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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2021

OR

o **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	**45-1234222**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
55 Francisco Street Suite 600 San Francisco, CA	**94133**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

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

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

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

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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
Emerging growth company	o		

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. o

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

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

The aggregate market value of the common equity held by non-affiliates of the Registrant was approximately $1,524,824,900 as of June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of the shares of common stock on The NASDAQ Stock Market reported for June 30, 2021. Excludes an aggregate of 14,292,254 shares of the registrant's common stock held by officers, directors, affiliated stockholders as of June 30, 2021.

The number of shares of Registrant's Common Stock outstanding as of February 18, 2022 was 93,055,388.

DOCUMENTS INCORPORATED BY REFERENCE

List Part III incorporates information by reference from the definitive proxy statement for the registrant's 2022 Annual Meeting of Stockholders.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial position, business strategy and plans, objectives of management for future operations, long term operating expenses, the opening of additional retail stores in the future, the development of our automation technology, expectations for capital requirements and the use of proceeds from our initial public offering, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

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

- our future financial performance, including our expectations regarding our revenue, cost of revenue, operating expenses, and our ability to achieve and maintain future profitability, in particular with respect to the impacts of 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 Annual Report on Form 10-K and, although we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted a thorough inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Annual Report on Form 10-K, whether as a result of any new information, future events or otherwise.

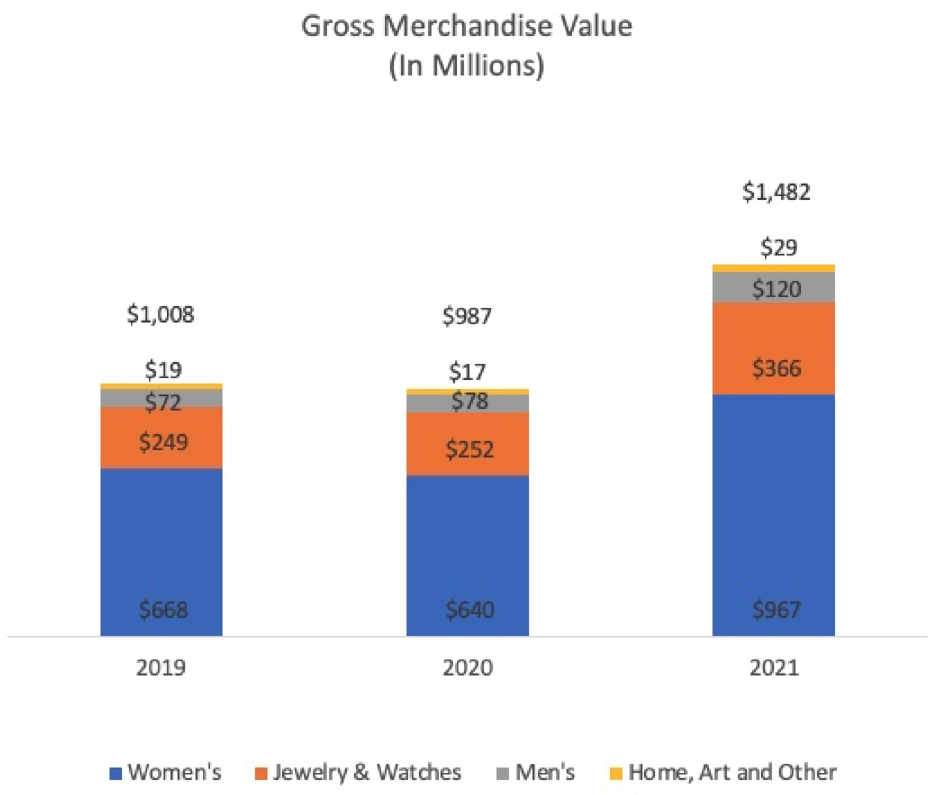
PART I

Item 1. Business.

Overview

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

We offer a wide selection of authenticated, primarily pre-owned luxury goods on our online marketplace bearing the brands of thousands of luxury and premium designers. The top-selling luxury designers on our online marketplace include Cartier, Chanel, Christian Louboutin, Gucci, Hermès, Louis Vuitton, Prada, Rolex, Tiffany & Co. and Valentino. We offer products across multiple categories including women's, men's, kids', jewelry and watches, and home and art.



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

We also operate our larger footprint flagship retail stores, or Flagship Stores, in West Hollywood in Los Angeles, California, Union Square in San Francisco, California, SoHo and Upper East Side in New York, New York and in Chicago, Illinois. Our Flagship Stores are typically 8,000 to 12,000 square feet with thousands of unique items for sale and are located in highly desirable, densely populated locations with strong foot traffic. In addition, we operate smaller footprint neighborhood retail stores, or Neighborhood Stores, in twelve locations in New York, California, Texas, Georgia, Connecticut and Florida. Our Neighborhood Stores are typically 1,800 to 3,500 square feet with items for sale reflecting a selection of the Company's online assortment and are located in an area with a large number of potential customers.

Our Market

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

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

Our Consignors

By making consignment easy, convenient, reliable and fast for our consignors, we aim to unlock a vast quantity of desirable, high-quality, primarily pre-owned luxury goods. Our sales professionals remove friction from the consignment process and build lasting relationships with our consignors. In 2021, approximately 84% of our gross merchandise value ("GMV") came from repeat consignors. Our unique service model incentivizes consumers to consign by making the process easy.

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

- *We deliver an end-to-end service experience.* We remove friction from the consignment process by providing multiple consignment methods. We offer concierge at-home consultation and pickup, 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 do the work on behalf of consignors.* Once consigned items reach one of our four authentication centers, we authenticate, write the associated copy, photograph, price, sell and handle all fulfillment and returns logistics, making the consignment process seamless. Improvements in our automation of pricing, copywriting and photo retouching have improved the efficiency of our operations.
- *We generate high commissions for consignors.* Our scale and global reach combined with our technology-driven online marketplace and proprietary data enable consignors to realize optimal value for their pre-owned luxury goods. Our consignors earn up to 85% in commissions and achieved an average commission rate of approximately 65% in 2021.
- *We offer a range of payment options for consignors and businesses.* Consignors are generally paid after an item has sold, however, we also offer trade-in terms and “Get Paid Now” options to both businesses and individuals. “Get Paid Now” is a program whereby a consignor’s items are evaluated, authenticated and priced and the consignor receives payment based on this process in advance of the sale of the item.
- *We drive rapid monetization.* Our online marketplace efficiently matches supply with demand resulting in exceptional sales velocity. In 2021 and 2020, approximately 59% and 60% of the products on our online marketplace sold within 30 days, respectively. In addition to sales velocity, we measure the ratio

of demand versus supply in a given period, which we refer to as our online marketplace sell-through ratio. Sell-through ratio is defined as GMV in the period divided by the aggregate initial value of items added to our online marketplace in that period. In 2021 and 2020, our online marketplace sell-through ratios were 94% and 99%, respectively.

In addition to consignments from individuals, we also make direct purchases from business sellers such as resellers, wholesalers, brands, retailers, or Vendors, which helps to drive supply and expand our product offerings.

Our Buyers

We make it easy for buyers to shop our vast, yet curated selection of authenticated, primarily pre-owned luxury goods. In 2021, we had approximately 797,000 active buyers and approximately 84% of our GMV came from repeat buyers. As we continue to unlock exclusive luxury supply, we aim to attract new buyers and drive repeat purchases from our existing buyers.

- *We offer a seamless buying experience.* Buyers access our omni-channel online marketplace through our website, mobile app and retail stores, enabling them to purchase anytime, anywhere. Our Flagship and Neighborhood Stores also offer our buyers sophisticated service, surrounded by a beautifully designed space, where they can shop our dynamic curation of authenticated pre-owned luxury goods across all of our categories.
- *We build trust by putting every item through our authentication process.* We continue to invest and innovate in authentication. We believe we have the most rigorous authentication process in the marketplace. We have highly trained gemologists, horologists, brand experts and art curators who collectively inspect thousands of items each day. All items pass through a rigorous brand-specific authentication process before they are accepted for consignment. This process includes inspecting the item for attributes such as appropriate brand markings, date codes, serial tags and hologram stickers. Our gemologists and horologists authenticate and inspect our fine jewelry and watches, and each piece comes with an authentication certificate. We utilize sophisticated gemological devices to assist our experts and continue to innovate in this area. In 2021, we developed a proprietary technology with the University of Arizona to inspect gemstones faster and more accurately, without unmounting the stone. In addition, our team of fine art curators and specialists research and validate art pieces for authenticity. In 2021, we augmented our authentication process with proprietary item and consignor risk scoring algorithms. We have a zero-tolerance policy when it comes to counterfeit goods. Items that are deemed to be counterfeit are removed from our authentication centers.
- *We provide access to unique, highly coveted and exclusive products.* We provide buyers with access to a vast, yet curated selection of unique, authenticated, pre-owned luxury goods. In 2021, we sold goods bearing the brands of thousands of luxury and premium designers, including highly coveted items such as rare watches and handbags.
- *We provide a gateway to luxury brands.* We believe we are expanding the overall market for both new and pre-owned luxury goods, as the ability to experience and engage with luxury brands through our online marketplace results in an earlier appreciation for high-quality, well-crafted items, and inspires consumers to purchase new luxury items. As of December 31, 2021, we had partnerships with Stella McCartney, Burberry, Nanushka, Saks Fifth Avenue, and Mytheresa, and we believe our online marketplace cultivates customer relationships for luxury brands.

Our Technology

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

Our powerful data analytics capabilities enable us to improve both consignor and buyer experiences. Our online marketplace generates and aggregates hundreds of millions of unique data points, including data from approximately 865 million views of items on our online marketplace in 2021 by potential buyers, which we refer to as item views, and approximately 23.0 million item sales since inception. Each consigned item also has up to 50 unique attributes. Informed by this data, we have developed proprietary algorithms and business processes to optimize our operations, including supply sourcing, merchandising, authentication, pricing and marketing.

Environmental, Social and Governance

Our stakeholders are essential to our business—shareholders, consignors, buyers, employees, and the communities in which we do business. We aspire to operate our business with positive social and environmental impact. We have taken steps in human capital initiatives that drive equality through equal pay and equal opportunity.

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

Our Sustainability Program

Sustainability is woven into the fabric of our business. We believe a growing awareness of the environmental impact of recirculating luxury goods significantly contributes to the appeal of consigning and purchasing on our online marketplace.

We are committed to extending the lifecycle of luxury goods by promoting their recirculation, rather than creating waste. Our sustainability efforts include:

- ***Carbon Neutral Pledge.*** In November 2019, we were the first company to take the pledge in the CEO Carbon Neutral Challenge issued by Gucci CEO, Marco Bizzarri. We pledged to be carbon neutral in 2021, and we reached that goal in 2020 (Scope 1, Scope 2 and certain Scope 3 emissions (downstream transportation and distribution, employee travel, purchased goods and services (corrugate), and capital goods (paper))). The RealReal engaged an independent third-party to measure The RealReal's total greenhouse gas (GHG) emissions. Our path to carbon neutrality included implementing reductions and annually offsetting emissions that cannot be eliminated.
- ***Sustainability Calculator.*** In 2018, we launched our Sustainability Calculator on National Consignment Day as a tool to quantify the positive impact consignment has on the planet.
- ***Circular Resource Lab and ReCollection 02.*** In 2021, we launched our 64-piece apparel collection, which reimagined the unwearable or damaged into unique and premium luxury items. ReCollection 02, the first project from our new Circular ReSource Lab that works to create impactful solutions to the fashion waste crisis, gives new life to clothing that would otherwise likely end up in a landfill. Circular ReSource Lab is a hub for us to test, learn and share to create impactful solutions to the fashion waste crisis.
- ***National Consignment Date.*** We founded National Consignment Day as a national recognition day that occurs on the first Monday of October. National Consignment Day celebrates the positive impact consigning has on the environment. We expect to create a National Consignment Day campaign as an opportunity to encourage people to consign.
- ***Environmental Management System.*** In 2020, we formed a cross-functional Environmental Management System (also known as our Sustainability Taskforce) to identify projects throughout the organization that have the potential to reduce our environmental impact. The Sustainability Taskforce prioritizes high impact projects, meets bi-weekly and aims to embed a focus on sustainability across the organization. Throughout 2021, we provided regular updates to our executive steering committee on progress toward achieving our goals and initiatives.

- ***United Nations Climate Change's Fashion Industry Charter for Climate Action.*** In April 2019, we became the first company in the resale industry to join the United Nations Climate Change's Fashion Industry Charter for Climate Action, which aims to limit global warming within the fashion industry and inspire climate action. The charter endeavors to achieve a 50% reduction in carbon emissions in the fashion industry by 2030 and net zero emissions by 2050. We are currently developing a detailed plan to meet our target of reducing our total GHG emissions (Scope 1, Scope 2 and Scope 3) 50% by 2030, from our 2019 emissions baseline.
- ***Repair Program.*** We have several repair and alteration programs that put our brand's mission into practice, further extending the life cycle of luxury goods. The repair services help reduce the number of condition-based rejections and create a streamlined process to help keep items in circulation.

Human Capital Resources

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

As of December 31, 2021, we had 3,355 full-time equivalent employees. Additionally, we rely on independent contractors and temporary personnel to supplement our workforce, primarily in our authentication centers. None of our employees is represented by a labor union or covered by a collective bargaining agreement. We consider our relations with our employees to be positive.

Diversity and Inclusion

We work to inspire and empower our employees to think creatively and authentically, share their ideas, bring their whole selves to work, and strive for greatness every day. We are proud to have a diverse team, and we recognize there is opportunity for us to continue improving representation, particularly among our senior leadership. We support and celebrate diversity, and are committed to providing an equal employment opportunity regardless of race, color, ancestry, religion, sex, national origin, sexual orientation, age, citizenship, marital status, disability, gender identity or expression, or Veteran status. Below is a breakdown of how our team self-identifies as of December 31, 2021 (table does not reflect, of the total individuals surveyed, approximately 3% who chose not to self-identify, approximately 4% who self-identified as two or more races, and approximately 1% who self-identified as Native American):

	All	**Corporate**	**Management**	**Executives**	**Board**
Black	18 %	15 %	8 %	0 %	22 %
Hispanic/Latinx	29 %	12 %	17 %	0 %	0 %
Asian	8 %	19 %	13 %	14 %	0 %
White	36 %	45 %	55 %	79 %	78 %
Female	66 %	65 %	63 %	53 %	67 %

In 2021, we developed and launched our current DEI vision and strategy. We aspire to be designers of an equitable future. Creating a more sustainable future by growing the circular economy requires us to bring different perspectives together to solve problems in new, meaningful ways. We believe that a culture of trust, safety and belonging is key to unlocking the power of differences, leading to creative problem solving and high performing teams in order to fuel our purpose and impact. In order to deepen visibility into our workforce data, in 2021 we expanded employee self-reporting options to include gender identity, LGBTQ, veteran, and disability status.

In 2021, we continued to develop and grow our six Employee Resource Groups (ERGs) by developing clear missions, introducing a new leadership structure, and amplifying diverse voices across our company. ERG membership grew to over 1,000 employees, or 20% of our workforce, since launching one year ago. In partnership with the DEI team, ERGs led initiatives and programs focused on education, awareness, career development, and social connection. We also enabled pronoun features across our technologies to enhance inclusion of trans and non-binary employees and normalize pronoun sharing.

We provide training on managing bias to managers of people and have invested in a DEI learning curriculum to empower employees at all levels with the knowledge and resources to practice inclusion. We implemented a tool that encourages employees to report bias, discrimination and harassment, or behavior that does not reflect our values and policies, and provide feedback on culture.

In 2021, we formed several new recruiting partnerships to strengthen access to diverse talent communities, including the Black in Jewelry Coalition, Jopwell and the National Sales Network. We participated in both the Black in Fashion Council and Racial Equality Project benchmarking surveys to uncover opportunities to advance equity. We implemented a diverse slate requirement for all roles Director and above requiring at least one underrepresented candidate to be interviewed before filling a role, which has been 100% met to date. This summer, we hosted our first internship class as part of our work to build a diverse talent pipeline, 67% of whom identified as women, and 67% as Black, Indigenous, and people of color ("BIPOC"). We are also investing in the growth and retention of our diverse talent through differentiated leadership development, including by launching a six month coaching and development pilot for 100 BIPOC women.

In addition, when searching for new directors, the Board actively seeks out women and individuals from minority groups to include in the pool from which Board nominees are chosen.

Talent Development and Training

We believe that the training and development of our employees is critical to our long-term success. We offer a variety of employee training programs in addition to the DEI programs discussed above, including onboarding, technical skills training, product and services training, and managerial soft skills training. These programs include training specific to each of our business functions, enabling us to provide our consignors and buyers with a consistent luxury experience. For example, we support our sales professionals by providing a 10-day virtual onboarding sequence conducted through peer-to-peer, facilitated and self-learning sessions, followed by continuous professional development programs. Our authentication team receives training depending on one of five levels. Entry level authenticators receive approximately 40 hours of training, and our expert authenticators receive additional and ongoing trainings to stay informed on the latest developments in brand authenticity. In 2021, we also delivered a Manager Development Series that was open to all people managers across the organization, and we offered a Leadership Development Program for selected people managers at the director and above levels.

