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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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

(Former name, former address and former fiscal year, if changed since last report)

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

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

The registrant had 102,344,011 shares of common stock outstanding as of October 29, 2020.

Redfin Corporation

Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 2020

Table of Contents

As used in this quarterly 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) the 2023 notes and the 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 quarterly report contains forward-looking statements. All statements contained in this report other than statements of historical fact, including statements regarding COVID-19's anticipated impacts on our business, our future operating results and financial position, our business strategy and plans, 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 of our annual report for the year ended December 31, 2019, as supplemented by Part II, Item 1A of this report. 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 quarterly 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 - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 371,573	$ 234,679
Restricted cash	16,393	12,769
Short-term investments	129,809	70,029
Accounts receivable, net	41,085	19,223
Inventory	24,993	74,590
Loans held for sale	41,921	21,985
Prepaid expenses	7,698	14,822
Other current assets	5,189	3,496
Total current assets	638,661	451,593
Property and equipment, net	42,210	39,577
Right-of-use assets, net	45,392	52,004
Long-term investments	17,072	30,978
Goodwill and intangibles, net	11,138	11,504
Other non-current assets	8,776	10,557
Total assets	$ 763,249	$ 596,213
Liabilities, mezzanine equity and stockholders' equity		
Current liabilities		
Accounts payable	$ 3,375	$ 2,122
Accrued liabilities	57,517	38,022
Other payables	10,550	7,884
Warehouse credit facilities	40,308	21,302
Secured revolving credit facility	14,923	4,444
Convertible senior notes, net	124,495	—
Current lease liabilities	11,682	11,408
Total current liabilities	262,850	85,182
Non-current lease liabilities and deposits	51,597	59,869
Convertible senior notes, net	—	119,716
Non-current payroll tax liabilities	8,711	—
Total liabilities	323,158	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 no shares issued and outstanding, respectively	39,812	—
Stockholders' equity		
Common stock—par value $0.001 per share; 500,000,000 shares authorized; 100,241,416 and 93,001,597 shares issued and outstanding, respectively	100	93
Additional paid-in capital	684,219	583,097
Accumulated other comprehensive income	308	42
Accumulated deficit	(284,348)	(251,786)
Total stockholders' equity	400,279	331,446
Total liabilities, mezzanine equity and stockholders' equity	$ 763,249	$ 596,213

See Notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue				
Service	$ 217,280	$ 158,519	$ 469,893	$ 405,160
Product	19,636	80,164	171,683	141,445
Total revenue	236,916	238,683	641,576	546,605
Cost of revenue				
Service	122,583	104,397	314,842	297,320
Product	21,261	80,909	174,744	144,807
Total cost of revenue	143,844	185,306	489,586	442,127
Gross profit	93,072	53,377	151,990	104,478
Operating expenses				
Technology and development	22,452	18,801	60,687	50,421
Marketing	12,421	8,361	47,611	68,611
General and administrative(1)	21,190	18,779	68,539	57,881
Total operating expenses	56,063	45,941	176,837	176,913
Income (loss) from operations	37,009	7,436	(24,847)	(72,435)
Interest income	319	1,576	1,859	5,804
Interest expense	(2,522)	(2,274)	(7,631)	(6,564)
Other income (expense), net	(640)	44	(1,943)	172
Net income (loss)	$ 34,166	$ 6,782	$ (32,562)	$ (73,023)
Dividend on convertible preferred stock	(1,530)	—	(2,814)	—
Undistributed earnings attributable to participating securities	(653)	—	—	—
Net income (loss) attributable to common stock—basic and diluted	$ 31,983	$ 6,782	$ (35,376)	$ (73,023)
Net income (loss) per share attributable to common stock—basic	$ 0.32	$ 0.07	$ (0.36)	$ (0.80)
Weighted average shares of common stock—basic	99,840,144	91,994,731	97,365,122	91,279,086
Net income (loss) per share attributable to common stock—diluted	0.30	0.07	(0.36)	(0.80)
Weighted average shares of common stock—diluted	107,607,711	97,171,270	97,365,122	91,279,086
Other comprehensive income (loss)				
Net income (loss)	$ 34,166	$ 6,782	$ (32,562)	$ (73,023)
Foreign currency translation adjustments	6	(10)	(16)	28
Unrealized gain (loss) on available-for-sale securities	(139)	(8)	282	(2)
Total comprehensive income (loss)	$ 34,033	$ 6,764	$ (32,296)	$ (72,997)

(1) Includes direct and incremental costs related to COVID-19 of $ 321 and $7,846, which are partially offset by $ 56 and $1,348 in employee retention credits allowed under the CARES Act, for the three and nine months ended September 30, 2020, respectively.

