UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___ to ___

Commission file number 001-38160

Redfin Corporation

(Exact name of registrant as specified in its charter)

Delaware	**74-3064240**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1099 Stewart Street, Suite 600, Seattle, WA	**98101**
(Address of Principal Executive Offices)	(Zip Code)

(206) 576-8333
Registrant's telephone number, including area code

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.001 par value per share	RDFN	The Nasdaq Global Select Market

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

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

As of the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by its non-affiliates, computed by reference to the price at which the common stock was last sold, was $4,018,176,739.

The registrant had 103,206,434 shares of common stock outstanding as of February 10, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

The portions of the registrant's proxy statement to be filed in connection with the registrant's 2021 Annual Meeting of Stockholders that are responsive to the disclosure required by Part III of Form 10-K are incorporated by reference into Part III of this Form 10-K.

Redfin Corporation

Annual Report on Form 10-K
For the Year Ended December 31, 2020

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As used in this annual report, the terms "Redfin," "we," "us," and "our" refer to Redfin Corporation and its subsidiaries taken as a whole, unless otherwise noted or unless the context indicates otherwise. However, when referencing (i) our 2023 notes and our 2025 notes, the terms “we,” “us,” and “our” refer only to Redfin Corporation and not to Redfin Corporation and its subsidiaries taken as a whole, (ii) the secured revolving credit facility with Goldman Sachs, the terms "we," "us," and "our" refer only to RedfinNow Borrower LLC, and (iii) each warehouse credit facility, the terms "we," "us"," and "our" refer only to Redfin Mortgage, LLC.

Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements. All statements contained in this report other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans (including the closing of our acquisition, as well as integration, of RentPath), our market growth and trends, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “could,” “would,” “project,” “plan,” "hope," “potentially,” “preliminary,” “likely,” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described under Item 1A. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Accordingly, you should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, performance, or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to update any of these forward-looking statements for any reason after the date of this report or to conform these statements to actual results or revised expectations.

Note Regarding Industry and Market Data

This annual report contains information using industry publications that generally state that the information contained therein has been obtained from sources believed to be reliable, but such information may not be accurate or complete. While we are not aware of any misstatements regarding the information from these industry publications, we have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied on therein.

PART I

Item 1. Business

Overview

We help people buy and sell homes. Representing customers in over 95 markets in the United States and Canada, we are a residential real estate brokerage. We pair our own agents with our own technology to create a service that is faster, better, and costs less. We meet customers through our listings-search website and mobile application.

We use the same combination of technology and local service to originate mortgage loans and offer title and settlement services; we also buy homes directly from homeowners who want an immediate sale, taking responsibility for selling the home while the original owner moves on.

Our mission is to redefine real estate in the consumer's favor.

Representing Customers

Our brokerage efficiency results in savings that we share with our customers. We charge most home sellers a commission of 1% to 1.5%, compared to the 2.5% to 3% typically charged by traditional brokerages. Additionally, we refund homebuyers a portion of the commission we earn; the average refund per transaction was $1,750 in 2020.

The results of our customer-first approach are clear. We:

- helped customers buy or sell more than 310,000 homes worth more than $152 billion through 2020;
- saved customers nearly $1 billion, when compared to a 2.5% commission, since our launch in 2006;
- drew more than 42 million monthly average visitors to our website and mobile application in 2020, 28% more compared to 2019;
- had customers return to us for another transaction at a 54% higher rate than competing brokerages;
- sold Redfin-listed homes for nearly $2,200 more on average compared to the list price than competing brokerages' listings in 2020, according to a study we commissioned; and
- had listings on the market for an average of 35 days in 2020 compared to the industry average of 40 days, according to a study we commissioned; and, according to the same study, approximately 91% of Redfin listings sold within 90 days versus the industry average of approximately 78%.

To serve customers when our own agents can't due to high demand or geographic limitations, we've developed partnerships with over 6,800 agents at other brokerages. Once we refer a customer to a partner agent, that agent, not us, represents the customer from the initial meeting through closing, at which point the agent pays us a portion of her commission as a referral fee.

Complete Customer Solution

Our long-term goal is to combine brokerage, mortgage, title services, and instant offers to directly purchase a consumer's home into one solution, sharing information, coordinating deadlines, and streamlining processes so that a consumer's move is easier and often less costly. As we integrate these services more closely over time, we believe we can help consumers move much more efficiently than a combination of stand-alone brokerages, mortgage lenders, and title companies ever could.

Redfin Mortgage underwrites mortgage loans and, after originating each loan, Redfin Mortgage sells the loans to third-party mortgage investors. Redfin Mortgage does not intend to retain or service mortgage loans. Redfin Mortgage has officially launched in 56 markets across Arizona, Colorado, Delaware, District of Columbia, Florida, Georgia, Illinois, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and Wisconsin.

We offer title and settlement services through Title Forward. Title Forward has officially launched in 27 markets across Colorado, District of Columbia, Florida, Georgia, Illinois, Maryland, Minnesota, New Jersey, Pennsylvania, Tennessee, Texas, Virginia, Washington, and Wisconsin.

We buy homes directly from homeowners and resell them to homebuyers through RedfinNow. Customers who sell through RedfinNow typically get less money for their home than they would listing their home with a real estate agent. However, they get that money faster with less risk and disruption. RedfinNow is currently active in 16 markets across Arizona, California, Colorado, Texas, and Washington.

Competition

The residential brokerage industry is highly fragmented, with numerous active licensed agents and brokerages, and is evolving rapidly in response to technological advancements, changing customer preferences, and new offerings. We compete primarily against other residential real estate brokerages, which include franchise operations affiliated with national or local brands, and small independent brokerages. We also compete with hybrid residential brokerages, which combine Internet technology and brokerage services, and a growing number of others that operate with non-traditional real estate business models. Competition is particularly intense in some of the densely populated metropolitan markets we serve, as they are dominated by entrenched real estate brokerages and are the primary markets for innovative and well-capitalized new entrants.

We believe we compete primarily based on:

- access to timely, accurate data about homes for sale;
- traffic to our website and mobile application, which themselves are subject to competition against real estate data websites that aggregate listings and sell advertising to traditional brokers;
- the speed and quality of our service, including agent responsiveness and local knowledge;
- our ability to hire and retain agents who deliver the best customer service;
- the costs of delivering our service and the price of our service to consumers;
- consumer awareness of our service and the effectiveness of our marketing efforts;
- technological innovation; and
- depth and breadth of local referral networks.

For mortgage origination, we compete with numerous national and local multi-product banks as well as focused mortgage originators. We compete with other providers based primarily on service, product selection, interest rates, and origination fees.

For title and settlement services, we compete with numerous national and local companies that typically focus solely on these services. We compete primarily on timeliness of service and fees.

Our RedfinNow service competes with real estate companies whose primary service is buying and selling homes, and home rental companies that purchase homes and then rent them. We also compete with divisions of several residential real estate companies and a real estate data website. We compete primarily on the prices we offer customers to buy their homes.

Seasonality

For the impact of seasonality on our business, see "Quarterly Results of Operations and Key Business Metrics" under Item 7.

Our Lead Agents

Our goal is to be the best employer in real estate. At the heart of this goal is an investment in the real estate agents who directly help our customers buy and sell homes. We refer to these agents as our lead agents. Unlike traditional real estate brokerages, where agents work as independent contractors, we employ our lead agents and pay them a salary, offer them an opportunity to earn additional cash and equity compensation, and provide them with health insurance and other benefits. As a result, our lead agents in 2020 earned a median income that was twice as much as agents at competing brokerages. Also in 2020, our lead agents were, on average, nearly three times more productive than agents at competing brokerages. Our investment in our lead agents has resulted in a significant competitive advantage in agent retention, as our lead agents were 13% more likely to stay with us from 2019 to 2020 than agents at competing brokerages. Our ability to attract, develop, and retain lead agents is critical to our success.

As of December 31, 2020, we had 4,185 employees. For 2020, our average number of lead agents was 1,757. See "Key Business Metrics-Average Number of Lead Agents" under Item 7.

Our Executive Officers

Below is information regarding our executive officers. Each executive officer holds office until his or her successor is duly elected and qualified or until the officer’s earlier resignation, disqualification, or removal.

- Glenn Kelman, age 50, has served as our chief executive officer since September 2005 and one of our directors since March 2006.

- Bridget Frey, age 43, has been employed by us since June 2011 and has served as our chief technology officer since February 2015.

- Ee Lyn Khoo, age 43, has served as our chief human resources officer since January 2021. Previously, Ms. Khoo served in several different roles with Amazon (a technology company) from January 2008 to December 2020. As Human Resources Director, Global Talent Management from December 2013 to June 2017, Ms. Khoo deployed talent management products at a company-wide level. As Vice President of Human Resources from July 2017 to December 2020, Ms. Khoo led the human resources function across a variety of Amazon businesses, including Advertising, Prime Video, Physical Stores/Grocery, Consumer, and Global Expansion and Mergers and Acquisition.

- Scott Nagel, age 55, has been employed by us since July 2007 and has served as our president of real estate operations since May 2013.

- Chris Nielsen, age 54, has served as our chief financial officer since June 2013.

- Christian Taubman, age 42, has served as our chief product officer since October 2019. Previously, Mr. Taubman served in several different roles with Amazon (a technology company) from April 2011 to October 2019. As Director - Smart Home Verticals from December 2017 to October 2019, Mr. Taubman led employees in product management, software engineering, and program management, with the mission of helping customers to connect more smart devices to Amazon's Alexa virtual assistant. As Senior Manager - International Retail Expansion from May 2016 to December 2017, Mr. Taubman led an initiative to create a faster retail international expansion model. As Senior Manager - Prime Delivery from April 2011 to May 2016, Mr. Taubman helped launch Amazon's Prime free same-day delivery benefit in the United States, United Kingdom, and Germany.

- Adam Wiener, age 42, has been employed by us since October 2007 and has served as our chief growth officer since May 2015.

Our Regulatory Environment

The residential real estate industry is heavily regulated by federal, state, and local governments in the United States. Because of our complete customer solution approach of combining brokerage, mortgage, title services, and instant offers, a customer may be able to receive more than one real estate-related service from us. Accordingly, some government regulations affect more than one of our operating segments and may impact our ability to offer multiple services to the same customer.

For example, the Real Estate Settlement Procedures Act of 1974 restricts, with some exceptions, kickbacks or referral fees that real estate settlement service providers, such as brokerages, mortgage originators, and title and closing service providers, may pay or receive in connection with the referral of settlement services. Furthermore, the Fair Housing Act of 1968 (the “FHA”) prohibits discrimination in the purchase or sale of homes. The FHA applies to real estate agents, mortgage lenders, title companies, and home sellers, such as RedfinNow, as well as many forms of advertising and communications, including MLS listings and insights about home listings.

Additionally, our brokerage, mortgage, and title business each requires a license specific to its business from each state in which it operates, and the licensing requirements vary by state. Furthermore, some of our employees who provide services for these businesses must also hold individual licenses. These entity and individual licenses may be costly to obtain and maintain, which may adversely affect our company’s earnings.

Our Website and Public Filings

Our website is www.redfin.com. Through this website, we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we file such material with, or furnish it to, the U.S. Securities and Exchange Commission (the "SEC").

Item 1A. Risk Factors

You should carefully consider the risks described below, together with all other information in this annual report, before investing in any of our securities. The occurrence of any single risk or any combination of risks could materially and adversely affect our business, operating results, financial condition, liquidity, or competitive position, and consequently, the value of our securities. The material adverse effects include, but are not limited to, not growing our revenue or market share at the pace that they have grown historically or at all, our revenue and market share fluctuating on a quarterly and annual basis, an extension of our history of losses and a failure to become profitable, not achieving the revenue and net income (loss) guidance that we provide, and harm to our reputation and brand.

Risks Related to Our Business and Industry

Our business depends significantly on the health of the U.S. residential real estate industry and macroeconomic factors.

Our success depends largely on the health of the U.S. residential real estate industry. This industry, in turn, is affected by changes in general economic conditions, which are beyond our control. Any of the following factors could adversely affect the industry and harm our business:

- seasonal or cyclical downturns in the U.S. residential real estate industry, which may be due to any single factor, or a combination of factors, listed below, or factors which are currently not known to us or that have not historically affected the industry;
- slow economic growth or recessionary conditions;
- increased unemployment rates or stagnant or declining wages;
- inflationary conditions;
- low consumer confidence in the economy or the U.S. residential real estate industry;
- adverse changes in local or regional economic conditions in the markets that we serve, particularly our top-10 markets and markets into which we are attempting to expand;
- increased mortgage rates; reduced availability of mortgage financing; or increased down payment requirements;
- low home inventory levels, which may result from zoning regulations and higher construction costs, among other factors;
- lack of affordably priced homes, which may result from home prices growing faster than wages;
- volatility and general declines in the stock market or lower yields on individuals' investment portfolios;
- rising insurance and tax costs that increase the expenses associated with home ownership;
- newly enacted and potential federal, state, and local legislative actions that would affect the residential real estate industry generally or in our top-10 markets, including (i) actions that would increase the tax liability arising from buying, selling, or owning real estate, (ii) actions that would change the way real estate brokerage commissions are negotiated, calculated, or paid, and (iii) potential reform relating to Fannie Mae, Freddie Mac, and other government sponsored entities that provide liquidity to the mortgage market;

- changes that cause U.S. real estate to be more expensive for foreign purchases, such as (i) increases in the exchange rate for the U.S. dollar compared to foreign currencies and (ii) foreign regulatory changes or capital controls that make it more difficult for foreign purchasers to withdraw capital from their home countries or purchase and hold U.S. real estate;

- changed generational views on homeownership and generally decreased financial resources available for purchasing homes; and

- war, terrorism, political uncertainty, natural disasters, inclement weather, health epidemics or pandemics, and acts of God.

COVID-19 has affected our business and may continue to affect our business.

Our success depends on a high volume of residential real estate transactions throughout the markets in which we operate. This transaction volume affects all of the ways that we generate revenue, including our number of real estate services transaction, RedfinNow's ability to sell homes that it owns, the number of loans our mortgage business originates and potentially resells, and the number of deals our title and settlement business closes. COVID-19 has affected, and may continue to affect, residential real estate transaction volume.

We believe that COVID-19's impact on our residential real estate transaction volume depends largely on the existence and prevalence of the two factors described below. If one or both of these factors exists to a large extent in the markets in which we operate, our residential real estate transaction volume may significantly decline.

- Prohibitions or limitations on in-person activities associated with residential real estate transactions, whether imposed (i) by a city, county, or state, government through shelter-in-place, stay-at-home, or similar isolation orders or otherwise or (ii) by us to protect the health of our customers, agents, and communities.

- Lack of consumer desire for in-person interactions and physical home tours that have historically been important aspects of the homebuying and home selling process.

Additionally, we believe that any prolonged economic impacts from COVID-19, including those described below, may also adversely affect residential real estate transaction volume.

- Increased unemployment rates and stagnant or declining wages.

- Decreased consumer confidence in the economy and recessionary conditions.

- Volatility and declines in the stock market and lower yields on individuals' investment portfolios.

- More stringent mortgage financing conditions, including increased down payment requirements.

In addition to the volume of residential real estate transactions, our success also depends on the U.S. residential real estate industry not experiencing a significant decline in the prices at which homes are bought and sold. If COVID-19's economic impacts cause home transaction prices to decline, and especially if the decline occurs at an accelerated rate, our business will be adversely effected.

Our business is concentrated in certain geographic markets. Our failure to adapt to any substantial shift in the relative percentage of residential housing transactions from these markets to other markets in the United States could adversely affect our financial performance.

For the year ended December 31, 2020, our top-10 markets by real estate services revenue consisted of the metropolitan areas of Boston, Chicago, Denver (including Boulder and Colorado Springs), Los Angeles (including Santa Barbara), Maryland, Northern Virginia, Portland (including Bend), San Diego, San Francisco, and Seattle.

Local and regional conditions in these markets may differ significantly from prevailing conditions in the United States or other parts of the country. Accordingly, events may adversely and disproportionately affect demand for and sales prices of homes in these markets. Any overall or disproportionate downturn in demand or home prices in any of our largest markets, particularly if we are unable to increase revenue from our other markets, could adversely affect growth of our revenue and market share or otherwise harm our business.

Our top markets are primarily major metropolitan areas, where home prices and transaction volumes are generally higher than other markets. As a result, our real estate services revenue and gross margin are generally higher in these markets than in our smaller markets. To the extent people migrate to cities outside of these markets due to lower home prices or other factors, such as COVID-19, and this migration continues to take place over the long-term, then the relative percentage of residential housing transactions may shift away from our historical top markets where we have historically generated most of our revenue. Our inability to effectively adapt to any shift, including failing to increase revenue from other markets, could adversely affect our financial performance and market share.

Competition in each of our lines of business is intense.

Many of our competitors across each of our businesses have substantial competitive advantages, such as longer operating histories, stronger brand recognition, greater financial resources, more management, sales, marketing and other resources, superior local referral networks, perceived local knowledge and expertise, and extensive relationships with participants in the residential real estate industry, including third-party data providers such as multiple listing services ("MLSs"). Consequently, these competitors may have an advantage in recruiting and retaining agents, attracting consumers, and growing their businesses. They may also be able to provide consumers with offerings that are different from or superior to those we provide. The success of our competitors could result in our loss of market share and harm our business.

We may be unable to maintain or improve our current technology offerings at a competitive level or develop new technology offerings that meet customer or agent expectations. Our technology offerings may also contain undetected errors or vulnerabilities.

Our technology offerings, including tools, features, and products, are key to our competitive plan for attracting potential customers and hiring and retaining lead agents. Maintaining or improving our current technology to meet evolving industry standards and customer and agent expectations, as well as developing commercially successful and innovative new technology, is challenging and expensive. For example, the nature of development cycles may result in delays between the time we incur expenses and the time we introduce new technology and generate revenue, if any, from those investments. Anticipated customer demand for a technology offering could also decrease after the development cycle has commenced, and we would not be able to recoup costs, which may be substantial, we incurred.

As standards and expectations evolve and new technology becomes available, we may be unable to identify, design, develop, and implement, in a timely and cost-effective manner, new technology offerings to meet those standards and expectations. As a result, we may be unable to compete effectively, and to the extent our competitors develop new technology offerings faster than us, they may render our offerings noncompetitive or obsolete. Additionally, even if we implemented new technology offerings in a timely manner, our customers and agents may not accept or be satisfied by the offerings.

For example, COVID-19 has, for at least the short-term, affected the way that customers tour homes and interact with their real estate agent, as more tours and interactions have shifted towards electronic or virtual mediums. While we have updated our technology offerings in an attempt to respond to this change, there is no assurance that customers will adopt our updated technology offerings over those of our competitors. To the extent that the shift in customer touring and interaction develop into a long-term trend and we fail to update our technology offerings to respond to this shift, then we may be unable to attract potential customers. Furthermore, it is also possible that customers will revert to more traditional ways of touring homes and interacting with their agents when COVID-19's impacts have subsided. In that scenario, our updated technology offerings focused on electronic or virtual mediums may become obsolete or less frequently used than we anticipated, and we will be unable to recoup the costs that we have incurred and are currently incurring in developing these offerings.

Furthermore, our development and testing processes may not detect errors and vulnerabilities in our technology offerings prior to their implementation. Any inefficiencies, errors, technical problems, or vulnerabilities arising in our technology offerings after their release could reduce the quality of our services or interfere with our customers' and agents' access to and use of our technology and offerings.

We may be unable to obtain and provide comprehensive and accurate real estate listings quickly, or at all.

We believe that users of our website and mobile application come to us primarily because of the real estate listing data that we provide. Accordingly, if we were unable to obtain and provide comprehensive and accurate real estate listings data, our primary channels for meeting customers will be diminished. We get listings data primarily from MLSs in the markets we serve. We also source listings data from public records, other third-party listing providers, and individual homeowners and brokers. Many of our competitors and other real estate websites also have access to MLSs and other listings data, including proprietary data, and may be able to source listings data or other real estate information faster or more efficiently than we can. Since MLS participation is voluntary, brokers and homeowners may decline to post their listings data to their local MLS or may seek to change or limit the way that data is distributed. A competitor or another industry participant could also create an alternative listings data service, which may reduce the relevancy and comprehensive nature of the MLSs. If MLSs cease to be the predominant source of listings data in the markets that we serve, we may be unable to get access to comprehensive listings data on commercially reasonable terms, or at all, which may result in fewer people using our website and mobile application.

We rely on business data to make decisions and drive our machine-learning technology, and errors or inaccuracies in such data may adversely affect our business decisions and the customer experience.

We regularly analyze business data to evaluate growth trends, measure our performance, establish budgets, and make strategic decisions. Much of this data is internally generated and has not been independently verified. While our business decisions are based on what we believe to be reasonable calculations for the applicable period of measurement, there are inherent challenges in measuring and interpreting the data, and we cannot be certain that the data are accurate. Errors or inaccuracies in the data could result in poor business decisions, resource allocation, or strategic initiatives. For example, if we overestimate traffic to our website and mobile application, we may not invest an adequate amount of resources in attracting new customers or we may hire more lead agents in a given market than necessary to meet customer demand.

We also use our business data and proprietary algorithms to inform our machine learning, such as in the calculation of our *Redfin Estimate*, which provides an estimate on the market value of individual homes. If customers disagree with us or if our *Redfin Estimate* fails to accurately reflect market pricing such that we are unable to attract homebuyers or help our customers sell their homes at satisfactory prices, or at all, customers may lose confidence in us.

We may be unable to attract homebuyers and home sellers to our website and mobile application in a cost-effective manner.

Our website and mobile application are our primary channels for meeting customers. Accordingly, our success depends on our ability to attract homebuyers and home sellers to our website and mobile application in a cost-effective manner. To meet customers, we rely heavily on traffic generated from search engines and downloads of our mobile application from mobile application stores. We also rely on marketing methods such as targeted email campaigns, paid search advertising, social media marketing, and traditional media, including TV, radio, and billboards.

The number of visitors to our website and downloads of our mobile application depend in large part on how and where our website and mobile application rank in Internet search results and mobile application stores, respectively. While we use search engine optimization to help our website rank highly in search results, maintaining or improving our search result rankings is not within our control. Internet search engines frequently update and change their ranking algorithms, referral methodologies, or design layouts, which determine the placement and display of a user’s search results. In some instances, Internet search engines may change these rankings in order to promote their own competing services or the services of one or more of our competitors. Similarly, mobile application stores can change how they display searches and how mobile applications are featured. For instance, editors at the Apple iTunes Store can feature prominently editor-curated mobile applications and cause the mobile application to appear larger than other applications or more visibly on a featured list.

Additionally, our marketing efforts may fail to attract the desired number of customers for a variety of reasons, including the creative treatment for our advertisements may be ineffective or new third-party email delivery policies that make it more difficult for us to execute targeted email campaigns.

If we are unable to deliver a rewarding experience on mobile devices, whether through our mobile website or mobile application, we may be unable to attract and retain customers.

Developing and supporting a mobile website and mobile application across multiple operating systems and devices requires substantial time and resources. We may not be able to consistently provide a rewarding customer experience on mobile devices and, as a result, customers we meet through our mobile website or mobile application may not choose to use our services at the same rate as customers we meet through our website.

As new mobile devices and mobile operating systems are released, we may encounter problems in developing or supporting our mobile website or mobile application for them. Developing or supporting our mobile website or mobile application for new devices and their operating systems may require substantial time and resources. The success of our mobile website and mobile application could also be harmed by factors outside of our control, such as:

- increased costs to develop, distribute, or maintain our mobile website or mobile application;

- changes to the terms of service or requirements of a mobile application store that requires us to change our mobile application development or features in an adverse manner; and

- changes in mobile operating systems, such as Apple’s iOS and Google’s Android, that disproportionately affect us, degrade the functionality of our mobile website or mobile application, require that we make costly upgrades to our technology offerings, or give preferential treatment to competitors' websites or mobile applications.

Our business model of employing lead agents subjects us to challenges not faced by our competitors. Our ability to hire and retain a sufficient number of lead agents is critical to our ability to maintain and grow our market share and to provide an adequate level of service to customers who want to work with our lead agents.

As a result of our business model of employing our lead agents, our lead agents generally earn less on a per transaction basis than traditional agents who work as independent contractors at traditional brokerages. Because our model is uncommon in our industry, agents considering working for us may not understand our compensation model or may not perceive it to be more attractive than the independent contractor, commission-driven compensation model used by most traditional brokerages. If we are unable to attract, retain, effectively train, motivate, and utilize lead agents, we will be unable to grow our business and we may be required to change our compensation model, which could significantly increase our lead agent compensation or other costs.

Also as a result of employing our lead agents, we incur costs that our brokerage competitors do not, such as base pay, employee benefits, expense reimbursement, training, and employee transactional support staff. As a result, we have significant costs that, in the event of downturns in demand in the markets we serve, may result in us being unable to adjust as rapidly as some of our competitors. In turn, such downturns may impact us more than our competitors.

Conversely, in times of rapidly rising demand we may face a shortfall of lead agents. To the extent our customer demand increases from current levels, our ability to adequately serve the additional customers, and in turn grow our revenue and U.S. market share by value, depends, in part, on our ability to timely hire and retain additional lead agents. To the extent we are unable to hire, either timely or at all, or retain the required number of lead agents to serve our customer demand, we will be unable to maximize our revenue and market share growth. Although we are able to refer excess demand to our partner agents, historically our partner agents have closed transactions with customers they meet at a lower rate than our lead agents and have generated lower revenue per transaction.

Additionally, due to the costs of employing our lead agents, lead agent turnover may be more costly to us than to traditional brokerages. Our business may be harmed if we are unable to achieve the necessary level of lead agent productivity and retention to offset their related costs.

Referring customers to our partner agents may harm our business.

We refer customers to third-party partner agents when we do not have a lead agent available due to high demand or geographic limitations. Our dependence on partner agents can be particularly heavy in certain new markets as we build our operations to scale in those markets or during times of rapidly rising demand for our services. Our partner agents are independent licensed agents affiliated with other brokerages, and we do not have any control over their actions. If our partner agents were to provide poor customer service, engage in malfeasance, or otherwise violate the laws and rules to which we are subject, we may be subject to legal claims and our reputation and business may be harmed.

Our arrangements with third parties may limit our growth and brand awareness. For example, referring customers to partner agents potentially redirects repeat and referral opportunities to the partner agents. Any third-party arrangements may also dilute the effectiveness of our marketing efforts and may lead to consumer confusion or dissatisfaction when they are offered the opportunity to work with the third party rather than us.

If we do not comply with the rules, terms of service, and policies of MLSs, our access to and use of listings data may be restricted or terminated.