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

Health, Safety and Wellness

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

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

In response to the COVID-19 pandemic, we implemented changes that we consider to be in the best interest of our employees, as well as the communities in which we operate, and which comply with government regulations. We have implemented additional safety measures for employees continuing critical on-site work. We believe we have been able to preserve our business continuity without sacrificing our commitment to keeping our employees safe during the COVID-19 pandemic.

Importantly, we recognize the importance of supporting our employee’s overall well-being and invested in programs that support mental and emotional health.

Seasonality

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

Intellectual Property

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

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

Corporate Information

We were incorporated in the state of Delaware in March 2011. Our principal executive offices are located at 55 Francisco Street, Suite 600, San Francisco, California 94133, and our telephone number is (855) 435-5893. You may access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports (and amendments thereto) filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act with the Securities and Exchange Commission ("SEC"), as well as proxy statements filed by us, free of charge on our website at www.therealreal.com, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Information contained on, or that can be accessed through, our website is not incorporated by reference into this or any other report we file with, or furnish to, the SEC, and you should not consider information on our website to be part of this or any other report we file with, or furnish to, the SEC. Such periodic reports, proxy statements and other information are also available at the SEC's website at http://www.sec.gov.

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

Item 1A. Risk Factors.

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

Risks Relating to 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 Arizona and three in New Jersey. In addition, we operate a 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 initially 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 or new 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 vaccine mandates, 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; disruption of the financial and labor markets, including the possibility of a national or global economic recession or depression; the limitations on operations requiring employees to perform their duties in-person, such as our warehouse operations; the potential for shipping difficulties, including delayed deliveries to our buyers; and weakened consumer demand. Additionally, the increased number of employees who work remotely 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 $98.4 million, $175.8 million, and $236.1 million in 2019, 2020 and 2021, respectively, and as of December 31, 2021 we had an accumulated deficit of $768.1 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, our revenue grew in 2018, 2019 and 2021. 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. 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 business, financial condition, operating results and the price of our stock.

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

Our business is seasonal and historically we have realized a disproportionate amount of our revenue and earnings for the year in the fourth quarter due to 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 we receive from the sale of goods on our online marketplace when we calculate revenue. We estimate this reserve based on historical return trends and our current expectations. The introduction of new products in the retail market, changes in consumer confidence or other competitive and general economic conditions, and higher than expected returns in connection with fourth quarter holiday buying may cause actual returns to exceed our reserve for returns. Any significant increase in returns that exceeds our reserves could adversely affect our revenue and operating results.

We may require additional capital to support business growth.

We may require additional funds to support our growth and respond to business challenges, 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.

We currently operate a limited number of retail stores, including a number of "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 buyers 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 and our operating results would be adversely affected.

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

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

Our growth and supply of product offerings depend on our ability to maintain our brand partnerships.

We have established brand partnerships with brands such as, 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 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 to 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 could experience similar reductions and fluctuations in the future. However, the timing and magnitude of such discounting can be difficult to predict and can be brought on by unique factors such as a retailer or brand going out of business and liquidating its inventory, which may happen to a greater extent as a result of 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 contributes a significant amount to our GMV. 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 occur in the future, 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. The market for employees is increasingly competitive and highly dependent on geographic location. Some of our employees have specific knowledge and skills that would make it more difficult to hire replacement personnel capable of effectively performing the same tasks without substantial training. We also provide specific training to our employees in each of our business functions in order to provide our consignors and buyers with a consistent luxury experience. We have recently faced labor shortages exacerbated by the effects of COVID-19, and we may continue to experience such shortages in the future. Our hiring challenges negatively impacted the time for processing and launching products on our website, and negatively impacted our GMV results, and similar challenges could negatively impact our business in the future. If we fail to successfully locate, hire, train and retain personnel in the future, our operations would be negatively impacted, which would have an adverse effect on our business, financial condition and operating results.

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

We lease facilities to store and accommodate the logistics infrastructure required to merchandise and ship the pre-owned luxury goods we sell through our online marketplace. Our ability to successfully grow our business depends on the availability and cost of leasing additional authentication centers that meet our criteria for a geographic location with access to a large, qualified talent pool as well as square footage, cost and other factors. We currently have four authentication centers - one in Arizona and three in New Jersey. Optimal space 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 Arizona and New Jersey, with a smaller portion of luxury goods offered for sale in our retail stores. Any large scale damage to or catastrophic loss of goods stored in such authentication centers or retail stores, 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.

Our business depends on shipping vendors to meet our shipping needs. If we are not able to maintain acceptable pricing and other terms or if our vendors experience performance problems or other difficulties, including as a result of the COVID-19 pandemic, it could negatively impact our operating results and our consignors' and buyers' experience. If we partner with additional 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, which may lack efficiency or become obsolete as we grow and we also rely on technology from third parties. If these technologies do not perform in accordance with our expectations, third parties change the terms and conditions that govern their relationships with us, or if competition increases for the technology and services provided by third parties, our business may be harmed.

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 (including credit card information) and other data relating to individuals, such as our consignors, buyers and employees. We also maintain other information, such as our trade secrets and confidential business information, that is sensitive and that we seek to protect. We rely substantially on commercially available systems, software, 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, including our employees, 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. The techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not identified until they are launched against a target, and we and our vendors may be unable to anticipate these techniques or to implement adequate preventative measures. Any actual or perceived compromise of our systems or data security measures or those of third parties with whom we do business, or any failure to prevent or mitigate the loss of personal or other confidential information and delays in detecting or providing notice of any such compromise or loss could disrupt our operations, damage our reputation, cause some participants to decrease or stop their use of our online marketplace and subject us to litigation, government action, increased transaction fees, remediation costs, regulatory fines or penalties or other additional costs and liabilities that could adversely affect our business, financial condition and operating results. While we carry insurance related to potential data breaches, the insurance we do carry may not be adequate to cover all possible losses that our business could suffer.

We may incur significant losses from fraud.

We may fail to prevent consignors from consigning stolen 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 leave in the future. We often cannot anticipate such departures and may not be able to promptly replace key leadership personnel. The loss of one or more of our key personnel or the inability to promptly identify a suitable successor to a key role could have an adverse effect on our business. 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 e-commerce. U.S. federal, state and local taxing authorities are currently reviewing the appropriate treatment of companies engaged in Internet commerce and considering changes to existing tax or other laws that could levy sales, income, consumption, use or other taxes relating to our activities, and/or impose obligations on us to collect such taxes. If such tax or other laws, rules or regulations are amended, or if new unfavorable laws, rules or regulations are enacted, the results could increase our tax payments or other obligations, prospectively or retrospectively, subject us to interest and penalties, decrease the demand for our services if we pass on such costs to our buyers or consignors, result in increased costs to update or expand our technical or administrative infrastructure or effectively limit the scope of our business activities if we decided not to conduct business in particular jurisdictions. As a result, these changes may have a material adverse effect on our business, results of operations, financial condition and prospects.

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

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

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

- actual or anticipated fluctuations in our consignor or buyer base, the level of consignor and buyer engagement, revenue or other operating results;
- the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors;
- variations between our actual operating results and the expectations of securities analysts, investors and the financial community;
- any forward-looking financial or operating information we may provide to the public or securities analysts, any changes in this information or our failure to meet expectations based on this information;
- additional shares of our common stock being sold into the market by us or our existing stockholders, or the anticipation of such sales;
- hedging activities by market participants;
- sudden increased or decreased interest in our stock from retail investors;
- substantial fluctuations in the daily trading volume of our common stock;
- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in operating performance and stock market valuations of companies in our industry, including our competitors;
- price and volume fluctuations in the stock market, including as a result of trends in the economy;
- lawsuits threatened or filed against us;
- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events or threats to public health, such as the current COVID-19 pandemic.

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

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

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

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

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

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

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

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

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

Risks Related to our Outstanding Notes

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

In June 2020, we issued $172.5 million in aggregate principal amount of 3.00% Convertible Senior Notes due 2025 (the "2025 Notes"), and in March 2021, we issued $287.5 million in aggregate principal amount of 1.00% Convertible Senior Notes due 2028 (the "2028 Notes" and, together with the 2025 Notes, the "Notes"), each issuance in an offering exempt from registration. We may be required to use a substantial portion of our cash flows from operations to pay interest and principal on our indebtedness. Such payments will reduce the funds available to use for working capital, capital expenditures and other corporate purposes and limit our ability to obtain additional financing, which may in turn limit our ability to implement our business strategy, heighten our vulnerability to downturns in our business, the industry, or in the general economy, limit our flexibility in planning for, or reacting to, changes in our business and the industry and prevent us from taking advantages of business opportunities as they arise. If we are unable to generate such cash flow to service our debt, we may be required to adopt one or more alternatives, such as selling assets, incurring additional debt, restructuring debt or issuing additional equity on terms that may be onerous or highly dilutive. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

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

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

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

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

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

Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 470-20, Debt with Conversion and Other Options, we have historically accounted for the liability and equity components of the Notes separately because the Notes may be settled entirely or partially in cash upon conversion in a manner that reflects our economic interest cost. This bifurcation resulted in a debt discount for Notes. See "Note 2— Summary of Significant Accounting Policies— Convertible Senior Notes." We used the effective interest method to amortize the debt discount to interest expense over the amortization period, which is the expected life of the Notes. However, ASC 470-20 has been amended for fiscal years beginning after December 15, 2021, such that we will account for the Notes as a single liability measured at their amortized cost beginning January 1, 2022, unless we determine that the conversion feature is a derivative that must be bifurcated from the host contract or that the substantial premium model in ASC 470-20 applies. As a result of this amendment, we expect a decrease to our accumulated deficit as of January 1, 2022 related to the interest expense from the amortization of the debt discount. In addition, we calculate diluted earnings per share using the "if converted" method, which assumes that all of the Notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be anti-dilutive, which adversely affects our diluted earnings per share. Future amendments to the accounting treatment for the Notes, could adversely affect our financial results, the trading price of our common stock and the trading price of the Notes.

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

In connection with the pricing of the Notes, we entered into privately negotiated capped call transactions with certain counterparties. The capped call transactions cover the number of shares of our common stock initially underlying the Notes. The capped call transactions are expected to offset the potential dilution to our common stock upon any conversion of the Notes. In connection with establishing their initial hedges of the capped call transactions, the counterparties or their respective affiliates entered into various derivative transactions with respect to our common stock. The counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so on each exercise date of the capped call transactions), or following any termination of any portion of the capped call transactions in connection with any repurchase, redemption or early conversions of the Notes or otherwise. This activity could also cause or avoid an increase or a decrease in the market price of our common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters are located in San Francisco, California and are leased for a term that expires in 2027 with a right of renewal. We lease an aggregate of approximately 1.4 million square feet of space for storage, merchandising operations and fulfillment located in Arizona and New Jersey. The lease to our Arizona facility expires in 2031, and leases to our New Jersey facilities each expire in 2029, all with a right of renewal. We lease additional offices located in Los Angeles and New York City and LCOs located in Chicago, Dallas, Los Angeles, Miami, New York and Washington D.C. We also have retail stores located in San Francisco, Brentwood, Palo Alto, Newport Beach, Los Angeles, Chicago, Greenwich, Dallas, Austin, Atlanta, Marin County, Manhasset, Palm Beach and New York City. We believe that our properties are suitable to meet our needs for the foreseeable future. In addition, to the extent we require additional space in the future, we believe that it would be available on commercially reasonable terms.

Item 3. 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 11—Commitments and Contingencies” in the notes to the audited financial statements.

On November 14, 2018, Chanel, Inc. sued the Company in the U.S. District Court for the Southern District of New York. The Complaint alleged federal and state law claims of trademark infringement, unfair competition, and false advertising. On February 1, 2019, Chanel, Inc. filed its First Amended Complaint that included substantially similar claims against the Company. On March 4, 2019, the Company filed a Motion to Dismiss the First Amended Complaint, which was granted in part and dismissed in part on March 30, 2020. The surviving claims against the Company include trademark infringement under 15 U.S.C. § 1114, false advertising under 15 U.S.C. § 1125, and unfair competition under New York common law. On May 29, 2020, the Company filed its Answer to the Amended Complaint. On October 30, 2020, the Company sought leave to amend its Answer to assert counterclaims against Chanel, Inc. for violations of the Sherman Act, 15 U.S.C. §§ 1 & 2, the Donnelly Act, N.Y. Gen. Bus. Law. § 340, and New York common law. The motion for leave to amend was granted on February 24, 2021. Chanel, Inc. moved to dismiss the Company’s counterclaims; the motion to dismiss remains pending. The parties agreed to a stay in April 2021 to engage in settlement discussions. After several mediation sessions, the parties were unable to reach a resolution, and the stay was lifted in November 2021. The Court entered an Amended Scheduling Order on December 20, 2021. Under the Amended Scheduling Order, all fact discovery is to be completed by August 1, 2022 and all discovery is to be completed by November 14, 2022. Fact discovery is underway, and the parties are actively working to resolve several ongoing discovery disputes. 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 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 July 27, 2021, the Company reached an agreement in principle to settle this shareholder class action. On November 5, 2021, plaintiff filed the executed stipulation of settlement and motion for preliminary approval of the settlement with the federal court. The stipulation of settlement is subject to preliminary and final approval by the court. The financial terms of the stipulation of settlement provide that the Company will pay $11.0 million within thirty (30) days of the later of preliminary approval of the settlement or plaintiff’s counsel providing payment instructions. In connection with the settlement, the Company recorded approximately $11.0 million for the year ended December 31, 2021 under our Operating expenses as a Legal settlement. The Company intends to pay for the settlement with available resources.

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 purported shareholder class actions. The two derivative cases have been consolidated. On September 13, 2021, the parties reached a settlement in principle of the derivative case. The settlement in principle provides for certain corporate governance reforms in exchange for a release and dismissal of the lawsuit. On October 21, 2021, the parties reached agreement to pay up to $0.5 million in attorneys' fees and costs to plaintiffs' counsel in the derivative case. On November 5, 2021, the parties entered into a stipulation of settlement, and, on February 11, 2022, the court entered an order and final judgment approving the settlement. In connection with the derivative settlement, the Company recorded approximately $0.5 million for the year ended December 31, 2021 under our Operating expenses as a Legal settlement. The stipulation of settlement was preliminarily approved on December 8, 2021, and the $0.5 million was paid within thirty (30) days of the preliminary approval, or on January 7, 2022, with available resources.

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 4. Mine Safety Disclosures.

None.

PART II

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

Market Information

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

Stockholders

As of the close of business on February 18, 2022, there were 155 stockholders of record of our common stock. The actual number of holders of our common stock is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers or other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

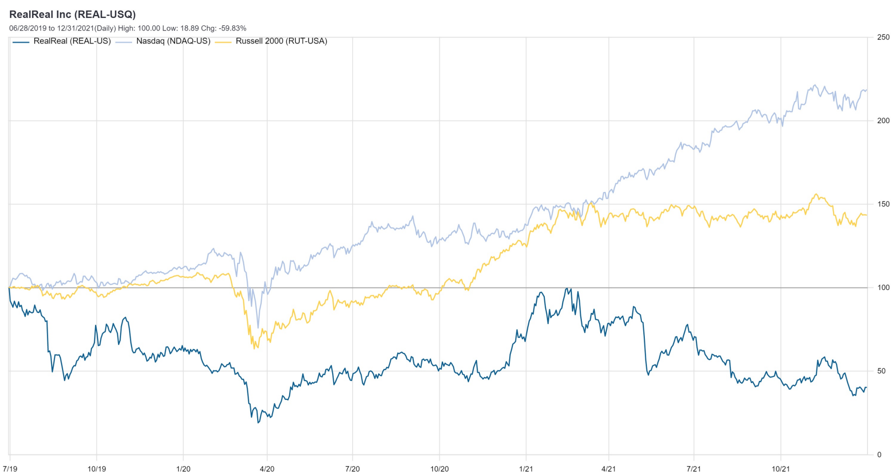
We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and future earnings, if any, to fund the development and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future. Any future determination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

Securities Authorized for Issuance under Equity Compensation Plans

The information required by this item with respect to our equity compensation plans is incorporated by reference to our 2022 proxy statement set forth in the section titled "Securities Authorized for Issuance under Equity Compensation Plans" to be filed with the SEC within 120 days of the year ended December 31, 2021 (the "Proxy Statement").

Stock Performance Graph

We have presented below the cumulative total return to our stockholders in comparison to the Nasdaq Composite Index (Nasdaq Composite) and Russell 2000. All values assume a $100 initial investment on June 28, 2019, the date our common stock began trading on the Nasdaq Global Select Market, through December 31, 2021 and data for the Nasdaq Composite and Russell 2000 assume reinvestment of dividends. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our common stock.



Recent Sales of Unregistered Securities

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.

Issuer Purchases of Equity Securities

None.