See Notes to the consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	**2019**
Operating Activities		
Net loss	$ (32,562)	$ (73,023)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,581	6,366
Stock-based compensation	25,764	19,792
Amortization of debt discount and issuance costs	5,254	4,674
Non-cash lease expense	6,821	4,727
Impairment costs	2,063	—
Other	(693)	(401)
Change in assets and liabilities:		
Accounts receivable, net	(21,862)	(9,071)
Inventory	49,597	(82,766)
Prepaid expenses and other assets	5,168	(82)
Accounts payable	851	579
Accrued liabilities, other payables, and non-current payroll tax liabilities	28,469	18,994
Lease liabilities	(8,368)	(5,095)
Origination of loans held for sale	(479,153)	(285,182)
Proceeds from sale of loans originated as held for sale	459,605	267,850
Net cash provided by (used in) operating activities	51,535	(132,638)
Investing activities		
Purchases of property and equipment	(10,391)	(12,821)
Purchases of investments	(135,118)	(106,063)
Sales of investments	6,583	1,005
Maturities of investments	82,772	4,900
Net cash used in investing activities	(56,154)	(112,979)
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	—
Proceeds from the issuance of shares resulting from employee equity plans	15,119	10,869
Tax payments related to net share settlements on restricted stock units	(10,987)	(2,856)
Borrowings from warehouse credit facilities	473,283	280,129
Repayments to warehouse credit facilities	(454,277)	(262,875)
Borrowings from secured revolving credit facility	57,378	—
Repayments to secured revolving credit facility	(46,899)	—
Other payables—deposits held in escrow	2,097	637
Principal payments for finance lease obligations	(59)	—
Cash paid for debt issuance costs	(4)	(152)
Net cash provided by financing activities	145,153	25,752
Effect of exchange rate changes on cash and cash equivalents	(16)	28
Net change in cash, cash equivalents, and restricted cash	140,518	(219,837)
Cash, cash equivalents, and restricted cash:		
Beginning of period	247,448	439,055
End of period	$ 387,966	$ 219,218
Supplemental disclosure of cash flow information		
Cash paid for interest	3,001	2,460
Non-cash transactions		
Stock-based compensation capitalized in property and equipment	1,714	931
Property and equipment additions in accounts payable and accrued liabilities	973	404
Leasehold improvements paid directly by lessor	37	4,298

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, unaudited)

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, June 30, 2019	—	$ —	91,777,537	$ 92	$ 562,894	$ (250,785)	$ 44	$ 312,245
Issuance of common stock pursuant to employee stock purchase program	—	—	—	—	—	—	—	—
Issuance of common stock pursuant to exercise of stock options	—	—	297,475	—	1,897	—	—	1,897
Issuance of common stock pursuant to settlement of restricted stock units	—	—	195,840	—	—	—	—	—
Common stock surrendered for employees' tax liability upon settlement of restricted stock units	—	—	(58,536)	—	(1,064)	—	—	(1,064)
Stock-based compensation	—	—	—	—	7,880	—	—	7,880
Other comprehensive loss	—	—	—	—	—	—	(18)	(18)
Net income	—	—	—	—	—	6,782	—	6,782
Balance, September 30, 2019	—	$ —	92,212,316	$ 92	$ 571,607	$ (244,004)	$ 26	$ 327,721
Balance, June 30, 2020	40,000	$ 39,801	99,394,432	$ 99	$ 673,234	$ (318,514)	$ 441	$ 355,260
Issuance of convertible preferred stock, net	—	11	—	—	—	—	—	—
Issuance of common stock as dividend on convertible preferred stock	—	—	30,640	—	—	—	—	—
Issuance of common stock, net	—	—	—	—	—	—	—	—
Issuance of common stock pursuant to employee stock purchase program	—	—	—	—	—	—	—	—
Issuance of common stock pursuant to exercise of stock options	—	—	567,854	1	3,997	—	—	3,998
Issuance of common stock pursuant to settlement of restricted stock units	—	—	353,160	—	—	—	—	—
Common stock surrendered for employees' tax liability upon settlement of restricted stock units	—	—	(104,670)	—	(4,922)	—	—	(4,922)
Stock-based compensation	—	—	—	—	11,910	—	—	11,910
Other comprehensive loss	—	—	—	—	—	—	(133)	(133)
Net income	—	—	—	—	—	34,166	—	34,166
Balance, September 30, 2020	40,000	$ 39,812	100,241,416	$ 100	$ 684,219	$ (284,348)	$ 308	$ 400,279