We must comply with an MLS's rules, terms of service, and policies to access and use its listings data. We belong to numerous MLSs, and each has adopted its own rules, terms of service, and policies governing, among other things, how MLS data may be used and how listings data must be displayed on our website and mobile application. These rules typically do not contemplate multi-jurisdictional online brokerages like ours and vary widely among markets. They also are in some cases inconsistent with the rules of other MLSs such that we are required to customize our website, mobile application, or service to accommodate differences between MLS rules. Complying with the rules of each MLS requires significant investment, including personnel, technology and development resources, and the exercise of considerable judgment. If we are deemed to be noncompliant with an MLS's rules, we may face disciplinary sanctions in that MLS, which could include monetary fines, restricting or terminating our access to that MLS's data, or other disciplinary measures. The loss or degradation of this listings data could materially and adversely affect traffic to our website and mobile application, making us less relevant to consumers and restricting our ability to attract customers. It also could reduce agent and customer confidence in our services and harm our business.

If we fail to comply with the requirements governing the licensing of our brokerage, mortgage, and title businesses in the jurisdictions in which we operate, then our ability to operate those businesses in those jurisdictions may be revoked.

Redfin, as a brokerage, and our agents must comply with the requirements governing the licensing and conduct of real estate brokerage and brokerage-related businesses in the markets where we operate. Furthermore, we are also required to comply with the requirements governing the licensing and conduct of mortgage and title and settlement businesses in the markets where we operate. Due to the geographic scope of our operations, we and our agents may not be in compliance with all of the required licenses at all times. Additionally, if we enter into new markets, we may become subject to additional licensing requirements. If we or our agents fail to obtain or maintain the required licenses for conducting our brokerage, mortgage, and title businesses or fail to strictly adhere to associated regulations, the relevant government authorities may order us to suspend relevant operations or impose fines or other penalties.

RedfinNow may overestimate the amount it should pay to purchase a home, and homes owned by it may significantly decline in value prior to being sold.

RedfinNow uses automated valuations and forecasts in concert with our real estate knowledge to assess what a home is worth and how much to pay for its purchase. This assessment includes estimates on time of possession, market conditions and proceeds on resale, renovation costs, and holding costs. The assessment may not be accurate, and RedfinNow may pay too much for the home to realize our desired investment return. Additionally, following its acquisition of a home, RedfinNow may need to decrease its anticipated resale price for the home if it discovers a defect in the home that was unknown at the time of acquisition. This adjustment to the price may also affect our investment return on the home.

Homes that RedfinNow owns may also rapidly lose in value or become more difficult to sell for an acceptable price due to changing market conditions, natural disasters, or other forces outside of our control. RedfinNow's geographic concentration in six states - Arizona, California, Colorado, Nevada (where we are currently inactive), Texas, and Washington - particularly exposes it to the factors affecting home value and saleability in those states that may not apply to the United States generally. As a result, we may be required to significantly write down the inventory value of homes and, to the extent we are able to resell homes at all, resell them at a price that is substantially less than our costs of acquiring and renovating the homes.

RedfinNow relies, in part, on third parties to renovate and repair homes before it resells the homes, and the cost or availability of third-party labor could adversely affect our holding period and investment return for homes.

Upon purchasing a home, RedfinNow frequently needs to renovate or repair parts of the home prior to listing it for resale. RedfinNow relies, in part, on third-party contractors and sub-contractors to make these renovations and repairs. These third-party providers may not be able to complete the required renovations or repairs within RedfinNow's expected timeline or proposed budget. Furthermore, if the quality of a third-party provider's work does not meet RedfinNow's expectations, then RedfinNow may need to engage another third-party contractor or subcontractor, which may also adversely affect its timeline or budget for completing renovations or repairs.

A longer than expected period for completing renovations or repairs could negatively impact RedfinNow's ability to sell a home within its anticipated timeline. This prolonged timing exposes us to factors that adversely affect the home's resale value and may result in RedfinNow selling the home for a lower price than anticipated or not being able to sell the home at all. Meanwhile, incurring more than budgeted costs would adversely affect our investment return on purchased homes.

The net proceeds that Redfin Mortgage receives from its sale of mortgage loans that it originates may not exceed the loan amount. Additionally, Redfin Mortgage may also be unable to sell its originated loans at all. In that situation, Redfin Mortgage will need to service the loans and potentially foreclose on the home by itself or through a third party, and either option could impose significant costs, time, and resources on Redfin Mortgage. Redfin Mortgage's inability to sell its originated loans could also expose us to adverse market conditions affecting mortgage loans.

Redfin Mortgage intends to sell the mortgage loans that it originates to investors in the secondary mortgage market. Redfin Mortgage's ability to sell its originated loans in the secondary market, and receive net proceeds from the sale that exceed the loan amount, depends largely on there being sufficient liquidity in the secondary market and its compliance with contracts with investors who have purchased the loans.

If Redfin Mortgage were unable to sell its originated loans, either initially or following a repurchase, then it may need to establish a servicing platform or hire a third party to service the loans. Redfin Mortgage does not currently have a robust servicing platform and establishing such a platform may result in significant costs and require substantial time and resources from its management. Additionally, Redfin Mortgage may be unable to retain a third-party servicer on economically feasible terms.

To the extent that Redfin Mortgage is unable to sell its originated loans, either initially or following a repurchase, we would be exposed to adverse market conditions affecting mortgage loans. For example, we may be required to write down the value of the loan, which reduces the amount of our current assets. Additionally, if Redfin Mortgage borrowed under a warehouse credit facility for the loan, then it will be required to repay the borrowed amount, which reduces our cash on hand that is available for other corporate uses. Finally, if a homeowner were unable to make his or her mortgage payments, then we may be required to foreclose on the home securing the loan. Redfin Mortgage does not currently have processes to foreclose a home, and it may be unable to establish such processes or retain a third party on economically feasible terms to foreclose the home. Furthermore, any proceeds from selling a foreclosed home may be significantly less than the remaining amount of the loan due to Redfin Mortgage

We may not realize the anticipated benefits from, and may incur substantial costs related to, our pending acquisition of RentPath.

On February 19, 2021, we entered into an agreement to acquire RentPath. See Note 16 to our consolidated financial statements. This acquisition is subject to antitrust approval and approval from the court handling RentPath's bankruptcy proceedings, as well as other customary closing conditions. To the extent these approval are not obtained, or if any other closing condition is not satisfied (and not waived by us, to the extent waivable), then we will be unable to consummate our purchase of RentPath. Even if we are able to close our acquisition, it may not result in the intended benefits to our business. We may also be required to record impairment charges associated with the acquisition. Integrating RentPath will be challenging and time consuming, and may subject us to additional costs that we have not anticipated in evaluating the transaction.

Cybersecurity incidents could disrupt our business or result in the loss of critical and confidential information.

Cybersecurity incidents directed at us or our third-party service providers can range from uncoordinated individual attempts to gain unauthorized access to information technology systems to sophisticated and targeted measures known as advanced persistent threats. Cybersecurity incidents are also constantly evolving, increasing the difficulty of detecting and successfully defending against them. In the ordinary course of our business, we and our third-party service providers collect and store sensitive data, including our proprietary business information and intellectual property and that of our customers and employees, including personally identifiable information. Additionally, we rely on third-parties and their security procedures for the secure storage, processing, maintenance, and transmission of information are critical to our operations. Despite measures designed to prevent, detect, address, and mitigate cybersecurity incidents, such incidents may occur to us or our third-party providers and, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption, or unavailability of critical data and confidential or proprietary information (our own or that of third parties, including personally identifiable information of our customers and employees) and the disruption of business operations. Any such compromises to our security, or that of our third-party providers, could cause customers to lose trust and confidence in us and stop using our website and mobile applications. In addition, we may incur significant costs for remediation that may include liability for stolen assets or information, repair of system damage, and compensation to customers, employees, and business partners. We may also be subject to government enforcement proceedings and legal claims by private parties.

We process, transmit, and store personal information, and unauthorized access to, or the unintended release of, this information could result in a claim for damages, regulatory action, loss of business, or unfavorable publicity.

We process, transmit, and store personal information to provide services to our customers and as an employer. As a result, we are subject to certain contractual terms, as well as federal, state, and foreign laws and regulations designed to protect personal information. While we take measures to protect the security and privacy of this information, it is possible that our security controls over personal data and other practices we follow may not prevent the unauthorized access to, or the unintended release of, personal information. If such unauthorized access or unintended release occurred, we could suffer significant damage to our brand and reputation, customers could lose confidence in the security and reliability of our services, and we could incur significant costs to address and fix these security incidents. These incidents could also lead to lawsuits and regulatory investigations and enforcement actions.

We rely on third-party licensed technology, and the inability to maintain these licenses or errors in the software we license could result in increased costs or reduced service levels.

We employ certain third-party software obtained under licenses from other companies in our technology. Our reliance on this third-party software may become costly if the licensor increases the price for the license or changes the terms of use and we cannot find commercially reasonable alternatives. Even if we were to find an alternative, integration of our technology with new third-party software may require substantial investment of our time and resources.

Any undetected errors or defects in the third-party software we license could prevent the deployment or impair the functionality of our technology, delay new service offerings, or result in a failure of our website or mobile application.

We use open source software in some aspects of our technology and may fail to comply with the terms of one or more of these open source licenses.

Our technology incorporates software covered by open source licenses. The terms of various open source licenses have not been interpreted by U.S. courts, and if they were interpreted, such licenses could be construed in a manner that imposes unanticipated restrictions on our technology. If portions of our proprietary software are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in our use of such software, each of which could reduce or eliminate the value of our technologies.

Moreover, our processes for controlling our use of open source software may not be effective. If we do not comply with the terms of an open source software license, we could be required to seek licenses from third parties to continue offering our services on terms that are not economically feasible, to re-engineer our technology to remove or replace the open source software, to discontinue the use of certain technology if re-engineering could not be accomplished on a timely basis, to pay monetary damages, to make generally available the source code for our proprietary technology, or to waive certain intellectual property rights.

We may be unable to secure intellectual property protection for all of our technology and methodologies, enforce our intellectual property rights, or protect our other proprietary business information.

Our success and ability to compete depends in part on our intellectual property and our other proprietary business information. To protect our proprietary rights, we rely on trademark, copyright, and patent law, trade-secret protection, and contractual provisions and restrictions. However, we may be unable to secure intellectual property protection for all of our technology and methodologies or the steps we take to enforce our intellectual property rights may be inadequate. Furthermore, we may also be unable to protect our proprietary business information from misappropriation.

If we are unable to secure intellectual property rights, our competitors could use our intellectual property to market offerings similar to ours and we would have no recourse to enjoin or stop their actions. Additionally, any of our intellectual property rights may be challenged by others and invalidated through administrative processes or litigation. Moreover, even if we secured our intellectual property rights, others may infringe on our intellectual property and we may be unable to successfully enforce our rights against the infringers because we may be unaware of the infringement or our legal actions may not be successful. Finally, others may misappropriate our proprietary business information, and we may be unaware of the misappropriation or unable to enforce our legal rights in a cost-effective manner. If any of these events were to occur, our ability to compete effectively would be impaired.

We may be unable to maintain and scale the technology underlying our offerings.

As the number of homebuyers and home sellers, agents, and listings shared on our website and mobile application and the extent and types of data grow, our need for additional network capacity and computing power will also grow. Operating our underlying technology systems is expensive and complex, and we could experience operational failures. If we experience interruptions or failures in these systems for any reason, the security and availability of our services and technologies could be affected.

We are subject to a variety of federal, state and local laws, and our compliance with these laws, or the enforcement of our rights under these laws, may increase our expenses, require management's resources, or force us to change our business practices.

We are currently subject to a variety of, and may in the future become subject to additional, federal, state, and local laws. The laws include, but are not limited to, those relating to real estate, brokerage, title, mortgage, advertising, privacy and consumer protection, labor and employment, and intellectual property. These laws and their related regulations may evolve frequently and may be inconsistent from one jurisdiction to another. Additionally, certain of these laws and regulations were created for traditional real estate brokerages, and it is unclear how they may affect us given our business model that is unlike traditional brokerages or certain of our services that historically have not been offered by traditional brokerages.

These laws can be costly for us to comply with or enforce. Additionally, if we are unable to comply with and become liable for violations of these laws, or if courts or regulatory bodies provide unfavorable interpretations of existing regulations, our operations in affected markets may become prohibitively expensive, consume significant amounts of management's time, or need to be discontinued.

We are subject to costs associated with defending and resolving proceedings brought by government entities and claims brought by private parties.

We are from time to time involved in, and may in the future be subject to, government investigations or enforcement actions and private third-party claims arising from the laws to which we are subject or the contracts to which we are a party. Such investigations, actions, and claims include, but are not limited to, matters relating to employment law (including misclassification), intellectual property, privacy and consumer protection, website accessibility, the Real Estate Settlement Procedures Act of 1974, the Fair Housing Act of 1968 or other fair housing statutes, cybersecurity incidents, data breaches, commercial or contractual disputes, and exposure to COVID-19. They may also relate to ordinary-course brokerage disputes, including, but not limited to, failure to disclose property defects, failure to meet client legal obligations, commission disputes, personal injury or property damage claims, and vicarious liability based upon conduct of individuals or entities outside of our control, including partner agents and third-party contractor agents. See Item 3 for a discussion of pending third-party claims that we believe may be material to us.

Any such investigations, actions, or claims can be costly to defend or resolve, require significant time from management, or result in negative publicity. Furthermore, to the extent we are unsuccessful in defending an action or claim, we may be subject to civil or criminal penalties, including significant fines or damages, the loss of ability to operate in a jurisdiction, or the need to change certain business practices (including redesigning, or obtaining a license for, our technology or modifying or ceasing to offer certain services).

Risks Related to Our Indebtedness

We may not have sufficient cash flow to make the payments required by our convertible senior notes, and a failure to make payments when due may result in the entire principal amount of the convertible senior notes becoming due prior to the notes' maturity, which may result in our bankruptcy.

We are required to pay interest on our 2023 notes on a semi-annual basis. In addition, holders of our convertible senior notes have the right to require us to repurchase their notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest. Furthermore, holders of our 2023 notes and 2025 notes have the right to convert their notes upon any of the conditions described below:

- during any calendar quarter, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the notes on each applicable trading day;

- during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of the notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate of the notes on each such trading day;

- if we call any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day prior to the redemption date; or

- upon the occurrence of specified corporate events.

If any of these conversion features under either our 2023 notes or 2025 notes are triggered, then holders of such notes will be entitled to convert the notes at any time during specified periods at their option. Upon conversion, we will be required to make cash payments in respect of the notes being converted, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share). One of the conditional conversion features of our 2023 notes has been triggered and such notes are convertible through at least March 31, 2021.

Our ability to make these payments depends on having sufficient cash on hand when the payments are due. Our cash availability, in turn, depends on our future performance, which is subject to the other risks described in this Item 1A. If we are unable to generate sufficient cash flow to make the payments when due, then we may be required to adopt one or more alternatives, such as selling assets, refinancing the notes, or raising additional capital. However, we may not be able to engage in any of these activities or engage in these activities on desirable terms.

Our failure to make payments when due may result in an event of default under the indentures governing our convertible senior notes and cause (i) with respect to the 2023 notes, the remaining $23,777,000 aggregate principal amount and (ii) with respect to the 2025 notes, the entire $661,250,000 aggregate principal amount, plus, in each case, any accrued and unpaid interest, to become due immediately and prior to the maturity date. Any such acceleration of the principal amount could result in our bankruptcy. In a bankruptcy, the holders of our convertible senior notes would have a claim to our assets that is senior to the claims of holders of our common stock.

Conversion of a significant principal amount of our convertible senior notes may dilute the ownership interest of our stockholders and depress the price of our common stock.

Upon any conversion of our 2023 notes or our 2025 notes (see the risk factor immediately above for conversion triggers), we have the option to pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock. If we elect to settle our conversion obligation in shares of our common stock or a combination of cash and shares of our common stock, then the conversion of a significant principal amount of such notes, and any subsequent sales of shares of our common stock issued upon conversion, may dilute the ownership interests of our stockholders and adversely affect the trading price of our common stock.

RedfinNow relies on a secured revolving credit facility to finance its purchase of certain homes. RedfinNow intends to rely on proceeds from the sale of financed homes to repay amounts owed under such facility, but in certain instances, such proceeds may be insufficient or unavailable to repay the amounts owed.

Pursuant to a secured revolving credit facility with Goldman Sachs, RedfinNow Borrower, which is a wholly owned subsidiary of Redfin Corporation, may borrow money to partially fund purchases of homes for our properties business. RedfinNow Borrower has the option of repaying amounts owed with respect to a particular financed home upon the sale of such home and using the proceeds from such sale. However, there is no assurance the sale proceeds will equal or exceed the amounts owed.

Additionally, in certain instances, RedfinNow Borrower may be required to repay amounts owed with respect to a financed home prior to the sale of that home. For example, the amount that RedfinNow Borrower is eligible to borrow for a home, which we refer to as the advance rate, depends, in part, on how long it has owned that home. As RedfinNow Borrower owns a home past certain time periods, the advance rate decreases and it becomes obligated to repay all or a portion of the borrowed funds. Additionally, a home must satisfy certain criteria to be eligible for financing under the facility. If a financed home ceases to satisfy the criteria, then RedfinNow Borrower must immediately repay all amounts owed with respect to the home. If either of these scenarios occur, then RedfinNow Borrower will be unable to rely on the proceeds from the sale of the home for repayment.

In the situations described above, RedfinNow Borrower must use its cash on hand to repay the amounts owed. To the extent it does not have sufficient cash and is unable to make the required repayments, then RedfinNow Borrower may default under the facility.

Our inability to comply with the terms of RedfinNow's secured revolving credit facility may adversely affect our properties business and, in some instances, give the lenders recourse to Redfin Corporation when the value of the assets securing the facility are insufficient to cover the amounts owed to the lenders.

Borrowings under our secured revolving credit facility are secured by RedfinNow Borrower's assets, including the financed homes, as well as the equity interests in RedfinNow Borrower. To the extent RedfinNow Borrower is unable to make payments when due under the facility, or it or certain other Redfin entities are unable to comply with the facility's ongoing obligations (including financial covenants of Redfin Corporation), then an event of default may occur. An event of default would require RedfinNow Borrower to immediately repay all amounts owned under the facility and cause RedfinNow Borrower to be unable to borrow from the facility. As a result, our properties business will need to rely solely on our available cash to fund home purchases, and to the extent cash is unavailable, our properties business would be unable to purchase the homes required for its growth. Furthermore, an event of default may result in Goldman Sachs owning RedfinNow Borrower's equity interests or its assets, including any financed homes and cash held by RedfinNow Borrower, and result in our properties business losing a portion of its assets.

While the lenders' recourse in most situations following an event of default is only to RedfinNow Borrower or its assets, Redfin Corporation has guaranteed amounts owed under the facility and certain expenses in situations involving "bad acts" by a Redfin entity. To the extent a Redfin entity commits a "bad act," then Redfin Corporation may become obligated to pay such amounts owed or certain expenses.

If Redfin Mortgage is unable to obtain sufficient financing through warehouse credit facilities to fund its origination of mortgage loans, then we may be unable to grow our mortgage origination business.

Redfin Mortgage relies on borrowings from warehouse credit facilities to fund substantially all of the mortgage loans that it originates. See Note 15 to our consolidated financial statements for the current terms of these warehouse credit facilities. To grow its business, Redfin Mortgage depends, in part, on having sufficient borrowing capacity under its current facilities or obtaining additional borrowing capacity under new facilities. The borrowing capacity under one of its current facilities may be reduced if Redfin Mortgage fails to comply with the facility's ongoing obligations, including failing to satisfy financial covenants applicable to Redfin Mortgage. If it were unable to receive the necessary capacity on acceptable terms, and did not have sufficient liquidity or established operations to fund originations itself, then Redfin Mortgage may be unable to maintain or increase the amount of mortgage loans that it originates, which will adversely affect its growth.

The cross-acceleration and cross-default provisions in the agreements governing our current indebtedness may result in an immediate obligation to repay all of our outstanding indebtedness.

The indentures governing our 2023 notes and our 2025 notes and our warehouse credit facilities contain cross-acceleration provisions while our secured revolving credit facility contains a cross-default provision. These provisions could have the effect of creating an event of default under an agreement for our indebtedness, despite our compliance with that agreement, due solely to an event of default or failure to pay amounts owed under another agreement for our indebtedness. Accordingly, all or a significant portion of our outstanding indebtedness could become immediately payable due solely to our failure to comply with the terms of a single agreement governing our indebtedness.

If the London Inter-Bank Offered Rate ("LIBOR") is discontinued, interest payments under our secured revolving credit facility and certain warehouse credit facilities may be calculated using another reference rate.

In July 2017, the United Kingdom Financial Conduct Authority ("FCA"), which regulates LIBOR, announced that the FCA intends to phase out the use of LIBOR by the end of 2021. In response, the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, has proposed replacing U.S. dollar LIBOR with the Secured Overnight Financing Rate ("SOFR"), which is a new index calculated by short-term repurchase agreements and backed by U.S. Treasury securities. The market transition away from LIBOR towards SOFR is expected to be complicated, and there is no guarantee that SOFR will become a widely accepted benchmark in place of LIBOR. LIBOR is used as a benchmark rate throughout our secured revolving credit facility and certain of our warehouse credit facilities. The transition process may involve, among other things, increased volatility and illiquidity in markets for instruments that currently rely on LIBOR and may result in increased borrowing costs, the effectiveness of related transactions such as hedges, uncertainty under our secured revolving credit facility and certain of our warehouse credit facilities, or difficult and costly processes to amend such documentation. There remains uncertainty regarding the future utilization of LIBOR and the nature of any replacement rate, and we are uncertain what impact a transition away from LIBOR may have on our business, financial results, and operations.

Risks Related to Our Convertible Preferred Stock

We may be required to make cash payments to our preferred stockholders before our preferred stock's final redemption date of November 30, 2024, and any cash payments may materially reduce our net working capital.

On November 30, 2024, we will be required to redeem all shares of our convertible preferred stock then outstanding and pay accrued dividends on those shares. A preferred stockholder has the option of receiving cash, shares of our common stock, or a combination of cash and shares for this redemption. However, before this redemption, we may be required to make cash payments to our preferred stockholders in the two situations described below, and any such cash payments will reduce our cash available for other corporate uses and may materially reduce our net working capital.

Dividends accrue on each $1,000 of our outstanding convertible preferred stock at a rate of 5.5% per year and are payable quarterly. Assuming we satisfy the "equity conditions" (as defined in the certificate of designation governing our preferred stock), we will pay dividends in shares of our common stock. These conditions principally include (i) we have ensured the liquidity and transferability of our common stock held by the preferred stockholders, (ii) we have issued common stock and paid cash to the preferred stockholders, as required by the certificate of designation, (iii) we are not in bankruptcy or have had a bankruptcy proceeding instituted against us, and (iv) we have not breached an agreement that governs the preferred stockholders' rights with respect to the preferred stock and such breach materially and adversely impacts our business or a preferred stockholder's economic benefits under the agreement. However, if we fail to satisfy these "equity conditions," then we must pay cash dividends in amount equal to (i) the number of shares of our common stock that we would have issued as dividends, assuming we satisfied the conditions, multiplied by (ii) the volume-weighted average closing price of our common stock for the ten trading days preceding the date the dividends are payable.

A preferred stockholder has the right to require us to redeem its preferred stock for cash following the occurrence of a "triggering event" (as defined in the certificate of designation governing our preferred stock). These events are similar in nature to the "equity conditions" described above. The cash payment, for each share of preferred stock, would equal the sum of (i) $1,000, (ii) any accrued dividends on the preferred stock, and (iii) an amount equal to all scheduled dividend payments (excluding any accrued dividends) on the preferred stock for all remaining dividend periods from the date the preferred stockholder requests redemption through November 29, 2024.

Risks Relating to Ownership of Our Common Stock

Our restated certificate of incorporation designates the Court of Chancery of the State of Delaware and the U.S. federal district courts as the exclusive forums for certain types of actions that may be initiated by our stockholders. These provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or employees, which may discourage lawsuits with respect to such claims.

Our restated certificate of incorporation provides that, unless we consent in writing to an alternative forum, the Court of Chancery of the State of Delaware (the "Court of Chancery") will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or employees to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, our restated certificate of incorporation, or our restated bylaws, (iv) any action to interpret, apply, enforce or determine the validity of our restated certificate of incorporation or our restated bylaws, or (iv) any action asserting a claim that is governed by the internal affairs doctrine. This exclusive forum provision does not apply to actions arising under the Securities Exchange Act of 1934, or, as described below, the Securities Act of 1933.

Our restated certificate of incorporation further provides that, unless we consent in writing to an alternative forum, the U.S. federal district courts will be the exclusive forum for any complaint asserting a cause of action arising under the Securities Act of 1933. Notwithstanding this provision, stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

None.

Item 3. Legal Proceedings

See "Legal Proceedings" under Note 7 to our consolidated financial statements for a discussion of our material, pending legal proceedings.

On May 11, 2020, David Eraker, our co-founder and former chief executive officer who departed Redfin in 2006, filed a complaint against us in the Superior Court of Washington for King County against us and Madrona Venture Group, LLC ("Madrona"), Mr. Eraker asserted claims related to events prior to his departure from Redfin in 2006, including that (i) Madrona and Paul Goodrich, one of Madrona's principals and one of our former directors, concealed a provisional patent application from Mr. Eraker while evaluating an investment in us in 2005 and (ii) we continued this concealment following Madrona's investment. Mr. Eraker further alleged that he would not have accepted Madrona's investment if he had known about the alleged concealment of the patent application. Mr. Eraker sought an unspecified amount of damages. On November 20, 2020, Mr. Eraker voluntarily dismissed his complaint with prejudice.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information, Holders of Record, and Dividends

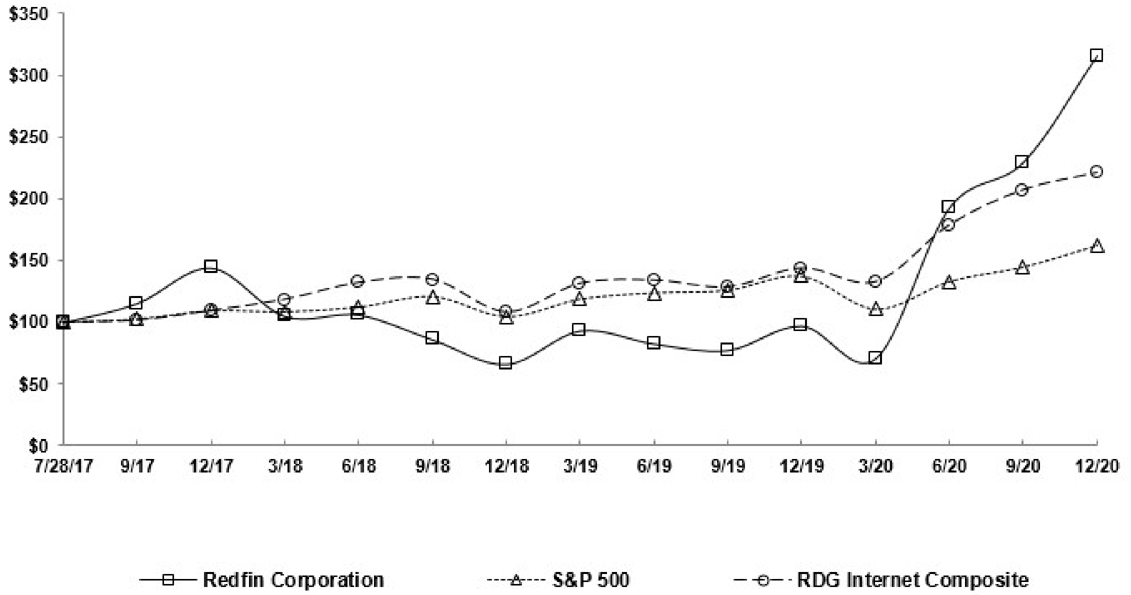
Our common stock is listed on The Nasdaq Global Select Market under the symbol "RDFN."