Item 6. Reserved

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

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

Overview

We are the world's largest online marketplace for the resale of authenticated luxury goods. We are revolutionizing luxury resale by providing an end-to-end service that unlocks supply from consignors and creates a trusted, curated online marketplace for buyers globally. Since our inception in 2011, we have cultivated a loyal and engaged consignor and buyer base through our investments in our technology platform, logistics infrastructure and people. We offer a wide selection of authenticated, primarily pre-owned luxury goods on our online marketplace bearing the brands of thousands of luxury and premium designers. We offer products across multiple categories including women's and men's fashion, fine jewelry and watches, 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 at-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 23.0 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 2021 and 2020, our take rate on consigned goods was 34.7% and 35.7% respectively. The decrease in our take rate was due to the higher sales mix of lower take rate categories such as handbags and jewelry. 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 19 retail locations. Our omni-channel experience enables buyers to purchase anytime and anywhere. We have a global base of more than 25 million members as of December 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 December 31, 2021, we have cumulatively paid approximately $2.5 billion in commissions to our consignors. Our GMV increased to $1.5 billion in 2021 from $987.0 million in 2020. Our AOV increased to $497 in 2021 from $442 in 2020. In 2021 and 2020, our total revenue was $467.7 million and $299.9 million, respectively, representing an increase of 56% in 2021. In 2021 and 2020, our gross profit was $273.5 million and $187.6 million, respectively, representing an increase of 46% in 2021.

Impact of COVID-19 on Our Business

In the year ended December 31, 2020, the COVID-19 pandemic adversely impacted our business and results of operations. During the year ended December 31, 2021, we experienced a return to our previous high growth.

Early in 2020, operations in our authentication centers were limited, in-person concierge consignment appointments were temporarily suspended and our retail stores and luxury consignment offices were temporarily closed due to restrictions related to COVID-19. As these restrictions began to ease in the second half of 2020, our operations capacity was no longer limited and all of our luxury consignment offices and retail stores re-opened. GMV decreased in 2020 from 2019 as supply and demand were negatively impacted by COVID-19 related disruptions.

In 2021, many COVID-19 related restrictions continued to ease, allowing the Company to resume in-person concierge consignment appointments. GMV and net revenues have fully recovered, yielding year over year increases. During 2021, we faced staffing challenges exacerbated by the effects of COVID-19 and we may continue to experience such challenges in 2022. While supply has continued to come into our authentication centers, hiring challenges in late December 2021 and into early January 2022 negatively impacted the time for processing and launching products on our website. Additionally, the effects of any new variants of COVID-19 that may arise make it difficult to predict the impact of COVID-19 on our business going forward, including any impacts on our vendors.

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. We have followed internally derived specific health-related criteria with an emphasis on comprehensive safety precautions, including frequent cleaning in our stores and social distancing.

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.

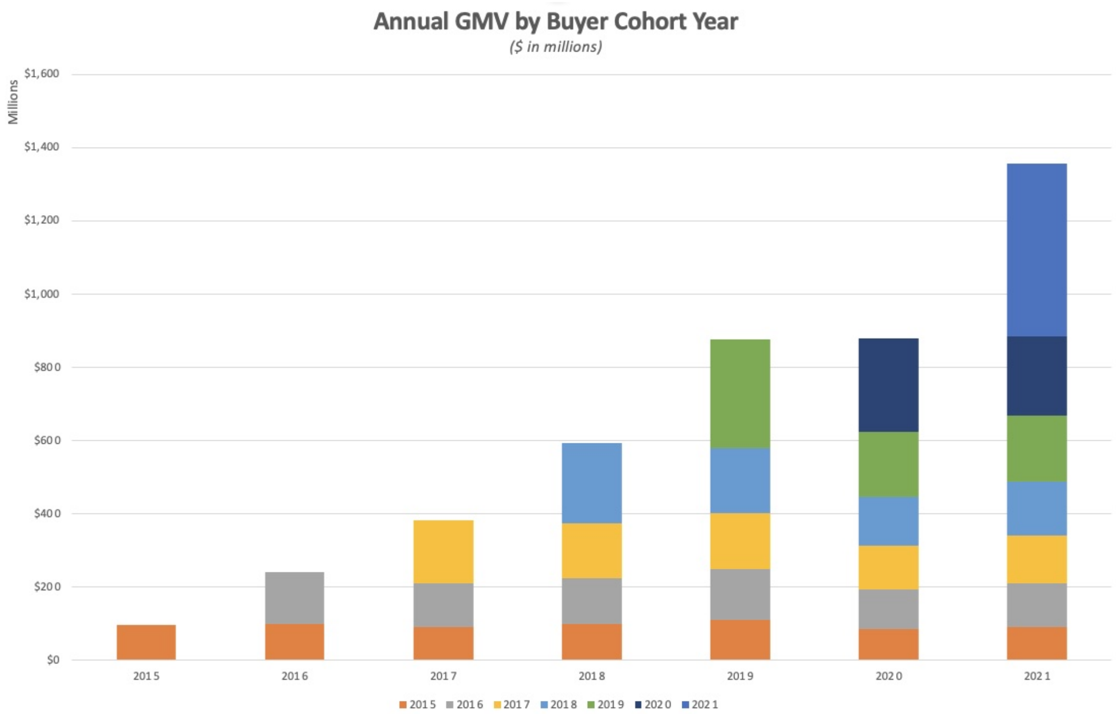
Consignors and Buyers

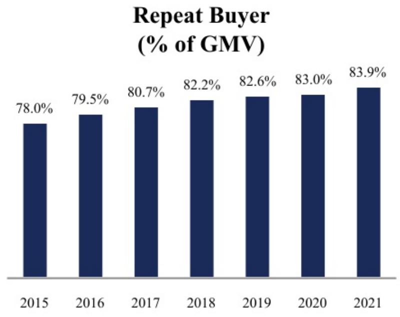
Consignor growth and retention. We grow our sales by increasing the supply of luxury goods offered through our consignment online marketplace. We measure the ratio of demand versus supply in a given period, which we refer to as our online marketplace sell-through ratio. Sell-through ratio is defined as GMV in the period divided by the aggregate initial value of items added to our online marketplace in the period. In 2021 and 2020, our marketplace sell-through ratios were 94% and 99%, respectively. Our 2021 sell-through ratio normalized as demand remained strong but we were able to bring in more supply, compared to prior year. The 2020 sell-through ratio was driven by continued high demand but reflected challenges in securing supply due to the adverse impacts of COVID-19.

Our GMV growth has been driven in significant part by repeat sales by existing consignors concurrent with growth of our consignor base. In 2021 and 2020, repeat consignors accounted for approximately 84% and 83% of GMV, respectively.

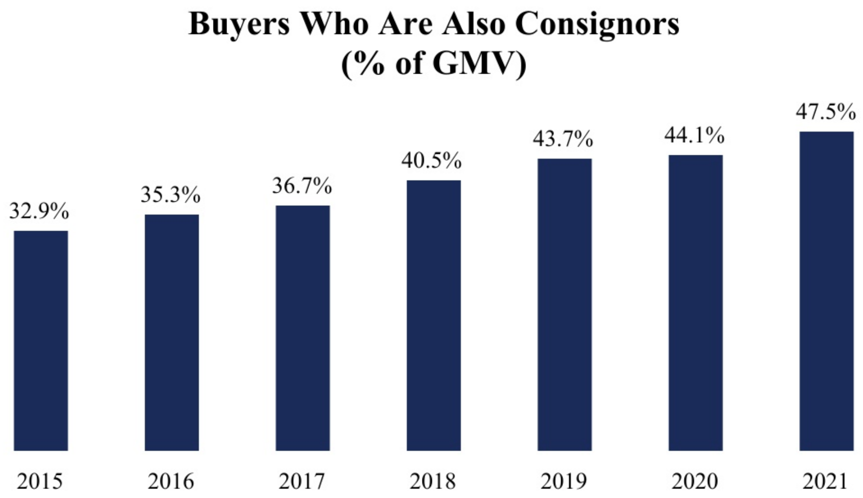
Buyer growth and retention. We grow our business by attracting and retaining buyers. We attract and retain buyers by offering highly coveted, authenticated, pre-owned luxury goods at attractive values and delivering a high-quality, luxury experience. We measure our success in attracting and retaining buyers by tracking buyer satisfaction and purchasing activity over time. We have experienced high buyer satisfaction, as evidenced by our buyer net promoter score of 62 in 2021, and compared to our online shopping industry average of 40 according to NICE Satmetrix U.S. Consumer 2021 data. If we fail to continue to attract and retain our buyer base to our online marketplace, our operating results would be adversely affected.

The first graph below shows trends in purchasing activity for buyer cohorts for each year beginning in 2015. Each cohort represents all buyers that first purchased across our online marketplace in the designated year and the aggregate GMV purchased by such cohort for the initial year and each year thereafter. As illustrated in the first graph below, we have seen consistent retention of buyer activity across cohorts through 2021. In 2020, buyer retention was impacted by the adverse impacts of COVID-19 on supply, and as a result, GMV. The second graph below shows the percentage of GMV in each year from our repeat buyers. GMV from repeat buyers reflects purchases made after their initial purchase month.

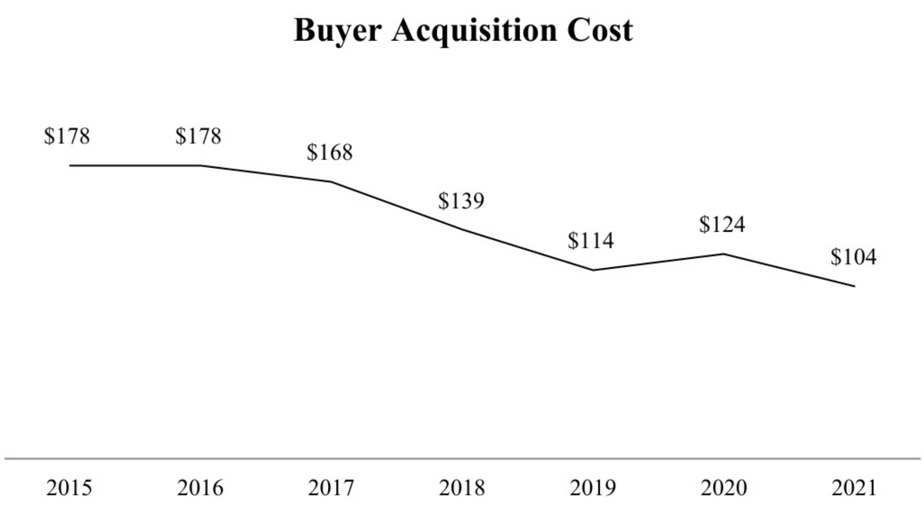




We believe there is substantial opportunity to grow our business by having buyers also become consignors and vice versa. As of December 31, 2021, 14% of our buyers had become consignors and 57% of our consignors had become buyers. The graph below shows the percentage of GMV in each year from buyers who have participated as both buyers and consignors on our online marketplace. GMV attributable to consigning activity of such buyers is not included.



Buyer acquisition cost. Our financial performance depends on effectively managing the expenses we incur to attract and retain buyers. We closely monitor our efficiency in acquiring new buyers. Our buyer acquisition cost ("BAC") for a given period is comprised of our total advertising spend for acquiring both buyers and consignors, which is principally the cost of television, digital and direct mail advertising, divided by the number of buyers acquired in that period. We adjust or re-allocate our advertising in real-time to optimize our spend across channels, buyer demographics and geographies to improve our return on advertising spend. With the exception of 2020 due to the adverse impacts of COVID-19 on our business, our BAC has declined over time driven by improving acquisition efficiencies.



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 Arizona and New Jersey comprising an aggregate of approximately 1.4 million square feet of space. In October 2020, we secured a lease in Arizona for an additional authentication center and moved operations from our former Brisbane authentication center in June 2021. We operate flagship retail stores in New York, Los Angeles, San Francisco, and Chicago. In addition to our neighborhood stores in New York, Palo Alto, and Newport Beach, we opened seven new neighborhood stores in Greenwich, Dallas, Austin, Atlanta, Marin County, Manhasset, and Palm Beach during the year ended December 31, 2021. In February 2022, we opened a neighborhood store in Brentwood, CA. In addition to scaling our physical infrastructure, growing our single-SKU business operations require that we attract, train and retain highly-skilled personnel for purposes of authentication, copywriting, merchandising, pricing and fulfilling orders. We have invested substantially in technology to automate our operations and support growth, including proprietary machine learning technology to support efficiency and quality. We continue to strategically invest in technology, as innovation positions us to scale and support growth into the future.

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

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 2021, 2020, and 2019.

	Year Ended December 31, 2021	2020	2019
	(In thousands, except AOV and percentages)		
GMV	$ 1,482,432	$ 986,951	$ 1,008,344
NMV	$ 1,092,353	$ 736,872	$ 731,445
Consignment and service revenue	$ 346,848	$ 247,326	$ 265,729
Direct revenue	$ 120,844	$ 52,623	$ 50,625
Number of orders	2,981	2,233	2,217
Take rate	34.7 %	35.7 %	36.3 %
Active buyers	797	649	582
AOV	$ 497	$ 442	$ 455
% of GMV from repeat buyers	83.9 %	83.0 %	82.6 %

GMV

GMV represents the total amount paid for goods across our online marketplace in a given period. We do not reduce GMV to reflect product returns or order cancellations, which totaled 26.3%, 25.3%, and 27.5% of GMV in 2021, 2020, and 2019, respectively. GMV includes amounts paid for both consigned goods and our inventory net of platform-wide discounts and excludes the effect of buyer incentives, shipping fees and sales tax. Platform-wide discounts are made available to all buyers on the online marketplace, and impact commissions paid to consignors. Buyer incentives apply to specific buyers and consist of coupons or promotions that offer credits in connection with purchases on our platform. In addition to revenue, we believe this is an important measure of the scale and growth of our online marketplace and a key indicator of the health of our consignor ecosystem. We monitor trends in GMV to inform budgeting and operational decisions to support and promote growth in our business and to monitor our success in adapting our business to meet the needs of our consignors and buyers. While GMV is the primary driver of our revenue, it is not a proxy for revenue or revenue growth. See Note 2—Summary of Significant Accounting Policies—Revenue Recognition—Consignment and Service Revenue.

NMV

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

Consignment and Service Revenue

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

Direct Revenue

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

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 represents 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 30% commission on all items under $96, 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 strong AOV. Our AOV reflects both the average price of items sold as well as the number of items per order. Our AOV is a key driver of our operating leverage.

Percent of GMV from Repeat Buyers

Repeat buyers represents buyers who made a purchase in the months subsequent to the month they made their initial purchase across our online marketplace and retail stores. GMV from repeat buyers reflects purchases made after their initial purchase month.

Non-GAAP Financial Measures

Adjusted EBITDA

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

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

The following table presents a reconciliation of net loss to Adjusted EBITDA for 2021, 2020, and 2019:

	Year Ended December 31,		
	2021	2020	2019
		(In thousands)	
Adjusted EBITDA Reconciliation:			
Net loss	$ (236,107)	$ (175,832)	$ (98,429)
Add (deduct):			
Depreciation and amortization	23,531	18,845	13,408
Stock-based compensation	48,802	24,322	7,711
Payroll taxes on employee stock transactions (1)	1,168	—	—
Legal fees reimbursement benefit (2)	(1,204)	—	—
Compensation expense related to stock sales by current and former employees	—	—	819
Legal settlements (3)	13,389	1,110	—
Restructuring charges (4)	2,314	514	—
Abandoned offering costs	—	—	293
Donation to TRR Foundation	—	—	3,155
Interest income	(365)	(2,518)	(4,593)
Interest expense	21,531	5,264	616
Other (income) expense, net	(23)	169	2,102
Provision for income taxes	56	101	199
Adjusted EBITDA	$ (126,908)	$ (128,025)	$ (74,719)

(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.

(2) During the year ended December 31, 2021, we received insurance reimbursement of $4.3 million related to legal fees for a certain matter, of which $3.1 million have been applied to the current year's legal expenses.

(3) Includes the financial terms of the stipulation of settlement of the putative shareholder class action and the final settlement of the derivative case. On November 5, 2021, a stipulation of settlement was filed with the federal court to settle the putative shareholder class action filed against us, our officers and directors, and the underwriters for the Company’s initial public offering. The stipulation of settlement is subject to preliminary and final approval by the court. The financial terms of the settlement stipulation provide that the Company will pay $11.0 million within thirty (30) days of the later of preliminary approval of the settlement or plaintiff’s counsel providing payment instructions. Also on November 5, 2021, a stipulation of settlement was filed in the derivative case filed against us as a nominal defendant and our officers and directors as defendants. The stipulation of settlement for the derivative case was finally approved by the court on February 11, 2022. The stipulation of settlement for the derivative case was preliminarily approved on December 8, 2021, and the $0.5 million was paid within 30 days of preliminary approval, or on January 7, 2022.

(4) The restructuring charges for the year ended December 31, 2021 comprise of the costs to transition operations from the Brisbane warehouse to our new Phoenix warehouse. The restructuring charges for the year ended December 31, 2020 consist of COVID-19 related costs including employee severance.