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2018	—	$ —	90,151,341	$ 90	$ 542,829	$ (170,981)	$ —	$ 371,938
Issuance of common stock pursuant to employee stock purchase program	—	—	262,110	—	3,246	—	—	3,246
Issuance of common stock pursuant to exercise of stock options	—	—	1,397,074	2	7,665	—	—	7,667
Issuance of common stock pursuant to settlement of restricted stock units	—	—	562,755	—	—	—	—	—
Common stock surrendered for employees' tax liability upon settlement of restricted stock units	—	—	(160,964)	—	(2,856)	—	—	(2,856)
Stock-based compensation	—	—	—	—	20,723	—	—	20,723
Other comprehensive income	—	—	—	—	—	—	26	26
Net loss	—	—	—	—	—	(73,023)	—	(73,023)
Balance, September 30, 2019	—	$ —	92,212,316	$ 92	$ 571,607	$ (244,004)	$ 26	$ 327,721
Balance, December 31, 2019	—	$ —	93,001,597	$ 93	$ 583,097	$ (251,786)	$ 42	$ 331,446
Issuance of convertible preferred stock, net	40,000	39,812	—	—	—	—	—	—
Issuance of common stock as dividend on convertible preferred stock	—	—	30,640	—	—	—	—	—
Issuance of common stock, net	—	—	4,484,305	4	69,697	—	—	69,701
Issuance of common stock pursuant to employee stock purchase program	—	—	186,925	—	3,436	—	—	3,436
Issuance of common stock pursuant to exercise of stock options	—	—	1,825,684	2	11,500	—	—	11,502
Issuance of common stock pursuant to settlement of restricted stock units	—	—	1,017,675	1	(1)	—	—	—
Common stock surrendered for employees' tax liability upon settlement of restricted stock units	—	—	(305,410)	—	(10,987)	—	—	(10,987)
Stock-based compensation	—	—	—	—	27,477	—	—	27,477
Other comprehensive income	—	—	—	—	—	—	266	266
Net loss	—	—	—	—	—	(32,562)	—	(32,562)
Balance, September 30, 2020	40,000	$ 39,812	100,241,416	$ 100	$ 684,219	$ (284,348)	$ 308	$ 400,279

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, unaudited)

Note 1: Summary of Accounting Policies

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").

The financial information as of December 31, 2019 that is included in this quarterly report is derived from the audited consolidated financial statements and notes for the year ended December 31, 2019 included in Item 8 in our annual report for the year ended December 31, 2019. Such financial information should be read in conjunction with the notes and management's discussion and analysis of the consolidated financial statements included in our annual report.

The unaudited consolidated interim financial statements, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position as of September 30, 2020, the statements of comprehensive income (loss) and statements of changes in mezzanine equity and stockholders' equity for the three and nine months ended September 30, 2020 and 2019, and the statement of cash flows for the nine months ended September 30, 2020 and 2019. The results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020 or for any interim period or for any other future year.

Principles of Consolidation—The unaudited consolidated interim 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.

COVID-19 Risks, Impacts and Uncertainties—We are subject to the risks arising from COVID-19's impacts on the residential real estate industry. Our management believes that these impacts, which include but are not limited to the following, could have a significant negative effect on our future financial position, results of operations, and cash flows: (i) prohibitions or limitations on in-person activities associated with residential real estate transactions; (ii) lack of consumer desire for in-person interactions and physical home tours; and (iii) deteriorating economic conditions, such as increased unemployment rates, recessionary conditions, lower yields on individuals' investment portfolios, and more stringent mortgage financing conditions. In addition, we have considered the impacts and uncertainties of COVID-19 in our use of estimates in preparation of our consolidated financial statements. These estimates include, but are not limited to, likelihood of achieving performance conditions under performance-based equity awards, net realizable value of inventory, and the fair value of reporting units and goodwill for impairment.