As of February 10, 2021, we had 225 holders of record of our common stock.

On April 1, 2020, we issued 40,000 shares of our convertible preferred stock at a price of $1,000 per share. The holders of our convertible preferred stock are entitled to dividends, which accrue daily based on a 360-day fiscal year at a rate of 5.5% per annum based on the issue price and are payable quarterly in arrears on the first business day following the end of each calendar quarter. Assuming we satisfy certain conditions, we will pay dividends in shares of common stock at a rate of the dividend payable divided by $17.95. If we do not satisfy such conditions, we will pay dividends in a cash amount equal to (1) the dividend shares otherwise issuable on the dividends multiplied by (2) the volume-weighted average closing price of our common stock for the ten trading days preceding the date the dividends are payable. Except for the foregoing, we have no intention of paying cash dividends in the foreseeable future.

Stock Performance Graph

The graph below compares the cumulative total return of a $100 investment in our common stock with the cumulative total return of the same investment in the S&P 500 Index and the RDG Composite Index. The period shown commences on July 28, 2017, which was our common stock's first day of trading after our initial public offering ("IPO"), and ends on December 31, 2020.



Unregistered Sales of Securities

During the period covered by this annual report, we did not sell any equity securities that were not registered under the Securities Act of 1933.

Use of IPO Proceeds

On July 27, 2017, the SEC declared effective the Registration Statement on Form S-1 (file number 333-219093) for our IPO. There has been no change to the information provided under "Use of Proceeds" in Part II, Item 2 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017.

Purchases of Equity Securities

During the quarter ended December 31, 2020, there were no purchases of our common stock by or on behalf of us or any of our affiliated purchasers, as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934.

Item 6. Selected Financial Data

Not applicable.

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

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements, the accompanying notes, and other information included in this annual report. In particular, the risk factors contained in Item 1A may reflect trends, demands, commitments, events, or uncertainties that could materially impact our results of operations and liquidity and capital resources.

The following discussion contains forward-looking statements, such as statements regarding our future operating results and financial position, our business strategy and plans, our market growth and trends, and our objectives for future operations. See "Note Regarding Forward-Looking Statements" for more information about relying on these forward-looking statements. The following discussion also contains information using industry publications. See "Note Regarding Industry and Market Data" for more information about relying on these industry publications.

When we use the term "basis points" in the following discussion, we refer to units of one-hundredth of one percent.

Overview

We help people buy and sell homes. Representing customers in over 95 markets in the United States and Canada, we are a residential real estate brokerage. We pair our own agents with our own technology to create a service that is faster, better, and costs less. We meet customers through our listings-search website and mobile application.

We use the same combination of technology and local service to originate mortgage loans and offer title and settlement services; we also buy homes directly from homeowners who want an immediate sale, taking responsibility for selling the home while the original owner moves on.

Our mission is to redefine real estate in the consumer’s favor.

Key Business Metrics

In addition to the measures presented in our consolidated financial statements, we use the following key metrics to evaluate our business, develop financial forecasts, and make strategic decisions.

	Year Ended December 31,		
	2020	2019	2018
Monthly average visitors (in thousands)	42,862	33,473	27,261
Real estate services transactions			
Brokerage	60,510	53,235	42,954
Partner	15,290	11,939	11,608
Total	75,800	65,174	54,562
Real estate services revenue per transaction			
Brokerage	$ 10,040	$ 9,326	$ 9,459
Partner	2,858	2,267	2,229
Aggregate	8,591	8,033	7,921
Aggregate home value of real estate services transactions (in millions)	$ 37,359	$ 30,532	$ 25,812
U.S. market share by value	1.00 %	0.93 %	0.81 %
Revenue from top-10 Redfin markets as a percentage of real estate services revenue	63 %	63 %	67 %
Average number of lead agents	1,757	1,553	1,390
Properties transactions	453	503	99
Properties revenue per transaction	$ 462,883	$ 478,146	$ 454,470

Monthly Average Visitors

The number of, and growth in, visitors to our website and mobile application are important leading indicators of our business activity because these channels are the primary ways we meet customers. For a particular period, monthly average visitors refers to the average of the number of unique visitors to our website and mobile application for each of the months in that period. Monthly average visitors are influenced by, among other things, market conditions that affect interest in buying or selling homes, the level and success of our marketing programs, seasonality, and how our website appears in search results. We believe we can continue to increase monthly visitors, which helps our growth.

Given the lengthy process to buy or sell a home, a visitor during one month may not convert to a revenue-generating customer until many months later, if at all.

When we refer to "monthly average visitors" for a particular period, we are referring to the average number of unique visitors to our website and our mobile applications for each of the months in that period, as measured by Google Analytics, a product that provides digital marketing intelligence. Google Analytics tracks visitors using cookies, with a unique cookie being assigned to each browser or mobile application on a device. For any given month, Google Analytics counts all of the unique cookies that visited our website and mobile applications during that month. Google Analytics considers each unique cookie as a unique visitor. Due to third-party technological limitations, user software settings, or user behavior, it is possible that Google Analytics may assign a unique cookie to different visits by the same person to our website or mobile application. In such instances, Google Analytics would count different visits by the same person as separate visits by unique visitors. Accordingly, reliance on the number of unique cookies counted by Google Analytics may overstate the actual number of unique persons who visit our website or our mobile applications for a given month.

Real Estate Services Transactions

We record a brokerage real estate services transaction when one of our lead agents represented the homebuyer or home seller in the purchase or sale, respectively, of a home. We record a partner real estate services transaction (i) when one of our partner agents represented the homebuyer or home seller in the purchase or sale, respectively, of a home or (ii) since the third quarter of 2019 after we commenced a referral partnership with Opendoor, when a Redfin customer sold his or her home to a third-party institutional buyer following our introduction of that customer to the buyer. We include a single transaction twice when our lead agents or our partner agents serve both the homebuyer and the home seller of the transaction. Additionally, when one of our lead agents represents RedfinNow in its sale of a home, we include that transaction as a brokerage real estate services transaction.

Increasing the number of real estate services transactions is critical to increasing our revenue and, in turn, to achieving profitability. Real estate services transaction volume is influenced by, among other things, the pricing and quality of our services as well as market conditions that affect home sales, such as local inventory levels and mortgage interest rates. Real estate services transaction volume is also affected by seasonality and macroeconomic factors.

Real Estate Services Revenue per Transaction

Real estate services revenue per transaction, together with the number of real estate services transactions, is a factor in evaluating revenue growth. We also use this metric to evaluate pricing changes. Changes in real estate services revenue per transaction can be affected by, among other things, our pricing, the mix of transactions from homebuyers and home sellers, changes in the value of homes in the markets we serve, the geographic mix of our transactions, and the transactions we refer to partner agents and any third-party institutional buyer. We calculate real estate services revenue per transaction by dividing brokerage, partner, or aggregate revenue, as applicable, by the corresponding number of real estate services transactions in any period.

We generally generate more real estate services revenue per transaction from representing homebuyers than home sellers. However, we believe that representing home sellers has unique strategic value, including the marketing power of yard signs and digital marketing campaigns, and the market effect of controlling listing inventory. To keep revenue per brokerage transaction about the same from year to year, we expect to reduce our commission refund to homebuyers if a greater portion of our brokerage transactions come from home sellers.

From 2019 to 2020, the percentage of brokerage transactions from home sellers was essentially unchanged at approximately 44%.

Aggregate Home Value of Real Estate Services Transactions

The aggregate home value of brokerage and partner real estate services transactions is an important indicator of the health of our business, because our revenue is largely based on a percentage of each home's sale price. This metric is affected chiefly by the number of customers we serve, but also by changes in home values in the markets we serve. We compute this metric by summing the sale price of each home represented in a real estate services transaction. We include the value of a single transaction twice when our lead agents or our partner agents serve both the homebuyer and home seller of the transaction.

U.S. Market Share by Value

Increasing our U.S. market share by value is critical to our ability to grow our business and achieve profitability over the long term. We believe there is a significant opportunity to increase our share in the markets we currently serve.

We calculate the aggregate value of U.S. home sales by multiplying the total number of U.S. existing home sales by the mean sale price of these homes, each as reported by the National Association of REALTORS®. We calculate our market share by aggregating the home value of brokerage and partner real estate services transactions. Then, in order to account for both the sell- and buy-side components of each transaction, we divide that value by two-times the estimated aggregate value of U.S. home sales.

Revenue from Top-10 Markets as a Percentage of Real Estate Services Revenue

Our top-10 markets by real estate services revenue are the metropolitan areas of Boston, Chicago, Denver (including Boulder and Colorado Springs), Los Angeles (including Santa Barbara), Maryland, Northern Virginia, Portland (including Bend), San Diego, San Francisco, and Seattle. This metric is an indicator of the geographic concentration of our real estate services segment. We expect our revenue from top-10 markets to decline as a percentage of our total real estate services revenue over time.

Average Number of Lead Agents

The average number of lead agents, in combination with our other key metrics such as the number of brokerage transactions, is a basis for calculating agent productivity and is one indicator of the potential future growth of our business. We systematically evaluate traffic to our website and mobile application and customer activity to anticipate changes in customer demand, helping determine when and where to hire lead agents.

We calculate the average number of lead agents by taking the average of the number of lead agents at the end of each month included in the period.

Properties Transactions

We record a properties transaction when we sell a home that we previously bought directly from a homeowner. RedfinNow is our primary properties offering. The number of properties transactions is a useful indicator for investors to understand the underlying transaction volume growth of our RedfinNow business. Properties transaction volume is influenced by, among other things, the level and quality of our homes available for sale inventory, and market conditions that affect home sales, such as local inventory levels and mortgage interest rates.

Properties Revenue per Transaction

Properties revenue per transaction, together with the number of properties transactions, is a factor in evaluating revenue growth. Changes in properties revenue per transaction can be affected by, among other things, the geographic mix of our transactions, the types and sizes of homes that we have previously purchased, our pricing, and changes in the value of homes in the markets we serve. We calculate properties revenue per transaction by dividing properties revenue by the number of properties transactions in any period.

Components of Our Results of Operations

Revenue

We generate revenue primarily from commissions and fees charged on each real estate services transaction closed by our lead agents or partner agents, and from the sale of homes.

Real Estate Services Revenue

Brokerage Revenue—Brokerage revenue includes our offer and listing services, where our lead agents represent homebuyers and home sellers. We recognize commission-based brokerage revenue upon closing of a brokerage transaction, less the amount of any commission refunds, closing-cost reductions, or promotional offers that may result in a material right. Brokerage revenue is affected by the number of brokerage transactions we close, the mix of brokerage transactions, home-sale prices, commission rates, and the amount we give to customers.

Partner Revenue—Partner revenue consists of fees paid to us from partner agents or under other referral agreements, less the amount of any payments we make to homebuyers and home sellers. We recognize these fees as revenue on the closing of a transaction. Partner revenue is affected by the number of partner transactions closed, home-sale prices, commission rates, and the amount we refund to customers. If the portion of customers we introduce to our own lead agents increases, we expect the portion of revenue closed by partner agents to decrease.

Properties Revenue

Properties Revenue—Properties revenue consists of revenue earned when we sell homes that we previously bought directly from homeowners. Properties revenue is recorded at closing on a gross basis, representing the sales price of the home.

Other Revenue

Other Revenue—Other services revenue includes fees earned from mortgage origination services, title settlement services, Walk Score data services, and advertising. Substantially all fees and revenue from other services are recognized when the service is provided.

Intercompany Eliminations

Intercompany Eliminations—Revenue earned from transactions between operating segments are eliminated in consolidating our financial statements. Intercompany transactions primarily consist of services performed from our real estate services segment for our properties segment.

Cost of Revenue and Gross Margin

Cost of revenue consists primarily of personnel costs (including base pay, benefits, and stock-based compensation), transaction bonuses, home-touring and field expenses, listing expenses, home costs related to our properties segment, office and occupancy expenses, and depreciation and amortization related to fixed assets and acquired intangible assets. Home costs related to our properties segment include home purchase costs, capitalized improvements, selling expenses directly attributable to the transaction, and home maintenance expenses.

Gross profit is revenue less cost of revenue. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin has and will continue to be affected by a number of factors, but the most important are the mix of revenue from our relatively higher-gross-margin real estate services segment and our relatively lower-gross-margin properties segment, real estate services revenue per transaction, agent and support-staff productivity, personnel costs and transaction bonuses, and, for properties, the home purchase costs.

Operating Expenses

Technology and Development

Our primary technology and development expenses are building software for our customers, lead agents, and support staff to work together on a transaction, and building a website and mobile application to meet customers looking to move. These expenses primarily include personnel costs (including base pay, bonuses, benefits, and stock-based compensation), data licenses, software and equipment, and infrastructure such as for data centers and hosted services. The expenses also include amortization of capitalized internal-use software and website and mobile application development costs. We expense research and development costs as incurred and record them in technology and development expenses.

Marketing

Marketing expenses consist primarily of media costs for online and offline advertising, as well as personnel costs (including base pay, benefits, and stock-based compensation).

General and Administrative

General and administrative expenses consist primarily of personnel costs (including base pay, benefits, and stock-based compensation), facilities costs and related expenses for our executive, finance, human resources, and legal organizations, depreciation related to our fixed assets, and fees for outside services. Outside services are principally comprised of external legal, audit, and tax services. For 2020, general and administrative expenses also include expenses related to actions taken in response to COVID-19, as these costs were determined to be direct and incremental and not related to revenue generating activities.

Interest Income, Interest Expense, and Other, Net

Interest Income

Interest income consists primarily of interest earned on our cash, cash equivalents, and investments.

Interest Expense

Interest expense consists primarily of interest payable on our 2023 notes and the amortization of debt discounts and issuance cost related to our convertible senior notes. See Note 15 to our consolidated financial statements for information regarding interest on our convertible senior notes.

Beginning in August 2019, interest expense also includes interest on borrowings and the amortization of debt issuance costs related to our secured revolving credit facility. See Notes 15 and 16 to our consolidated financial statements for information regarding interest for the facility.

Other Income (Loss), Net

Other Income (Loss) consists primarily of realized and unrealized gains and losses on investments. See Note 3 to our consolidated financial statements for information regarding unrealized losses on our investments.

Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our revenue for those periods.

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Revenue	$ 886,093	$ 779,796	$ 486,920
Cost of revenue[1]	653,983	635,693	367,496
Gross profit	232,110	144,103	119,424
Operating expenses:			
Technology and development[1]	84,297	69,765	53,797
Marketing[1]	54,881	76,710	44,061
General and administrative[1][2]	92,140	76,874	65,500
Total operating expenses	231,318	223,349	163,358
Income (loss) from operations	792	(79,246)	(43,934)
Interest income	2,074	7,146	5,416
Interest expense	(19,495)	(8,928)	(3,681)
Other income (loss), net	(1,898)	223	221
Net loss	$ (18,527)	$ (80,805)	$ (41,978)

(1) Includes stock-based compensation as follows:

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Cost of revenue	$ 8,844	$ 6,087	$ 5,567
Technology and development	16,564	12,362	7,576
Marketing	1,569	1,418	662
General and administrative	9,996	7,947	6,633
Total	$ 36,973	$ 27,814	$ 20,438

(2) Includes direct and incremental costs related to COVID-19 of $7,864, which are partially offset by $1,348 in employee retention credits allowed under the CARES Act, for the year ended December 31, 2020.

	Year Ended December 31,		
	2020	2019	2018
	(as a percentage of revenue)		
Revenue	100.0 %	100.0 %	100.0 %
Cost of revenue[(1)]	73.8	81.5	75.5
Gross profit	26.2	18.5	24.5
Operating expenses:			
Technology and development[(1)]	9.5	8.9	11.0
Marketing[(1)]	6.2	9.8	9.0
General and administrative[(1)(2)]	10.4	9.9	13.5
Total operating expenses	26.1	28.6	33.5
Income (loss) from operations	0.1	(10.1)	(9.0)
Interest income	0.2	0.9	1.1
Interest expense	(2.2)	(1.1)	(0.8)
Other income (loss), net	(0.2)	—	—
Net loss	(2.1)%	(10.3)%	(8.7)%

(1) Includes stock-based compensation as follows:

	Year Ended December 31,		
	2020	2019	2018
	(as a percentage of revenue)		
Cost of revenue	1.0 %	0.8 %	1.1 %
Technology and development	1.9	1.6	1.6
Marketing	0.2	0.2	0.1
General and administrative	1.1	1.0	1.4
Total	4.2 %	3.6 %	4.2 %

(2) Includes direct and incremental costs related to COVID-19 of $7,864, which are partially offset by $1,348 in employee retention credits allowed under the CARES Act, for the year ended December 31, 2020.

Comparison of the Years Ended December 31, 2020 and 2019

Revenue

	Year Ended December 31,		Change	
	2020	2019	Dollars	Percentage
	(in thousands, except percentages)			
Real estate services revenue				
Brokerage revenue	$ 607,513	$ 496,480	$ 111,033	22 %
Partner revenue	43,695	27,060	16,635	61
Total real estate services revenue	651,208	523,540	127,668	24
Properties revenue	209,686	240,507	(30,821)	(13)
Other revenue	28,212	17,634	10,578	60
Intercompany elimination	(3,013)	(1,885)	(1,128)	60
Total revenue	$ 886,093	$ 779,796	$ 106,297	14
Percentage of revenue				
Real estate services revenue				
Brokerage	68.6 %	63.6 %		
Partner revenue	4.9	3.5		
Total real estate services revenue	73.5	67.1		
Properties revenue	23.7	30.8		
Other revenue	3.2	2.3		
Intercompany elimination	(0.4)	(0.2)		
Total revenue	100.0 %	100.0 %		

In 2020, revenue increased by $106.3 million, or 14%, as compared with 2019. This increase in revenue was primarily attributable to a $127.7 million increase in real estate services revenue, and a $30.8 million decrease in properties revenue. Brokerage revenue increased by $111.0 million, and partner revenue increased by $16.6 million. Brokerage revenue increased 22% during the period, driven by a 14% increase in brokerage transactions and a 8% increase in brokerage revenue per transaction. We believe this increase in brokerage transactions was attributable to higher levels of customer awareness of Redfin and increasing customer demand. Other revenue increased $10.6 million, or 60%, as compared with 2019. This was partially offset by a $30.8 million decrease in properties revenue. Properties revenue decreased 13%, driven by a 10% decrease in properties transactions and a 3% decrease in properties revenue per transaction. Properties transactions decreased during the period, because we had lower average inventory, due in part to pausing making new offers to purchase homes from mid-March to mid-May in response to COVID-19.

Cost of Revenue and Gross Margin

	Year Ended December 31,		Change	
	2020	2019	Dollars	Percentage
	(in thousands, except percentages)			
Cost of revenue				
Real estate services	$ 417,140	$ 373,150	$ 43,990	12 %
Properties	214,382	245,189	(30,807)	(13)
Other	25,474	19,239	6,235	32
Intercompany elimination	(3,013)	(1,885)	(1,128)	60
Total cost of revenue	$ 653,983	$ 635,693	$ 18,290	3
Gross profit				
Real estate services	$ 234,068	$ 150,390	$ 83,678	56 %
Properties	(4,696)	(4,682)	(14)	—
Other	2,738	(1,605)	4,343	(271)
Total gross profit	$ 232,110	$ 144,103	$ 88,007	61
Gross margin (percentage of revenue)				
Real estate services	35.9 %	28.7 %		
Properties	(2.2)	(1.9)		
Other	9.7	(9.1)		
Total gross margin	26.2	18.5		

In 2020, total cost of revenue increased by $18.3 million, or 3%, as compared with 2019. This increase in cost of revenue was primarily attributable to a $50.7 million increase in personnel costs and transaction bonuses, due to increased headcount and increased brokerage transactions, respectively. This was partially offset by a $32.0 million decrease in home purchase costs and related capitalized improvements due to selling fewer homes by our properties business.

Total gross margin increased 770 basis point as compared with 2019, driven primarily by our properties business contributing to a lesser proportion of revenue relative to our real estate services and other businesses, and improvements in real estate services and other gross margin.

In 2020, real estate services gross margin increased 720 basis points as compared with 2019. This was primarily attributable to a 270 basis-point decrease in personnel costs and transaction bonuses, a 220 basis-point decrease in home-touring and field expenses, a 60 basis-point decrease in listing expenses, and a 60 basis-point decrease in travel and entertainment expenses, each as a percentage of revenue.

In 2020, properties gross margin decreased 30 basis points as compared with 2019. This was primarily attributable to a 110 basis-point increase in personnel costs and transaction bonuses, and a 60 basis-point increase in home selling expenses, each as a percentage of revenue. This was partially offset by a 170 basis-point decrease in home purchase costs and related capitalized improvements as a percentage of revenue.

In 2020, other gross margin increased by 1,880 basis points. This was primarily attributable to a 620 basis-point decrease in outside services costs, a 590 basis point decrease in personnel costs and transaction bonuses, a 200 basis-point decrease in personal technology expenses, and a 120 basis-point decrease in occupancy and office expenses, each as a percentage of revenue.

Operating Expenses

	Year Ended December 31,		Change	
	2020	2019	Dollars	Percentage
	(in thousands, except percentages)			
Technology and development	$ 84,297	$ 69,765	$ 14,532	21 %
Marketing	54,881	76,710	(21,829)	(28)
General and administrative[1]	92,140	76,874	15,266	20
Total operating expenses	$ 231,318	$ 223,349	$ 7,969	4
Percentage of revenue				
Technology and development	9.5 %	8.9 %		
Marketing	6.2	9.8		
General and administrative	10.4	9.9		
Total operating expenses	26.1 %	28.6 %		

(1) Includes direct and incremental costs related to COVID-19 of $7,864, which are partially offset by $1,348 in employee retention credits allowed under the CARES Act, for the year ended December 31, 2020

In 2020, technology and development expenses increased by $14.5 million, or 21%, as compared with 2019. The increase was primarily attributable to a $11.9 million increase in personnel costs due to increased headcount, and a $2.7 million increase in technology infrastructure expenses, primarily hosted services.

In 2020, marketing expenses decreased by $21.8 million, or 28%, as compared with 2019. The decrease was primarily attributable to a $20.2 million decrease in marketing media costs as we temporarily ceased advertising campaigns during the three months ended June 30, 2020 as a result of COVID-19.

In 2020, general and administrative expenses increased by $15.3 million, or 20%, as compared with 2019. The increase was primarily attributable to a $7.9 million increase in direct and incremental costs associated with our actions taken in response to COVID-19, primarily from severance payments. These costs were partially offset by $1.3 million of employee retention credits claimed under the CARES Act. These costs for restructuring are classified as general and administrative expenses for employees across our organization, including approximately $6.5 million, net, that would otherwise be classified as cost of revenue. We had no such restructuring expenses for any periods prior to the twelve months ended December 31, 2020. The increase was also attributable to a $4.0 million increase in personnel costs due to increased headcount, a $2.9 million increase in outside services costs, primarily legal services and contractors, and a $2.9 million increase in technology infrastructure expenses, primarily hosted services.

Interest Income, Interest Expense, and Other, Net

	Year Ended December 31,		Change	
	2020	2019	Dollars	Percentage
	(in thousands, except percentages)			
Interest income	2,074	7,146	(5,072)	(71)
Interest expense	(19,495)	(8,928)	(10,567)	(118)
Other income (loss), net	(1,898)	223	(2,121)	(951)
Interest income, interest expense, and other, net	$ (19,319)	$ (1,559)	$ (17,760)	(1,139)
Percentage of revenue				
Interest income	0.2	0.9		
Interest expense	(2.2)	(1.1)		
Other income (loss), net	(0.2)	0.0		
Interest income, interest expense, and other, net	(2.2)%	(0.2)%		

In 2020, interest income decreased by $5.1 million primarily due lower interest rates on our cash, cash equivalents, and investments compared to 2019. Additionally, interest expense increased by $10.6 million in 2020, due to a $4.6 million loss on the partial extinguishment of our 2023 notes and additional non-cash interest expense related to the accretion of the debt discount related to our 2025 notes.

Comparison of the Years Ended December 31, 2019 and 2018

Revenue

	Year Ended December 31,		Change	
	2019	2018	Dollars	Percentage
	(in thousands, except percentages)			
Real estate services revenue				
Brokerage revenue	$ 496,480	$ 406,293	$ 90,187	22 %
Partner revenue	27,060	25,875	1,185	5
Total real estate services revenue	523,540	432,168	91,372	21
Properties revenue	240,507	44,993	195,514	435
Other revenue	17,634	9,882	7,752	78
Intercompany elimination	(1,885)	(123)	(1,762)	1,433
Total revenue	$ 779,796	$ 486,920	$ 292,876	60
Percentage of revenue				
Real estate services revenue				
Brokerage revenue	63.6 %	83.4 %		
Partner revenue	3.5	5.3		
Total real estate services revenue	67.1	88.7		
Properties revenue	30.8	9.3		
Other revenue	2.3	2.0		
Intercompany elimination	(0.2)	—		
Total revenue	100.0 %	100.0 %		

In 2019, revenue increased by $292.9 million, or 60%, as compared with 2018. Brokerage revenue represented $90.2 million, or 31%, of the increase. Brokerage revenue grew 22% during the period, driven by a 24% increase in brokerage real estate transactions and a 1% increase in real estate services revenue per brokerage transaction. The increase in brokerage transactions was attributable to higher levels of customer awareness of Redfin and increasing customer demand for Redfin services. Properties revenue increased $195.5 million or 435% as compared with 2018, driven by greater market presence and consumer awareness of RedfinNow, which resulted in a 407% increase in the number of homes sold. Other revenue increased $7.8 million or 78%, as compared with 2018.

