursues a lawsuit for retaliation by an employer for reporting a suspected violation of the law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal, and does not disclose the trade secret, except as permitted by court order.

**SECTION V
RESOLUTION OF DISPUTES**

5.1 Jurisdiction and Venue. Executive and the Company irrevocably submit to the exclusive jurisdiction of (i) the United States District Court for the District of Delaware; and (ii) the courts of the State of Delaware for the purposes of any suit, action or other proceeding arising out of this Agreement. Executive and the Company agree to commence any such action, suit or proceeding either in the United States District Court for the District of Delaware or, if such suit, action or other proceeding may not be brought in such court for jurisdictional reasons, in the courts of the State of Delaware with jurisdiction over New Castle County. Executive and the Company further agree that service of any process, summons, notice or document by U.S. registered mail to the other party's address set forth below shall be effective service of process for any action, suit or proceeding in Delaware with respect to any matters to which Executive has submitted to jurisdiction in this Section 5.1. Executive and the Company irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement in (A) the United States District Court for the District of Delaware; or (B) the courts of the State of Delaware, and hereby and thereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

5.2 Waiver of Jury Trial. Executive and the Company hereby waive, to the fullest extent permitted by applicable law, any right either of them may have to a trial by jury in respect to any litigation directly or indirectly arising out of, under or in connection with this Agreement.

5.3 Confidentiality. Executive hereby agrees to keep confidential the existence of, and any information concerning, a dispute described in this Section V, except that Executive may disclose information concerning such dispute to the court that is considering such dispute or to Executive's legal counsel (*provided* that such counsel agrees not to disclose any such information other than as necessary to the prosecution or defense of the dispute).

5.4 Payment of Expenses. In the event that Executive institutes any legal action, arbitration or proceeding against the Company to enforce any part of this Agreement and substantially obtains the relief sought, whether by compromise, settlement, judgment or the abandonment by the Company of its claim or defense, the Company shall pay or reimburse Executive for the reasonable attorneys' fees and necessary costs Executive incurs in connection with such action, arbitration or proceeding. Such reimbursement shall be made to Executive following such final compromise, settlement, unappealable judgment or abandonment, and shall be made within ten (10) days following presentation to the Company of appropriate invoices or other documentation of the amount of such fees and expenses.

**SECTION VI
SUCCESSORS**

6.1 In addition to any obligations imposed by law upon any successor to the Company, the Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent

that the Company would be required to perform it if no such succession had taken place. The provisions of this Section VI shall continue to apply to each subsequent employer of Executive bound by this Agreement in the event of any merger, consolidation or transfer of all or substantially all of the business or assets of that subsequent employer. This Agreement shall inure to the benefit of the Company, such successors and any assigns. The term “**the Company**” as used herein shall include such successors, and any assigns.

6.2 This Agreement shall inure to the benefit of and be enforceable by Executive’s personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

SECTION VII NOTICES

7.1 For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing (including email, *provided*, that such email states that it is a notice delivered pursuant to this Section 7.1) and shall be given at the address or email address set forth below (or to such other address or email address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address or email address shall be effective only upon actual receipt). All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed to have been received on the next succeeding business day in the place of receipt.

To the Company:

The RealReal, Inc.
55 Francisco Street, Suite 600
San Francisco, CA 94133
Attention: General Counsel
Email: []

To Executive: At Executive’s most recent mailing address in the records of the Company, or at Executive’s employee email address (during employment).

SECTION VIII MISCELLANEOUS

8.1 Any compensation paid or payable to Executive pursuant to this Agreement which is subject to recovery under any law, government regulation, order or stock exchange listing requirement, or under any policy of the Company adopted from time to time, will be subject to such deductions and clawback (recovery) as may be required to be made pursuant to such law, government regulation, order, stock exchange listing requirement or policy of the Company. Executive specifically authorizes the Company to withhold from future salary or wages any amounts that may become due under this provision.

8.2 This Agreement embodies the entire agreement of the Company and Executive relating to separation or severance pay and, except as specifically provided herein, no provisions of

any employee manual, personnel policies, corporate directives or other agreement or document shall be deemed to modify the terms of this Agreement. No amendment or modification of this Agreement shall be valid or binding upon Executive or the Company unless made in writing and signed by the Company and Executive. This Agreement supersedes all prior understandings and agreements addressing severance or separation pay to which Executive and the Company or an Affiliate are or were parties, including any previous change in control agreement, severance plan, offer letter provisions, or other employment agreements.

8.3 No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

8.4 No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

8.5 This Agreement shall not modify the “at will” nature of Executive’s employment, nor shall it confer upon Executive any right to continue employment or service with the Company or its affiliates, nor shall this Agreement interfere in any way with the right of the Company or its affiliates to terminate Executive’s employment or service at any time.

8.6 The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect. If a judicial determination is made that any provision of this Agreement constitutes an unreasonable or otherwise unenforceable restriction against Executive, such provision shall be rendered void only to the extent that such judicial determination finds the provision to be unreasonable or otherwise unenforceable with respect to Executive. In this regard, Executive hereby agrees that any judicial authority construing this Agreement shall be empowered to reform any portion of this Agreement, including without limitation the scope of the Business, the Territory, and the Restricted Period, in order to make the covenants herein binding and enforceable with respect to Executive, and to apply the provisions of this Agreement and to enforce against Executive the remaining portion of such provisions as the judicial authority determines to be reasonable and enforceable. All of the covenants contained in this Agreement shall be construed as an agreement independent of any other provisions in this Agreement, and the existence of any claim or cause of action Executive may have against the Company and/or its affiliates (other than in connection with a material breach of this Agreement by the Company) shall not constitute a defense to the enforcement by the Company and/or its affiliates of such covenants.

8.7 The Agreement shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware.

8.8 This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by “.pdf” format or scanned pages shall be effective as delivery of a manually executed counterpart to this Agreement.

[Remainder of page left intentionally blank.]

IN WITNESS WHEREOF, the parties have signed this Agreement to be effective as of the Effective Date.

The RealReal, Inc.

By: _____
Name:
Title:

Executive

**CERTIFICATION 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**

I, Julie Wainwright, certify that:

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

Date: May 10, 2021

By: _____ /s/ Julie Wainwright

Julie Wainwright
President and Chief Executive Officer

**CERTIFICATION 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**

I, Matt Gustke, certify that:

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

Date: May 10, 2021

By: _____ /s/ Matt Gustke

Matt Gustke
Chief Financial Officer

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

In connection with the Quarterly Report of The RealReal, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: May 10, 2021

By: _____ /s/ Julie Wainwright
Julie Wainwright
President and Chief Executive Officer

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

In connection with the Quarterly Report of The RealReal, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: May 10, 2021

By: _____ /s/ Matt Gustke
Matt Gustke
Chief Financial Officer