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, and when we make direct purchases from businesses and consignors. We recognize direct revenue upon shipment based on the gross purchase price paid by buyers for goods, net of allowances for product returns, buyer incentives and adjustments.

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 continue to decrease as a percentage of revenue.

Operations and Technology

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

Selling, General and Administrative

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

Legal Settlement

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

Provision for Income Taxes

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

Results of Operations

The results of operations presented below should be reviewed in conjunction with the financial statements and notes included elsewhere in the Annual Report. Prior year comparisons are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. The following tables set forth our results of operations and such data as a percentage of revenue for the periods presented:

	Year Ended December 31,		
	2021	2020	2019
		(In thousands)	
Revenue:			
Consignment and service revenue	$ 346,848	$ 247,326	$ 265,729
Direct revenue	120,844	52,623	50,625
Total revenue	467,692	299,949	316,354
Cost of revenue:			
Cost of consignment and service revenue	92,788	66,976	73,579
Cost of direct revenue	101,427	45,406	41,252
Total cost of revenue	194,215	112,382	114,831
Gross profit	273,477	187,567	201,523
Operating expenses:			
Marketing	62,749	54,813	47,734
Operations and technology	235,829	163,808	143,231
Selling, general and administrative	176,418	140,652	110,663
Legal settlement	13,389	1,110	—
Total operating expenses	488,385	360,383	301,628
Loss from operations	(214,908)	(172,816)	(100,105)
Interest income	365	2,518	4,593
Interest expense	(21,531)	(5,264)	(616)
Other income (expense), net	23	(169)	(2,102)
Loss before provision for income taxes	(236,051)	(175,731)	(98,230)
Provision for income taxes	56	101	199
Net loss	$ (236,107)	$ (175,832)	$ (98,429)

	Year Ended December 31,		
	2021	2020	2019
Revenue:			
Consignment and service revenue	74 %	82 %	84 %
Direct revenue	26	18	16
Total revenue	100	100	100
Cost of Revenue:			
Cost of consignment and service revenue	20	22	23
Cost of direct revenue	22	15	13
Total cost of revenue	42	37	36
Gross profit	58	63	64
Operating expenses:			
Marketing	13	18	15
Operations and technology	50	55	45
Selling, general and administrative	38	47	35
Legal and administrative	3	—	—
Total operating expenses	104	120	95
Loss from operations	(46)	(57)	(31)
Interest income	—	1	1
Interest expense	(5)	(2)	—
Other income (expense), net	—	—	(1)
Loss before provision for income taxes	(51)	(58)	(31)
Provision for income taxes	—	—	—
Net loss	(50)%	(58)%	(31)%

Comparison of 2021 and 2020

Consignment and Service Revenue

	Year Ended December 31,		Change	
	2021	2020	Amount	%
	(In thousands, except percentage)			
Consignment and service revenue, net	$ 346,848	$ 247,326	$ 99,522	40 %

Consignment and service revenue increased by $99.5 million, or 40%, in 2021 compared to 2020. The increase in revenue was driven primarily by a 50% increase in GMV, partially offset by an increase in returns and cancellations year over year. GMV growth during the year ended December 31, 2021 was driven by a 33% increase in orders and a 12% increase in AOV, due to an increased market demand for online luxury goods. We believe this growth is driven by heightened interest in luxury resale due to increasing consumer desire for more affordable, accessible luxury goods in a sustainable circular economy.

Returns and cancellations as a percentage of GMV for the year ended December 31, 2021 was 26.3%, compared to 25.3% for the year ended December 31, 2020. This increase was primarily due to a normalization of customer return patterns during the year ended December 31, 2021. Our take rate decreased to 34.7% from 35.7% during the year ended December 31, 2021 compared to last year due to the higher sales mix of high-value items which typically have a lower take rate, such as watches and fine jewelry.

Direct Revenue

	Year Ended December 31,		Change	
	2021	2020	Amount	%
	(In thousands, except percentage)			
Direct revenue	$ 120,844	$ 52,623	$ 68,221	130 %

Direct revenue increased by $68.2 million, or 130%, in 2021 compared to 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. Direct revenue has been increasing as a percentage of total revenue in recent quarters as a result of a higher sales mix of company-owned inventory due to direct purchases from businesses and consignors. Direct revenue as a percentage of total revenue may vary from period to period primarily based on the growth of consignment and service revenue, as well as the amount of company-owned inventory we purchase. We anticipate direct revenue to decrease as a percentage of total revenue over the longer term.

Cost of Consignment and Service Revenue

	Year Ended December 31,		Change	
	2021	2020	Amount	%
	(In thousands, except percentage)			
Cost of consignment and service revenue	$ 92,788	$ 66,976	$ 25,812	39 %
As a percent of consignment and service revenue	27 %	27 %		

Cost of consignment and service revenue increased by $25.8 million, or 39%, in 2021 compared to 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. Consignment and service revenue gross margin remained flat in the year ended December 31, 2021 compared to the year ended December 31, 2020.

Cost of Direct Revenue

	Year Ended December 31,		Change	
	2021	2020	Amount	%
	(In thousands, except percentage)			
Cost of direct revenue	$ 101,427	$ 45,406	$ 56,021	123 %
As a percent of direct revenue	84 %	86 %		

Cost of direct revenue increased by $56.0 million, or 123%, in 2021 compared to 2020. Direct revenue gross margin increased by 2 percentage points in 2021 compared to 2020, primarily driven by favorable product margins.

The margin profile of our direct revenue is lower than consignment and service revenue. Our total gross margin decreased by 5% in 2021 compared to 2020 due to the increase in direct revenue as a percentage of total revenue. As we continue to make direct purchases from vendors, gross margin may vary from period to period.

Marketing

	Year Ended December 31,		Change	
	2021	2020	Amount	%
	(In thousands, except percentage)			
Marketing	$ 62,749	$ 54,813	$ 7,936	14 %

Marketing expense increased by $7.9 million, or 14%, in 2021 compared to 2020. The increase was primarily due to increases in advertising costs and marketing program expenses as we seek to optimize the digital experience on our online marketplace and grow the number of buyers and consignors.

As a percentage of revenue, marketing expense decreased to 13% in 2021 from 18% in 2020. These expenses may vary from period to period as a percentage of revenue, depending primarily upon our marketing investments. We expect these expenses to decrease as a percentage of revenue over the longer term.

Operations and Technology

	Year Ended December 31,		Change	
	2021	2020	Amount	%
	(In thousands, except percentage)			
Operations and technology	$ 235,829	$ 163,808	$ 72,021	44 %

Operations and technology expense increased by $72.0 million, or 44%, in 2021 compared to 2020. The increase was primarily due to higher employee compensation related expenses, including stock-based compensation expense, due to increased headcount to support our growth, and higher occupancy costs due to our additional retail stores and the transition of operations to our authentication center in Arizona. The increase was also driven by an increase in travel expense, software fees, as well as restructuring costs associated with the transition of operations from our Brisbane authentication center to our Arizona authentication center during the year ended December 31, 2021. Stock-based compensation increased due to increased headcount, as well as an increase in long-term equity incentive awards.

As a percentage of revenue, operations and technology expense decreased to 50% in 2021 from 55% in 2020. 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 continue to decrease as a percentage of revenue over the longer term.

Selling, General and Administrative

	Year Ended December 31,		Change	
	2021	2020	Amount	%
	(In thousands, except percentage)			
Selling, general and administrative	$ 176,418	$ 140,652	$ 35,766	25 %

Selling, general and administrative expense increased by $35.8 million, or 25%, in 2021 compared to 2020. The increase was due to higher employee compensation expenses, including stock-based compensation expense, an increase in software fees, partially offset by an insurance reimbursement for legal expenses. Stock-based compensation increased due to increased headcount, as well as an increase in long-term equity incentive awards.

As a percentage of revenue, selling, general and administrative expense decreased to 38% in 2021 from 47% in 2020. We expect these expenses to decrease as a percentage of revenue over the long term.

	Year Ended December 31,		Change	
	2021	2020	Amount	%
	(In thousands, except percentage)			
Legal settlement	$ 13,389	$ 1,110	$ 12,279	1,106 %

Legal settlement expense increased by $12.3 million, or over 100%, in 2021 compared to 2020. This increase was primarily due to the $11.0 million legal settlement for the shareholder class action filed against us and $0.5 million of attorney's fees to be paid as part of the settlement for the related derivative case filed against us.

Liquidity and Capital Resources

As of December 31, 2021, we had cash and cash equivalents of $418.2 million and an accumulated deficit of $768.1 million. Since inception, we have generated negative cash flows from operations and have primarily financed our operations through equity and convertible debt financings. In July 2019, we received net proceeds of $315.5 million upon completion of our IPO on July 2, 2019. In June 2020, we received net proceeds of $143.3 million from the issuance of the 2025 Notes and the related capped call transactions. In March 2021, we received net proceeds of $244.5 million from the 2028 Notes and the related capped call transactions.

We expect that operating losses and negative cash flows from operations could continue in the foreseeable future. We believe our existing cash and cash equivalents as of December 31, 2021 will be sufficient to meet our requirements and plans for cash 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 our authentication centers and, to a lesser extent, the opening of new retail stores. We may seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, financial condition and results of operations could be adversely affected.

Cash Flows

The following table summarizes our cash flows for the periods indicated. Prior year comparisons are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

	Year Ended December 31,		
	2021	2020	2019
		(In thousands)	
Net cash (used in) provided by:			
Operating activities	$ (142,151)	$ (134,419)	$ (54,490)
Investing activities	(43,437)	178,004	(215,356)
Financing activities	252,913	152,815	378,665
Net increase in cash, cash equivalents and restricted cash	$ 67,325	$ 196,400	$ 108,819

Net Cash Used in Operating Activities

During 2021, net cash used in operating activities was $142.2 million, which consisted of a net loss of $236.1 million, adjusted by non-cash charges of $108.3 million and cash outflows due to a net change of $14.3 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 increases of $28.7 million in inventory driven by an increase in direct purchases of inventory from vendors, a decrease of $15.3 million in operating lease liability, and a decrease of $10.0 million in accounts payable, partially offset by cash inflows due to increases of $30.9 million in other accrued and current liabilities and $14.0 million in accrued consignor payable.

Net Cash Used in Investing Activities

During 2021, net cash used in investing activities was $43.4 million, which consisted of $37.5 million for purchases of property and equipment, net, including leasehold improvements, and $10.0 million for capitalized proprietary software costs, partially offset by $4.0 million of proceeds from maturities on short-term investments.

Net Cash Provided by Financing Activities

During 2021, net cash provided by financing activities was $252.9 million, which primarily consisted of proceeds of $278.2 million from the issuance of the 2028 Notes, net of issuance costs, $6.0 million from the exercise of stock options, and $2.3 million from the issuance of common stock related to the Company's employee stock purchase plan (the "ESPP"), partially offset by $33.7 million for the purchase of capped calls related to the 2028 Notes issuance.

Contractual Obligations and Commitments

The following table summarizes our material cash requirements from our known contractual obligations and other commitments as of December 31, 2021:

	Payment Due by Period				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
			(In thousands)		
Operating leases	$ 199,357	$ 27,436	$ 56,266	$ 56,849	$ 58,806
Convertible Senior Notes, including interest	496,800	8,050	16,100	180,838	291,812
Other commitments (1)	13,008	7,446	5,562	—	—
Total	$ 709,165	$ 42,932	$ 77,928	$ 237,687	$ 350,618

(1) Consists of non-cancelable purchase commitments to third-party vendors with terms of greater than one year and purchase commitments on inventory, as well as a non-cancelable purchase obligation for marketing activities.

Critical Accounting Estimates

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

While our significant accounting policies are more fully described in Note 2—Summary of Significant Accounting Policies, we believe that the accounting estimates discussed below relate to the more significant areas involving management’s judgments and estimates.

Leases

For our operating leases, we record a lease liability based on the present value of the lease payments at lease inception, using the applicable incremental borrowing rate. We estimate the incremental borrowing rate based on our own estimated synthetic credit rating, corresponding yield curve, and the terms of each lease at the lease commencement date. Given the lack of a directly observable Company specific credit rating, there is significant judgment in the methodology used to develop the incremental borrowing rates, including the development of the synthetic credit rating. Management also typically utilizes third party valuation specialists to provide market yield curves associated with our estimated synthetic credit rating. The incremental borrowing rates we used ranged from

2.3% to 9.3% depending on the lease terms. The sensitivity of the estimate is mainly due to the judgement used in the development of the synthetic credit rating and yield curves at lease inception.

Convertible Senior Notes

In recording our convertible debt instruments, we separately account for the liability and equity components by allocating proceeds between the liability component and the embedded conversion options, or equity components. We allocate the debt components of the instruments 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 allocation was performed in a manner that reflects our non-convertible debt borrowing rate for similar debt. The fair value borrowing rate is considered a critical estimate because the judgment in assessing an interest rate that would be available to the company of a similar debt instrument that does not have a conversion feature. For the 2025 Notes with a principal amount of $172.5 million, an interest rate of 5.67% was used to compute the initial fair value of the liability component of $152.7 million. For the 2028 Notes with a principal amount of $287.5 million, an interest rate of 7.18% was used to compute the initial fair value of the liability component of $191.3 million.

Recent Accounting Pronouncements

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

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

We are exposed to market risks in the ordinary course of our business, including fluctuations in interest rates. Such fluctuations to date have not been significant.

As of December 31, 2021, we had unrestricted cash and cash equivalents of approximately $418.2 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 cash equivalents holdings.

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 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2021. Based on this evaluation, our Chief

Executive Officer and Chief Financial Officer concluded that, as of December 31, 2021, our disclosure controls and procedures were effective at the reasonable assurance level in ensuring that (a) the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on evaluation under these criteria, management determined that our internal control over financial reporting was effective as of December 31, 2021.

KPMG, LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2021, as stated in their report which is included in Part IV —Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the year ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

Item 9B. Other Information.

None.

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

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this Item is incorporated by reference to the information set forth under the captions “Directors,” “Corporate Governance,” “Executive Officers” and “Security Ownership of Certain Beneficial Owners and Management” in our 2021 proxy statement to be filed with the SEC within 120 days of the fiscal year ended December 31, 2021 (the “Proxy Statement”).

Item 11. Executive Compensation.

The information required by this Item is incorporated by reference to the information set forth under the caption “Executive Compensation,” in our Proxy Statement.

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

The information required by this Item is incorporated by reference to the information set forth under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in our Proxy Statement.

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

The information required by this Item is incorporated by reference to the information set forth under the captions “Certain Relationships and Related Party Transactions” and “Corporate Governance” in our Proxy Statement.

Item 14. Principal Accounting Fees and Services.

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

The information required by this Item is incorporated by reference to the information set forth under the caption “Proposal No. 2—Ratification of Selection of Independent Registered Public Accounting Firm” in our Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

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

(b) Please refer to the Exhibit Index in this Form 10-K which is incorporated herein by reference.

Item 16. Form 10-K Summary

None.