Cost of Revenue and Gross Margin

	Year Ended December 31,		Change	
	2019	2018	Dollars	Percentage
	(in thousands, except percentages)			
Cost of revenue				
Real estate services	$ 373,150	$ 309,069	$ 64,081	21 %
Properties	245,189	46,613	198,576	426
Other	19,239	11,937	7,302	61
Intercompany elimination	(1,885)	(123)	(1,762)	1,433
Total cost of revenue	$ 635,693	$ 367,496	$ 268,197	73
Gross profit				
Real estate services	$ 150,390	$ 123,099	$ 27,291	22 %
Properties	(4,682)	(1,620)	(3,062)	189
Other	(1,605)	(2,055)	450	(22)
Total gross profit	$ 144,103	$ 119,424	$ 24,679	21
Gross margin (percentage of revenue)				
Real estate services	28.7 %	28.5 %		
Properties	(1.9)	(3.6)		
Other	(9.1)	(20.8)		
Total gross margin	18.5	24.5		

In 2019, total cost of revenue increased by $268.2 million, or 73%, as compared with 2018. This increase in cost of revenue was primarily attributable to a $180.8 million increase in home purchase costs and related capitalized improvements, due to selling more homes by our properties business, a $50.3 million increase in personnel costs and transaction bonuses due to increased headcount and increased brokerage transactions, respectively, and a $13.7 million increase in home-touring and field costs.

Total gross margin decreased 600 basis points for 2019 as compared with 2018, driven primarily by the relative growth of our properties business compared to our real estate services and other businesses, partially offset by improvements in real estate services, properties and other gross margin.

In 2019, real estate services gross margin increased 20 basis points as compared with 2018. This was primarily attributable to a 110 basis-point decrease in personnel costs and transaction bonuses as a percentage of revenue. This was partially offset by a 30 basis-point increase in home-touring and field costs, a 30 basis-point increase in occupancy and office expenses, and a 20 basis-point increase in listing expenses, each as a percentage of revenue.

In 2019, properties gross margin increased 170 basis points as compared with 2018. This was primarily attributable to a 90 basis-point decrease in home purchase costs and related capitalized improvements, a 30 basis-point decrease in personnel costs, and a 30 basis-point decrease in listing expenses, each as a percentage of revenue.

In 2019, other gross margin increased 1,170 basis points as compared with 2018. This was primarily attributable to a 340 basis-point decrease in personnel costs, a 310 basis-point decrease in operating expenses, a 290 basis-point decrease in office and occupancy expenses, and a 230 basis-point decrease in depreciation and amortization, each as a percentage of revenue.

Operating Expenses

	Year Ended December 31,		Change	
	2019	2018	Dollars	Percentage
	(in thousands, except percentages)			
Technology and development	$ 69,765	$ 53,797	$ 15,968	30 %
Marketing	76,710	44,061	32,649	74
General and administrative	76,874	65,500	11,374	17
Total operating expenses	$ 223,349	$ 163,358	$ 59,991	37
Percentage of revenue				
Technology and development	8.9 %	11.0 %		
Marketing	9.8	9.0		
General and administrative	9.9	13.5		
Total operating expenses	28.6 %	33.5 %		

In 2019, technology and development expenses increased by $16.0 million, or 30%, as compared with 2018. The increase was primarily attributable to a $13.5 million increase in personnel costs due to increased headcount.

In 2019, marketing expenses increased by $32.6 million, or 74%, as compared with 2018. The increase was primarily attributable to a $29.2 million increase in marketing media costs as we expanded advertising.

In 2019, general and administrative expenses increased by $11.4 million, or 17%, as compared with 2018. The increase was attributable to an $7.2 million increase in personnel costs, largely the result of increases in headcount to support continued growth, a $2.0 million increase in outside services expenses, primarily Internet-based software services, and a $1.3 million increase in corporate events costs.

Interest Income, Interest Expense, and Other, Net

	Year Ended December 31,		Change	
	2019	2018	Dollars	Percentage
	(in thousands, except percentages)			
Interest income	7,146	5,416	1,730	32 %
Interest expense	(8,928)	(3,681)	(5,247)	(143)
Other income, net	223	221	2	1
Interest income, interest expense, and other, net	$ (1,559)	$ 1,956	$ (3,515)	(180)
Percentage of revenue				
Interest income	0.9	1.1		
Interest expense	(1.1)	(0.8)		
Other income, net	0.0	0.0		
Interest income, interest expense, and other, net	(0.2)%	0.3 %		

In 2019 interest income increased by $1.7 million primarily due to a higher average cash, cash equivalents, and investments balances, or assets subject to interest income, throughout 2019 as compared to 2018. Interest expense increased by $5.2 million in 2019 due to a full year of interest expense, both cash interest and non-cash accretion of debt discount, of our 2023 notes. Our 2023 notes were issued in the third quarter of 2018.

Quarterly Results of Operations and Key Business Metrics

The following tables set forth our unaudited quarterly statements of operations data for the most recent eight quarters, as well as the percentage that each line item represents of our revenue for each quarter presented. The information for each quarter has been prepared on a basis consistent with our consolidated financial statements and reflect, in the opinion of management, all adjustments of a normal, recurring nature that are necessary for a fair presentation of the financial information contained in those statements. The following quarterly financial data should be read in conjunction with our consolidated financial statements.

Quarterly Results

	Three Months Ended							
	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Revenue	$ 244,517	$ 236,916	$ 213,665	$ 190,995	$ 233,191	$ 238,683	$ 197,780	$ 110,141
Cost of revenue(1)	164,397	143,844	167,626	178,116	193,565	185,306	149,434	107,388
Gross profit	80,120	93,072	46,039	12,879	39,626	53,377	48,346	2,753
Operating expenses:								
Technology and development(1)	23,610	22,452	17,961	20,274	19,345	18,801	16,063	15,556
Marketing(1)	7,270	12,421	9,482	25,708	8,099	8,361	27,050	33,201
General and administrative(1)(2)	23,601	21,190	23,022	24,327	18,992	18,779	17,654	21,448
Total	54,481	56,063	50,465	70,309	46,436	45,941	60,767	70,205
Income (loss) from operations	25,639	37,009	(4,426)	(57,430)	(6,810)	7,436	(12,421)	(67,452)
Interest income	215	319	437	1,103	1,341	1,576	1,913	2,316
Interest expense	(11,864)	(2,522)	(2,665)	(2,444)	(2,365)	(2,274)	(2,153)	(2,136)
Other income (loss), net	45	(640)	43	(1,346)	51	44	36	92
Net income (loss)	14,035	34,166	(6,611)	(60,117)	(7,783)	6,782	(12,625)	(67,180)
Net income (loss) attributable to common stock	$ 12,153	$ 31,983	$ (7,895)	$ (60,117)	$ (7,783)	$ 6,782	$ (12,625)	$ (67,180)
Net income (loss) per share—diluted	$ 0.11	$ 0.30	$ (0.08)	$ (0.64)	$ (0.08)	$ 0.07	$ (0.14)	$ (0.74)

(1) Includes stock-based compensation as follows:

	Three Months Ended							
	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Cost of revenue	$ 2,863	$ 2,574	$ 1,769	$ 1,638	$ 1,689	$ 1,605	$ 1,328	$ 1,465
Technology and development	4,828	4,964	3,124	3,648	3,701	3,320	2,685	2,656
Marketing	439	403	352	375	393	390	349	286
General and administrative	3,079	3,407	1,960	1,550	2,239	2,195	1,514	1,999
Total	$ 11,209	$ 11,348	$ 7,205	$ 7,211	$ 8,022	$ 7,510	$ 5,876	$ 6,406

(2) Includes direct and incremental costs related to COVID-19 and employee retention credits allowed under the CARES Act as follows:

	Three Months Ended							
	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Direct and incremental costs	$ 18	$ 321	$ 7,525	$ —	$ —	$ —	$ —	$ —
CARES Act retention credits	—	(56)	(1,292)	—	—	—	—	—
Total	$ 18	$ 265	$ 6,233	$ —	$ —	$ —	$ —	$ —

	Three Months Ended							
	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
	(as a percentage of revenue)							
Revenue	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue(1)	67.2	60.7	78.5	93.3	83.0	77.6	75.6	97.5
Gross profit	32.8	39.3	21.5	6.7	17.0	22.4	24.4	2.5
Operating expenses								
Technology and development(1)	9.7	9.5	8.4	10.6	8.3	7.9	8.1	14.1
Marketing(1)	3.0	5.2	4.4	13.5	3.5	3.5	13.7	30.1
General and administrative(1)(2)	9.6	9.0	10.8	12.7	8.1	7.9	8.9	19.5
Total	22.3	23.7	23.6	36.8	19.9	19.3	30.7	63.7
Income (loss) from operations	10.5	15.6	(2.1)	(30.1)	(2.9)	3.1	(6.3)	(61.2)
Interest income	0.1	0.1	0.2	0.6	0.6	0.7	1.0	2.1
Interest expense	(4.9)	(1.1)	(1.2)	(1.3)	(1.0)	(1.0)	(1.1)	(1.9)
Other income (loss), net	—	(0.3)	—	(0.7)	—	—	—	0.1
Net income (loss)	5.7 %	14.4 %	(3.1)%	(31.5)%	(3.3)%	2.8 %	(6.4)%	(61.0)%

(1) Includes stock-based compensation as follows:

	Three Months Ended							
	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Cost of revenue	1.2 %	1.1 %	0.8 %	0.9 %	0.7 %	0.7 %	0.7 %	1.3 %
Technology and development	2.0	2.1	1.5	1.9	1.6	1.4	1.4	2.4
Marketing	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
General and administrative	1.2	1.4	0.9	0.8	1.0	0.9	0.8	1.8
Total	4.6 %	4.8 %	3.4 %	3.8 %	3.5 %	3.2 %	3.1 %	5.8 %

(2) Includes direct and incremental costs related to COVID-19 and employee retention credits allowed under the CARES Act as follows:

	Three Months Ended							
	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Direct and incremental costs	— %	0.1 %	3.5 %	— %	— %	— %	— %	— %
CARES Act retention credits	— %	— %	(0.6)%	— %	— %	— %	— %	— %
Total	— %	0.1 %	2.9 %	— %	— %	— %	— %	— %

Our revenue has typically followed the seasonal pattern of the residential real estate industry. As such, revenue increases sequentially from the first quarter to the second quarter and sequentially again during the third quarter. Fourth quarter revenue typically declines sequentially from the third quarter.

As the result of the impact of COVID-19 on customer demand, this pattern was disrupted in 2020. Beginning in March 2020, COVID-19 began having a negative effect on our customer demand, which negatively impacted our revenue during the second quarter. Starting in May, customer demand rebounded, resulting in a sequential increase in revenue from the second quarter to the third quarter. Revenue also increased from the third quarter to the fourth quarter.

Cost of revenue typically also has reflected seasonality, and was similarly impacted by COVID-19 during 2020 as revenue was.

Marketing expenses are influenced by seasonal factors and the timing of advertising campaigns. We have historically spent more on advertising during the first half of the year than the second half of the year. During 2020, we ceased most performance and mass media advertising campaigns in March and April in response to COVID-19. We restarted most performance marketing and mass media campaigns in May, including running a new television commercial from June through September.

During 2020, general and administrative expenses were also impacted by the actions that we took in response to COVID-19. During the second quarter, we reduced our number of employees by approximately 400 people and placed an additional 1,000 employees on furlough. These actions resulted in a charge of $7,525 in the second quarter of 2020. These costs are included in general and administrative expenses, as these costs were determined to be direct and incremental, and not related to revenue generating activities. See Note 1 to our consolidated financial statements.

Quarterly Key Business Metrics

	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Monthly average visitors (in thousands)	44,135	49,258	42,537	35,519	30,595	35,633	36,557	31,107
Real estate services transactions								
Brokerage	16,951	18,980	13,828	10,751	13,122	16,098	15,580	8,435
Partner	4,940	5,180	2,691	2,479	2,958	3,499	3,357	2,125
Total	21,891	24,160	16,519	13,230	16,080	19,597	18,937	10,560
Real estate services revenue per transaction								
Brokerage	$ 10,751	$ 10,241	$ 9,296	$ 9,520	$ 9,425	$ 9,075	$ 9,332	$ 9,640
Partner	3,123	2,988	2,417	2,535	2,369	2,295	2,218	2,153
Aggregate	9,030	8,686	8,175	8,211	8,127	7,865	8,071	8,134
Aggregate home value of real estate services transactions (in millions)	$ 11,478	$ 12,207	$ 7,576	$ 6,098	$ 7,588	$ 9,157	$ 8,986	$ 4,800
U.S. market share by value	1.04 %	1.04 %	0.93 %	0.93 %	0.94 %	0.96 %	0.94 %	0.83 %
Revenue from top-10 Redfin markets as a percentage of real estate services revenue	63 %	63 %	63 %	61 %	62 %	63 %	64 %	64 %
Average number of lead agents	1,981	1,820	1,399	1,826	1,526	1,579	1,603	1,503
Properties transactions	83	37	162	171	212	168	80	43
Properties revenue per transaction	$ 474,690	$ 513,648	$ 445,578	$ 462,563	$ 467,276	$ 477,167	$ 498,847	$ 497,044

Similar to our revenue, monthly average visitors to our website and mobile application has typically followed the seasonal pattern of the residential real estate industry. Beginning in March 2020, COVID-19 began having a negative effect on our customer demand, which negatively affected our monthly average visitors during March and April. Starting in May, customer demand rebounded, resulting in a sequential increase in monthly average visitors from the second quarter to the third quarter.

Liquidity and Capital Resources

As of December 31, 2020, we had cash and cash equivalents of $925.3 million and investments of $143.5 million, which consist primarily of operating cash on deposit with financial institutions, money market instruments, U.S. treasury securities, and agency bonds. On February 19, 2021, we entered into an agreement to acquire RentPath for $608.0 million in cash and, on the same day, deposited $60.8 million into an escrow account. See Note 16 to our consolidated financial statements for more information about our agreement to acquire RentPath.

Also, as of December 31, 2020, we had $686.9 million aggregate principal amount of convertible senior notes outstanding. $25.6 million of the notes mature on July 15, 2023 and $661.3 million of the notes mature on October 15, 2025, in each case unless earlier repurchased, redeemed or converted. Interest on our 2023 notes is payable in arrears on January 15 and July 15 of each year. Our 2025 notes do not bear regular cash interest, and the principal amount will not accrete. See Note 1 to our consolidated financial statements regarding the accounting treatment of $1.8 million principal amount of our 2023 notes for which we received conversion notices in December 2020.

With respect to the cash outlay for our properties business, for the year ended December 31, 2020, we relied on (i) a combination of our cash on hand and borrowings from a secured revolving credit facility to fund home purchase prices and (ii) solely on our cash on hand to fund capitalized improvement costs and home maintenance expenses. See Note 4 to our consolidated financial statements for more information on changes to inventory related to home purchases and home sales for our properties business. See Note 15 to our consolidated financial statements for more information regarding the secured revolving credit facility.

Our mortgage business has significant cash requirements due to the period of time between its origination of a mortgage loan and the sale of that loan. We have relied on warehouse credit facilities with different lenders to fund substantially the entire portion of the mortgage loans that our mortgage business originates. Once our mortgage business sells a loan in the secondary mortgage market, we use the proceeds to reduce the outstanding balance under the related facility. See Note 15 to our consolidated financial statements for more information regarding our warehouse credit facilities.

We believe that our existing cash and cash equivalents and investments, together with cash we expect to generate from future operations, and borrowings from our secured revolving credit facility and our warehouse credit facilities, will provide sufficient liquidity to meet our operational needs, fulfill our debt obligations, and fund our pending acquisition of RentPath. However, our liquidity assumptions may change or prove to be incorrect, and we could exhaust our available financial resources sooner than we currently expect. As a result, we may seek new sources of credit financing or elect to raise additional funds through equity, equity-linked, or debt financing arrangements. We cannot assure you that any additional financing will be available to us on acceptable terms or at all.

Cash Flows

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

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Net cash provided by (used in) operating activities	$ 61,267	$ (107,610)	$ (36,702)
Net cash used in investing activities	(57,119)	(115,912)	(10,303)
Net cash provided by financing activities	694,227	31,883	273,402

Net Cash Provided By (Used In) Operating Activities

Our operating cash flows result primarily from cash generated by commissions paid to us from our real estate services business and sales of homes from our properties business. Our primary uses of cash from operating activities include payments for personnel-related costs, including employee benefits and bonus programs, marketing and advertising activities, purchases of homes for our properties business, office and occupancy costs, and outside services costs. Additionally, our mortgage business generates a significant amount operating cash flow activity from the origination and sale of loans held for sale.

Net cash provided by operating activities was $61.3 million for the year ended December 31, 2020, primarily attributable to a net loss of $18.5 million, offset by $77.2 million of non-cash items related to stock- based compensation, depreciation and amortization, amortization of debt discounts and issuances costs, lease expense related to right-of-use assets, impairment charges related to one of our cost-method investments, and other non-cash items. Changes in assets and liabilities increased cash provided by operating activities by $2.6 million. The primary sources of cash related to changes in our assets and liabilities were a $41.2 million increase in accounts payable and other accrued liabilities related to the timing of vendor payments and payroll related expenses, and a $25.4 million decrease in inventory related to our properties business. The primary uses of cash related to changes in our assets and liabilities were a $35.5 million increase in accounts receivable related to the timing of escrow payments in-transit, a $19.5 million increase in net loans held for sale related to our mortgage business, and a $11.3 million decrease in lease liabilities.

Net cash used in operating activities was $107.6 million for the year ended December 31, 2019, primarily attributable to a net loss of $80.8 million, offset by $49.2 million of non-cash items related to stock- based compensation, depreciation and amortization expenses, amortization of debt discounts and issuances costs, and lease expense related to right-of-use assets. Changes in assets and liabilities increased cash used in operating activities by $76.0 million driven primarily by an increase of $51.9 million in inventory related to our properties business and a $16.8 million increase in net loans held for sale related to our mortgage business.

Net cash used in operating activities was $36.7 million for the year ended December 31, 2018, primarily attributable to a net loss $42.0 million, offset by $31.3 million of non-cash items related to stock- based compensation, depreciation and amortization expenses and amortization of debt discounts and issuances costs. Changes in assets and liabilities increased cash used in operating activities by $26.0 million driven primarily by an increase of $19.3 million in inventory related to our properties business. This was partially offset by a $4.1 million increase in accrued liabilities due primarily to $3.3 million of payroll liabilities.

Net Cash Used In Investing Activities

Our primary investing activities include the purchase of investments and property and equipment, primarily related to capitalized software development expenses and leasehold improvements.

Net cash used in investing activities was $57.1 million for the year ended December 31, 2020, primarily attributable to $42.4 million in net investments in U.S. government securities, $5.8 million related to equipment, furnishings and leasehold improvements for new or expansion of existing office space, and $8.9 million of capitalized software development expenses.

Net cash used in investing activities was $115.9 million for the year ended December 31, 2019, primarily attributable to $100.4 million in net investments in U.S. treasury securities, $7.9 million related to equipment, furnishings and leasehold improvements for new or expansion of existing office space, and $7.1 million of capitalized software development expenses.

Net cash used in investing activities was $10.3 million for the year ended December 31, 2018, primarily attributable to $8.3 million of purchases of property and equipment, related to $5.3 million of capitalized software development expenses, $1.2 million of leasehold improvements, and a $2.0 million equity investment.

Net Cash Provided By Financing Activities

Our primary financing activities have come from (i) our initial public offering in August 2017, (ii) sales of our common stock and 2023 notes in July 2018, our common stock and convertible preferred stock in April 2020, and our 2025 notes in October 2020, and (iii) the sale of our common stock pursuant to stock option exercises and our ESPP. Additionally, we generate a significant amount of financing cash flow activity due to borrowings from and repayments to our warehouse credit facilities and, since July 2019, our secured revolving credit facility.

Net cash provided by financing activities was $694.2 million for the year ended December 31, 2020, primarily attributable to $647.5 million in net proceeds from the issuance of our 2025 notes offering, $109.5 million in net proceeds from the issuance of common stock and our convertible preferred stock offering, $21.1 million in proceeds from the issuance of common stock pursuant to employee equity plans, a $19.5 million increase in net borrowings under our secured revolving credit facility, and a $17.7 million increase in our net borrowings under warehouse credit facilities. This was partially offset by $108.1 million used in connection with repurchases and conversions of our 2023 notes.

Net cash provided by financing activities was $31.9 million for the year ended December 31, 2019, primarily attributable to a $16.6 million increase in our net borrowings under warehouse credit facilities, and $16.1 million in proceeds from the issuance of common stock pursuant to employee equity plans.

Net cash provided by financing activities was $273.4 million for the year ended December 31, 2018, primarily attributable to net proceeds from our issuance of common stock and our 2023 notes. The net proceeds consisted $107.6 million from the issuance of common stock $139.0 million from the issuance of notes.

Contractual Obligations

Contractual obligations are cash amounts that we are obligated to pay as part of certain contracts that we have entered into during the normal course of business. Below is a table that shows our contractual obligations as of December 31, 2020:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(in thousands)				
Convertible senior notes	$ 686,876	$ 1,849	$ 23,777	$ 661,250	$ —
Interest on convertible senior notes	1,058	416	642	—	—
Operating leases	74,158	15,335	27,903	19,963	10,957
Finance leases	697	206	398	93	—
Purchase obligations	71,761	63,586	8,175	—	—
Total	$ 834,550	$ 81,392	$ 60,895	$ 681,306	$ 10,957

Payment of the principal amount of our convertible senior notes and any accrued and unpaid interest may be accelerated as a result of an "event of default" or "fundamental change," each as defined in the indenture governing the notes.

Our operating and finance leases include direct lease obligations, excluding any taxes, insurance and other related expenses.

Our purchase obligations primarily relate to the noncancelable portion of commitments related to our network infrastructure, our annual employee meeting, and homes that we are under contract to purchase. We do not include in the table above obligations under contracts that we can cancel without significant penalty.

Critical Accounting Policies and Estimates

Discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities, revenue, and expenses at the date of the financial statements. Generally, we base our estimates on historical experience and on various other assumptions in accordance with GAAP that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies and estimates are those that we consider the most important to the portrayal of our financial condition and results of operations because they require our most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and estimates addressed below. In addition, we have other key accounting policies and estimates that are described in Note 1 to our consolidated financial statements.

2025 Notes

On October 20, 2020, we issued $661.3 million aggregate principal amount of convertible senior notes that mature on October 15, 2025 unless earlier repurchased, redeemed or converted. Conversion of the notes can be settled by paying or delivering, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election.

We account for our 2025 notes in accordance with FASB ASC Subtopic 470-20, *Debt with Conversion and Other Options*, which requires that we separately value the notes excluding the conversion feature (liability component), with the residual attributed to the conversion feature (equity component). The carrying amount of the liability component was estimated using a discounted cash flow analysis utilizing a risk-adjusted yield derived from a combination of (i) use of benchmarks of comparable debt securities and (ii) modeling that incorporates synthetic credit rating estimation and volatility estimation. The carrying amount of the equity component was calculated by deducting the fair value amount of the liability component from the aggregate principal amount of the notes.

See Note 15 to our consolidated financial statements for further discussion of our 2025 notes.

Revenue Recognition

Our key revenue components are brokerage revenue, partner revenue, property revenue, and other revenue. Of these, we consider the most critical of our revenue recognition policies relate to commissions and fees charged on brokerage transactions closed by our lead agents, and from the sale of homes. We recognize commission-based brokerage revenue upon closing of a brokerage transaction, less the amount of any commission refunds, closing-cost reductions, or promotional offers that may result in a material right. We determined that brokerage revenue primarily contains a single performance obligation that is satisfied upon the closing of a transaction, at which point the entire transaction price is earned. We evaluate our brokerage contracts and promotional pricing to determine if there are any additional material rights and allocate the transaction price based on standalone selling prices.

Properties revenue is earned when we sell homes that were previously bought directly from homeowners. Our contracts with customers contain a single performance obligation that is satisfied upon a transaction closing. Properties revenue is recorded at closing on a gross basis, representing the sales price of the home.

We have utilized the practical expedient in *ASC 606, Revenue from Contracts with Customers*, and elected not to capitalize contract costs for contracts with customers with durations less than one year. We do not have significant remaining performance obligations or contract balances.

See Note 1 to our consolidated financial statements for further discussion of our revenue recognition policy.

Inventory

Our inventory represents homes purchased with the intent of resale and are accounted for under the specific identification method. Direct home acquisition and improvement costs are capitalized and tracked directly with each specific home. Homes are stated in inventory at cost and are reviewed on a home by home basis. When evidence exists that the net realizable value of a home is lower than its cost, we recognize the difference as a loss in the period in which it occurs. In determining net realizable value, management must use judgment and estimates, including assessment of readily available market value indicators such as the Redfin Estimate and other third-party home value indicators, assessment of a current listing or pending offer price if either are available, and the value of any improvements made to the home. If a home's estimated market value is less than the inventory cost then the home is written down to net realizable value. While no significant adjustments were required to our home inventory as of and for the year ended December 31, 2020, material adjustments may be required in the future due to changing market conditions, natural disasters, or other forces outside of our control.

See Note 4 to our consolidated financial statements for a summary of our inventory categories and any net realizable write-downs.

Recent Accounting Standards

For information on recent accounting standards, see Note 1 to our consolidated financial statements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary operations are within the United States and in the first quarter of 2019 we launched limited operations in Canada. We are exposed to market risks in the ordinary course of our business. These risks primarily consist of fluctuations in interest rates.

Interest Rate Risk

Our investment policy allows us to maintain a portfolio of cash equivalents and investments in a variety of securities, including U.S. treasury and agency issues, bank certificates of deposit that are 100% insured by the Federal Deposit Insurance Corporation, and SEC-registered money market funds that consist of a minimum of $1 billion in assets and meet the above requirements. The goals of our investment policy are liquidity and capital preservation. We do not enter into investments for trading or speculative purposes.

As of December 31, 2020, we had cash and cash equivalents of $925.3 million and investments of $143.5 million. Our investments are comprised of available-for-sale securities that consist primarily of U.S. treasury securities with maturities of two years or less. We believe that we do not have any material exposure to changes in the fair value of these assets as a result of changes in interest rates due to the relatively short-term nature and risk profile of our portfolio. Declines in interest rates, however, would reduce future investment income. Assuming no change in our outstanding cash, cash equivalents, and investments during the first quarter of 2021, a hypothetical 10% change in interest rates, occurring during and sustained throughout that quarter, would not have a material impact on our financial results for that quarter.

We are exposed to interest rate risk on our mortgage loans held for sale and IRLCs associated with our mortgage loan origination services. We manage this interest rate risk through the use of forward sales commitments on both a best effort whole loans basis and on a mandatory basis. Forward sales commitments entered into on a mandatory basis are done through the use of commitments to sell mortgage-backed securities. We do not enter into or hold derivatives for trading or speculative purposes. The fair value of our IRLCs and forward sales commitments are reflected in other current assets and accrued liabilities, as applicable, with changes in the fair value of these commitments recognized as revenue. The net fair value change for the periods presented were not material. See Note 3 to our consolidated financial statements for a summary of the fair value of our forward sales commitments and our IRLCs.