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 $321 and $7,846 for the three and nine months ended September 30, 2020, respectively. 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 $56 and $1,348 in employee retention credits claimed under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") for the three and nine months ended September 30, 2020, respectively, 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 management to make estimates and assumptions that affect the reported amounts of assets and liabilities and results of operations during the respective periods. We evaluate our estimates on an ongoing basis. In January 2020 we adopted ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326),* which modifies the measurement of credit losses on financial instruments. As part of the adoption we estimated the current expected credit losses for certain classes of relevant assets. The amounts realized from the affected assets will depend on, among other factors, general business conditions, including the impacts from COVID-19, and could differ in the near term from carrying amounts reflected in the consolidated financial statements. Further description of the impact of this pronouncement is included in "—Recently Adopted Accounting Pronouncements."

Accounts Receivable 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. 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. As the majority of our transactions are processed through escrow, collectibility is not a significant risk, and we have determined the nature of our receivables to have similar credit quality indicators. 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, with the most recent assessment being performed in June 2020.

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 non-current assets.

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 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. See Note 3 for information on our assessment.

Mezzanine Equity—We have issued convertible preferred stock that we have determined is a f inancial instrument with both equity and debt characteristics and are such classified as mezzanine equity in our consolidated financial statements. The instrument is 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.

Advertising and Advertising Production Costs—We expense advertising costs as they are incurred and advertising production costs as of the first date the advertisement takes place. Advertising costs totaled $9,374 and $5,279 for the three months ended September 30, 2020 and 2019, respectively, and $38,961 and $59,357 for the nine months ended September 30, 2020 and 2019, respectively, and are included in marketing expenses. Advertising production costs totaled $8 and $17 for the three months ended September 30, 2020 and 2019, respectively, and $ 209 and $166 for the nine months ended September 30, 2020 and 2019, respectively, and are included in marketing expenses.

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 and Note 3 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*, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on 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, after adoption, entities will not separately present in equity an embedded conversion feature in such debt. Similarly, the embedded conversion feature will no longer be amortized into income as interest expense over the life of the instrument. Instead, entities will account for a convertible debt instrument wholly as debt unless (1) a convertible instrument contains features that require bifurcation as a derivative under *ASC Topic 815, Derivatives and Hedging*, or (2) a convertible debt instrument was issued at a substantial premium. Among other potential impacts, this change is expected to reduce reported interest expense, increase reported net income, and result in a reclassification of certain conversion features from stockholders' equity to liabilities as it relates to certain convertible debt instruments. Additionally, this guidance requires the application of the if-converted method to calculate the impact of convertible instruments on diluted earnings per share. The ASU 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 not yet completed our assessment of the impact of the new standard on our consolidated financial statements.

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, 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 real estate services transactions 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Real estate services				
Brokerage revenue	$ 194,375	$ 146,096	$ 425,269	$ 372,809
Partner revenue	15,478	8,030	28,269	20,053
Total real estate services revenue	209,853	154,126	453,538	392,862
Cost of revenue	117,944	100,048	300,305	284,447
Gross profit	91,909	54,078	153,233	108,415
Properties				
Revenue	19,005	80,164	170,287	141,445
Cost of revenue	20,460	80,909	173,107	144,807
Gross profit	(1,455)	(745)	(2,820)	(3,362)
Other				
Revenue	8,503	5,161	19,999	13,490
Cost of revenue	5,885	5,117	18,422	14,065
Gross profit	2,618	44	1,577	(575)
Intercompany eliminations				
Revenue	(445)	(768)	(2,248)	(1,192)
Cost of revenue	(445)	(768)	(2,248)	(1,192)
Gross profit	—	—	—	—
Consolidated				
Revenue	236,916	238,683	641,576	546,605
Cost of revenue	143,844	185,306	489,586	442,127
Gross profit	93,072	53,377	151,990	104,478
Operating expenses	56,063	45,941	176,837	176,913
Interest income	319	1,576	1,859	5,804
Interest expense	(2,522)	(2,274)	(7,631)	(6,564)
Other income (expense), net	(640)	44	(1,943)	172
Net Income (loss)	$ 34,166	$ 6,782	$ (32,562)	$ (73,023)