Exhibit Index

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

Exhibit Number	Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.7#	Fourth Amendment to Loan and Security Agreement dated as of December 28, 2015 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.7	May 31, 2019	
10.8#	Fifth Amendment to Loan and Security Agreement dated as of July 18, 2016 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.8	May 31, 2019	
10.9#	Sixth Amendment to Loan and Security Agreement dated as of September 16, 2016 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.9	May 31, 2019	
10.10#	Seventh Amendment to Loan and Security Agreement dated as of March 28, 2017 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.1	May 31, 2019	
10.11#	Eighth Amendment to Loan and Security Agreement dated as of July 27, 2017 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.1	May 31, 2019	
10.12#	Ninth Amendment to Loan and Security Agreement dated as of March 5, 2018 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.1	May 31, 2019	
10.13#	Tenth Amendment to Loan and Security Agreement dated as of July 25, 2018 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.1	May 31, 2019	
10.14#	Eleventh Amendment to Loan and Security Agreement dated as of August 9, 2018 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.1	May 31, 2019	
10.15#	Twelfth Amendment to Loan and Security Agreement dated as of December 19, 2018 by and between The RealReal, Inc. and Pacific Western Bank.	S-1	333-231891	10.2	May 31, 2019	
10.16#	Lease Agreement dated as of March 18, 2014 by and between The RealReal, Inc. and 35 Enterprise Avenue, L.L.C.	S-1	333-231891	10.2	May 31, 2019	
10.17#	Lease Modification Agreement dated as of March 8, 2018 by and between The RealReal, Inc. and 35 Enterprise Avenue, L.L.C.	S-1	333-231891	10.2	May 31, 2019	
10.18#	Lease Agreement dated as of March 14, 2016 by and between The RealReal, Inc. and M&L Associates.	S-1	333-231891	10.2	May 31, 2019	
10.19#	Lease Agreement dated as of June 5, 2018 by and between The RealReal, Inc. and Hartz Enterprise LLC.	S-1	333-231891	10.2	May 31, 2019	

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.20#	Lease Agreement dated as of September 14, 2018 by and between The RealReal, Inc. and Prologis Perth Amboy Associates, LLC.	S-1	333-231891	10.2	May 31, 2019	
10.21+	The RealReal, Inc. 2019 Equity Incentive Plan.	S-1	333-231891	10.2	June 17, 2019	
10.22+	The RealReal, Inc. 2019 Employee Stock Purchase Plan.	S-1	333-231891	10.2	June 17, 2019	
10.23+	The RealReal, Inc. 2019 Equity Incentive Plan Stock Option Agreement and related form agreements.	10-Q	001-38953	10.1	August 14, 2019	
10.24+	The RealReal, Inc. 2019 Equity Incentive Plan Restricted Stock Unit Award Agreement and related form agreements.	10-Q	001-38953	10.2	August 14, 2019	
10.25+	The RealReal, Inc. 2019 Employee Stock Purchase Plan, as amended and restated on February 19, 2020.	10-K	001-38953	10.2	March 11, 2020	
10.26	Form of Base Capped Call Confirmation, dated June 10, 2020 between The RealReal, Inc. and each of the Counterparties.	8-K	001-38953	10.1	June 16, 2020	
10.27	Form of Additional Capped Call Confirmation, dated June 18, 2020 between The RealReal, Inc. and each of the Capped Call Counterparties.	8-K	001-38953	10.1	June 23, 2020	
10.28#	Lease Agreement dated as of November 2, 2020 by and between The RealReal, Inc. and Liberty Property Limited Partnership.	10-Q	001-38953	10.1	November 10, 2020	
10.29	Form of Base Capped Call Confirmation, dated March 8, 2021 between The RealReal, Inc. and each of the Counterparties.	8-K	001-38953	10.1	March 8, 2021	
10.30	Form of Additional Capped Call Confirmation, dated March 12, 2021 between The RealReal, Inc. and each of the Capped Call Counterparties.	8-K	001-38953	10.1	March 16, 2021	
10.31+	Form of Severance and Change in Control Agreement approved by the Company's board of directors on May 5, 2021.	10-Q	001-38953	10.1	May 10, 2021	
10.32+	Transition and Separation Agreement between the Company and Matt Gustke dated August 6, 2021.	10-Q	001-38953	10.1	August 9, 2021	
10.33+	Offer Letter dated September 15, 2021 between the Company and Robert Julian.	10-Q	001-38953	10.1	November 8, 2021	

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.34+	The RealReal, Inc. Performance-Based Restricted Stock Unit Award Agreement					X
23.1	Consent of KPMG, LLP, Independent Registered Public Accounting Firm					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.INS, 101.SCH, 101.CAL, 101.DEF, 101.LAB, and 101.PRE).					

+ Indicates management contract or compensatory plan.
# Certain information contained in this agreement has been omitted because it both (i) is not material and (ii) would be competitively harmful if publicly disclosed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized**.**

The RealReal, Inc.

Date: February 28, 2022

By: /s/ Robert Julian

Robert Julian
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ Julie Wainwright **Julie Wainwright**	Chairperson and Chief Executive Officer (Principal Executive Officer)	February 28, 2022
/s/ Robert Julian **Robert Julian**	Chief Financial Officer (Principal Financial Officer)	February 28, 2022
/s/ Steve Lo **Steve Lo**	Senior Vice President, Chief Accounting Officer (Principal Accounting Officer)	February 28, 2022
/s/ Chip Baird **Chip Baird**	Director	February 28, 2022
/s/ Caretha Coleman **Caretha Coleman**	Director	February 28, 2022
/s/ Karen Katz **Karen Katz**	Director	February 28, 2022
/s/ Rob Krolik **Rob Krolik**	Director	February 28, 2022
/s/ Niki Leondakis **Niki Leondakis**	Director	February 28, 2022
/s/ Carol Melton **Carol Melton**	Director	February 28, 2022
/s/ James Miller **James Miller**	Director	February 28, 2022

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying balance sheets of The RealReal, Inc. (the Company) as of December 31, 2021 and 2020, the related statements of operations, comprehensive loss, redeemable convertible preferred stock, convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for leases as of January 1, 2020 due to the adoption of Accounting Standards Update 2016-02, *Leases* (*Topic 842*).

Basis for Opinion

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

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

Critical Audit Matter

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

Evaluation of the initial value of the liability component of the 2028 convertible senior notes

As discussed in Note 7 of the financial statements, in March 2021, the Company issued 1.00% convertible senior notes due in 2028 (the 2028 Notes) for an aggregate principal amount of $287.5 million. The Company separately accounted for the liability and equity components by allocating the proceeds between the liability component and the embedded conversion options, or equity components. The initial value of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated conversion feature. As a result, the Company recorded the initial fair value of the liability component of $191.3 million.

We identified the evaluation of the initial value of the liability component of the 2028 Notes as a critical audit matter. A high degree of auditor judgment was required in assessing the interest rate that would be available to the Company for a similar debt instrument that does not have a conversion feature. The audit effort associated with the evaluation of the interest rate estimate required valuation professionals with specialized skills and knowledge.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of an internal control over the Company's process to determine the interest rate that would be available to the Company for a similar debt instrument that does not have a conversion feature. We involved our valuation professionals with specialized skills and knowledge, who assisted in:

- evaluating the reasonableness of the valuation model used by the Company in estimating an interest rate available to the Company for a similar debt instrument that does not have a conversion feature

- evaluating the relevance of a historical debt transaction entered into by the Company for a lending arrangement that did not have a conversion feature.

/s/ KPMG

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

San Francisco, California
February 28, 2022

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited The RealReal, Inc.'s (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the balance sheets of the Company as of December 31, 2021 and December 31, 2020, the related statements of operations, comprehensive loss, redeemable convertible preferred stock, convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the financial statements), and our report dated February 28, 2022 expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG

San Francisco, California
February 28, 2022

THE REALREAL, INC.
Balance Sheets

(In thousands, except share and per share data)

	December 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 418,171	$ 350,846
Short-term investments	—	4,017
Accounts receivable	7,767	7,213
Inventory, net	71,015	42,321
Prepaid expenses and other current assets	20,859	17,072
Total current assets	517,812	421,469
Property and equipment, net	89,286	63,454
Operating lease right-of-use assets	145,311	118,136
Other assets	2,535	2,050
Total assets	$ 754,944	$ 605,109
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 4,503	$ 14,346
Accrued consignor payable	71,042	57,053
Operating lease liabilities, current portion	18,253	14,999
Other accrued and current liabilities	94,188	61,862
Total current liabilities	187,986	148,260
Operating lease liabilities, net of current portion	143,159	115,084
Convertible senior notes, net	348,380	149,188
Other noncurrent liabilities	2,291	1,284
Total liabilities	681,816	413,816
Commitments and contingencies (Note 11)	—	—
Stockholders' equity:		
Common stock, $0.00001 par value; 500,000,000 shares authorized as of December 31, 2021 and December 31, 2020; 92,960,066 and 89,301,664 shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	1	1
Additional paid-in capital	841,255	723,302
Accumulated other comprehensive income	0	11
Accumulated deficit	(768,128)	(532,021)
Total stockholders' equity	73,128	191,293
Total liabilities and stockholders' equity	$ 754,944	$ 605,109

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

THE REALREAL, INC.
Statements of Operations

(In thousands, except share and per share data)

	Years Ended December 31,		
	2021	2020	2019
Revenue:			
Consignment and service revenue	$ 346,848	$ 247,326	$ 265,729
Direct revenue	120,844	52,623	50,625
Total revenue	467,692	299,949	316,354
Cost of revenue:			
Cost of consignment and service revenue	92,788	66,976	73,579
Cost of direct revenue	101,427	45,406	41,252
Total cost of revenue	194,215	112,382	114,831
Gross profit	273,477	187,567	201,523
Operating expenses:			
Marketing	62,749	54,813	47,734
Operations and technology	235,829	163,808	143,231
Selling, general and administrative	176,418	140,652	110,663
Legal settlement	13,389	1,110	—
Total operating expenses	488,385	360,383	301,628
Loss from operations	(214,908)	(172,816)	(100,105)
Interest income	365	2,518	4,593
Interest expense	(21,531)	(5,264)	(616)
Other income (expense), net	23	(169)	(2,102)
Loss before provision for income taxes	(236,051)	(175,731)	(98,230)
Provision for income taxes	56	101	199
Net loss	$ (236,107)	$ (175,832)	$ (98,429)
Accretion of redeemable convertible preferred stock to redemption value	$ —	$ —	$ (3,355)
Net loss attributable to common stockholders	$ (236,107)	$ (175,832)	$ (101,784)
Net loss per share attributable to common stockholders, basic and diluted	$ (2.58)	$ (2.01)	$ (2.14)
Shares used to compute net loss per share attributable to common stockholders, basic and diluted	91,409,624	87,587,409	47,478,544

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

THE REALREAL, INC.
Statements of Comprehensive Loss

(In thousands)

	Year Ended December 31,		
	2021	2020	2019
Net loss	$ (236,107)	$ (175,832)	$ (98,429)
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on investments	(11)	4	32
Comprehensive loss	$ (236,118)	$ (175,828)	$ (98,397)

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

THE REALREAL, INC.
Statements of Redeemable Convertible Preferred Stock, Convertible Preferred Stock and Stockholders' Equity (Deficit)
(In thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of December 31, 2018	31,053,601	$ 151,381	73,724,645	$ 142,819	8,593,077	$ —	$ —	$ (25)	$ (257,665)	$ (257,690)
Issuance of Series H redeemable convertible preferred stock net of issuance costs of $166	6,350,345	43,492	—	—	—	—	—	—	—	—
Issuance of Series H convertible preferred stock net of issuance costs of $59	—	—	3,831,766	26,283	—	—	—	—	—	—
Accretion of redeemable convertible preferred stock to redemption value	—	3,355	—	—	—	—	(3,260)	—	(95)	(3,355)
Conversion of redeemable convertible preferred stock to common stock in connection with initial public offering	(37,403,946)	(198,228)	—	—	19,585,426	—	198,228	—	—	198,228
Conversion of convertible preferred stock to common stock in connection with initial public offering	—	—	(77,556,411)	(169,102)	38,778,180	—	169,102	—	—	169,102
Conversion of convertible preferred stock warrants to common stock warrants in connection with initial public offering	—	—	—	—	—	—	2,710	—	—	2,710
Issuance of common stock in connection with initial public offering, net of issuance costs of $5,333	—	—	—	—	17,250,000	—	315,518	—	—	315,518
Issuance of common stock upon exercise of options	—	—	—	—	1,551,313	1	2,695	—	—	2,696
Issuance of common stock upon exercise of warrants	—	—	—	—	10,677	—	33	—	—	33
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for employee taxes	—	—	—	—	14,105	—	(130)	—	—	(130)
Issuance of common stock for cashless exercise of warrants	—	—	—	—	89,542	—	—	—	—	—
Compensation expense related to stock sales by current and former employees	—	—	—	—	—	—	819	—	—	819
Stock-based compensation expense	—	—	—	—	—	—	7,711	—	—	7,711
Other comprehensive income	—	—	—	—	—	—	—	32	—	32
Net loss	—	—	—	—	—	—	—	—	(98,429)	(98,429)
Balance as of December 31, 2019	—	$ —	—	$ —	85,872,320	$ 1	$ 693,426	$ 7	$ (356,189)	$ 337,245
Purchase of capped calls	—	—	—	—	—	—	(22,546)	—	—	(22,546)
Equity component of convertible senior notes, net of issuance costs of $767	—	—	—	—	—	—	19,020	—	—	19,020

Issuance of common stock upon exercise of options	—	—	—	—	2,604,494	—	8,859	—	—	8,859
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for employee taxes	—	—	—	—	733,385	—	(751)	—	—	(751)
Issuance of common stock for exercises under ESPP	—	—	—	—	91,465	—	972	—	—	972
Stock-based compensation expense	—	—	—	—	—	—	24,322	—	—	24,322
Other comprehensive income	—	—	—	—	—	—	—	4	—	4
Net loss	—	—	—	—	—	—	—	—	(175,832)	(175,832)
Balance as of December 31, 2020	—	$ —	—	$ —	89,301,664	$ 1	$ 723,302	$ 11	$ (532,021)	$ 191,293
Purchase of capped calls	—	—	—	—	—	—	(33,666)	—	—	(33,666)
Equity component of convertible senior notes, net of issuance costs of $767	—	—	—	—	—	—	93,031	—	—	93,031
Issuance of common stock upon exercise of options	—	—	—	—	1,221,365	—	6,009	—	—	6,009
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for employee taxes	—	—	—	—	2,237,748	—	(8)	—	—	(8)
Issuance of common stock for exercises under ESPP	—	—	—	—	199,289	—	2,341	—	—	2,341
Stock-based compensation expense	—	—	—	—	—	—	50,246	—	—	50,246
Other comprehensive loss	—	—	—	—	—	—	—	(11)	—	(11)
Net loss	—	—	—	—	—	—	—	—	(236,107)	(236,107)
Balance as of December 31, 2021	—	$ —	—	$ —	92,960,066	$ 1	$ 841,255	$ —	$ (768,128)	$ 73,128

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

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

	Year Ended December 31, 2021	2020	2019
Cash flows from operating activities:			
Net loss	$ (236,107)	$ (175,832)	$ (98,429)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	23,531	18,845	13,408
Stock-based compensation expense	48,802	24,322	7,711
Reduction of operating lease right-of-use assets	19,439	16,062	—
Bad debt expense	1,034	903	1,371
Compensation expense related to stock sales by current and former employees	—	—	819
Change in fair value of convertible preferred stock warrant liability	—	—	2,100
Accrued interest on convertible notes	950	216	—
Loss on retirement of property and equipment	546	280	—
Accretion of debt discounts and issuance costs	13,989	2,399	11
Other adjustments	10	(86)	(226)
Changes in operating assets and liabilities:			
Accounts receivable	(1,588)	(337)	(1,579)
Inventory, net	(28,694)	(20,405)	(11,561)
Prepaid expenses and other current assets	(4,009)	(3,443)	(4,108)
Other assets	(638)	548	(1,026)
Operating lease liability	(15,285)	(12,752)	—
Accounts payable	(9,989)	2,800	6,010
Accrued consignor payable	13,989	4,233	17,561
Other accrued and current liabilities	30,922	7,994	10,686
Other noncurrent liabilities	947	(166)	2,762
Net cash used in operating activities	(142,151)	(134,419)	(54,490)
Cash flow from investing activities:			
Purchases of short-term investments	—	(73,280)	(220,609)
Proceeds from maturities of short-term investments	4,000	278,215	39,281
Capitalized proprietary software development costs	(9,967)	(8,678)	(9,267)
Purchases of property and equipment	(37,470)	(18,253)	(24,761)
Net cash provided by (used in) investing activities	(43,437)	178,004	(215,356)
Cash flow from financing activities:			
Proceeds from issuance of common stock in initial public offering, net of issuance costs	—	—	315,541
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	—	—	43,492
Proceeds from issuance of convertible preferred stock, net of issuance costs	—	—	26,283
Proceeds from issuance of 2025 convertible notes, net of issuance costs	—	166,278	—
Purchase of capped calls in conjunction with the issuance of the 2025 convertible senior notes	—	(22,546)	—
Proceeds from issuance of 2028 convertible notes, net of issuance costs	278,234	—	—
Purchase of capped calls in conjunction with the issuance of the 2028 convertible senior notes	(33,666)	—	—
Proceeds from exercise of stock options and common stock warrants	6,009	8,859	2,729
Proceeds from issuance of stock in connection with the Employee Stock Purchase Program	2,341	972	—
Taxes paid related to restricted stock vesting	(5)	(748)	(130)
Repayment of debt	—	—	(9,250)
Net cash provided by financing activities	252,913	152,815	378,665
Net increase in cash, cash equivalents and restricted cash	67,325	196,400	108,819
Cash, cash equivalents, and restricted cash			
Beginning of period	350,846	154,446	45,627
End of period	$ 418,171	$ 350,846	$ 154,446
Supplemental disclosures of cash flow information			
Cash paid for interest	$ 6,584	$ 11	$ 553

Cash paid for income taxes	94	90	102
Supplemental disclosures of non-cash investing and financing activities			
Accretion of redeemable convertible preferred stock to redemption value	—	—	3,355
Purchases of property and equipment included in accounts payable and other accrued and current liabilities	1,922	2,638	4,878
Purchases of capitalized proprietary software development costs included in accounts payable and other accrued and current liabilities	1,647	338	—
Reclassification of deferred offering costs	—	—	5,333
Conversion of convertible preferred stock warrants in connection with IPO	—	—	2,710
Conversion of redeemable convertible preferred stock in connection with IPO	—	—	198,228
Conversion of convertible preferred stock in connection with IPO	—	—	169,102
Issuance costs associated with issuance of convertible senior notes included in other accrued and current liabilities	—	469	—
Stock-based compensation capitalized to proprietary software development costs	1,444	—	—
Tax withholding liability for restricted stock	3	—	—

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

THE REALREAL, INC.
Notes to Financial Statements

Note 1. Description of Business and Basis of Presentation

Organization and Description of Business

The RealReal, Inc. (the "Company") is an online marketplace for authenticated, consigned luxury goods across multiple categories, including women's, 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 the 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 March 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 also reopened its corporate offices, including our corporate headquarters in San Francisco.