We are subject to interest rate risk on borrowings under our secured revolving credit facility. See Note 15 to our consolidated financial statements for a description of this facility. Changes in the market interest rate will increase or decrease our interest expense. Assuming no change in the outstanding borrowings under the facility during the first quarter of 2021, a hypothetical 10% change in interest rates, occurring during and sustained throughout that quarter, would not have a material impact on our financial results for that quarter.

Foreign Currency Exchange Risk

As our operations in Canada have been limited, and we do not maintain a significant balance of foreign currency, we do not currently face significant foreign currency exchange rate risk.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Redfin Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Redfin Corporation and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of comprehensive loss, cash flows, and changes in mezzanine equity and stockholders' equity, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also 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, 2020, 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 24, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 critical audit matters 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.

Debt – Convertible Senior Notes due 2025 – Refer to Note 15 to the financial statements

Critical Audit Matter Description

On October 20, 2020, the Company issued approximately $661 million of aggregate principal amount of Convertible Senior Notes due 2025 (the “Notes”). Due to certain conversion features within the Notes, the Company separated the proceeds into liability and equity components. The fair value of the liability component was estimated using a discounted cash flow analysis utilizing a risk-adjusted yield derived from a combination of (i) use of benchmarks of comparable debt securities; and (ii) modeling that incorporates synthetic credit rating estimation and volatility estimation. The carrying amount of the equity component was calculated by deducting the fair value amount of the liability component from the aggregate principal amount of the Notes.

Given (a) the complexity of applying the accounting framework for the Notes, and (b) that the determination of the fair value of the liability component requires the Company to make significant estimates and assumptions relating to the risk-adjusted yield, synthetic credit rating and expected volatility, the audit procedures we performed required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the application of the accounting framework for the Notes and the reasonableness of the estimates and assumptions used to determine the fair value of the liability component of the Notes, included the following procedures, among others:

- We tested the effectiveness of internal controls over the Company's accounting for the Notes and over the estimated fair value of the liability component.
- With the assistance of professionals in our firm having expertise in debt issuance accounting, we evaluated the Company's conclusions regarding the accounting treatment applied to the Notes.
- With the assistance of our fair value specialists, we evaluated the valuation methodology and key assumptions used to determine the fair value of the liability component of the Notes by:
    - Evaluating the appropriateness of the valuation model and techniques used in determining the fair value, verifying source information used in the valuation model to third party data sources and testing the mathematical accuracy of the valuation calculation.
    - Evaluating whether key valuation assumption inputs, including the risk-adjusted yield, synthetic credit rating, and expected volatility, are consistent with those that would be used by market participants by developing a range of independent estimates for each key assumption and comparing to those assumptions selected by management.

/s/ Deloitte & Touche LLP

Seattle, Washington

February 24, 2021

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Redfin Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Redfin Corporation and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020,of the Company and our report dated February 24, 2021, 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 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 included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and 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/ Deloitte & Touche LLP

Seattle, Washington

February 24, 2021

Redfin Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	December 31,	
	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 925,276	$ 234,679
Restricted cash	20,544	12,769
Short-term investments	131,561	70,029
Accounts receivable, net of allowances for credit losses of $160 and $165	54,719	19,223
Inventory	49,158	74,590
Loans held for sale	42,539	21,985
Prepaid expenses	12,131	14,822
Other current assets	4,898	3,496
Total current assets	1,240,826	451,593
Property and equipment, net	43,988	39,577
Right-of-use assets, net	44,149	52,004
Long-term investments	11,922	30,978
Goodwill and intangibles, net	11,016	11,504
Other assets, noncurrent	8,619	10,557
Total assets	$ 1,360,520	$ 596,213
Liabilities, mezzanine equity and stockholders' equity		
Current liabilities		
Accounts payable	$ 5,644	$ 2,122
Accrued liabilities	69,460	38,022
Other payables	13,184	7,884
Warehouse credit facilities	39,029	21,302
Secured revolving credit facility	23,949	4,444
Convertible senior notes, net	22,482	—
Lease liabilities	11,973	11,408
Total current liabilities	185,721	85,182
Lease liabilities and deposits, noncurrent	49,339	59,869
Convertible senior notes, net, noncurrent	488,268	119,716
Payroll tax liabilities, noncurrent	6,812	—
Total liabilities	730,140	264,767
Commitments and contingencies (Note 7)		
Series A convertible preferred stock—par value $0.001 per share; 10,000,000 shares authorized; 40,000 and 0 shares issued and outstanding, respectively	39,823	—
Stockholders' equity		
Common stock—par value $0.001 per share; 500,000,000 shares authorized; 103,000,594 and 93,001,597 shares issued and outstanding, respectively	103	93
Additional paid-in capital	860,556	583,097
Accumulated other comprehensive income	211	42
Accumulated deficit	(270,313)	(251,786)
Total stockholders' equity	590,557	331,446
Total liabilities, mezzanine equity and stockholders' equity	$ 1,360,520	$ 596,213

See Notes to the consolidated financial statements.

Redfin Corporation and Subsidiaries
Consolidated Statements of Comprehensive Loss
(in thousands, except share and per share amounts)

	Year Ended December 31,		
	2020	2019	2018
Revenue			
Service	$ 674,345	$ 539,288	$ 441,927
Product	211,748	240,508	44,993
Total revenue	886,093	779,796	486,920
Cost of revenue			
Service	437,484	390,504	320,883
Product	216,499	245,189	46,613
Total cost of revenue	653,983	635,693	367,496
Gross profit	232,110	144,103	119,424
Operating expenses			
Technology and development	84,297	69,765	53,797
Marketing	54,881	76,710	44,061
General and administrative(1)	92,140	76,874	65,500
Total operating expenses	231,318	223,349	163,358
Income (loss) from operations	792	(79,246)	(43,934)
Interest income	2,074	7,146	5,416
Interest expense	(19,495)	(8,928)	(3,681)
Other income (loss), net	(1,898)	223	221
Net loss	$ (18,527)	$ (80,805)	$ (41,978)
Dividends on convertible preferred stock	(4,454)	—	—
Net loss attributable to common stock—basic and diluted	$ (22,981)	$ (80,805)	$ (41,978)
Net loss per share attributable to common stock—basic and diluted	$ (0.23)	$ (0.88)	$ (0.49)
Weighted average shares used to compute net loss per share attributable to common stock—basic and diluted	98,574,529	91,583,533	85,669,039
Net loss	$ (18,527)	$ (80,805)	$ (41,978)
Other comprehensive income			
Foreign currency translation adjustments	(3)	33	—
Unrealized gain on available-for-sale securities	172	9	—
Total other comprehensive income	169	42	—
Total comprehensive loss	$ (18,358)	$ (80,763)	$ (41,978)

(1) Includes direct and incremental costs related to COVID-19 of $7,864, which are partially offset by $1,348 in employee retention credits allowed under the CARES Act, for the year ended December 31, 2020.

See Notes to the consolidated financial statements.

Redfin Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31, 2020	2019	2018
Operating Activities			
Net loss	$ (18,527)	$ (80,805)	$ (41,978)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	14,564	9,230	8,465
Stock-based compensation	36,973	27,814	20,438
Amortization of debt discount and issuance costs	12,038	6,385	2,584
Non-cash lease expense	9,204	6,940	—
Impairment costs	2,063	—	—
Loss on repurchases and conversions of convertible senior notes	4,634	—	—
Net gain on IRLCs, forward sales commitments and loans held for sale	(1,921)	(493)	(219)
Other	(349)	(663)	—
Change in assets and liabilities:			
Accounts receivable, net	(35,496)	(3,861)	(2,029)
Inventory	25,432	(51,896)	(19,312)
Prepaid expenses and other assets	2,333	(3,293)	(5,500)
Accounts payable	2,086	(394)	617
Accrued liabilities, other payables, and payroll tax liabilities, noncurrent	39,092	7,422	4,435
Lease liabilities	(11,312)	(7,209)	—
Deferred rent	—	1	(1,249)
Origination of loans held for sale	(677,310)	(395,354)	(85,955)
Proceeds from sale of loans originated as held for sale	657,763	378,566	83,001
Net cash provided by (used in) operating activities	61,267	(107,610)	(36,702)
Investing activities			
Purchases of property and equipment	(14,686)	(15,533)	(8,303)
Purchases of investments	(198,172)	(136,265)	(2,000)
Sales of investments	7,887	11,486	—
Maturities of investments	147,852	24,400	—
Net cash used in investing activities	(57,119)	(115,912)	(10,303)
Financing activities			
Proceeds from the issuance of convertible preferred stock, net of issuance costs	39,801	—	—
Proceeds from the issuance of common stock, net of issuance costs	69,701	—	107,593
Proceeds from the issuance of common stock pursuant to employee equity plans	21,072	16,107	23,407
Tax payments related to net share settlements on restricted stock units	(16,852)	(5,126)	(1,426)
Borrowings from warehouse credit facilities	662,278	388,586	83,842
Repayments to warehouse credit facilities	(644,551)	(372,017)	(81,125)
Borrowings from secured revolving credit facility	89,619	4,444	—
Repayments to secured revolving credit facility	(70,115)	—	—
Cash paid for secured revolving credit facility issuance costs	(4)	(922)	—
Proceeds from issuance of convertible senior notes, net of issuance costs	647,486	—	138,953
Payments for repurchases and conversions of convertible senior notes	(108,061)	—	—
Principal payments under finance lease obligations	(221)	(72)	—
Other payables - deposits held in escrow	4,074	883	2,158
Net cash provided by financing activities	694,227	31,883	273,402
Effect of exchange rate changes on cash and cash equivalents	(3)	32	—
Net change in cash, cash equivalents, and restricted cash	698,372	(191,607)	226,397
Cash, cash equivalents, and restricted cash:			
Beginning of period	247,448	439,055	212,658
End of period	$ 945,820	$ 247,448	$ 439,055
Supplemental disclosure of cash flow information			
Cash paid for interest	4,958	2,460	—
Non-cash transactions			
Stock-based compensation capitalized in property and equipment	2,348	1,280	522
Property and equipment additions in accounts payable and accrued liabilities	1,682	223	82
Leasehold improvements paid directly by lessor	37	6,230	1,980
Issuance of common stock for repurchases and conversions of convertible senior notes	98,397	—	—

See Notes to the consolidated financial statements.

Redfin Corporation and Subsidiaries
Consolidated Statements of Changes in Mezzanine Equity and Stockholders' Equity
(in thousands, except share amounts)

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity/(Deficit)
	Shares	Amount	Shares	Amount				
Balance, December 31, 2017	—	$ —	81,468,891	$ 81	$ 364,352	$ (129,003)	$ —	$ 235,430
Issuance of common stock pursuant to employee stock purchase program	—	—	425,228	1	6,587	—	—	6,588
Issuance of common stock pursuant to exercise of stock options	—	—	3,203,528	3	16,817	—	—	16,820
Issuance of common stock pursuant to restricted stock units	—	—	306,079	—	—	—	—	—
Common stock surrendered for employees' tax liability upon settlement of restricted stock units	—	—	(88,721)	—	(1,426)	—	—	(1,426)
Issuance of common stock, net	—	—	4,836,336	5	107,588	—	—	107,593
Equity component of convertible senior notes, net	—	—	—	—	27,951	—	—	27,951
Stock-based compensation	—	—	—	—	20,960	—	—	20,960
Net loss	—	—	—	—	—	(41,978)	—	(41,978)
Balance, December 31, 2018	—	$ —	90,151,341	$ 90	$ 542,829	$ (170,981)	$ —	$ 371,938
Issuance of common stock pursuant to employee stock purchase program	—	—	490,717	—	6,732	—	—	6,732
Issuance of common stock pursuant to exercise of stock options	—	—	1,666,162	2	9,568	—	—	9,570
Issuance of common stock pursuant to restricted stock units	—	—	966,037	1	(1)	—	—	—
Common stock surrendered for employees' tax liability upon settlement of restricted stock units	—	—	(272,660)	—	(5,126)	—	—	(5,126)
Stock-based compensation	—	—	—	—	29,095	—	—	29,095
Other comprehensive income	—	—	—	—	—	—	42	42
Net loss	—	—	—	—	—	(80,805)	—	(80,805)
Balance, December 31, 2019	—	$ —	93,001,597	$ 93	$ 583,097	$ (251,786)	$ 42	$ 331,446
Issuance of convertible preferred stock, net	40,000	39,823	—	—	—	—	—	—
Issuance of common stock as dividend on convertible preferred stock	—	—	61,280	—	—	—	—	—
Issuance of common stock, net	—	—	4,484,305	4	69,697	—	—	69,701
Equity component of convertible senior notes, net	—	—	—	—	165,257	—	—	165,257
Issuance of common stock pursuant to employee stock purchase program	—	—	320,609	—	8,174	—	—	8,174
Issuance of common stock pursuant to exercise of stock options	—	—	2,011,938	2	12,703	—	—	12,705
Issuance of common stock pursuant to settlement of restricted stock units	—	—	1,490,506	2	(2)	—	—	—
Common stock surrendered for employees' tax liability upon settlement of restricted stock units	—	—	(439,131)	—	(16,852)	—	—	(16,852)
Issuance of common stock in connection with repurchase of convertible senior notes	—	—	2,056,180	2	(701)	—	—	(699)
Issuance of common stock in connection with conversion of convertible senior notes	—	—	13,310	—	(138)	—	—	(138)
Stock-based compensation	—	—	—	—	39,321	—	—	39,321
Other comprehensive income	—	—	—	—	—	—	169	169
Net loss	—	—	—	—	—	(18,527)	—	(18,527)
Balance, December 31, 2020	40,000	$ 39,823	103,000,594	$ 103	$ 860,556	$ (270,313)	$ 211	$ 590,557

See Notes to the consolidated financial statements.

Index to Notes to Consolidated Financial Statements

Redfin Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(in thousands, except share and per share amounts)

Note 1: Description of Business and Summary of Significant Accounting Policies

Description of Business—Redfin Corporation was incorporated in October 2002 and is headquartered in Seattle, Washington. We operate an online real estate marketplace and provide real estate services, including assisting individuals in the purchase or sale of their home. We also provide title and settlement services, originate and sell mortgages, and buy and sell homes directly from homeowners. We have operations located in multiple states across the United States and certain provinces in Canada.

Basis of Presentation—The consolidated financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP").

Principles of Consolidation—The consolidated financial statements include the accounts of Redfin and its wholly owned subsidiaries, including those entities in which we have a variable interest and of which we are the primary beneficiary. Intercompany transactions and balances have been eliminated.

Certain Significant Risks and Business Uncertainties—We operate in the residential real estate industry and are a technology-focused company. Accordingly, we are affected by a variety of factors that could have a significant negative effect on our future financial position, results of operations, and cash flows. These factors include: negative macroeconomic factors affecting the health of the U.S. residential real estate industry, the impact of COVID-19 on the residential real estate industry, negative factors disproportionately affecting markets where the we derive most of our revenue, intense competition in the U.S. residential real estate industry, our inability to maintain or improve our technology offerings, our failure to obtain and provide comprehensive and accurate real estate listings, errors or inaccuracies in the business data that we rely on to make decisions, and our inability to attract homebuyers and home sellers to our website and mobile application.

COVID-19 Impacts—In April 2020, we reduced our number of employees by approximately 400 people and placed an additional 1,000 employees on furlough. As of the effective date of any furlough, we provided transition pay to each employee and for any employee enrolled in our health-care benefit plans, we continued to provide benefits through the duration of their furlough. These actions taken in response to the economic impact of COVID-19 on our business resulted in a charge of $7,864 in 2020. These costs are included in general and administrative expenses, as these costs were determined to be direct and incremental, and not related to revenue generating activities. These costs were partially offset by $1,348 in employee retention credits claimed under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") for 2020, which are also included as a reduction to general and administrative expenses. Pursuant to the CARES Act, we elected to defer eligible payroll taxes beginning in April 2020, which will be due in two equal installments in 2021 and 2022.

Use of Estimates—The preparation of consolidated financial statements, in conformity with GAAP, requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and results of operations during the respective periods. Our estimates include, but are not limited to, valuation of deferred income taxes, stock-based compensation, net realizable value of inventory, capitalization of website and software development costs, the incremental borrowing rate for the determination of the present value of lease payments, recoverability of intangible assets with finite lives, fair value of our mortgage loans held for sale, fair value of reporting units for purposes of evaluating goodwill for impairment, current expected credit losses on certain financial assets, and the fair value of the convertible feature related to our convertible senior notes (see Note 15). The amounts ultimately realized from the affected assets or ultimately recognized as liabilities will depend on, among other factors, general business conditions and could differ materially in the near term from the carrying amounts reflected in the consolidated financial statements.

Cash and Cash Equivalents—We consider all highly liquid investments originally purchased by us with original maturities of three months or less at the date of purchase to be cash equivalents and classified as available-for-sale. Our cash equivalents consist primarily of money market instruments.

Restricted Cash and Other Payables—Restricted cash primarily consists of cash held in escrow on behalf of real estate buyers using our title and settlement services. Since we do not have rights to the cash, a corresponding customer deposit liability in the same amount is recognized in the consolidated balance sheets in other payables. When a real estate services transaction closes, the restricted cash transfers from escrow and the corresponding deposit liability is reduced. In addition, we have other restricted cash that is specifically designated to repay borrowings under warehouse credit facilities and the secured revolving credit facility.

Accounts Receivable, Net and Allowance for Credit Losses—We have two material classes of receivables: (i) real estate services receivables and (ii) receivables from the sale of homes through our properties business. Accounts receivable related to these classes represent closed transactions for which cash has not yet been received. The majority of our transactions are processed through escrow and collectibility is not a significant risk. For transactions not directly processed through escrow, we establish an allowance for expected credit losses based on historical experience of collectibility, current external economic conditions that may affect collectibility, and current or expected changes to the regulatory environment in which we operate our real estate services and properties businesses. We evaluate for changes in credit quality indicators on an annual basis or in the event of a material economic event or material change in the regulatory environment in which we operate.

Investments—We have two types of investments: (i) available-for-sale investments that are available to support our operational needs, which are reported on the balance sheets as short-term and long-term investments, and (ii) long-term equity investments accounted for under the cost method, which are reported in Other assets, noncurrent.

Available-for-sale

Our short-term and long-term investments consist primarily of U.S. treasury securities, including inflation protected securities, and other federal or local government issued securities, all of which are classified as available-for-sale. Available-for-sale debt securities are recorded at fair value, and unrealized holding gains and losses are recorded as a component of accumulated other comprehensive income. Available-for-sale securities with maturities of one year or less and those identified by management at the time of purchase to be used to fund operations within one year are classified as short-term. All other available-for-sale securities are classified as long-term. We evaluate our available-for-sale securities, both ones classified as cash equivalents and as investments, for expected credit losses on a quarterly basis. An expected credit loss reserve is charged against the fair value of an available-for-sale debt security when it is identified, with a credit loss charged against net earnings. We review factors to determine whether an expected credit loss exists based on credit quality indicators, such as the extent to which the fair value as of the reporting date is less than the amortized cost basis, present value of cash flows expected to be collected, the financial condition and prospects of the issuer, adverse conditions specifically related to the security, and any changes to the credit rating of the security by a rating agency. Realized gains and losses are accounted for using the specific identification method. Purchases and sales are recorded on a trade date basis.

Cost Method Investments

We have purchased equity interests in two privately held companies, which are classified as long-term. The investments are equity securities without readily determinable fair values that are accounted for at cost minus any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. We perform a qualitative assessment considering impairment indicators to evaluate whether the investments are impaired as of the end of each reporting period. We recognized an impairment charge of $1,919 in 2020 related to our cost method investments. See Note 3 for information on our assessment.

Fair Value—We account for certain assets and liabilities at fair value. Fair value is defined as the exchange price that would be received for an asset or an exit price 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 current accounting guidance for fair value measurements defines a three-level valuation hierarchy for disclosures as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than quoted prices included within Level 1 that are observable, unadjusted quoted prices in markets that are not active, or other inputs that are observable such as quoted prices for similar assets or liabilities in active markets, or can be corroborated by observable market data.

Level 3—Unobservable inputs that are supported by little or no market activity and require us to develop our own assumptions.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Our financial instruments consist of Level 1, Level 2, and Level 3 assets and liabilities.

Concentration of Credit Risk—Financial instruments that potentially subject us to concentrations of credit risk are primarily cash and cash equivalents and investments. We generally place our cash and cash equivalents and investments with major financial institutions we deem to be of high-credit-quality in order to limit our credit exposure. We maintain our cash accounts with financial institutions where deposits exceed federal insurance limits.

Inventory—Our inventory represents homes purchased with the intent of resale and are accounted for under the specific identification method. Direct home acquisition and improvement costs are capitalized and tracked directly with each specific home. Homes are stated in inventory at cost and are reviewed on a home by home basis. If a home's estimated market value is less than the inventory cost then the home is written down to net realizable value.

We classify inventory into three categories: homes for sale, homes not available for sale, and homes under improvement. Homes for sale represent homes that are currently listed on the market for sale. Homes not available for sale are generally recently purchased homes that have been temporarily rented back to the prior owner and are not listed on the market for sale. The rental period is typically less than 30 days. Homes under improvement are homes that are in the process of being prepared to be listed for sale.

Variable Interest Entities—In connection with establishing a secured revolving credit facility to support the financing of homes that it purchases, RedfinNow formed a special purpose entity called RedfinNow Borrower, which is a wholly owned subsidiary of Redfin Corporation. We have determined that RedfinNow Borrower is a variable interest entity ("VIE") and that we are the primary beneficiary of the variable interest in RedfinNow Borrower based on our power to direct the activities that most significantly impact the economic outcomes of the entity through our role in designing the entity and managing the homes purchased and sold by the entity. We have a potentially significant variable interest in the entity based upon our equity interest held in the VIE. As we have concluded that we are the primary beneficiary, we have included the accounts of the VIE in our consolidated financial statements. The lender of the secured revolving credit facility does not have recourse against the general credit of the primary beneficiary beyond the circumstances disclosed in Note 15. See Note 15 for a summary of the secured revolving credit facility, including outstanding borrowings associated with the VIE and related collateral.

Loans Held for Sale—Redfin Mortgage, a wholly owned subsidiary of Redfin Corporation, originates residential mortgage loans. Such mortgage loans are intended to be sold in the secondary mortgage market within a short period of time following origination. Mortgage loans held for sale primarily consist of single-family residential loans collateralized by the underlying home. Mortgage loans held for sale are recorded at fair value based on either sale commitments or current market quotes for mortgage loans with similar characteristics. Interest income earned or expense incurred on loans held for sale is captured as a component of income from operations.

Other Current Assets—Other current assets consist primarily of miscellaneous non-trade receivables and interest rate lock commitments from mortgage origination operations (see Derivative Instruments below).

Derivative Instruments—Redfin Mortgage is party to IRLCs with customers resulting from mortgage origination operations. IRLCs for single-family mortgage loans that Redfin Mortgage intends to sell are considered free-standing derivatives. All free-standing derivatives are required to be recorded on our consolidated balance sheets at fair value. Since Redfin Mortgage can terminate a loan commitment if the borrower does not comply with the terms of the contract, and some loan commitments may expire without being drawn upon, these commitments do not necessarily represent future cash requirements.

Interest rate risk related to the residential mortgage loans held for sale and IRLCs is offset using forward sales commitments. We manage this interest rate risk through the use of forward sales commitments on both a best effort whole loans basis and on a mandatory basis. Forward sales commitments entered into on a mandatory basis are done through the use of commitments to sell mortgage-backed securities. We do not enter into or hold derivatives for trading or speculative purposes. Changes in the fair value of IRLCs and forward sales commitments are recognized as revenue, and the fair values are reflected in other current assets and accrued liabilities, as applicable. We estimate the fair value of an IRLC based on current market quotes for mortgage loans with similar characteristics, net of origination costs and fees adjusting for the probability that the mortgage loan will not fund according to the terms of commitment (referred to as a pull-through factor). The fair value measurements of our forward sales commitments use prices quoted directly to us from our counterparties.

Property and Equipment—Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives. Depreciation and amortization is included in cost of revenue, marketing, technology and development, and general and administrative and is allocated based on estimated usage for each class of asset.

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the related asset. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statements of operations. Repair and maintenance costs are expensed as incurred.

Costs incurred in the preliminary stages of website and software development are expensed as incurred. Once an application has reached the development stage, direct internal and external costs relating to upgrades or enhancements that meet the capitalization criteria are capitalized in property and equipment and amortized on a straight-line basis over their estimated useful lives. Maintenance and enhancement costs (including those costs in the post-implementation stages) are typically expensed as incurred, unless such costs relate to substantial upgrades and enhancements to the websites (or software) that result in added functionality, in which case the costs are capitalized.

Capitalized software development activities placed in service are amortized over the expected useful lives of those releases. We view capitalized software costs as either internal use, or market and product expansion. Currently, internal use and expansion useful lives are estimated at two to three years.

Estimated useful lives of website and software development activities are reviewed annually, or whenever events or changes in circumstances indicate that intangible assets may be impaired, and adjusted as appropriate to reflect upcoming development activities that may include significant upgrades or enhancements to the existing functionality.

Intangible Assets—Intangible assets are finite lived and mainly consist of trade names, developed technology, and customer relationships and are amortized over their estimated useful lives of ten years. The useful lives were determined by estimating future cash flows generated by the acquired intangible assets. Amortization expense is included in cost of revenue.

Impairment of Long-Lived Assets—Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured first by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such asset were considered to be impaired, an impairment loss would be recognized when the carrying amount of the asset exceeds the fair value of the asset. To date, no such impairment has occurred.

Goodwill—Goodwill represents the excess of the purchase price over the fair value of the net tangible assets and identifiable intangible assets acquired in a business combination. Goodwill is not amortized, but is subject to impairment testing. We assess the impairment of goodwill on an annual basis, during the fourth quarter, or whenever events or changes in circumstances indicate that goodwill may be impaired. We assess goodwill for possible impairment by performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If we qualitatively determine that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then no additional impairment steps are necessary.

We performed a qualitative assessment and determined that it was not more likely than not that the fair value of our reporting unit for which goodwill has been assigned was less than its carrying amount. In evaluating whether it was more likely than not that the fair value of our reporting unit was less than its carrying amount we considered macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant entity-specific events, potential events affecting its reporting unit, and changes in the fair value of our common stock. The primary qualitative factors we have considered in our analysis are our overall financial performance and the fair value of the reporting unit for which goodwill was assigned, which was substantially in excess of its book value. The aggregate carrying value of goodwill was $9,186 at December 31, 2020 and 2019. There have been no accumulated impairments to goodwill.

Other Assets, Noncurrent—Other assets consists primarily of leased building security deposits and equity investments accounted for under the cost method.

Leases—The extent of our lease commitments consists of operating leases for physical office locations with original terms ranging from one to 11 years and finance leases for vehicles with terms of four years. We have accounted for the portfolio of leases by disaggregation based on the nature and term of the lease. Generally, the leases require a fixed minimum rent with contractual minimum rent increases over the term of the lease. Leases with an initial term of twelve months or less are not recorded on the balance sheet, but rather lease expense is recognized on a straight-line basis over the term of the lease.