Revenue earned but not received is recorded as accounts receivable on our consolidated balance sheets, net of an allowance for expected credit losses. Accounts receivable consists primarily of commission revenue and proceeds from the sale of homes in-transit through the escrow process, and therefore it is not estimated. Based on the regulated environment in which we operate and the nature of our receivables, we do not expect material credit losses, and write-offs were immaterial in the periods presented.

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.

Interest Rate Lock Commitments—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.

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.

Notional Amounts	September 30, 2020	December 31, 2019
Interest rate lock commitments	$ 74,681	$ 37,453
Forward sales commitments	116,091	39,447

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
Instrument	Classification	2020	2019	2020	2019
Interest rate lock commitments	Service revenue	$ (233)	$ (209)	$ 1,131	$ 225
Forward sales commitments	Service revenue	553	554	442	312

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 September 30, 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	$ 336,821	$ 336,821	$ —	$ —
U.S. treasury securities	5,351	5,351	—	—
Total cash equivalents	342,172	342,172	—	—
Short-term investments				
U.S. treasury securities	129,809	129,809	—	—
Loans held for sale	41,921	—	41,921	—
Prepaid expenses and other current assets				
Interest rate lock commitments	1,965	—	—	1,965
Forward sales commitments	763	—	763	—
Total prepaid expenses and other current assets	2,728	—	763	1,965
Long-term investments				
U.S. treasury securities	5,150	5,150	—	—
Agency bonds	11,922	11,922	—	—
Total long-term investments	17,072	17,072	—	—
Total assets	$ 533,702	$ 489,053	$ 42,684	$ 1,965
Liabilities				
Accrued liabilities				
Interest rate lock commitments	$ 404	$ —	$ —	$ 404
Forward sales commitments	23	—	23	—
Total liabilities	$ 427	$ —	$ 23	$ 404

	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				
Interest rate lock commitments	496	—	—	496
Forward sales commitments	4	—	4	—
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				
Interest rate lock commitments	$ 58	$ —	$ —	$ 58
Forward sales commitments	57	—	57	—
Total liabilities	$ 115	$ —	$ 57	$ 58

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	September 30, 2020	December 31, 2019
Weighted-average pull-through rate	Market pricing	72.0%	78.2%

The following is a summary of changes in the fair value of IRLCs for the period ended September 30, 2020:

Balance, net—January 1, 2020	$ 430
Issuances of interest rate lock commitments	12,827
Settlements of interest rate lock commitments	(11,299)
Net loss recognized in earnings	(397)
Balance, net—September 30, 2020	$ 1,561
Changes in fair value recognized during the period relating to assets still held at September 30, 2020	$ 1,131

There were no transfers into or out of Level 3 financial instruments during the period.

See Note 15 for the carrying amount and estimated fair value of our 2023 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 nine months ended September 30, 2020 we determined that the fair value of one of our cost method investment 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 $499 and $1,919 related to this investment during the three and nine months ended September, 30, 2020, respectively. The impairment charges are 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 income (loss). We did not record any other significant nonrecurring fair value measurements after initial recognition for the three and nine months ended September 30, 2020.

The following table summarizes 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.

	September 30, 2020						
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Cash, Cash Equivalents, Restricted Cash	Short-term Investments	Long-term Investments
Cash	$ 29,401	$ —	$ —	$ 29,401	$ 29,401	$ —	$ —
Money markets funds	336,821	—	—	336,821	336,821	—	—
Restricted cash	16,393	—	—	16,393	16,393	—	—
U.S. treasury securities	140,040	270	—	140,310	5,351	129,809	5,150
Agency bonds	11,900	22	—	11,922	—	—	11,922
Total	$ 534,555	$ 292	$ —	$ 534,847	$ 387,966	$ 129,809	$ 17,072

	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 September 30, 2020 and December 31, 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 September 30, 2020 and December 31, 2019, we had accrued interest of $ 103 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 following is a summary of inventory as of the dates presented:

	September 30, 2020	December 31, 2019
Homes for sale	$ 12,089	$ 36,982
Homes not available for sale	907	3,163
Homes under improvement	11,997	34,445
Total Inventory	$ 24,993	$ 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 September 30, 2020 and December 31, 2019, lower of cost or net realizable value write-downs were $56 and $143, respectively. During the nine months ended September 30, 2020 and 2019, we directly purchased $101,759 and $207,011 of homes and sold $ 149,676 and $125,965 in cost basis of homes, respectively.