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

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 accretion of unconditional grant liability, and amortization of premiums (discounts) on short-term investments to other adjustments within operating cash flows in the Statements of Cash Flows. We have also made certain presentation changes to reclassify accrued interest on convertible notes from other current and accrued liabilities to a separate line item within operating cash flows in the Statements of Cash Flows. Additionally, we have made certain presentation changes to reclassify legal settlement expenses from Selling, general and administrative to Legal settlement within operating expenses in the Statements of Operations.

Initial Public Offering

The Company's registration statement on Form S-1 (the "IPO Registration Statement") related to its initial public offering ("IPO") was declared effective on June 27, 2019, and the Company's common stock began trading on the Nasdaq Global Select Market on June 28, 2019. On July 2, 2019, the Company completed its IPO, selling 15,000,000 shares of common stock at a price to the public of $20.00 per share, plus an additional 2,250,000 shares of common stock at a price to the public of $20.00 per share pursuant to the exercise of the underwriters' option to purchase additional shares. The Company received aggregate net proceeds of $315.5 million after deducting underwriting discounts and commissions of $24.1 million and issuance costs of $5.3 million.

Immediately prior to the completion of the IPO, the Company filed its Amended and Restated Certificate of Incorporation, which authorizes a total of 500,000,000 shares of common stock and 50,000,000 shares of undesignated preferred stock.

The Company recorded the conversion of 114,960,357 shares of convertible preferred stock and redeemable convertible preferred stock then outstanding into 58,363,606 shares of common stock to additional paid-in capital. All outstanding preferred stock warrants converted into an aggregate of 103,563 common stock warrants.

Reverse Stock Split

On June 13, 2019, the Company effected a reverse split of shares of the Company's common stock on a 1-for-2 basis (the "Reverse Stock Split"). All issued and outstanding shares of common stock, warrants for common stock, options to purchase common stock and the related per share amounts contained in the financial statements have been retroactively adjusted to reflect this Reverse Stock Split for all periods presented. The par value and authorized shares of common stock were not adjusted as a result of the Reverse Stock Split. Additionally, the authorized, issued and outstanding shares of redeemable convertible preferred stock and convertible preferred stock and their related per share amounts, other than the conversion price per share, were not adjusted as a result of the Reverse Stock Split.

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, stock-based compensation, 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.

Segments

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

Revenue Recognition

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

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 balance sheets (see Note 5). Sales tax assessed by governmental authorities is excluded from revenue.

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

The Company 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 2021, 2020, and 2019.

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 the standard consignment rates to consignors to optimize its supply. These are treated as a reduction of consignment and service revenue at the time of sale. The Company may offer a certain type of buyer incentive in the form of site credits to buyers on current transactions to be applied towards future transactions, which are included in other accrued and current liabilities on the balance sheets.

Contract Liabilities

The Company's contractual liabilities 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 December 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 December 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.

Marketing

Marketing expense is comprised of the cost of acquiring new consignors and buyers for our online platform and physical stores, including the cost of television, digital and direct mail advertising. Marketing expense also includes personnel-related costs, including stock-based compensation, of employees engaged in these activities. Advertising costs are expensed as incurred and were $46.2 million, $45.8 million, and $40.5 million in 2021, 2020, and 2019, respectively.

Operations and Technology

Operations and technology expense is comprised of costs associated with the authentication, merchandising and fulfillment of goods sold through our online marketplace and retail stores, as well as general information technology expense. The principal component of operations and technology expense is personnel-related costs, including stock-based compensation, of employees engaged in these activities. Operations and technology expense also includes allocated facility and overhead costs, costs related to our retail stores, facility supplies and depreciation of hardware and equipment, as well as research and development expense for technology associated with managing and improving our operations. In 2021, 2020, and 2019, the Company capitalized proprietary software developments costs of $12.7 million, $9.0 million, and $9.3 million, respectively. As such, operations and technology expense also includes amortization of capitalized technology development costs, which is taken on straight-line basis over three years once the technology is ready for its intended use.

Selling, General and Administrative

Selling, general and administrative expense is principally comprised of the personnel-related costs for employees involved in sales, finance and administration, and includes stock-based compensation expense. Selling, general and administrative expense also includes allocated facility and overhead costs and professional services, including accounting and legal advisors.

Stock-based Compensation

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 ESPP is estimated at the beginning of the offering period using the Black-Scholes option pricing model.

Prior to the IPO, certain employees have sold their shares of the Company’s common stock to the Company’s existing investors. In such secondary sale transactions, the Company recorded the difference in purchase price and the fair value of such shares as compensation expense within selling, general and administrative in the statements of operations and a corresponding credit to additional paid-in capital.

Cash and Cash Equivalents

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.

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 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 (deficit). The unrealized gains and losses recorded within accumulated other comprehensive income (loss) have not been material for 2021 and 2020. In accordance with Accounting Standards Update (ASU) 2016-13, the Company replaced the incurred loss approach with an expected loss model and the Company records allowances for available-for-sale debt securities rather than to reduce the carrying amount for other-than-temporary impairment as was followed under the other-than-temporary impairment model prior to January 1, 2020. Realized gains and losses and other-than-temporary impairments on investments are included in Other income (expense), net. As of December 31, 2021 and 2020, the Company had not recorded any impairments due to credit loss.

Accounts Receivable

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

Inventory, Net

Inventory consists of finished goods arising from goods returned after the title has transferred from the buyer to the Company as well as finished goods from direct purchases from vendors and consignors. The cost of inventory is an amount equal to that paid to the consignor or vendors. Inventory is valued at the lower of cost and net realizable value using the specific identification method and the Company records provisions, as appropriate, to write down obsolete and excess inventory to estimated net realizable value. After the inventory value is reduced, adjustments are not made to increase it from the estimated net realizable value. Our provisions to write down obsolete and excess inventory to net realizable value have not been material for 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 balance sheets and were $23.6 million and $18.3 million as of December 31, 2021 and 2020. Included in inventory on the Company's balance sheets are assets totaling $9.1 million and $7.4 million as of December 31, 2021 and 2020, for the rights to recover products from customers associated with its liabilities for return reserves.

Property and Equipment, Net

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

The estimated useful lives of our assets are as follows:

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

Software Development Costs

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

Impairment of Long-lived Assets

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

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

Deferred Offering Costs

Deferred offering costs, which consist of direct incremental legal, consulting, banking and accounting fees relating to the anticipated equity offering, are capitalized and offset against proceeds upon the consummation of the offering. In the event an anticipated offering is abandoned, deferred offering costs will be expensed. In 2021, offering costs of $9.4 million related to the issuance of the 2028 Notes was allocated to the liability and equity components of the 2028 Notes based on the allocation of the proceeds. Of the total offering costs, $3.1 million was recorded as a reduction to additional paid-in capital and $6.3 million was recorded as a reduction in the carrying value of the debt on the balance sheet. In 2020, offering costs of $6.7 million related to the issuance of the 2025 Notes was allocated to the liability and equity components of the 2025 Notes based on the allocation of the proceeds. Of the total offering costs, $0.8 million was recorded as a reduction to additional paid-in capital and $5.9 million was recorded as a reduction in the carrying value of the debt on the balance sheet. In 2019, offering costs of $0.3 million were expensed. As of December 31, 2019, $5.3 million deferred offering costs were offset against the IPO proceeds within stockholders' equity (deficit) on the balance sheets.

Accretion of Redeemable Convertible Preferred Stock

The carrying value of the redeemable convertible preferred stock that is probable of redemption is accreted to redemption value from the date of issuance to the earliest redemption date using the effective interest method until redemption is no longer probable. Increases to the carrying value of redeemable convertible preferred stock recognized in each period are charged to additional paid-in capital, or in the absence of additional paid-in capital, charged to accumulated deficit.

Leases

Prior to the adoption of ASC 842 on January 1, 2020

Leases were reviewed for classification as operating or capital leases. For operating leases, the Company recognized rent on a straight-line basis over the term of the lease. The Company recorded the difference between cash payments and rent expense recognized as a deferred rent liability included in other accrued and current liabilities and other noncurrent liabilities on the balance sheets. Incentives granted under the Company's facility leases, including allowances to fund leasehold improvements, were deferred and are recognized as adjustments to rental expense on a straight-line basis over the term of the lease.

The Company changed its method of accounting for leases as of January 1, 2020 due to the adoption of Accounting Standards Update 2016-02, Leases (Topic 842).

Subsequent to the adoption of ASC 842 on January 1, 2020

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

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

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

Convertible Senior Notes, net

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 of the 2025 Notes and the 2028 Notes, the Company allocated the debt components 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 7). The Capped Call Transactions are expected generally to reduce the potential dilution to the holders of the Company's common stock upon any conversion of the Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 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 balance sheet 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.

Income Taxes

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

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

Concentrations of Credit Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, restricted cash, 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 December 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 years ended December 31, 2021, 2020, and 2019.

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU No. 2019-12, Income Taxes (Topic 740), which simplifies the accounting for income taxes, primarily by removing certain exceptions to ASC 740. The

ASU also simplifies areas such as franchise taxes and interim recognition of enactment of tax laws and rate changes. The standard is effective for fiscal periods beginning after December 15, 2020. We adopted this standard as of January 1, 2021. The adoption of this standard did not have a material impact on our financial statements.

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-6, *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 2020-6 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 adopting this ASU using the modified retrospective method beginning January 1, 2022. While the adoption remains in progress, the Company expects 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. The Company also expects that the adoption will result in a decrease to our accumulated deficit as of January 1, 2022 related to the interest expense from the amortization of the debt discount.

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):

	December 31, 2021			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Cash and cash equivalents:				
Cash	$ 278,769	$ —	$ —	$ 278,769
Money market funds	139,402	—	—	139,402
Total cash and cash equivalents	$ 418,171	$ —	$ —	$ 418,171

	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	$ 350,846	$ —	$ —	$ 350,846
Short-term investments:				
Corporate bonds	$ 4,006	$ 11	$ —	$ 4,017
Total short-term investments	$ 4,006	$ 11	$ —	$ 4,017

As of December 31, 2020, the contractual maturity for the short-term investments is less than one year. For the years ended December 31, 2021, 2020, and 2019 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 balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The authoritative guidance on fair value measurements establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of December 31, 2021, the Company's cash equivalents solely consisted of money market funds, which amounted to $139.4 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			
	Level 1	Level 2	Level 3	Total
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 as of December 31, 2020.

Fair Value Measurements of Other Financial Instruments

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

	December 31, 2021	
	Net Carrying Amount	Estimated Fair Value
2025 Convertible senior notes	$ 153.9	$ 185.5
2028 Convertible senior notes	$ 194.5	$ 288.7

The principal amounts of the 2025 Notes and the 2028 Notes are $172.5 million and $287.5 million, respectively. The difference between the principal amounts of the convertible senior notes and their respective net carrying amounts are the unamortized debt issuance costs and the unamortized debt discount (See Note 7).

As of December 31, 2021, the fair value of the 2025 Notes and 2028 Notes, which differs from its carrying value is determined by prices for the Notes observed in market trading. The market for trading of the 2025 Notes and 2028 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.

Note 5. Balance Sheet Components

Property and Equipment, Net

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

	December 31, 2021	December 31, 2020
Proprietary software	$ 31,799	$ 24,218
Furniture and equipment	40,176	27,687
Automobiles	1,505	668
Leasehold improvements	66,154	52,828
Property and equipment, gross	139,634	105,401
Less: accumulated depreciation and amortization	(50,348)	(41,947)
Property and equipment, net	$ 89,286	$ 63,454

Depreciation and amortization expense on property and equipment was $23.5 million, $18.8 million, and $13.4 million for the years ended December 31, 2021, 2020 and 2019, respectively. Property and equipment taken out of service as part of the closure of the Brisbane authentication center during the year ended December 31, 2021 was $8.7 million and a related $0.3 million of loss on disposal of property and equipment was recorded within the 'Operations and Technology' line of the Statements of Operations during the year ended December 31, 2021. The company also recorded $0.2 million of loss on impairment of capitalized propriety software within the 'Operations and Technology' line of the Statements of Operations during the year ended December 31, 2021. During the year ended December 31, 2020, fully depreciated proprietary software in the amount of $7.9 million was taken out of service.

Other Accrued and Current Liabilities

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

	December 31, 2021	December 31, 2020
Returns reserve	$ 23,577	$ 18,327
Accrued compensation	14,258	13,406
Accrued legal	14,417	2,537
Accrued sales tax and other taxes	8,935	6,870
Site credit liability	8,738	5,475
Accrued marketing and outside services	7,897	8,253
Accrued interest	1,166	216
Deferred revenue	3,387	1,617
Accrued inventory	3,513	470
Other	8,300	4,691
Other accrued and current liabilities	$ 94,188	$ 61,862

Note 6. Debt

Term Loans

In 2013, the Company entered into an agreement to obtain a term loan facility (“Term Loan Facility”) in the amount of $5.0 million for general corporate purposes and working capital expenditures. In 2014, 2015 and 2016, the Company amended its Term Loan Facility to increase the amount borrowed under the facility by $11.6 million. The Term Loan Facility is secured by liens on substantially all of the Company’s present and future assets.

The Term Loan Facility includes affirmative, negative and financial covenants that restrict the Company’s ability to, among other things, incur additional indebtedness, make investments, sell or otherwise dispose of assets, pay dividends or repurchase stock. The Term Loan Facility’s financial covenants required the Company to achieve at least 80% of its forecasted gross revenue and a liquidity ratio on a monthly basis.

In 2017, the Company executed the eighth amendment (“Eight Amendment”) to the Term Loan Facility. The Eighth Amendment refinanced the $15.0 million repayment schedule to be two term loans, which included a $7.5 million interest only term loan with a maturity date of January 31, 2019 (“Term Loan I”), and the remaining $7.5 million under the existing Term Loan Facility with a maturity date of January 1, 2020 (“Term Loan II”) (together the “Term Loans”).

In 2018, the Company entered into the ninth, tenth, eleventh, and twelfth amendment (“Ninth Amendment,” “Tenth Amendment,” “Eleventh Amendment” and “Twelfth Amendment”) to the existing Term Loans. The Ninth Amendment removed the liquidity ratio covenant, amended Term Loan I to be due in 30 equal monthly installments, plus all accrued interest, beginning July 31, 2018, increased the variable annual interest rate from 0.10% above the prime rate to 0.35% above the prime rate and extended the maturity date of Term Loan I to January 31, 2021.

The Eighth Amendment and Ninth Amendment required the Company to pay a combined success fee of $0.3 million upon (1) any sale or licensing of all or substantially all of the Company’s assets, (2) any change in control of the Company, or (3) an initial public offering of the Company’s equity securities. The Ninth Amendment also required the Company to pay an additional success fee of $0.1 million upon the sale or issuance of the Company’s equity securities or subordinated debt securities for net cash proceeds of at least $50.0 million on or prior to June 30, 2018. The Company paid the $0.1 million success fee upon the Series G convertible preferred stock financing in June 2018 and the $0.3 million success fee related to its IPO in July 2019.

The Tenth and Twelfth Amendments adjusted and waived certain covenant violations which were subsequently amended and met. The Eleventh Amendment provided an additional letter of credit of $1.5 million for corporate credit cards with a maturity date of August 1, 2019.

On July 26, 2019 the Company fully repaid the principal of its Term Loans in the amount of $6.5 million. With the repayment of the term loans, the Company was no longer subject to debt covenants as of December 31, 2020. During the years ended December 31, 2021, 2020 and 2019, the Company recorded interest expense related to the Term Loans of zero, zero, and $0.3 million, respectively.

Revolving Credit Agreement

In April 2021, the Company entered into a loan and security agreement ("Revolving Credit Agreement") with a lender, to provide a revolving line of credit of up to $50 million. Advances on the line of credit bear interest payable monthly at a variable annual rate equal to the greater of the prime rate plus 0.50% or 4.25%. The credit facility expires in April 2023. The Revolving Credit Agreement contains affirmative, negative and financial covenants, including covenants that require maintaining minimum cash and investment balances over specified periods of time and covenants that restrict, among other things, the Company’s ability to change its name, business, management, ownership or business locations, enter into mergers or acquisitions or incur additional indebtedness. As of December 31, 2021, the Company was in compliance with all covenants.

As of December 31, 2021, $0 had been drawn on the Revolving Credit Agreement.