When available, the rate implicit in the lease to discount lease payments to present value would be used; however, none of our significant leases as of December 31, 2020 provide a readily determinable implicit rate. Therefore, we must estimate our incremental borrowing rate for each portfolio of leases to discount the lease payments based on information available at lease commencement.

We have evaluated the performance of existing leases in relation to our leasing strategy and have determined that most renewal options would not be reasonably certain to be exercised.

The right-of-use asset and related lease liability are determined based on the lease component of the consideration in each lease contract. We have evaluated our lease portfolio for appropriate allocation of the consideration in the lease contracts between lease and nonlease components based on standalone prices and determined the allocation per the contracts to be appropriate.

Mezzanine Equity—We have issued convertible preferred stock that we have determined is a financial instrument with both equity and debt characteristics and are classified as mezzanine equity in our consolidated financial statements. The instrument was initially recognized at fair value net of issuance costs. We reassess whether the instrument is currently redeemable or probable to become redeemable in the future as of each reporting date, in which, if the instrument meets either criteria, we will accrete the carrying value to the redemption value based on the effective interest method over the remaining term. To assess classification, we review all features of the instrument, including mandatory redemption features and conversion features that may be substantive. All financial instruments that are classified as mezzanine equity are evaluated for embedded derivative features by evaluating each feature against the nature of the host instrument (e.g. more equity-like or debt-like). Features identified as embedded derivatives that are material are recognized separately as a derivative asset or liability in the consolidated financial statements. We have evaluated our convertible preferred stock and determined that its nature is that of an equity host and no material embedded derivatives exist that would require bifurcation on our balance sheet. See Note 11 for more information.

Foreign Currency Translation—Our international operations generally use their local currency as their functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Income and expense accounts are translated at the average monthly exchange rates during the year. Resulting translation adjustments are reported as a component of other comprehensive income and recorded in accumulated other comprehensive income on our consolidated balance sheets.

Income Taxes—Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the consolidated balance sheets and tax bases of assets and liabilities at the applicable enacted tax rates. We establish a valuation allowance for deferred tax assets if it is more likely than not that these items will expire before we are able to realize their benefits or if future deductibility is uncertain.

We believe that it is currently more likely than not that our deferred tax assets will not be realized and as such, have recorded a full valuation allowance for these assets. We evaluate the likelihood of the ability to realize deferred tax assets in future periods on a quarterly basis, and in the event there is sufficient evidence to indicate a deferred asset will be realized, the associated valuation allowance would be reversed. The determination to provide a valuation allowance is dependent upon the assessment of whether it is more likely than not that sufficient taxable income will be generated to utilize the deferred tax assets. Based on the weight of the available evidence, which includes our historical operating losses, lack of taxable income, and accumulated deficit, we have provided a full valuation allowance against the U.S. tax assets resulting from the tax losses and credits carried forward.

Convertible Senior Notes—In accounting for the issuance of our convertible senior notes, we separate each of the notes into liability and equity components. The fair value of the liability component is estimated using a discounted cash flow analysis utilizing a risk-adjusted yield derived from a combination of (i) use of benchmarks of comparable debt securities; and (ii) modeling that incorporates synthetic credit rating estimation and volatility estimation. The carrying amount of the equity component is calculated by deducting the fair value amount of the liability component from the aggregate principal amount of the notes.

Issuance costs attributable to the liability component are being amortized to expense over the respective term of the convertible senior notes, and issuance costs attributable to the equity components are netted with the respective equity component in additional paid-in capital.

For conversion or extinguishment prior to the maturity of the notes, we allocate the fair value of the consideration (cash and equity shares) provided to debt holders for the settlement of the debt between liability and equity components. A gain or loss on extinguishment is recognized for the difference between (1) the consideration provided for settlement plus costs allocated to the liability component, and (2) the net carrying amount of the liability component (including remaining unamortized discount and debt issuance costs).

Unsettled Conversion Requests of Convertible Senior Notes—Our 2023 notes were convertible during the quarter ended December 31, 2020. We received conversion requests for $1,849 aggregate principal amount of the notes prior to the end of the quarter that we will settle using a combination of cash and shares of our common stock during the quarter ending March 31, 2021. All references to the outstanding aggregate principal amount of our 2023 notes as of December 31, 2020 includes the $1,849 principal amount with respect to which we received conversion requests on or prior to such date.

Revenue Recognition—We generate revenue primarily from commissions and fees charged on each real estate services transaction closed by our lead agents or partner agents, and from the sale of homes. Our key revenue components are brokerage revenue, partner revenue, property revenue, and other revenue.

We have utilized the allowable practical expedient in the accounting guidance and elected not to capitalize costs related to obtaining contracts with customers with durations of less than one year. We do not have significant remaining performance obligations.

Revenue earned but not received is recorded as accrued revenue in accounts receivable on our consolidated balance sheets, net of an allowance for credit losses. Accrued revenue consisting of commission revenue is known and is clearing escrow, and therefore it is not estimated.

Nature and Disaggregation of Revenue

Real Estate Services

Brokerage Revenue—Brokerage revenue includes our offer and listing services, where our lead agents represent homebuyers and home sellers. We recognize commission-based brokerage revenue upon closing of a brokerage transaction, less the amount of any commission refunds, closing-cost reductions, or promotional offers that may result in a material right. The transaction price is generally calculated by taking the agreed upon commission rate and applying that to the home's selling price. Brokerage revenue primarily contains a single performance obligation that is satisfied upon the closing of a transaction, at which point the entire transaction price is earned. We are not entitled to any commission until the performance obligation is satisfied and are not owed any commission for unsuccessful transactions, even if services have been provided. In conjunction with providing offering and listing services to our customers, we may offer promotional pricing or additional discounts on future services. This results in a material right to our customers and represents an additional performance obligation, for which the transaction price is allocated based on standalone selling prices. Amounts allocated to a promise to provide future listing or offering services at a significant discount are initially recorded as contract liabilities. Our promotional pricing and additional discounts have not resulted in a material impact to timing of revenue recognition. The balance of the corresponding contract liabilities are included in accrued liabilities in our consolidated balance sheet. See Note 9 for more information.

Partner Revenue—Partner revenue consists of fees paid to us from partner agents or under other referral agreements, less the amount of any payments we make to homebuyers and home sellers. We recognize these fees as revenue on the closing of a transaction. The transaction price is a fixed percentage of the partner agent's commission. The partner agent or other entity related to our referral agreements directly remits the referral fee revenue to us. We are neither entitled to referral fee revenue, nor is our performance obligation satisfied, until the related referred home's sale closes.

Properties

Properties Revenue—Properties revenue consists of revenue earned when we sell homes that we previously bought directly from homeowners. Properties revenue is recorded at closing on a gross basis, representing the sales price of the home. Our contracts with customers contain a single performance obligation that is satisfied upon a transaction closing. We do not offer warranties for sold homes, and there are no continuing performance obligations following the transaction close date.

Other

Other Revenue—Other services revenue includes fees earned from mortgage origination services, title settlement services, Walk Score data services, and advertising. Substantially all fees and revenue from other services are recognized when the service is provided. Mortgage origination services are not subject to the guidance in *ASC 606, Revenue from Contracts with Customers*, as the scope of the standard does not apply to revenue on contracts accounted for under *ASC 860, Transfers and Servicing,* but are included in other services revenue to reconcile total revenue presented on the consolidated statements of operations to the disaggregation of revenue table below.

Intercompany Eliminations

Intercompany Eliminations—Revenue earned from transactions between operating segments are eliminated in consolidating our financial statements. Intercompany transactions primarily consist of services performed from our real estate services segment for our properties segment.

Cost of Revenue—Cost of revenue consists primarily of personnel costs (including base pay, benefits, and stock-based compensation), transaction bonuses, home-touring and field expenses, listing expenses, home costs related to our properties segment, office and occupancy expenses, and depreciation and amortization related to fixed assets and acquired intangible assets. Home costs related to our properties segment include home purchase costs, capitalized improvements, selling expenses directly attributable to the transaction, and home maintenance expenses.

Technology and Development—Technology and development expenses primarily include personnel costs (including base pay, bonuses, benefits, and stock-based compensation), data licenses, software and equipment, and infrastructure such as for data centers and hosted services. The expenses also include amortization of capitalized internal-use software and website and mobile application development costs. We expense research and development costs as incurred and record them in technology and development expenses.

Advertising and Advertising Production Costs—We expense advertising costs as they are incurred and production costs as of the first date the advertisement takes place. Advertising costs totaled $42,919, $62,536, and $33,457 in 2020, 2019, and 2018 respectively, and are included in marketing expenses. Advertising production costs totaled $256, $2,029, and $1,644 in 2020, 2019, and 2018, respectively, and are included in marketing expenses.

Stock-based Compensation—We account for stock-based compensation by measuring and recognizing as compensation expense the fair value of all share-based payment awards made to employees, including stock options and restricted stock unit awards, and shares forecasted to be issued pursuant to our ESPP, in each case based on estimated grant date fair values. Stock-based compensation expense is recognized over the requisite service period on a straight-line basis. The Black-Scholes-Merton option-pricing model is used to determine the fair value for stock options and shares forecasted to be issued pursuant to our ESPP. For restricted stock unit awards and restricted stock unit awards with performance conditions, we use the market value of our common stock on the date of grant to determine the fair value of the award. For restricted stock unit awards with market conditions, the market condition is reflected in the grant-date fair value of the award using a Monte Carlo simulation.

In valuing stock options and shares forecasted to be issued pursuant to our ESPP, we make assumptions about expected life, stock price volatility, risk-free interest rates and expected dividends.

Expected Life—The expected term was estimated using the simplified method allowed under guidance from the SEC as our historical share option exercise experience does not provide a reasonable basis upon which to estimate the expected term.

Volatility—The expected stock price volatility for our common stock was estimated by taking the average historical price volatility for industry peers based on daily price observations. Industry peers consist of several public companies in the real estate and technology industries.

Risk-Free Rate—The risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected term of the options for each option group.

Dividend Yield—We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. Consequently, an expected dividend yield of zero was used.

Recently Adopted Accounting Pronouncements—In January 2020, we adopted ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326),* using a modified-retrospective approach. The adoption of this guidance requires a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The pronouncement, along with the related subsequent pronouncements that include clarifications, modifies the measurement of credit losses on financial instruments. This guidance requires the use of an expected loss impairment model for instruments measured at amortized cost based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The adoption of this pronouncement did not have a material impact on our consolidated financial statements. See "—Accounts Receivable and Allowance for Credit Losses" for specific accounting policies for accounts receivable and available-for-sale debt securities, and see Note 2 for additional impacts from the adoption.

Recently Issued Accounting Pronouncements—In August 2020, the Financial Accounting Standards Board issued authoritative guidance under ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity.

This guidance removes the liability and equity separation models for convertible instruments with a cash conversion feature or beneficial conversion feature. As a result, companies will more likely account for a convertible debt instrument wholly as debt, and for convertible preferred stock wholly as preferred stock (i.e., as a single unit of account). In addition, the guidance simplifies the settlement assessment that issuers perform to determine whether a contract in their own equity qualifies for equity classification. Finally, the guidance requires entities to use the if-converted method to calculate earnings per share for all convertible instruments.

ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years.

We have elected to early adopt the new standard as of January 1, 2021 using the modified retrospective approach. Under this approach, prior periods are not restated. Rather, the cumulative effect of initially applying the new standard will be recognized as an adjustment to retained earnings or accumulated deficit. Upon the adoption of the new standard, we expect to reduce non-cash interest expense for future periods until the affected notes are settled, and recognize the following adjustments on January 1, 2021:

	Ending Balance as of December 31, 2020	ASU 2020-06 Adjustments	Beginning Balance as of January 1, 2021
Convertible senior notes, net	$ 22,482	$ 2,723	$ 25,205
Convertible senior notes, net, noncurrent	488,268	159,755	648,023
Additional paid-in capital	860,556	(170,240)	690,316
Accumulated deficit	(270,313)	7,762	(262,551)

The $7,762 adjustment to accumulated deficit represents a reduction to non-cash interest expense related to the accretion of the debt discount under the historical separation model.

Note 2: Segment Reporting and Revenue

In operation of the business, our management, including our chief operating decision maker, who is also our chief executive officer, evaluates the performance of our operating segments based on revenue and gross profit. We do not analyze discrete segment balance sheet information related to long-term assets, substantially all of which are located in the United States. All other financial information is presented on a consolidated basis. We have five operating segments and two reportable segments, real estate services and properties.

We generate revenue primarily from commissions and fees charged on each real estate services transaction closed by our lead agents or partner agents, and from the sale of homes. Our key revenue components are brokerage revenue, partner revenue, properties revenue, and other revenue.

Information on each of the reportable and other segments and reconciliation to consolidated net loss is as follows:

	Year Ended December 31,		
	2020	2019	2018
Real estate services			
Brokerage revenue	$ 607,513	$ 496,480	$ 406,293
Partner revenue	43,695	27,060	25,875
Total real estate services revenue	651,208	523,540	432,168
Cost of revenue	417,140	373,150	309,069
Gross profit	$ 234,068	$ 150,390	$ 123,099
Properties			
Revenue	209,686	240,507	44,993
Cost of revenue	214,382	245,189	46,613
Gross profit	$ (4,696)	$ (4,682)	$ (1,620)
Other			
Revenue	28,212	17,634	9,882
Cost of revenue	25,474	19,239	11,937
Gross profit	$ 2,738	$ (1,605)	$ (2,055)
Intercompany eliminations			
Revenue	(3,013)	(1,885)	(123)
Cost of revenue	(3,013)	(1,885)	(123)
Gross profit	$ —	$ —	$ —
Consolidated			
Revenue	886,093	779,796	486,920
Cost of revenue	653,983	635,693	367,496
Gross profit	$ 232,110	$ 144,103	$ 119,424
Operating expenses	231,318	223,349	163,358
Interest income	2,074	7,146	5,416
Interest expense	(19,495)	(8,928)	(3,681)
Other income (loss), net	(1,898)	223	221
Net loss	$ (18,527)	$ (80,805)	$ (41,978)

Note 3: Financial Instruments

Derivatives

Our primary market exposure is to interest rate risk, specifically U.S. treasury and mortgage interest rates, due to their impact on mortgage-related assets and commitments. We use forward sales commitments on whole loans and mortgage-backed securities to manage and reduce this risk. We do not have any derivative instruments designated as hedging instruments.

Forward Sales Commitments—We are exposed to interest rate and price risk on loans held for sale from the funding date until the date the loan is sold. Forward sales commitments on whole loans and mortgage-backed securities are used to fix the forward sales price that will be realized at the sale of each loan.

Interest Rate Lock Commitments—IRLCs represent an agreement to extend credit to a mortgage loan applicant. We commit (subject to loan approval) to fund the loan at the specified rate, regardless of changes in market interest rates between the commitment date and the funding date. Outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of commitment through the loan funding date or expiration date. Loan commitments generally range between 30 and 90 days and the borrower is not obligated to obtain the loan. Therefore, IRLCs are subject to fallout risk, which occurs when approved borrowers choose not to close on the underlying loans. We review our commitment-to-closing ratio ("pull-through rate") as part of an estimate of the number of mortgage loans that will fund according to the IRLCs.

	December 31,	
Notional Amounts	**2020**	**2019**
Forward sales commitments	$ 130,109	$ 39,447
IRLCs	88,923	37,453

The locations and amounts of gains (losses) recognized in income related to our derivatives are as follows:

		Year Ended December 31,		
Instrument	**Classification**	**2020**	**2019**	**2018**
Forward sales commitments	Service revenue	$ (184)	$ 96	$ (141)
IRLCs	Service revenue	1,342	176	254

Fair Value of Financial Instruments

A summary of assets and liabilities related to our financial instruments, measured at fair value on a recurring basis and as reflected in our consolidated balance sheets, is set forth below:

	Balance at December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents				
Money market funds	$ 886,261	$ 886,261	$ —	$ —
U.S. treasury securities	6,100	6,100	—	—
Total cash equivalents	892,361	892,361	—	—
Short-term investments				
U.S. treasury securities	131,561	131,561	—	—
Loans held for sale	42,539	—	42,539	—
Prepaid expenses and other current assets				
Forward sales commitments	34	—	34	—
IRLCs	1,781	—	—	1,781
Total prepaid expenses and other current assets	1,815	—	34	1,781
Long-term investments				
Agency bonds	11,922	11,922	—	—
Total assets	$ 1,080,198	$ 1,035,844	$ 42,573	$ 1,781
Liabilities				
Accrued liabilities				
Forward sales commitments	$ 507	$ —	$ 507	$ —
IRLCs	10	—	—	10
Total liabilities	$ 517	$ —	$ 507	$ 10

	Balance at December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents				
Money market funds	$ 221,442	$ 221,442	$ —	$ —
Short-term investments				
U.S. treasury securities	70,029	70,029	—	—
Loans held for sale	21,985	—	21,985	—
Prepaid expenses and other current assets				
Forward sales commitments	4	—	4	—
IRLCs	496	—	—	496
Total prepaid expenses and other current assets	500	—	4	496
Long-term investments				
U.S. treasury securities	30,978	30,978	—	—
Total assets	$ 344,934	$ 322,449	$ 21,989	$ 496
Liabilities				
Accrued liabilities				
Forward sales commitments	$ 57	$ —	$ 57	$ —
IRLCs	58	—	—	58
Total liabilities	$ 115	$ —	$ 57	$ 58

There were no transfers into or out of Level 3 financial instruments during the years ended December 31, 2020 and 2019.

The significant unobservable input used in the fair value measurement of IRLCs is the pull-through rate. Significant changes in the input could result in a significant change in fair value measurement.

The following is a quantitative summary of key unobservable inputs used in the valuation of IRLCs:

Key Inputs	Valuation Technique	December 31, 2020	December 31, 2019
Weighted-average pull-through rate	Market pricing	72.3%	78.2%

The following is a summary of changes in the fair value of IRLCs for the period ended December 31, 2020:

Balance, net—January 1, 2020	$ 438
Issuances of IRLCs	18,090
Settlements of IRLCs	(16,986)
Net gain recognized in earnings	229
Balance, net—December 31, 2020	$ 1,771

The following table presents the carrying amounts and estimated fair values of our 2023 notes and our 2025 notes that are not recorded at fair value on our consolidated balance sheets:

	December 31, 2020		December 31, 2019	
Issuance	Net Carrying Amount	Estimated Fair Value	Net Carrying Amount	Estimated Fair Value
2023 notes	$22,482	$59,894	$119,716	$142,672
2025 notes	$488,268	$802,083	$—	$—

The difference between the principal amount and unsettled conversions of our 2023 notes and our 2025 notes, which were $25,626 and $661,250, respectively, and the net carrying amounts of the notes represents the unamortized debt discount and debt issuance costs (see Note 15 for additional details). The estimated fair value of each tranche of convertible senior notes is based on the closing trading price of the notes on the last day of trading for the period, and is classified as Level 2 within the fair value hierarchy, due to the limited trading activity of the notes. As of December 31, 2020, the difference between the net carrying amount of the notes and their estimated fair values represented the equity conversion value premium the market assigned to the notes. Based on the closing price of our common stock of $68.63 on December 31, 2020, the if-converted value of the 2023 notes exceeded the principal amount of $25,626, while the if-converted value of the 2025 notes was less than the principal amount of $661,250. Refer to Note 15 for additional details on the convertible senior notes.

See Note 11 for the carrying amount of our convertible preferred stock.

Assets and liabilities recognized or disclosed at fair value on a nonrecurring basis include items such as property and equipment, goodwill and other intangible assets, cost method investments, and other assets. These assets are measured at fair value if determined to be impaired. During the year ended December 31, 2020 we determined that the fair value of one of our cost method investments in a privately-held company was less than the carrying value of $2,000 based on a variety of impairment indicators, including the historical performance and future prospects of the company; therefore, we recognized a non-cash impairment charge of $1,919 related to this investment during the year ended December 31, 2020. The impairment charge is included in Impairment costs within our consolidated statement of cash flows and is included in Other income (expense), net within our consolidated statements of comprehensive loss. We did not record any other significant nonrecurring fair value measurements after initial recognition for the years ended December 31, 2020, 2019 or 2018.

The cost or amortized cost, gross unrealized gains and losses, and estimated fair market value of our cash, money market funds, restricted cash, and available-for-sale investments were as follows:

	December 31, 2020						
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Cash, Cash Equivalents, Restricted Cash	Short-term Investments	Long-term Investments
Cash	$ 32,915	$ —	$ —	$ 32,915	$ 32,915	$ —	$ —
Money markets funds	886,261	—	—	886,261	886,261	—	—
Restricted cash	20,544	—	—	20,544	20,544	—	—
U.S. treasury securities	137,502	159	—	137,661	6,100	131,561	—
Agency bonds	11,900	22	—	11,922	—	—	11,922
Total	$ 1,089,122	$ 181	$ —	$ 1,089,303	$ 945,820	$ 131,561	$ 11,922

	December 31, 2019						
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Cash, Cash Equivalents, Restricted Cash	Short-term Investments	Long-term Investments
Cash	$ 13,237	$ —	$ —	$ 13,237	$ 13,237	$ —	$ —
Money markets funds	221,442	—	—	221,442	221,442	—	—
Restricted cash	12,769	—	—	12,769	12,769	—	—
U.S. treasury securities	100,998	31	(22)	101,007	—	70,029	30,978
Total	$ 348,446	$ 31	$ (22)	$ 348,455	$ 247,448	$ 70,029	$ 30,978

As of December 31, 2020 and 2019, the aggregate fair value of available-for-sale debt securities in an unrealized loss position totaled $0 and $46,550, with aggregate unrealized losses of $0 and $22, respectively. We have evaluated our portfolio of available-for-sale debt securities based on credit quality indicators for expected credit losses and do not believe there are any expected credit losses. Our portfolio consists of U.S. government securities, all with a high quality credit rating issued by various credit agencies.

As of December 31, 2020 and 2019, we had accrued interest of $108 and $183, respectively, on our available-for-sale investments, of which we have recorded no expected credit losses. Accrued interest receivable is presented within other current assets in our consolidated balance sheets.

Note 4: Inventory

The components of inventory were as follows:

	December 31,	
	2020	2019
Properties for sale	$ 17,153	$ 36,982
Properties not available for sale	7,225	3,163
Properties under improvement	24,780	34,445
Inventory	$ 49,158	$ 74,590

Inventory costs include direct home purchase costs and any capitalized improvements, net of lower of cost or net realizable value write-downs applied on a specific home basis. As of December 31, 2020 and 2019, lower of cost or net realizable value write-downs were $29 and $143, respectively. During the years ended December 31, 2020 and 2019, we directly purchased $158,269 and $264,290 of homes and sold $182,906 and $214,118 in cost basis of homes, respectively.

Note 5: Property and Equipment

The components of property and equipment were as follows:

		December 31,	
	Useful Lives (years)	2020	2019
Leasehold improvements	Shorter of lease term or economic life	$ 29,558	$ 28,141
Website and software development costs	2-3	33,278	27,602
Computer and office equipment	3	7,765	4,846
Software	3	1,858	595
Furniture	7	7,450	6,965
Property and equipment, gross		79,909	68,149
Accumulated depreciation and amortization		(41,614)	(29,047)
Construction in progress		5,693	475
Property and equipment, net		$ 43,988	$ 39,577

Depreciation and amortization expense for property and equipment amounted to $14,076, $8,742, and $7,977 for the years ended December 31, 2020, 2019, and 2018, respectively. We capitalized software development costs, including stock-based compensation, of $11,414, $8,396, and $5,796 during the years ended December 31, 2020, 2019, and 2018, respectively.

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Note 6: Leases

The components of lease expense were as follows:

Lease Cost	Classification	Year Ended December 31, 2020	2019
Operating lease cost:			
Operating lease cost[1]	Cost of revenue	$ 8,571	$ 7,970
Operating lease cost[1]	Operating expenses	4,370	3,648
Total operating lease cost		$ 12,941	$ 11,618
Finance lease cost:			
Amortization of right-of-use assets	Cost of revenue	$ 130	$ 20
Interest on lease liabilities	Cost of revenue	20	3
Total finance lease cost		$ 150	$ 23

(1) Includes lease expense with initial terms of twelve months or less of $998 and $2,180 for the years ended December 31, 2020 and 2019.

	Lease Liabilities		Other Leases	
Maturity of Lease Liabilities	Operating	Financing	Operating	Total Lease Obligations
2021	$ 14,194	$ 206	$ 1,141	$ 15,541
2022	13,582	206	878	14,666
2023	12,572	192	871	13,635
2024	10,761	93	1,279	12,133
2025	7,364	—	559	7,923
Thereafter	9,536	—	1,421	10,957
Total lease payments	$ 68,009	$ 697	$ 6,149	$ 74,855
Less: Interest[1]	7,333	61		
Present value of lease liabilities	$ 60,676	$ 636		

(1) Includes interest on operating leases of $2,397 and financing leases of $30 due within the next twelve months.

Lease Term and Discount Rate	December 31, 2020	2019
Weighted average remaining operating lease term (years)	5.2	6.1
Weighted average remaining finance lease term (years)	3.5	3.8
Weighted average discount rate for operating leases	4.4 %	4.4 %
Weighted average discount rate for finance leases	5.4 %	5.4 %

Supplemental Cash Flow Information	Year Ended December 31, 2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash outflows from operating leases	$ 14,207	$ 9,868
Operating cash outflows from finance leases	20	3
Financing cash outflows from finance leases	102	14
Right-of-use assets obtained in exchange for lease liabilities[1]		
Operating leases	$ 1,186	$ 58,669
Finance leases	669	274

(1) We adopted ASU 2016-02, Leases on January 1, 2019. Adoption of the standard resulted in recording of right-of-use assets of $33,953 on January 1, 2019.

Note 7: Commitments and Contingencies

Legal Proceedings—Below is a discussion of our material, pending legal proceedings. Given the preliminary stage of these cases and the claims and issues presented, we cannot estimate a range of reasonably possible losses. In addition to the matters discussed below, from time to time, we are involved in litigation, claims, and other proceedings arising in the ordinary course of our business. Except for the matters discussed below, we do not believe that any of the pending litigation, claims, and other proceedings are material to our business.

Lawsuit by David Eraker

On May 11, 2020, David Eraker, our co-founder and former chief executive officer who departed Redfin in 2006, filed a complaint through Appliance Computing III, Inc. (d/b/a Surefield) ("Surefield"), which is a company that Mr. Eraker founded and that we believe he controls, in the U.S. District Court for the Western District of Texas, Waco Division. The complaint alleges that we are infringing patents claimed to be owned by Surefield without its authorization or license. Surefield is seeking an unspecified amount of damages and an injunction against us offering products and services that allegedly infringe the patents at issue. On July 15, 2020, we filed a counterclaim against Surefield to allege that (i) we are not infringing on the patents that Surefeld has alleged that we are infringing and (ii) the patents claimed by Surefield are invalid. This counterclaim asks the court to declare judgment in our favor.

Lawsuit Alleging Violations of the Fair Housing Act

On October 28, 2020, a group of ten organizations filed a complaint against us in the U.S. District Court for the Western District of Washington. The organizations are the National Fair Housing Alliance, the Fair Housing Center of Metropolitan Detroit, the Fair Housing Justice Center, the Fair Housing Rights Center in Southeastern Pennsylvania, the HOPE Fair Housing Center, the Lexington Fair Housing Council, the Long Island Housing Services, the Metropolitan Milwaukee Fair Housing Council, Open Communities, and the South Suburban Housing Center. The complaint alleges that certain of our business policies and practices violate certain provisions of the Fair Housing Act (the “FHA”). The plaintiffs allege that these policies and practices (i) have the effect of our services being unavailable in predominantly non-white communities on a more frequent basis than predominantly white communities and (ii) are unnecessary to achieve a valid interest or legitimate objective. The complaint focuses on the following policies and practices, as alleged by the plaintiffs: (i) a home's price must exceed a certain dollar amount before we offer service through one of our lead agents or partner agents and (ii) our services and pricing structures are available only for homes serviced by one of our lead agents and those same services and pricing structures may not be offered by one of our partner agents. The plaintiffs seek (i) a declaration that our alleged policies and practices violate the FHA, (ii) an order enjoining us from further alleged violations, (iii) an unspecified amount of monetary damages, and (iv) payment of plaintiffs’ attorneys' fees and costs.

Lawsuits Alleging Misclassification

On August 28, 2019, Devin Cook, who is one of our former independent contractor licensed sales associates, whom we call associate agents, filed a complaint against us in the Superior Court of California, County of San Francisco. The plaintiff initially pled the complaint as a class action and alleged that we misclassified her as an independent contractor instead of an employee. The plaintiff also sought representative claims under California’s Private Attorney General Act ("PAGA"). On December 6, 2019, we filed a motion to compel arbitration and asserted that the plaintiff had agreed to arbitrate her claims and had waived all class claims. Following that filing, we and the plaintiff stipulated to allow the plaintiff to amend her complaint to dismiss the class action claim and assert only claims under PAGA. On January 14, 2020, pursuant to the parties’ stipulation, the court granted the plaintiff leave to file a first amended complaint, and she filed her first amended complaint on January 30, 2020. Following this stipulation, only the plaintiff's claims under PAGA will proceed. The plaintiff continues to seek unspecified penalties for alleged violations of PAGA.

On November 20, 2020, Jason Bell, who is one of our former lead agents as well as a former associate agent, filed a complaint against us in the U.S. District Court for the Southern District of California. The complaint is pled as a class action and alleges that, during the time he served as an associate agent, we misclassified him as an independent contractor instead of an employee. The plaintiff is also seeking representative claims under PAGA. The plaintiff is seeking unspecified amounts of unpaid overtime wages, regular wages, meal and rest period compensation, penalties, injunctive, and other equitable relief, and plaintiff's attorneys' fees and costs. On December 2, 2020, we filed a motion to compel arbitration and asserted that the plaintiff had agreed to arbitrate his claims and had waived all class claims.

Other Commitments—Other commitments relate to homes that are under contract to purchase through our properties business but that have not closed, and network infrastructure for our data operations.

Future payments due under these agreements as of December 31, 2020 are as follows:

	Other Commitments
2021	$ 63,586
2022	7,430
2023	745
2024	—
2025 and thereafter	—
Total future minimum payments	$ 71,761

Note 8: Acquired Intangible Assets

The components of intangible assets were as follows:

		December 31, 2020			December 31, 2019		
	Useful Live (years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trade names	10	$ 1,040	$ (650)	$ 390	$ 1,040	$ (546)	$ 494
Developed technology	10	2,980	(1,862)	1,118	2,980	(1,564)	1,416
Customer relationship	10	860	(538)	322	860	(452)	408
		$ 4,880	$ (3,050)	$ 1,830	$ 4,880	$ (2,562)	$ 2,318

Amortization expense totaled $488 for each year ended December 31, 2020 and 2019. We will recognize the remaining amortization expense of $1,830 over a four-year period, with the first three years recognizing expense of $488 per year, and the fourth year recognizing expense of $366.

Note 9: Accrued Liabilities

The components of accrued liabilities were as follows:

	December 31,	
	2020	2019
Accrued compensation and benefits	$ 49,238	$ 30,462
Miscellaneous accrued liabilities	9,722	7,021
Payroll tax liability deferred by the CARES Act	6,812	—
Customer contract liabilities	3,688	539
Total accrued liabilities	$ 69,460	$ 38,022

Note 10: Other Payables

Other payables consists primarily of customer deposits for cash held in escrow on behalf of real estate buyers using our title and settlement services. Since we do not have rights to the cash, the customer deposits are recorded as a liability with a corresponding asset in the same amount recorded within restricted cash.

The components of other payables were as follows:

	December 31,	
	2020	2019
Customer deposits	$ 11,183	$ 7,109
Miscellaneous payables	2,001	775
Total other payables	$ 13,184	$ 7,884

Note 11: Mezzanine Equity

On April 1, 2020, we issued 4,484,305 shares of our common stock, at a price of $15.61 per share, and 40,000 shares of our preferred stock, at a price of $1,000 per share, for aggregate gross proceeds of $110,000. We designated this preferred stock as Series A Convertible Preferred Stock (our "convertible preferred stock"). Our convertible preferred stock is classified as mezzanine equity in our consolidated financial statements as the substantive conversion features at the option of the holder precludes liability classification. We have determined there are no material embedded features that require recognition as a derivative asset or liability.

We allocated the gross proceeds of $110,000 to the common stock issuance and the convertible preferred stock issuance based on the standalone fair value of the issuances, resulting in a fair valuation of $40,000 for the preferred stock, which is also the value of the mandatory redemption amount.

As of December 31, 2020, the carrying value of our convertible preferred stock, net of issuance costs, is $39,823, and holders have earned unpaid stock dividends in the amount of 30,640 shares of common stock. This stock dividend was issued on January 4, 2021. These shares are included in basic and diluted net loss per share attributable to common stock, as described in Note 13. As of December 31, 2020, no shares of the preferred stock have been converted, and the preferred stock was not redeemable, nor probable to become redeemable in the future as there is a more than remote chance the shares will be automatically converted prior to the mandatory redemption date. The number of shares of common stock reserved for future issuance resulting from dividends, conversion, or redemption with respect to the preferred stock was 2,622,177 as of the issuance date.

Dividends—The holders of our convertible preferred stock are entitled to dividends. Dividends accrue daily based on a 360 day fiscal year at a rate of 5.5% per annum based on the issue price and are payable quarterly in arrears on the first business day following the end of each calendar quarter. Assuming we satisfy certain conditions, we will pay dividends in shares of common stock at a rate of the dividend payable divided by $17.95. If we do not satisfy such conditions, we will pay dividends in a cash amount equal to (i) the dividend shares otherwise issuable on the dividends multiplied by (ii) the volume-weighted average closing price of our common stock for the ten trading days preceding the date the dividends are payable.

Participation Rights—Holders of our convertible preferred stock are entitled to dividends paid and distributions made to holders of our common stock to the same extent as if such preferred stockholders had converted their shares of preferred stock into common stock and held such shares on the record date for such dividends and distributions.

Conversion—Holders may convert their convertible preferred stock into common stock at any time at a rate per share of preferred stock equal to the issue price divided by $19.51 (the "conversion price"). A holder that converts will also receive any dividend shares resulting from accrued dividends.

Our convertible preferred stock may also be automatically converted to shares of our common stock. If the closing price of our common stock exceeds $27.32 per share (i) for each day of the 30 consecutive trading days immediately preceding April 1, 2023 or (ii) following April 1, 2023 until 30 trading days prior to November 30, 2024, for each day of any 30 consecutive trading days, then each outstanding share of preferred stock will automatically convert into a number of shares of our common stock at a rate per share of preferred stock equal to the issue price divided by the conversion price. Upon an automatic conversion, a holder will also receive any dividend shares resulting from accrued dividends.

Redemption—On November 30, 2024, we will be required to redeem any outstanding shares of our convertible preferred stock, and each holder may elect to receive cash, shares of common stock, or a combination of cash and shares. If a holder elects to receive cash, we will pay, for each share of preferred stock, an amount equal to the issue price plus any accrued dividends. If a holder elects to receive shares, we will issue, for each share of preferred stock, a number of shares of common stock at a rate of the issue price divided by the conversion price plus any dividend shares resulting from accrued dividends.

A holder of our convertible preferred stock has the right to require us to redeem up to all shares of preferred stock it holds following certain events outlined in the document governing the preferred stock. If a holder redeems as the result of such events, such holder may elect to receive cash or shares of common stock, as calculated in the same manner as the mandatory redemption described above. Additionally, such holder will also receive, in cash or shares of common stock as elected by the holder, an amount equal to all scheduled dividend payments on the preferred stock for all remaining dividend periods from the date the holder gives its notice of redemption.

Liquidation Rights—Upon our liquidation, dissolution, or winding up, holders of our convertible preferred stock will be entitled to receive cash out of our assets prior to holders of the common stock.

Note 12: Equity and Equity Compensation Plans

Common Stock—As of December 31, 2020 and 2019, our amended and restated certificate of incorporation authorized us to issue 500,000,000 shares of common stock with a par value of $0.001 per share.

Preferred Stock—As of December 31, 2020 and 2019, our amended and restated certificate of incorporation authorized us to issue 10,000,000 shares of preferred stock with a par value of $0.001.

Amended and Restated 2004 Equity Incentive Plan—We granted stock options under our 2004 Equity Incentive Plan, as amended ("2004 Plan"), until July 26, 2017, when we terminated it in connection with our IPO. Accordingly, no shares are available for future issuance under our 2004 Plan. Our 2004 Plan continues to govern outstanding equity awards granted thereunder. The term of each stock option under the plan is no more than 10 years, and each stock option generally vests over a four-year period.

2017 Equity Incentive Plan—Our 2017 Equity Incentive Plan ("2017 EIP") became effective on July 26, 2017 and provides for issuance of incentive and nonqualified common stock options and restricted stock units to employees, directors, officers, and consultants. The number of shares of common stock initially reserved for issuance under our 2017 EIP was 7,898,159. The number of shares reserved for issuance under our 2017 EIP will increase automatically on January 1 of each calendar year beginning on January 1, 2018, and continuing through January 1, 2028, by the number of shares equal to the lesser of 5% of the total outstanding shares of our common stock as of the immediately preceding December 31 or an amount determined by our board of directors. The term of each stock option and restricted stock unit under the plan will not exceed 10 years, and each award generally vests between two and four years.

We have reserved shares of common stock for future issuance under our 2017 EIP as follows:

	December 31, 2020	December 31, 2019
Stock options issued and outstanding	5,733,738	7,792,181
Restricted stock units outstanding	4,459,743	5,023,412
Shares available for future equity grants	11,309,377	7,100,499
Total shares reserved for future issuance	21,502,858	19,916,092

2017 Employee Stock Purchase Plan—Our 2017 Employee Stock Purchase Plan ("ESPP") was approved by the board of directors on July 27, 2017, and enables eligible employees to purchase shares of our common stock at a discount. Purchases will be accomplished through participation in discrete offering periods. We initially reserved 1,600,000 shares of common stock for issuance under our ESPP. The number of shares reserved for issuance under our ESPP will increase automatically on January 1 of each calendar year beginning after the first offering date and continuing through January 1, 2028, by the number of shares equal to the lesser of 1% of the total outstanding shares of our common stock as of the immediately preceding December 31 or an amount determined by our board of directors. On each purchase date, eligible employees will purchase our common stock at a price per share equal to 85% of the lesser of (i) the fair market value of our common stock on the first trading day of the offering period, and (ii) the fair market value of our common stock on the purchase date.

We have reserved shares of common stock for future issuance under our ESPP as follows:

	December 31, 2020	December 31, 2019
Shares available for issuance at beginning of period	3,330,271	2,890,973
Shares issued during the period	(320,609)	(490,717)
Total shares available for issuance at end of period	3,009,662	2,400,256

The weighted-average grant date fair value and the assumptions used in calculating fair values of shares forecasted to be issued pursuant to our ESPP are as follows:

	For the Offering Period beginning July 1, 2020	For the Offering Period beginning January 1, 2020
Expected life	0.5 years	0.5 years
Volatility	101.06%	43.65%
Risk-free interest rate	0.17%	1.57%
Dividend yield	—%	—%
Weighted-average grant date fair value	$17.48	$5.77

Stock Options—Option activity for the year ended December 31, 2020 was as follows:

	Number Of Options	Weighted- Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2020	7,792,181	$ 7.00	5.28	$ 111,122
Options exercised	(2,011,938)	6.31		
Options forfeited	(36,206)	9.13		
Options canceled	(10,299)	8.98		
Outstanding at December 31, 2020	5,733,738	$ 7.23	4.39	$ 352,076
Options exercisable at December 31, 2020	5,520,083	$ 6.63	4.26	$ 342,225

The fair value of stock option awards was estimated at the grant date with the following weighted average assumptions:

	December 31,		
	2020	2019	2018
Expected life	0	6.5 years	0
Volatility	—%	33.76%	—%
Risk-free interest rate	—%	2.12%	—%
Dividend yield	—%	—%	—%
Weighted-average grant date fair value	$—	$3.22	$—

The grant date fair value of stock options is recorded as stock-based compensation over the vesting period. As of December 31, 2020, there was $816 of total unrecognized stock-based compensation related to stock options. These costs are expected to be recognized over a weighted-average period of 0.80 years.

The fair value of stock options vested and the intrinsic value of stock options exercised are as follows:

	Year Ended December 31,		
	2020	2019	2018
Fair value of options vested	$ 2,228	$ 4,747	$ 7,089
Intrinsic value of options exercised	55,822	20,811	49,276

On June 1, 2019, we granted stock options subject to performance conditions ("PSOs"), with a target of 150,000 shares and a maximum of 300,000 shares, to our chief executive officer. The options have an exercise price of $27.50 per share and have the same performance and vesting conditions as the restricted stock units subject to performance conditions that we granted in 2019. We determined that vesting is probable and have accrued compensation expense for the PSOs. None of the PSOs vested in the period ended December 31, 2020.

Restricted Stock Units—Restricted stock unit activity for the year ended December 31, 2020 was as follows:

	Restricted Stock Units	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2020	5,023,412	$ 18.69
Granted	1,658,632	43.01
Vested	(1,490,506)	19.12
Forfeited or canceled	(731,795)	19.56
Outstanding or deferred at December 31, 2020[1]	4,459,743	$ 27.44

(1) Starting with the restricted stock units granted to them in June 2019, our non-employee directors have the option to defer the issuance of common stock receivable upon vesting of such restricted stock units until 60 days following the day they are no longer providing services to us or, if earlier, upon a change in control transaction. The amount reported as vested excludes restricted stock units that have vested but whose settlement into shares have been deferred. The amount reported as outstanding or deferred as of December 31, 2020 includes these restricted stock units. As no further conditions exist to prevent the issuance of the shares of common stock underlying these restricted stock units, the shares are included in basic and diluted weighted shares outstanding used to calculate net loss per share attributable to common stock. The amount of shares whose issuance have been deferred is not considered material and is not reported separately from stock-based compensation in our consolidated statements of changes in mezzanine equity and stockholders' equity

The grant date fair value of restricted stock units is recorded as stock-based compensation over the vesting period. As of December 31, 2020, there was $113,101 of total unrecognized stock-based compensation related to restricted stock units, which is expected to be recognized over a weighted-average period of 2.55 years.

As of December 31, 2020, there were 400,873 restricted stock units subject to performance and market conditions ("PSUs") outstanding at 100% of the target level. Depending on our achievement of the performance and market conditions, the actual number of shares of common stock issuable upon vesting of PSUs will range from 0% to 200% of the target amount. For each PSU recipient, the awards will vest only if the recipient is continuing to provide service to us upon our board of directors, or its compensation committee, certifying that we have achieved the PSU's related performance or market conditions. Stock-based compensation expense for PSUs with performance conditions will be recognized when it is probable that the performance conditions will be achieved. For PSUs with market conditions, the market condition is reflected in the grant-date fair value of the award and the expense is recognized over the life of the award. Stock-compensation expense associated with the PSUs is as follows:

	Year Ended December 31,		
	2020	2019	2018
Expense associated with the current period	$ 2,664	$ 894	$ 610
Expense due to reassessment of achievement related to prior periods	190	(610)	—
Total expense	$ 2,854	$ 284	$ 610

Compensation Cost—The following table details, for each period indicated, (i) our stock-based compensation net of forfeitures, and the amount capitalized in internally developed software and (ii) includes changes to the probability of achieving outstanding performance-based equity awards, each as included in our consolidated statements of comprehensive loss:

	Year Ended December 31,		
	2020	2019	2018
Cost of revenue	$ 8,844	$ 6,087	$ 5,567
Technology and development(1)	16,564	12,362	7,576
Marketing	1,569	1,418	662
General and administrative	9,996	7,947	6,633
Total stock-based compensation	$ 36,973	$ 27,814	$ 20,438

(1) Net of $2,348, $1,280 and $522 of stock-based compensation expense capitalized for internally developed software for the years ended December 31, 2020, 2019 and 2018, respectively.

Note 13: Net Loss per Share Attributable to Common Stock

Net loss per share attributable to common stock is computed by dividing the net loss attributable to common stock by the weighted-average number of common shares outstanding. We have outstanding stock options, restricted stock units, options to purchase shares under our ESPP, convertible preferred stock, and convertible senior notes, which are considered in the calculation of diluted net income per share whenever doing so would be dilutive.

We calculate basic and diluted net loss per share attributable to common stock in conformity with the two-class method required for companies with participating securities. We consider our convertible preferred stock to be a participating security. Under the two-class method, net loss attributable to common stock is not allocated to the preferred stock as its holders do not have a contractual obligation to share in losses, as discussed in Note 11.

The calculation of basic and diluted net loss per share attributable to common stock was as follows:

	Year Ended December 31,		
	2020	2019	2018
Numerator:			
Net loss	$ (18,527)	$ (80,805)	$ (41,978)
Dividends on convertible preferred stock	(4,454)	—	—
Net loss attributable to common stock—basic and diluted	$ (22,981)	$ (80,805)	$ (41,978)
Denominator:			
Weighted average shares—basic and diluted(1)	98,574,529	91,583,533	85,669,039
Net loss per share attributable to common stock—basic and diluted	$ (0.23)	$ (0.88)	$ (0.49)

(1) Basic and diluted weighted average shares outstanding include (i) common stock earned but not yet issued related to share-based dividends on our convertible preferred stock, and (ii) restricted stock units whose settlement into common stock were deferred at the option of certain non-employee directors.

The following outstanding shares of common stock equivalents were excluded from the computation of the diluted net loss per share attributable to common stock for the periods presented because their effect would have been anti-dilutive.

	Year Ended December 31,		
	2020	2019	2018
2023 notes as if converted(1)	838,821	—	—
2025 notes as if converted	9,119,960	—	—
Convertible preferred stock as if converted	2,040,000	—	—
Stock options outstanding	5,733,738	7,792,181	9,435,349
Restricted stock units outstanding(2)	4,443,315	5,023,412	3,264,702
Total	22,175,834	12,815,593	12,700,051

(1) Includes $1,849 principal amount of 2023 notes with respect to which we received conversion requests by December 31, 2020. See Note 1.

(2) Excludes 16,428 restricted stock units whose settlement into common stock were deferred at the option of certain non-employee directors as of December 31, 2020.

We intend to settle any conversion of our 2023 and 2025 notes in cash, shares, or a combination thereof. The dilutive impact of the notes on our net loss per share is considered using the if-converted method for the year ended December 31, 2020. For periods ending prior to December 31, 2020, we considered the impact of the notes on our diluted net income (loss) per share based on applying the treasury stock method as we had the ability, and intent, to settle any conversions of the notes solely in cash at that time. The treasury stock method requires that the dilutive effect of common stock issuable upon conversion of the notes be computed in the periods in which we report net income. For the year ended December 31, 2019 there was no dilutive impact from the notes.

Note 14: Income Taxes

Our deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table represents the significant components of our deferred tax assets and liabilities for the periods presented:

	December 31,	
	2020	2019
Deferred income tax assets		
Net operating loss carryforwards	$ 57,763	$ 49,211
Tax credit carryforwards	12,422	8,638
Stock-based compensation	6,011	5,142
Compensation accruals	7,026	2,297
Lease liability	17,540	18,404
Accruals and reserves	2,079	795
Gross deferred income tax assets	102,841	84,487
Valuation allowance	(44,307)	(62,274)
Total deferred income tax assets, net of valuation allowance	58,534	22,213
Deferred income tax liabilities		
Intangible assets	(514)	(605)
Prepaid expenses	—	(1,688)
Convertible senior notes	(45,616)	(5,359)
Right-of-use assets	(12,404)	(13,579)
Fixed assets	—	(982)
Total deferred income tax liabilities	(58,534)	(22,213)
Net deferred income tax assets and liabilities	$ —	$ —

The valuation allowance decreased by $17,967 during the year ended December 31, 2020. This decrease did not result in the recognition of an income tax benefit through operations as it was driven by the equity components of the 2023 and 2025 notes (see Note 15) and partially offset by the impact from the current year pretax loss.

The valuation allowance increased by $24,264 and $8,192 during the years ended December 31, 2019 and 2018, respectively.

The following table represents our net operating loss ("NOL") carryforwards as of December 31, 2020 and 2019:

	December 31,	
	2020	2019
Federal	$ 227,751	$ 195,133
Various states	12,576	10,421
Foreign	2,050	1,212

Federal NOL carryforwards are available to offset federal taxable income and begin to expire in 2025, with NOL carryforwards of $142,420 generated after 2017 available to offset future U.S. federal taxable income over an indefinite period. State NOL carryforwards are available to offset future taxable income and began to expire in 2020. NOL carryforward periods for the various states jurisdictions generally range from 5 to 20 years. Foreign NOL carryforward periods for foreign federal and provincial jurisdictions are generally 20 years. Additionally, net research and development credit carryforwards of $12,422 and $8,638 are available as of December 31, 2020 and 2019, respectively, to reduce future tax liabilities. The research and development credit carryforwards begin to expire in 2026.

Current tax laws impose substantial restrictions on the utilization of research and development credits and NOL carryforwards in the event of an ownership change, as defined by Internal Revenue Code Sections 382 and 383. Such an event may significantly limit our ability to utilize our net NOLs and research and development tax credit carryforwards. During 2017, we completed a Section 382 study. The study determined that we underwent an ownership change in 2006. Due to the Section 382 limitation determined on the date of the change in control in 2006, the NOL and research and development credit carryforwards have been reduced by $1,506 and $32, respectively.

The components of loss before benefit for income taxes for the years ended December 31, 2020, 2019, and 2018 were $(17,582), $(79,518), and $(41,978), for federal purposes, respectively, and $(945), $(1,287), and $0, for foreign purposes, respectively.

The following table is a reconciliation of the U.S. federal income tax at statutory rate to our effective income tax rate:

	December 31,		
	2020	2019	2018
U.S. federal income tax at statutory rate	21.00 %	21.00 %	21.00 %
State taxes (net of federal benefit)	25.23	4.71	5.67
Stock-based compensation	69.14	1.20	7.51
Permanent differences	(1.03)	(0.97)	(0.57)
Federal research and development credit	20.42	2.45	4.26
Change in valuation allowance	(132.88)	(29.73)	(37.33)
Other	1.32	1.34	(0.54)
Extinguishment of 2023 Notes	(3.20)	—	—
Effective income tax rate	— %	— %	— %

We did not record any tax benefits for the years ended December 31, 2020, 2019, and 2018. The difference between the U.S. federal income tax at statutory rate of 21% for the years ended December 31, 2020, 2019, and 2018, and our effective tax rate in all periods is primarily due to a full valuation allowance related to our U.S. deferred tax assets. For the year ended December 31, 2020, the difference between our estimated statutory state income tax rate of 7.09% and the state income tax rate of 25.23% as reported in the rate reconciliation is primarily due to the impact of tax deductions for stock-based compensation which provide permanent and favorable differences between pre-tax operating losses for financial reporting purposes and losses reported for income tax purposes. Our reported state income tax rate of 25.23% differs from our effective state income tax rate of 0% primarily due to a full valuation allowance related to our state deferred tax assets.

We account for uncertainty in income taxes in accordance with ASC 740. Tax positions are evaluated utilizing a two-step process, whereby we first determine whether it is more likely than not that a tax position will be sustained upon examination by the tax authority, including resolutions of any related appeals or litigation processes, based on technical merit. If a tax position meets the more-likely-than-not recognition threshold, it is then measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The following table summarizes the activity related to unrecognized tax benefits:

	December 31,	
	2020	2019
Unrecognized benefit—beginning of year	$ 2,159	$ 1,663
Gross decreases—prior year tax positions	—	(127)
Gross increases—current year tax positions	946	623
Unrecognized benefit—end of year	$ 3,105	$ 2,159

All of the unrecognized tax benefits as of December 31, 2020 and 2019 are accounted for as a reduction in our deferred tax assets. Due to our valuation allowance, none of the $3,105 and $2,159 of unrecognized tax benefits would affect our effective tax rate, if recognized. We do not believe it is reasonably possible that our unrecognized tax benefits will significantly change in the next twelve months.

We recognize interest and penalties related to unrecognized tax benefits as income tax expense. There was no interest or penalties accrued related to unrecognized tax benefits for each year ended December 31, 2020 and 2019 and no liability for accrued interest or penalties related to unrecognized tax benefits as of December 31, 2020.

Our material income tax jurisdictions are the United States (federal) and Canada (foreign). As a result of NOL carryforwards, we are subject to audit for all tax years for federal and foreign purposes. All tax years remain subject to examination in various other jurisdictions that are not material to our consolidated financial statements.

Note 15: Debt

Warehouse Credit Facilities—To provide capital for the mortgage loans that it originates, Redfin Mortgage, our wholly owned mortgage origination subsidiary, utilizes warehouse credit facilities that are classified as current liabilities in our consolidated balance sheets. Borrowings under each warehouse credit facility are secured by the related mortgage loan, and rights and income related to the loans. The following table summarizes borrowings under these facilities as of the periods presented:

	December 31, 2020			December 31, 2019		
Lender	Borrowing Capacity	Outstanding Borrowings	Weighted Average Interest Rate on Outstanding Borrowings	Borrowing Capacity	Outstanding Borrowings	Weighted Average Interest Rate on Outstanding Borrowings
Western Alliance Bank	$ 50,000	$ 18,277	3.25 %	$ 24,500	$ 8,489	3.79 %
Texas Capital Bank, N.A.	40,000	12,903	3.35 %	24,500	10,210	3.51 %
Flagstar Bank, FSB	15,000	7,849	3.00 %	$ 15,000	$ 2,603	3.69 %
Total	$ 105,000	$ 39,029	— %	$ 64,000	$ 21,302	— %

Borrowings under the facility with Western Alliance Bank mature on June 15, 2021 and generally bear interest at a rate equal to the greater of (i) one-month LIBOR plus 2.00% or (ii) 3.25%. Redfin Corporation has agreed to make capital contributions in an amount as necessary for Redfin Mortgage to satisfy its adjusted tangible net worth financial covenant under the agreement, but it was not obligated to make any such capital contributions as of December 31, 2020.