Note 7. 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 (the “2025 Notes”), pursuant to an indenture between the Company and U.S. Bank National Association, as trustee, in a private offering (the “Note Offering”) to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”). The 2025 Notes issued in the Note Offering 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 December 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. The allocation was performed in a manner that reflected the Company's non-convertible debt borrowing rate for similar debt. The interest rate of 5.67% was used to compute the initial fair value of the liability component of $152.7 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 2025 Notes was as follows (in thousands):

	December 31, 2021	December 31, 2020
Principal	$ 172,500	$ 172,500
Unamortized debt discount	(14,350)	(17,945)
Unamortized debt issuance costs	(4,286)	(5,367)
Net carrying amount	$ 153,864	$ 149,188

The net carrying amount of the equity component of the 2025 Notes was as follows (in thousands):

	December 31, 2021
Proceeds allocated to the conversion options (debt discount)	$ 19,787
Issuance costs	(767)
Net carrying amount	$ 19,020

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 allocated to the liability component totaling approximately $5.9 million was recorded as a reduction in the carrying value of the debt on the 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 December 31, 2021 was 6.4%.

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

	Year Ended December 31,	
	2021	2020
Contractual interest expense	$ 5,175	$ 2,803
Amortization of debt discount	3,594	1,843
Amortization of debt issuance costs	1,082	556
Total interest and amortization expense	$ 9,851	$ 5,202

Future minimum payments under the 2025 Notes as of December 31, 2021, are as follows (in thousands):

Fiscal Year		Amount
2022	$	5,175
2023		5,175
2024		5,175
2025		175,088
Total future payments		190,613
Less amounts representing interest		(18,113)
Total principal amount	$	172,500

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 conditions allowing holders of the 2028 Notes to convert were not met as of December 31, 2021.

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 (in thousands):

	December 31, 2021
Principal	$ 287,500
Unamortized debt discount	(87,403)
Unamortized debt issuance costs	(5,581)
Net carrying amount	$ 194,516

The net carrying amount of the equity component of the 2028 Notes was as follows (in thousands):

	December 31, 2021
Proceeds allocated to the conversion options (debt discount)	$ 96,162
Issuance costs	(3,131)
Net carrying amount	$ 93,031

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 $6.3 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 December 31, 2021 was 7.5%.

The following table sets forth the amounts recorded in interest expense related to the 2028 Notes (in thousands):

	Year Ended December 31, 2021
Contractual interest expense	$ 2,332
Amortization of debt discount	8,759
Amortization of debt issuance costs	554
Total interest and amortization expense	$ 11,645

Future minimum payments under the 2028 Notes as of December 31, 2021, are as follows (in thousands):

Fiscal Year	Amount
2022	$ 2,875
2023	2,875
2024	2,875
2025	2,875
2026	2,875
2027	2,875
2028	288,937
Total future payments	306,187
Less amounts representing interest	(18,687)
Total principal amount	$ 287,500

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

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

The cap price of the 2025 Capped Call is initially $27.88 per share, which represents a premium of 100.0% over the closing price of the Company's common stock of $13.94 per share on June 10, 2020, and is subject to certain adjustments under the terms of the capped call transactions. The cap price of the 2028 Capped Call is initially $48.00 per share, which represents a premium of 100.0% over the closing price of the Company's common stock of $24.00 per share on March 3, 2021, and is subject to certain adjustments under the terms of the Capped Calls. 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 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 Capped Calls and the 2028 Capped Calls, respectively.

Note 8. Common Stock

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

	December 31, 2021	December 31, 2020
Options issued and outstanding	4,131,501	5,809,376
Outstanding restricted stock units	8,182,649	5,103,727
Shares available for grant under the 2019 equity incentive plan	6,709,676	7,104,498
Shares available for issuance under 2019 ESPP	3,210,985	2,517,258
Total	22,234,811	20,534,859

Note 9. 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. On May 5, 2021, the Company's board of directors approved an increase of shares available for grant under the 2019 Plan by 4,465,083 shares.

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

	Number of Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Balances at December 31, 2020	5,809,376	5.64	5.9	$ 82,717
Options granted	—	—		
Options exercised	(1,221,365)	4.93		
Options cancelled	(456,510)	11.49		
Balances at December 31, 2021	4,131,501	5.19	4.3	30,382
Options vested and exercisable— December 31, 2021	3,627,255	4.19	3.9	29,182

There were no stock options granted in 2021 and in 2020. The weighted average grant date fair value of options granted during the year ended December 31, 2019 was $8.60 per share. The aggregate intrinsic value of options exercised for the years ended December 31, 2021, 2020, and 2019 was $20.5 million, $32.2 million, and $16.2 million, respectively. The aggregate intrinsic value of options exercised is the difference between the fair value of the underlying common stock on the date of exercise and the exercise price for in-the-money stock options.

RSUs

A summary of RSU activity for the year ended December 31, 2021 is as follows:

	Number of Shares	Restricted Stock Units Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Unvested December 31, 2020	5,103,727	$ 13.40	$ 99,640
Granted	7,928,232	18.69	
Vested	(2,238,553)	17.03	
Forfeited	(2,610,757)	16.88	
Unvested December 31, 2021	8,182,649	$ 16.42	$ 94,972

The total fair value of RSUs vested during the year ended December 31, 2021 was $38.1 million.

2019 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 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. On May 5, 2021, the Company's board of directors approved an increase in the shares available for grant under the ESPP by 893,016 shares.

During the years ended December 31, 2021 and 2020, employees purchased 199,289 and 91,465 shares, respectively, at an average price of $11.74 and $10.63, respectively. There were no shares purchased by employees during the year ended December 31, 2019. The intrinsic value of shares purchased during the years December 31, 2021 and 2020 was $0.7 million and $0.2 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

As of December 31, 2021, the Company had approximately $0.4 million of unrecognized stock-based compensation cost related to purchase rights under the employee stock purchase plan, which the Company expects to recognize over a weighted average period of 0.4 years.

Stock-based Compensation

In determining the fair value of the stock-based awards, the Company uses the Black-Scholes option-pricing model and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment.

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

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

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

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

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

The following assumptions were used to estimate the fair value of stock options granted in 2019, as there were no stock options granted in 2021 and 2020:

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

As of December 31, 2021, total unrecognized stock-based compensation expense related to options was $3.6 million. These costs are expected to be recognized over a weighted average period of 1.2 years as of December 31, 2021.

As of December 31, 2021, the Company had approximately $120.2 million of unrecognized stock-based compensation expense related to RSUs, which the Company expects to recognize over the remaining weighted-average vesting period of approximately 2.9 years.

Total stock-based compensation expense, excluding compensation expense related to stock sales by current and former employees, by function was as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Marketing	$ 2,557	$ 1,755	$ 392
Operations and technology	21,395	10,241	3,148
Selling, general and administrative	24,850	12,326	4,171
Total	$ 48,802	$ 24,322	$ 7,711

The amounts presented in the above table exclude compensation expense related to the stock sales by current and former employees. In March 2019, executives of the Company sold an aggregate of 382,477 shares of the Company's common stock at a price of $12.72 per share for an aggregate amount of $4.9 million to certain of the Company's existing investors. The Company determined that the purchase price was in excess of the fair value of such shares. As a result, during the year ended December 31, 2019, the Company recorded the excess of the purchase price above fair value of $0.8 million as compensation expense within selling, general and administrative in the statement of operations and a corresponding credit to additional paid-in capital.

Note 10. Leases

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

The Company recorded operating lease costs of $29.7 million and $24.7 million for the years ended December 31, 2021 and 2020, respectively. The Company incurred $5.3 million and $3.9 million of variable lease costs for the years ended December 31, 2021 and 2020, respectively, which is comprised primarily of the Company's proportionate share of operating expenses, property taxes and insurance. Rent expense under ASC 840 was $18.1 million for the year ended December 31, 2019.

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

Fiscal Year	Amount
2022	27,436
2023	28,268
2024	27,998
2025	28,648
2026	28,201
Thereafter	58,806
Total future minimum payments	$ 199,357
Less: Imputed interest	(37,946)
Present value of operating lease liabilities	$ 161,411

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

	Year Ended December 31, 2021	Year Ended December 31, 2020
Operating cash flows used for operating leases	$ 25,386	$ 21,381
Operating lease assets obtained in exchange for operating lease liabilities	$ 46,614	$ 23,853

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

	As of December 31, 2021	As of December 31, 2020
Weighted average remaining lease term	7.1 years	7.3 years
Weighted average discount rate	6.2 %	6.6 %

The Company has leases for certain vehicles and equipment that are classified as finance leases. The finance lease right-of-use asset and finance lease liabilities for these vehicle and equipment leases are not material as of December 31, 2021 and 2020.

Note 11. Commitments and Contingencies

Noncancelable Purchase Commitments

As of December 31, 2021, the future minimum payments under the Company's noncancelable purchase commitments were as follows (in thousands):

Year Ending December 31,	Purchase Commitments
2022	$ 7,431
2023	4,423
2024	1,139
2025	—
2026	—
Total future minimum payments	$ 12,993

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 years ended December 31, 2021, 2020, and 2019. As of December 31, 2021, there was no outstanding liability, as the final annual installment of $0.5 million was made during the year ended December 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 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. sued the Company in the U.S. District Court for the Southern District of New York. The Complaint alleged federal and state law claims of trademark infringement, unfair competition, and false advertising. On February 1, 2019, Chanel, Inc. filed its First Amended Complaint that included substantially similar claims against the Company. On March 4, 2019, the Company filed a Motion to Dismiss the First Amended Complaint, which was granted in part and dismissed in part on March 30, 2020. The surviving claims against the Company include trademark infringement under 15 U.S.C. § 1114, false advertising under 15 U.S.C. § 1125, and unfair competition under New York common law. On May 29, 2020, the Company filed its Answer to the Amended Complaint. On October 30, 2020, the Company sought leave to amend its Answer to assert counterclaims against Chanel, Inc. for violations of the Sherman Act, 15 U.S.C. §§ 1 & 2, the Donnelly Act, N.Y. Gen. Bus. Law. § 340, and New York common law. The motion for leave to amend was granted on February 24, 2021. Chanel, Inc. moved to dismiss the Company's counterclaims; the motion to dismiss remains pending. The parties agreed to a stay in April 2021 to engage in settlement discussions. After several mediation sessions, the parties were unable to reach a resolution, and the stay was lifted in November 2021. The Court entered an Amended Scheduling Order on December 20, 2021. Under the Amended Scheduling Order, all fact discovery is to be completed by August 1, 2022 and all discovery is to be completed by November 14, 2022. Fact discovery is underway, and the parties are actively working to resolve several ongoing discovery disputes. 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 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 July 27, 2021, the Company reached an agreement in principle to settle this shareholder class action. On November 5, 2021, plaintiff filed the executed stipulation of settlement and motion for preliminary approval of the settlement with the federal court. The stipulation of settlement is subject to preliminary and final approval by the court. The financial terms of the stipulation of settlement provide that the Company will pay $11.0 million within thirty (30) days of the later of preliminary approval of the settlement or plaintiff’s counsel providing payment instructions. In connection with the settlement, the Company recorded approximately $11.0 million during the year ended December 31, 2021 under our Operating expenses as a Legal settlement. The Company intends to pay for the settlement with available resources.

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 purported shareholder class actions. The two derivative cases have been consolidated. On September 13, 2021, the parties reached a settlement in principle of the derivative case. The settlement in principle provides for certain corporate governance reforms in exchange for a release and dismissal of the lawsuit. On October 21, 2021, the parties reached agreement to pay up to $0.5 million in attorneys’ fees and costs to plaintiffs’ counsel in the derivative case. On November 5, 2021, the parties entered into a stipulation of settlement, and on February 11, 2022, the court entered an order and final judgment approving the settlement. In connection with the derivative settlement, the Company recorded approximately $0.5 million for the year ended December 31, 2021 under our Operating expenses as a Legal settlement. The stipulation of settlement was preliminarily approved on December 8, 2021, and the $0.5 million was paid within thirty (30) days of the preliminary approval, or on January 7, 2022, with available resources.

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 12. Income Taxes

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

	Year Ended December 31,		
	2021	2020	2019
Current:			
Federal	$ —	—	—
State	56	101	199
Total current tax expense	56	101	199
Deferred:		—	—
Federal	—	—	—
State	—	—	—
Total deferred tax expense	—	—	—
Total provision for income taxes	$ 56	$ 101	$ 199

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

	Year Ended December 31,		
	2021	2020	2019
Tax at federal statutory rate	$ (49,480)	$ (36,559)	$ (20,272)
State taxes, net of federal effect	(13,704)	(10,315)	(5,170)
Stock-based compensation	(2,698)	(6,261)	750
Non-deductible items	3,661	402	679
Convertible Notes	16,782	—	—
Valuation allowance	42,327	52,834	24,212
Other	3,168	—	—
Provision for income taxes	$ 56	$ 101	$ 199

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

	December 31,	
	2021	2020
Deferred tax assets:		
Net operating loss carryforwards	$ 178,558	$ 129,333
Fixed assets and intangibles	2,915	3,794
Accruals and reserves	8,202	6,008
Stock options	5,007	3,147
Operating lease liabilities	43,345	35,267
Capped calls	15,095	—
Gross deferred tax assets	253,122	177,549
Less: valuation allowance	(185,541)	(143,214)
Total deferred tax assets	67,581	34,335
Deferred tax liabilities:		
Operating lease right-of-use assets	(39,021)	(32,028)
Convertible debt	(26,477)	—
Other	(2,083)	(2,307)
Gross deferred tax liabilities	(67,581)	(34,335)
Net deferred tax assets	$ —	$ —

In assessing the realizability of deferred tax assets, the Company evaluates all available positive and negative evidence by considering whether it is more likely than not that some portion or all of the deferred tax assets will not be recognized. The ultimate realization of deferred tax assets is dependent upon future taxable income, future reversals of existing taxable temporary difference, taxable income in carryback years and tax-planning strategies. The Company believes it is more likely that not that the deferred tax assets in the U.S. will not be realized; accordingly, a valuation allowance has been established against our U.S. deferred tax assets. The net change in the valuation allowance for the years ended December 31, 2021 and December 31, 2020 was an increase of $42.3 million and an increase of $54.8 million, respectively.

As of December 31, 2021 and 2020, the Company has a net operating loss carryforward of $674.9 million and $485.1 million for federal tax purposes, respectively, and $609.7 million and $458.9 million for state tax purposes, respectively. If not utilized, these losses will expire beginning in 2024 for state tax purposes. However, beginning in tax year 2018 and forward, the Federal law has changed such that net operating losses generated after December 31, 2017 may be carried forward indefinitely. Accordingly, $168.2 million of the federal net operating losses will begin to expire in 2032. However, $506.7 million of the federal net operating losses will not expire.

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

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, state and local, jurisdictions, where applicable. As of December 31, 2021 and 2020, all years generally remain open to examination. Additionally, net operating loss carryforwards are subject to examination by the Internal Revenue Service and the California Franchise Tax Board for up to three years after utilization.

As of December 31, 2021 and 2020, the Company does not have uncertain tax positions for which it has recorded as a liability. The Company's policy is to include interest and penalties as a component to the statements of operations. There were no material tax penalties or interest during the years ended December 31, 2021, 2020, and 2019.

Note 13. Net Loss Per Share Attributable to Common Stockholders

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

	Year Ended December 31,		
	2021	2020	2019
Numerator			
Net loss attributable to common stockholders	$ (236,107)	$ (175,832)	$ (101,784)
Denominator			
Weighted-average common shares outstanding used to calculate net loss per share attributable to common stockholders, basic and diluted	91,409,624	87,587,409	47,478,544
Net loss per share attributable to common stockholders, basic and diluted	$ (2.58)	$ (2.01)	$ (2.14)

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

	December 31,		
	2021	2020	2019
Options to purchase common stock	4,131,501	5,809,376	9,171,756
Restricted stock units	8,187,586	5,103,727	789,817
Estimated shares issuable under the Employee Stock Purchase Plan	147,871	109,729	—
Assumed conversion of the Convertible Senior Notes	18,746,323	9,705,454	—
Total	31,213,281	20,728,286	9,961,573

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 income per share is computed on an as-converted basis.

Note 14. Retirement Plan

The Company has a defined-contribution 401(k) retirement plan covering substantially all of its employees. Eligible employees are permitted to contribute up to an amount not to exceed an annual statutory maximum. The Company matches employee contributions at a rate of 25% of vested contributions, up to a maximum of $1,000 per participant per year. The Company’s contributions to the 401(k) plan were $1.1 million, $0.8 million, and $0.5 million for the years ended December 31, 2021, 2020, and 2019, respectively.

Note 15. Related Parties

Julie Wainwright, President and Chief Executive Offer, is a board member of the RealReal Foundation, a 501(c)(3) organization, which is not a consolidated entity of the Company. During the year ended December 31, 2019, the Company donated $3.2 million to the RealReal Foundation.

THE REALREAL, INC.
2019 EQUITY INCENTIVE PLAN
PERFORMANCE-BASED RESTRICTED
STOCK UNIT AWARD NOTICE

[Name of Holder]

You have been granted an award of performance-based restricted stock units ("PSUs") with respect to shares of Common Stock, par value $0.00001 per share (the "Common Stock"), of The RealReal, Inc., a Delaware corporation (the "Company"), pursuant to the terms and conditions of The RealReal, Inc. 2019 Equity Incentive Plan (the "Plan") and the Performance-Based Restricted Stock Unit Award Agreement (together with this Award Notice, the "Agreement"). Copies of the Plan and the Performance-Based Restricted Stock Unit Award Agreement are attached hereto. Capitalized terms not defined herein shall have the meanings specified in the Plan or the Agreement.