Borrowings under the facility with Texas Capital Bank, N.A. mature on July 14, 2021 and generally bear interest at a rate equal to the greater of (i) the rate of interest accruing on the outstanding principal balance of the loan minus 0.25% or (ii) 3.35%. Redfin Corporation has guaranteed Redfin Mortgage's obligations under the agreement.

Borrowings under the facility with Flagstar Bank, FSB ("Flagstar") generally bear interest at a rate equal to the greater of (i) one-month LIBOR plus 2.00% or (ii) 3.00%. This facility does not have a stated maturity date, but Flagstar may terminate the facility upon 30 days prior notice. Redfin Mortgage would be required to pay all amounts owed to Flagstar upon the facility's termination.

Secured Revolving Credit Facility—To provide capital for the homes that it purchases, RedfinNow has, through a special purpose entity called RedfinNow Borrower, entered into a secured revolving credit facility with Goldman Sachs Bank, N.A. ("Goldman Sachs"). Borrowings under the facility are secured by RedfinNow Borrower's assets, including the financed homes, as well as the equity interests in RedfinNow Borrower. The following table summarizes borrowings under this facility as of the period presented:

	December 31, 2020			December 31, 2019		
Lender	Borrowing Capacity	Outstanding Borrowings	Weighted Average Interest Rate on Outstanding Borrowings	Borrowing Capacity	Outstanding Borrowings	Weighted Average Interest Rate on Outstanding Borrowings
Goldman Sachs Bank USA	$ 100,000	$ 23,949	4.40 %	$ 100,000	$ 4,444	4.45 %

The facility matures on January 26, 2021, but we may extend the maturity date for an additional six months to repay outstanding borrowings. Goldman Sachs may, at its sole option, finance a portion of RedfinNow Borrower's acquisition costs of qualified homes that have been purchased. The portion financed is based, in part, on how long the qualifying home has been owned by a Redfin entity. Borrowings under the facility prior to March 24, 2020 generally bore interest at a rate of one-month LIBOR (subject to a floor of 0.50%) plus 2.65%. For borrowings under the facility on and after March 24, 2020, each new borrowing generally bears interest at a rate of one-month LIBOR (subject to a floor of 0.50%) plus an additional rate agreed upon between RedfinNow Borrower and Goldman Sachs. See Note 16 for developments subsequent to December 31, 2020 with respect to this facility.

RedfinNow Borrower must repay all borrowings and accrued interest upon the termination of the facility, and it has the option to repay the borrowings, and the related interest, with respect to a specific financed home upon the sale of such home. In certain situations involving a financed home remaining unsold after a certain time period or becoming ineligible for financing under the facility, RedfinNow Borrower may be obligated to repay all or a portion of the borrowings, and related interest, with respect to such home prior to the sale of such home. In instances involving "bad acts," Redfin Corporation has guaranteed repayment of amounts owed under the facility, in some situations, and indemnification of certain expenses incurred, in other situations.

As of December 31, 2020 and 2019, RedfinNow Borrower had $65,191 and $16,200 of total assets, respectively, of which $47,620 and $7,456 related to inventory and $11,818 and $5,663 in cash and cash equivalents, respectively.

For the years ended December 31, 2020 and 2019 we amortized $619 and $256 of the debt issuance costs and recognized $643 and $17 of interest expense, respectively.

Convertible Senior Notes—We have issued convertible senior notes with the following characteristics:

Issuance	Maturity Date	Stated Cash Interest Rate	Effective Interest Rate	First Interest Payment Date	Semi-Annual Interest Payment Dates	Conversion Rate
2023 notes	July 15, 2023	1.75%	7.25%	January 15, 2019	January 15; July 15	32.7332
2025 notes	October 15, 2025	—	6.52%	—	—	13.7920

The components of the convertible senior notes were as follows:

	December 31, 2020			
Issuance	Aggregate Principal Amount	Unamortized Debt Discount	Unamortized Debt Issuance Costs	Net Carrying Amount
2023 notes	$ 25,626	$ 2,776	$ 368	$ 22,482
2025 notes	661,250	163,077	9,905	488,268

	December 31, 2019			
Issuance	Aggregate Principal Amount	Unamortized Debt Discount	Unamortized Debt Issuance Costs	Net Carrying Amount
2023 notes	$ 143,750	$ 21,231	$ 2,803	$ 119,716

	Year Ended								
	December 31, 2020			December 31, 2019			December 31, 2018		
	2023 notes	2025 notes	Total	2023 notes	2025 notes	Total	2023 notes	2025 notes	Total
Contractual interest expense	$ 2,113	$ —	$ 2,113	$ 2,516	$ —	$ 2,516	$ 1,097	$ —	$ 1,097
Amortization of debt discount	4,735	5,693	10,428	5,405	—	5,405	2,280	—	2,280
Amortization of debt issuance costs	623	346	969	724	—	724	304	—	304
Interest expense	$ 7,471	$ 6,039	$ 13,510	$ 8,645	$ —	$ 8,645	$ 3,681	$ —	$ 3,681

The 2025 notes were issued on October 20, 2020, with an aggregate principal amount of $661,250. Our proceeds from the issuance, after deducting the initial purchaser's discount and offering expenses payable by us, was $647,486. We will settle any conversions of the notes by paying or delivering, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. The notes are classified as long-term debt in our consolidated balance sheet, based on their contractual maturity. We separated the notes into liability and equity components. The carrying amount of the liability component was determined by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component represents the value of the conversion option, and was determined by reducing the principal amount of the 2025 notes by the fair value of the liability component. The difference between the principal amount of the notes and the liability component represents the debt discount, which we record as a deduction from the debt liability in the consolidated balance sheet. This discount is amortized to interest expense using the effective interest method over the term of the notes. The equity component of the 2025 notes of $165,257, net of issuance costs of $3,513, is included in additional paid-in capital in the consolidated balance sheet and is not remeasured so long as it meets the conditions for equity classification.

The 2023 notes were issued on July 23, 2018, with an aggregate principal amount of $143,750. For more than 20 trading days during the 30 consecutive trading days ended December 31, 2020, the volume weighted average price of our common stock was equal to or exceeded 130% of the conversion price of the notes. As a result, the remaining 2023 notes will be convertible at the option of the holders during the quarter ending March 31, 2021, and have been classified as current liabilities on our consolidated balance sheet as of December 31, 2020. We intend to settle any future conversions of the notes by paying or delivering, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election.

On October 20, 2020, we used a portion of the proceeds from the issuance of our 2025 notes, together with shares of our common stock, to repurchase and retire $116,914 aggregate principal amount of our 2023 notes, and paid accrued and unpaid interest thereon. We accounted for this repurchase as debt extinguishment. We recognized a $103,335 reduction to long-term debt, which represents the carrying value of the liability component at the date of the repurchase, and a loss upon extinguishment of $4,586, which is included in interest expense on the consolidated statement of comprehensive loss and represents the excess of the fair value over the net carrying value of the liability component repurchased during the year ended December 31, 2020. The conversion that was settled in the period ended December 31, 2020 was accounted for in the same manner, as a debt extinguishment. We recognized a $1,069 reduction to long-term debt representing the carrying value of the liability component at the date of the settlement for the conversion and a loss upon extinguishment of $48, which represents the excess of the fair value over the net carrying value of the liability component.

See Note 3 for fair value information related to the 2023 and 2025 notes.

Note 16: Subsequent Events

Amendment of Secured Revolving Credit Facility—On January 12, 2021, RedfinNow Borrower amended its secured revolving credit facility with Goldman Sachs. Following this amendment, (i) the facility's borrowing capacity is $125,000, (ii) new borrowings under the facility generally bear interest at a rate of one-month LIBOR (subject to a floor of 0.30%) plus 3.00%, and (iii) the facility matures on July 12, 2022, but we may extend the maturity date for an additional six months to repay outstanding borrowings.

Agreement to Acquire RentPath Holdings, Inc.—On February 19, 2021, we entered into an Asset Purchase Agreement (the "Purchase Agreement") with RentPath Holdings, Inc. ("RentPath") and certain of its wholly owned subsidiaries (together with RentPath Holdings, Inc., the "Sellers"). RentPath is a provider of digital marketing solutions for rental properties through a network of internet listing websites. Pursuant to the Purchase Agreement, we will acquire, for $608,000 in cash, all of the equity interests of RentPath, as reorganized following an internal restructuring of the Sellers (“Reorganized RentPath”) pursuant to the joint chapter 11 plan of reorganization of the Sellers in the chapter 11 cases of the Sellers (the "Plan") and certain of their affiliates filed on February 12, 2020 in the U.S. Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) (the "Acquisition"). In connection with the internal restructuring, certain assets and liabilities related to the Sellers' business of providing digital media services to clients in the residential real estate business will be transferred to Reorganized RentPath, and the remaining assets and liabilities will be transferred to a wind-down company.

In connection with our entry into the Purchase Agreement, we deposited $60,800 into an escrow account, and this amount will be applied towards the purchase price at the closing of the Acquisition. If the Purchase Agreement is terminated, other than in a situation involving our breach of the Purchase Agreement, then the deposit will be returned to us.

The closing of the Acquisition is subject to customary closing conditions, including (i) the absence of any law or order prohibiting the closing, (ii) the expiration or termination of any applicable waiting period under applicable antitrust laws and (iii) the Bankruptcy Court having entered orders confirming the Plan and authorizing the Purchase Agreement and certain other matters.

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 principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934), as of the end of the period covered by this Annual Report. Based on such evaluation, our principal executive and principal financial officers have concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level described below.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Our management, with the participation of our principal executive and principal financial officers, evaluated the effectiveness of our internal control over financial reporting using the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework (2013)*. Based on this assessment, management concluded that Redfin Corporation maintained effective internal control over financial reporting as of the end of the period covered by this Annual Report. Deloitte & Touche LLP, our independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting, and this attestation report appears in Item 8.

Changes in Internal Control Over Financing Reporting

In connection with the evaluation required by Rule 13a-15(d) under the Securities Exchange Act of 1934, there were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect 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. 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, within our company have been detected. 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 the 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.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference to our proxy statement to be filed in connection with our 2021 Annual Meeting of Stockholders by April 30, 2021.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to our proxy statement to be filed in connection with our 2021 Annual Meeting of Stockholders by April 30, 2021.

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 our proxy statement to be filed in connection with our 2021 Annual Meeting of Stockholders by April 30, 2021.

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

The information required by this Item is incorporated by reference to our proxy statement to be filed in connection with our 2021 Annual Meeting of Stockholders by April 30, 2021.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference to our proxy statement to be filed in connection with our 2021 Annual Meeting of Stockholders by April 30, 2021.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

The financial statements and financial statement schedules required to be filed as part of this annual report are included under Item 8.

The exhibits required to be filed as part of this Annual Report are listed below. Exhibits 10.1 through 10.15 constitute management contracts or compensatory plans or arrangements. Notwithstanding any language to the contrary, Exhibits 32.1, 32.2, 101, and 104 shall not be deemed to be filed as part of this annual report for purposes of Section 18 of the Securities Exchange Act of 1934.

		Incorporated by Reference			
Exhibit Number	Exhibit Description	Filing	Exhibit	Filing Date	Filed Herewith
2.1	Asset Purchase Agreement by and among RentPath Holdings, Inc., Redfin Corporation and the Other Sellers Named Therein, dated as of February 19, 2021	8-K	2.1	Feb. 19, 2021	
3.1	Restated Certificate of Incorporation	10-Q	3.1	Sept. 8, 2017	
3.2	Restated Bylaws	10-Q	3.2	Sept. 8, 2017	
3.3	Amended and Restated Certificate of Designation, Rights and Limitations of Series A Convertible Preferred Stock	8-K	3.1	June 15, 2020	
4.1	Form of Common Stock Certificate	S-1/A	4.1	July 26, 2017	
4.2	Description of Common Stock	10-K	4.2	Feb. 12, 2020	
4.3	Indenture, dated as of July 23, 2018, between Redfin Corporation and Wells Fargo Bank, National Association	8-K	4.1	July 23, 2018	
4.4	Form of Convertible Senior Note due 2023 (contained in exhibit 4.3)	8-K	4.1	July 23, 2018	
4.5	Indenture, dated as of October 20, 2020 between Redfin Corporation and Wells Fargo Bank, National Association	8-K	4.1	Oct. 20, 2020	
4.6	Form of Convertible Senior Note due 2025 (contained in exhibit 4.5)	8-K	4.1	Oct. 20, 2020	
10.1	Amended and Restated 2004 Equity Incentive Plan and forms of award agreements thereunder	S-1	10.2	June 30, 2017	
10.2	2017 Equity Incentive Plan and forms of award agreements thereunder	10-K	10.3	Feb. 22, 2018	
10.3	Form of Restricted Stock Unit Award Notice and Restricted Stock Unit Award Agreement under the 2017 Equity Incentive Plan (February 2019)	10-Q	10.1	May 8, 2019	
10.4	Form of Notice of Performance-Based Restricted Stock Unit Award and Performance-Based Restricted Stock Unit Award Agreement under the 2017 Equity Incentive Plan (June 2018)	8-K	10.1	June 6, 2018	
10.5	Form of Performance-Based Stock Option Notice and Award Agreement (June 2019)	8-K	10.1	June 6, 2019	
10.6	Form of Restricted Stock Unit Notice and Award Agreement for Non-Employee Directors (May 2019)	10-Q	10.2	Aug. 1, 2019	
10.7	Form of Indemnification Agreement	S-1/A	10.1	July 17, 2017	
10.8	Form of Change in Control Severance Agreement	10-Q	10.1	Nov. 5, 2020	
10.9	Amended and Restated Offer Letter by and between Redfin Corporation and Glenn Kelman, dated June 27, 2017	S-1	10.4	June 30, 2017	
10.10	Amended and Restated Offer Letter by and between Redfin Corporation and Bridget Frey, dated June 27, 2017	S-1	10.5	June 30, 2017	
10.11	Offer Letter by and between Redfin Corporation and Ee Lyn Khoo, dated November 16, 2020				X
10.12	Amended and Restated Offer Letter by and between Redfin Corporation and Scott Nagel, dated June 27, 2017	S-1	10.6	June 30, 2017	
10.13	Amended and Restated Offer Letter by and between Redfin Corporation and Chris Nielsen, dated June 27, 2017	10-K	10.6	Feb. 22, 2018	
10.14	Offer Letter by and between Redfin Corporation and Christian Taubman, dated October 13, 2019	10-K	10.13	Feb. 12, 2020	
10.15	Amended and Restated Offer Letter by and between Redfin Corporation and Adam Wiener, dated June 27, 2017	10-K	10.10	Feb. 14, 2019	
10.16	Securities Purchase Agreement, dated as of March 29, 2020, by and between Redfin Corporation and Durable Capital Master Fund LP	10-Q	10.2	May 7, 2020	
10.17	Registration Rights Agreement, dated as of April 1, 2020, by and between Redfin Corporation and Durable Capital Master Fund LP	10-Q	10.1	July 30, 2020	
21.1	List of Subsidiaries				X
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm				X
24.1	Power of Attorney (contained in "Signatures")				X
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a)				X
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a)				X
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350				X
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350				X
101	Interactive Data Files				X
104	Cover page interactive data file, submitted using inline XBRL (contained in Exhibit 101)				X

Item 16. Form 10-K Summary

None.

SIGNATURES

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

Redfin Corporation
(Registrant)

February 24, 2021	By /s/ Glenn Kelman
(Date)	Glenn Kelman Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Glenn Kelman and Chris Nielsen, and each of them, as his or her true and lawful attorneys-in-fact and agents with full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the U.S. Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or his or her or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ Glenn Kelman Glenn Kelman	Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2021
/s/ Chris Nielsen Chris Nielsen	Chief Financial Officer (Principal Financial and Accounting Officer)	February 24, 2021
/s/ David Lissy David Lissy	Chairman of the Board of Directors	February 24, 2021
/s/ Robert Bass Robert Bass	Director	February 24, 2021
/s/ Julie Bornstein Julie Bornstein	Director	February 24, 2021
/s/ Kerry Chandler Kerry Chandler	Director	February 24, 2021
/s/ Austin Ligon Austin Ligon	Director	February 24, 2021
/s/ Robert Mylod, Jr. Robert Mylod, Jr.	Director	February 24, 2021
/s/ James Slavet James Slavet	Director	February 24, 2021
/s/ Selina Tobaccowala Selina Tobaccowala	Director	February 24, 2021

REDFIN

Redfin Corporation Employment Offer Letter

November 16, 2020

Ee Lyn Khoo
E: [***]

Dear Ee Lyn:

Congratulations! We're writing to extend you an offer to work at Redfin!

Redfin Corporation ("Redfin") is pleased to offer you the role of Chief People Officer at Redfin!

We look forward to your first day of work on **January 11, 2021.** This date is subject to change depending on the timing of our completion of your background check and our onboarding training schedule. We will notify you if there is a change to your start date. This role will be based at our Seattle Headquarters at 1099 Stewart St., Suite 600, Seattle, WA 98101.

Your title, assignment, compensation, and the nature of your responsibilities may change from time to time at Redfin's discretion. You will also be expected to comply with Redfin's rules, policies and procedures, which may be modified from time to time. The terms of this offer are detailed below.

Compensation: Your gross salary annualized over one year will be **$350,000**, subject to appropriate tax withholdings and deductions, and payable in accordance with Redfin's normal payroll cycle. You are classified as an exempt employee and your salary is intended to compensate you for all hours worked. Any increases will be based on your and Redfin's performance and are not guaranteed. This is a full-time position.

Executive Bonus: Subject to the terms and conditions of Redfin's Executive Cash Bonus Plan, you are eligible to earn a target annual bonus of **$200,000** based on Redfin's performance during the 2021 fiscal year against certain financial and operating goals that are set each year by the Compensation Committee of our Board of Directors (the "Board"); any bonus you earn will be payable on an annual basis in the first quarter following the year, starting in the first quarter of 2022. Your potential bonus will be prorated for the first year you work, based on your actual start date and the number of days you worked in the year. Redfin's Executive Cash Bonus Plan is subject to change at the discretion of the Compensation Committee of the Board.

Starting Bonus: Redfin will pay you $1,050,000 as a starting bonus, subject to standard withholding and payroll taxes, paid in two installments. The first installment of $650,000 will be paid on the first payroll date following your start date. If for any reason your employment is terminated prior to the one-year anniversary of your start date, you will be responsible for reimbursing Redfin for the first installment of $650,000 in full.

The second installment of $400,000 will be paid on the first payroll date following the one-year anniversary of your start date. If for any reason your employment is terminated after the one-year anniversary of your start date and prior to the two-year anniversary of your start date, you will be responsible for reimbursing Redfin for the second installment of $400,000 in full.

Restricted Stock Units (RSUs):

New-hire grant: Subject to approval of the Board, you will be granted a new hire grant of Restricted Stock Units that have an aggregate market value of **$1,000,000** on the approval date based on the average closing price of Redfin's common stock for the thirty trading days immediately prior to the approval date. On the one-year anniversary of the RSUs' vesting commencement date, 40% of the new-hire RSU grant will vest, subject to your continued employment through such anniversary. The remaining new-hire grant RSUs will vest quarterly, with a total of 30% vesting in the year following the first such anniversary (7.5% per quarter); 20% in the year following the second such anniversary (5% per quarter); and 10% in the year following the third such anniversary (2.5% per quarter), subject to your continued employment through each vesting date. Redfin RSUs have four vesting commencement dates per year (one fixed date per quarter). The vesting commencement date for your RSUs will be the first vesting commencement date on or following your start date. Your RSUs will be subject to Redfin's 2017 Equity Incentive Plan, including vesting requirements. No right to any Redfin common stock is earned or accrued until such time that vesting occurs.

Performance-Based Restricted Stock Units (PSUs): Subject to approval of Redfin's Board of Directors, you will be granted that number of Performance-Based Restricted Stock Units (PSUs) that have a target aggregate fair market value of **$450,000** on the date of grant based on the average closing price of Redfin's common stock on the Nasdaq Global Select Market for the thirty trading days immediately prior to such grant date. PSUs will vest, at an amount ranging from 25% to 200% of the target amount, only to the extent that the Board certifies that Redfin has achieved certain metrics for the three-year period from **2020 to 2022**, which performance metrics will be established by the Compensation Committee of the Board. To the extent Redfin doesn't achieve the minimum performance metric thresholds, no PSUs will vest. Your PSU grant will be subject to the terms and conditions of Redfin's 2017 Equity Incentive Plan and the Performance-Based Restricted Stock Unit Award Agreement, including vesting requirements. No right to any Redfin common stock is earned or accrued until such time that vesting occurs.

401 K: Redfin offers auto-enrollment into our 401(k) plan administered by Transamerica for regular full-time and part-time employees. You may opt out of the plan or make your own elections within the first two months after your start date. If you take no action, you will be auto enrolled into the Plan on the first of the month following two months of service. The initial auto-enrollment is 3% of gross pay (including bonuses and all other pay) per pay period on a pre-tax basis and will increase by 1% at the beginning of each year, up to a maximum of 10%. Your contributions will be automatically invested into the Vanguard® Target Retirement Target Date Fund designated for your age and anticipated retirement date. Once enrolled, you may change your contribution amounts, investment choices, and default increases at any time. The plan offers a range of investment options and we encourage you to select the funds you feel are best for you. Assistance with fund selection and contribution options is available through our Plan's consultants, ClearPoint Financial, at 888.557.6471 or coaching@clearpoint401k.com. If you wish to opt out of 401(k) auto-enrollment, you must do so within the first two months of employment. You may complete this opt out, or enroll and make your own investment choices, online through www.ta-retirement.com. Part-time seasonal or temporary employees are not auto enrolled and are eligible to participate after 1000 worked hours. To enroll and make your own investment choices visit www.ta-retirement.com. This is an intentionally brief summary of enrollment in the 401(k) Plan. Additional information will be provided prior to eligibility.

At-Will Employment: The employment relationship between you and Redfin will be at-will. This means that the employment relationship is for no specific term and may be terminated by either you or Redfin at any time for any or no reason, with or without advance notice. This letter and the Employee Assignment, Arbitration and Confidentiality Agreement ("Proprietary Information Agreement") supersede any previous arrangements, both oral and written, expressed or implied, regarding the nature of your employment with Redfin. The at-will employment relationship cannot be changed or modified orally, and may only be modified by a formal written employment contract signed by you and the CEO of Redfin, expressly modifying the at-will employment relationship.

Benefits & Other Redfin Policies: During your employment, you may be eligible for employee benefits consistent with Redfin's practices and in accordance with the terms of applicable benefit plans as they currently exist and subject to any future modifications in Redfin's discretion. If you accept employment with Redfin you agree to follow Redfin's rules and policies. Please understand that Redfin reserves the right to modify, supplement, and discontinue all policies, rules, benefit plans and programs at any time and in its sole discretion.

Work Status, Background Check & Proprietary Information Agreement: This offer is contingent upon:

- Verification of your right to work in the United States, as demonstrated by your completion of Form I-9 upon hire and your submission of acceptable documentation (as noted on Form I-9) within 72 hours of commencing work. Redfin is not obligated to sponsor and/or successfully obtain citizenship for any employee under a temporary visa or applying for residency in the United States.
- Satisfactory completion of a background investigation.
- The protection of confidential and proprietary information relating to Redfin's business and operations is and will continue to be of central importance to Redfin. For this reason, your agreement to the terms and conditions set forth in the enclosed Proprietary Information Agreement, which includes provisions relating to non-solicitation and non-competition, is a condition of employment with Redfin.

This offer of employment is contingent upon all the terms above and is valid until 5:00 p.m. November 18, 2020.

Non-Resident/Non-Citizen Status: Redfin is not obligated to sponsor and/or successfully obtain citizenship for any employee operating under a temporary visa or applying for residency in the United States. For the purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States.

If the understandings stated in this letter are agreeable to you, please sign below, keep one copy and return the original to me. Please also sign and return one copy of the Proprietary Information Agreement, included with this correspondence.

If you need additional time to consider this letter and the attached Proprietary Information Agreement, please ask. We are very pleased to welcome you to Redfin.

We believe that you will thrive here at Redfin, and look forward to building a great business together.

Sincerely,

Redfin Corporation

Accepted:

/s/ Ee Lyn Khoo	11/17/2020
Ee Lyn Khoo	Date

Subsidiaries of Redfin Corporation

Name of Subsidiary	Doing Business As (If Different than Legal Name)	Jurisdiction
Forward Settlement Solutions, Inc.	Title Forward	Delaware
Forward Settlement Solutions of Texas, LLC	Title Forward	Texas
RDFN Ventures, Inc.	RedfinNow	Delaware
Redfin Home Services LLC		Delaware
Redfin Mortgage, LLC		Delaware
Redfin Subsidiary Holding Corporation		Delaware
Redfin Unlimited Liability Company		British Columbia, Canada
RedfinNow Borrower LLC		Delaware
RedfinNow Pledgor LLC		Delaware
Title Forward of California Inc.	Title Forward	California
Walk Score Management, LLC		Washington

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-219561, 333-223163, 333-229679, and 333-236393 on Form S-8 and 333-239222 on Form S-3 of our reports dated February 24, 2021, relating to the financial statements of Redfin Corporation and the effectiveness of Redfin Corporation’s internal control over financial reporting appearing in this Annual Report on Form 10-K of Redfin Corporation for the year ended December 31, 2020.

/s/ Deloitte & Touche LLP

Seattle, Washington

February 24, 2021

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Glenn Kelman, certify that:

1. I have reviewed this Annual Report on Form 10-K of Redfin Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2021

/s/ Glenn Kelman
Glenn Kelman
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Chris Nielsen, certify that:

1. I have reviewed this Annual Report on Form 10-K of Redfin Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2021

/s/ Chris Nielsen
Chris Nielsen
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350

I, Glenn Kelman, Chief Executive Officer of Redfin Corporation (the “Company”), certify pursuant to 18 U.S.C. Section 1350 that, to my knowledge, the Annual Report on Form 10-K of the Company for the year ended December 31, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2021

/s/ Glenn Kelman

Glenn Kelman

Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350

I, Chris Nielsen, Chief Financial Officer of Redfin Corporation (the “Company”), certify pursuant to 18 U.S.C. Section 1350 that, to my knowledge, the Annual Report on Form 10-K of the Company for the year ended December 31, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2021

/s/ Chris Nielsen

Chris Nielsen
Chief Financial Officer