Threshold PSUs:	[__]
Target PSUs:	[__]
Maximum PSUs:	[__]
Grant Date:	[__]
Vesting Commencement Date:	[__]
Expiration Date:	[__]
Vesting Schedule:	Except as otherwise provided in the Plan, the Agreement or any other agreement between the Company or any of its Subsidiaries and you, the Award shall vest based on (a) the Company's performance over the course of [__] (such period, the "Performance Period"), as described on Appendix A hereto, and (b) your continuous (except for any absence for vacation, leave, etc. in accordance with the Company's or its Subsidiaries' policies) employment or service with the Company or any of its Subsidiaries during [__]. As further described in Appendix A, performance will be measured [__].

THE REALREAL, INC.

By:

Name:
Title:

Acknowledgment, Acceptance and Agreement:

By accepting this grant on the Company's stock plan administrator's website, I hereby accept the Award granted to me and acknowledge and agree to be bound by the terms and conditions of this Award Notice, the Agreement and the Plan.

THE REALREAL, INC.
2019 EQUITY INCENTIVE PLAN
PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD AGREEMENT

The RealReal, Inc., a Delaware corporation (the "Company"), hereby grants to the individual (the "Holder") named in the award notice attached hereto (the "Award Notice") as of the date set forth in the Award Notice (the "Grant Date"), pursuant to the provisions of The RealReal, Inc. 2019 Equity Incentive Plan (the "Plan"), an award (the "Award") of performance-based restricted stock units ("PSUs") with respect to the number of shares of the Company's Common Stock, par value $0.00001 per share ("Common Stock"), set forth in the Award Notice, upon and subject to the restrictions, terms and conditions set forth in the Plan and this agreement (the "Agreement"). Capitalized terms not defined herein shall have the meanings specified in the Plan.

1. Award Subject to Acceptance of Agreement. The Award shall be null and void unless the Holder accepts this Agreement by executing the Award Notice in the space provided therefor and returning an original execution copy of the Award Notice to the Company (or electronically accepting this Agreement within the Holder's stock plan account with the Company's stock plan administrator according to the procedures then in effect).

2. Rights as a Stockholder. The Holder shall not be entitled to any privileges of ownership with respect to the shares of Common Stock subject to the Award unless and until, and only to the extent, such shares become vested pursuant to Section 3 hereof and the Holder becomes a stockholder of record with respect to such shares. The Award includes a right to Dividend Equivalents equal to the value of any dividends paid on the Common Stock for which the dividend record date occurs between the Grant Date and the date the Award is settled or forfeited. Subject to vesting, each Dividend Equivalent entitles Holder to receive the equivalent cash value of any such dividends paid on the number of shares of Common Stock underlying the Award that are outstanding during such period. Dividend Equivalents will be accrued (without interest) and will be subject to the same conditions as the shares of Common Stock to which they are attributable, including, without limitation, the vesting conditions, the provisions governing the time and form of settlement of the Award.

3. Restriction Period and Vesting.

3.1 Vesting Conditions. The Award shall vest only if both the service-based vesting conditions and performance-based vesting conditions are achieved, as follows:

(a) Service-Based Vesting Conditions. Except as otherwise provided for in this Agreement, the Award shall vest based on service if, only if, the Holder is, and has been, continuously (except for any absence for vacation, leave, etc. in accordance with the Company's or its Subsidiaries' policies) (i) employed by the Company or any of its Subsidiaries, (ii) serving as a Non-Employee Director or (iii) providing services to the Company or any of its Subsidiaries as an advisor or consultant, in each case, from the Vesting Commencement Date specified in the Award Notice through and including the Expiration Date specified in the Award Notice. The period of time prior to the vesting shall be referred to herein as the "Performance Period."

(b) Performance-Based Vesting Conditions. Except as otherwise provided for in this Agreement, the Award shall vest based on performance in accordance with the terms set forth on Appendix A hereto.

3.2 Termination of Employment.

(a) Termination Other Than in Connection with a Change in Control. Except as otherwise provided for in Section 3.2(b), if the Holder's employment with the Company terminates prior to the end of the Performance Period for any reason, the Award shall be immediately forfeited by the Holder and cancelled by the Company.

(b) Termination in Connection with a Change in Control. In the event of a Change in Control prior to the end of the Performance Period and the Company terminates the Holder's employment without Cause (as defined below) or the Holder resigns for Good Reason (as defined below), in either case, prior to the expiration of the Performance Period and on or within 12 months after the effective date of such Change in Control and the Holder executes and does not revoke a waiver and release of claims in the form prescribed by the Company within 60 days after the date of such termination, then the unvested portion of the Award shall immediately vest upon such termination of employment based on [actual performance for the portion of the unvested Award that is only subject to service-based vesting conditions (i.e., with respect to any completed performance periods, including any completed performance period where the Committee has not yet certified performance for such completed performance period (which vesting will be based on actual performance once the Committee certifies the Award)) and at target for the portion of the unvested Award that remains subject to performance-based vesting conditions (i.e., with respect to any performance periods that have not been completed)].

3.3 Definitions.

(a) Cause. For purposes of this Award, (i) "Cause" shall have the meaning assigned to such term in any written employment or similar agreement between the Company or any of its Subsidiaries and the Holder in effect on the Grant Date or (ii) if Holder is not party to an employment or similar agreement in effect on the Grant Date which defines "Cause," then "Cause" shall mean: (A) Holder's failure to perform his assigned duties or responsibilities as an employee, director or consultant (as applicable) of the Company or its affiliates (other than a failure resulting from Holder's disability) after written notice thereof from the Company describing Holder's failure to perform such duties or responsibilities; (B) Holder's act, or failure to act, that was performed in bad faith and to the detriment of the Company or any of its affiliates; (C) Holder engaging in any act of dishonesty, disloyalty to the Company or any of its affiliates, embezzlement, fraud, breach of trust or misrepresentation; (D) Holder's violation of any law or regulation applicable to the business of the Company or any of its affiliates; (E) Holder's breach of any confidentiality agreement or invention assignment agreement between Holder and the Company (or any affiliate of the Company); or (F) Holder's admission or conviction of, or entering a plea of guilty or nolo contendere to, any crime or Holder's commission of any act of moral turpitude. Holder understands that nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b). The Holder further understands that nothing contained in this Agreement limits the Holder's ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). The Holder further understands that neither this Agreement limits the Holder'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 documents or other information, without notice to the Company.

(b) Good Reason. For purposes of this Award, (i) "Good Reason" shall have the meaning assigned to such term in any written employment or similar agreement between the Company or any of its Subsidiaries and the Holder in effect on the Grant Date or (ii) if Holder is not party to an employment or similar agreement in effect on the Grant Date which defines "Good Reason," then "Good Reason" shall mean Holder's voluntary termination as an employee, director or consultant of the Company or its affiliates within 60 days after (A) a requirement by the Company or an affiliate of the Company that Holder relocate or commute to a location more than 50 miles away from Holder's work location as of the Grant Date, unless Holder has consented in writing to such requirement, (B) a material reduction by the Company in Holder'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 Holder has consented in writing to such reduction, or (C) a material diminution in Holder's duties and responsibilities inconsistent with Holder's position with the Company and Holder's duties and responsibilities immediately prior to such material diminution (but excluding transfers of duties and responsibilities to one or more employees as a result of the Company's natural growth, and excluding further any material diminution in Holder's duties and responsibilities as a result of a corporate transaction, so long as Holder has substantially similar duties and responsibilities in a division, subsidiary or other entity that is substantially similar in size to the division, subsidiary or other entity over which Holder had authority and responsibility prior to the relevant corporate transaction), unless Holder has consented in writing to such diminution; provided, however, that the Company shall have a 30-day period to cure any such Good Reason event and, if cured, the Holder shall not be eligible to terminate Holder's employment due to such Good Reason event.

4. Issuance or Delivery of Shares. Except as otherwise provided for herein, within 70 days after the vesting of any portion of the Award (and in any event no later than the March 15th immediately following the year in which the substantial risk of forfeiture with respect to the Award lapses), the Company shall issue or deliver, subject to the conditions of this Agreement, the vested shares of Common Stock to the Holder. Such issuance or delivery shall be evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company. The Company shall pay all original issue or transfer taxes and all fees and expenses incident to such issuance or delivery, except as otherwise provided in Section 6. Prior to the issuance to the Holder of the shares of Common Stock subject to the

Award, the Holder shall have no direct or secured claim in any specific assets of the Company or in such shares of Common Stock, and will have the status of a general unsecured creditor of the Company.

5. Transfer Restrictions and Investment Representation.

5.1. Nontransferability of Award. The Award may not be transferred by the Holder other than by will or the laws of descent and distribution. Except to the extent permitted by the foregoing sentence, the Award may not be sold, transferred, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process. Upon any attempt to so sell, transfer, assign, pledge, hypothecate, encumber or otherwise dispose of the Award, the Award and all rights hereunder shall immediately become null and void.

5.2. Investment Representation. The Holder hereby covenants that (a) any sale of any share of Common Stock acquired upon the vesting of the Award shall be made either pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "Securities Act"), and any applicable state securities laws, or pursuant to an exemption from registration under the Securities Act and such state securities laws and (b) the Holder shall comply with all regulations and requirements of any regulatory authority having control of or supervision over the issuance of the shares and, in connection therewith, shall execute any documents which the Committee shall in its sole discretion deem necessary or advisable.

6. Additional Terms and Conditions of Award.

6.1. Withholding Taxes.

(a) As a condition precedent to the delivery to the Holder of any of the shares of Common Stock subject to the Award, the Holder shall, upon request by the Company, pay to the Company (or shall cause a broker-dealer on behalf of the Holder to pay to the Company) such amount of cash as the Company may be required, under all applicable federal, state, local or other laws or regulations, to withhold and pay over as income or other withholding taxes (the "Required Tax Payments") with respect to the Award. If the Holder shall fail to advance the Required Tax Payments after request by the Company, the Company may, in its discretion, deduct any Required Tax Payments from any amount then or thereafter payable by the Company to the Holder.

(b) Holder shall satisfy his or her obligation to advance the Required Tax Payments by a cash payment by a broker whom the Company has selected for this purpose and to whom the Holder has authorized to sell any shares acquired upon the vesting of the Award to meet the Required Tax Payments; provided, further, that if the date on which the Award vests occurs during any blackout period under the Company's insider trading policy, then the portion of the Award that vests on such vesting date shall be distributed to the Holder on the vesting date and the Holder shall be required to sell as of such date a number of whole shares which would otherwise be delivered to the Holder upon the vesting of the Award having an aggregate Fair Market Value, determined as of the date on which such withholding obligation arises, equal to the Required Tax Payments and remit such proceeds to the Company to pay such Required Tax Payments. Notwithstanding the foregoing, the Company (or, in the case of a Holder subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Committee) may, in its sole discretion, establish alternative methods for the Holder to satisfy the Required Tax Payments, which may include, without limitation, a cash payment or share withholding or delivery (either actual delivery or by attestation procedures established by the Company) to the Company of previously owned whole shares, in each case, having an aggregate value, determined as of the Tax Date, equal to the amount necessary to satisfy the Required Tax Payments. Shares to be delivered to the Company or withheld may not have a Fair Market Value in excess of the minimum amount of the Required Tax Payments (or such greater withholding amount to the extent permitted by applicable withholding rules and accounting rules without resulting in variable accounting treatment). Any fraction of a share which would be required to satisfy any such obligation shall be disregarded and the remaining amount due shall be paid in cash by the Holder. No share of Common Stock or certificate representing a share of Common Stock shall be issued or delivered until the Required Tax Payments have been satisfied in full.

6.2. Compliance with Applicable Law. The Award is subject to the condition that if the listing, registration or qualification of the shares of Common Stock subject to the Award upon any securities exchange or under any law, or the consent or approval of any governmental body, or the taking of any other action is necessary or desirable as a condition of, or in connection with, the delivery of shares hereunder, the shares of Common Stock subject to the Award shall not be delivered, in whole or in part, unless such listing, registration, qualification, consent, approval or other action shall have been effected or obtained, free of any conditions not acceptable to the Company. The Company agrees to use reasonable efforts to effect or obtain any such listing, registration, qualification, consent, approval or other action.

6.3. Award Confers No Rights to Continued Employment. In no event shall the granting of the Award or its acceptance by the Holder, or any provision of the Agreement or the Plan, give or be deemed to give the Holder any right to continued employment by the Company, any Subsidiary or any affiliate of the Company or affect in any manner the right of the Company, any Subsidiary or any affiliate of the Company to terminate the employment of any person at any time.

6.4. Decisions of Board or Committee. The Board or the Committee shall have the right to resolve all questions which may arise in connection with the Award. Any interpretation, determination or other action made or taken by the Board or the Committee regarding the Plan or this Agreement shall be final, binding and conclusive.

6.5. Successors. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company and any person or persons who shall, upon the death of the Holder, acquire any rights hereunder in accordance with this Agreement or the Plan.

6.6. Notices. All notices, requests or other communications provided for in this Agreement shall be made, if to the Company, to The RealReal, Inc., Attn: Stock Plan Administrator, 55 Francisco Street, Suite 600, San Francisco, California 94133, and if to the Holder, to the last known mailing address of the Holder contained in the records of the Company. All notices, requests or other communications provided for in this Agreement shall be made in writing either (a) by personal delivery, (b) by facsimile or electronic mail with confirmation of receipt, (c) by mailing in the United States mails or (d) by express courier service. The notice, request or other communication shall be deemed to be received upon personal delivery, upon confirmation of receipt of facsimile or electronic mail transmission or upon receipt by the party entitled thereto if by United States mail or express courier service; provided, however, that if a notice, request or other communication sent to the Company is not received during regular business hours, it shall be deemed to be received on the next succeeding business day of the Company.

6.7. Governing Law. This Agreement, the Award and all determinations made and actions taken pursuant hereto and thereto, to the extent not governed by the laws of the United States, shall be governed by the laws of the State of Delaware and construed in accordance therewith without giving effect to principles of conflicts of laws.

6.8. Agreement Subject to the Plan. This Agreement is subject to the provisions of the Plan, including Section 5.8 with respect to a Change in Control, and shall be interpreted in accordance therewith. In the event that the provisions of this Agreement and the Plan conflict, the Plan shall control. The Holder hereby acknowledges receipt of a copy of the Plan.

6.9. Entire Agreement. This Agreement and the Plan constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Holder with respect to the subject matter hereof, and may not be modified adversely
to the Holder's interest except by means of a writing signed by the Company and the Holder.

6.10. Partial Invalidity. The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions hereof and this Agreement shall be construed in all respects as if such invalid or unenforceable provision was omitted.

6.11. Amendment and Waiver. The Company may amend the provisions of this Agreement at any time; provided that an amendment that would materially impair the Holder's rights under this Agreement shall be subject to the written consent of the Holder. No course of conduct or failure or delay in enforcing the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement.

6.12. Compliance with Section 409A of the Code. This Award is intended to be exempt from or comply with Section 409A of the Code, and shall be interpreted and construed accordingly, and each payment hereunder shall be considered a separate payment. To the extent this Agreement provides for the Award to become vested and be settled upon the Holder's termination of employment, the applicable shares of Common Stock shall be transferred to the Holder or his or her beneficiary upon the Holder's "separation from service," within the meaning of Section 409A of the Code; provided that if the Holder is a "specified employee," within the meaning of Section 409A of the Code, then to the extent the Award constitutes nonqualified deferred compensation, within the meaning of Section 409A of the Code, such shares of

Common Stock shall be transferred to the Holder or his or her beneficiary upon the earlier to occur of (i) the six-month anniversary of such separation from service and (ii) the date of the Holder’s death.

Appendix A

Performance-Based Vesting Conditions

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Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements (Nos. 333-232528 and 333-255981) on Form S-8 of our reports dated February 28, 2022, with respect to the financial statements of The RealReal, Inc. and the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

San Francisco, California
February 28, 2022

Exhibit 31.1

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 Form-10K 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: February 28, 2022	By:	/s/ Julie Wainwright
		Julie Wainwright
		Chief Executive Officer

Exhibit 31.2

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, Robert Julian, certify that:

1. I have reviewed this Form-10K 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: February 28, 2022	By:	/s/ Robert Julian
		Robert Julian
		Chief Financial Officer

Exhibit 32.1

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

In connection with the Annual Report of The RealReal, Inc. (the “Company”) on Form 10-K for the period ending December 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:

(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 result of operations of the Company.

Date: February 28, 2022	By:	/s/ Julie Wainwright
		Julie Wainwright
		Chief Executive Officer

Exhibit 32.2

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

In connection with the Annual Report of The RealReal, Inc. (the “Company”) on Form 10-K for the period ending December 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:

(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 result of operations of the Company.

Date: February 28, 2022

By: /s/ Robert Julian
Robert Julian
Chief Financial Officer