Note 5: Property and Equipment

The following is a summary of property and equipment as of the dates presented:

	Useful Lives (Years)	September 30, 2020	December 31, 2019
Leasehold improvements	Shorter of lease term or economic life	$ 29,326	$ 28,141
Website and software development costs	2-3	31,991	27,602
Computer and office equipment	3	7,008	4,846
Software	3	1,125	595
Furniture	7	7,153	6,965
Construction in progress	N/A	4,393	475
Property and equipment, gross		80,996	68,624
Accumulated depreciation and amortization		(38,786)	(29,047)
Total Property and equipment		$ 42,210	$ 39,577

Depreciation and amortization expense for property and equipment amounted to $ 3,594 and $2,453 for the three months ended September 30, 2020 and 2019, respectively, and $10,215 and $6,018 for the nine months ended September 30, 2020 and 2019, respectively . We capitalized software development costs, including stock-based compensation, of $2,773 and $2,620 for the three months ended September 30, 2020 and 2019, respectively, and $8,286 and $6,595 for the nine months ended September 30, 2020 and 2019, respectively.

Note 6: Leases

The following are the components of lease activity as of the dates presented:

		Three Months Ended September 30,		Nine Months Ended September 30,	
Lease Cost	**Classification**	**2020**	**2019**	**2020**	**2019**
Operating lease cost:					
Operating lease cost(1)	Cost of revenue	$ 2,123	$ 2,029	$ 6,405	$ 5,814
Operating lease cost(1)	Operating expenses	1,087	865	3,274	2,575
Total operating lease cost		$ 3,210	$ 2,894	$ 9,679	$ 8,389
Finance lease cost:					
Amortization of right-of-use assets	Cost of revenue	$ 2	$ —	$ 7	$ —
Interest on lease liabilities	Cost of revenue	17	—	51	—
Total finance lease cost		$ 19	$ —	$ 58	$ —

(1) Includes lease expense with initial terms of twelve months or less of $ 218 and $399 for the three months ended September 30, 2020 and 2019, respectively, and $ 712 and $1,889 for the nine months ended September 30, 2020 and 2019, respectively.

Maturity of Lease Liabilities	Operating Leases	Finance Leases
2020, excluding the nine months ended September 30, 2020	$ 3,886	$ 15
2021	15,235	60
2022	14,523	60
2023	13,521	45
2024	12,222	—
Thereafter	22,161	—
Total lease payments	$ 81,548	$ 180
Less: Interest and other(1)	18,437	12
Present value of lease liabilities	$ 63,111	$ 168

(1) Interest and other consists of interest expense related to capitalized right of use operating lease liabilities of $ 7,967, interest expense related to capitalized right of use financing lease liabilities of $ 12, commitments related to operating leases that have not yet commenced, operating leases with initial terms of twelve months or less and deposits from lessees.

There were no leases entered into during the nine months ended September 30, 2020 that provided a readily determinable implicit rate; therefore, we used our estimated incremental borrowing rate for each type of lease to discount the lease payments based on information available at lease commencement. Additionally, we 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.

Lease Term and Discount Rate	September 30, 2020	December 31, 2019
Weighted average remaining operating lease term (years)	5.4	6.1
Weighted average remaining finance lease term (years)	3.0	3.8
Weighted average discount rate for operating leases	4.4 %	4.4 %
Weighted average discount rate for finance leases	5.4 %	5.4 %

	Nine Months Ended September 30,	
Supplemental Cash Flow Information	2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 10,584	$ 7,040
Operating cash flows from finance leases	7	—
Financing cash flows from finance leases	38	—
Right of use assets obtained in exchange for lease liabilities		
Operating leases	$ 354	$ 50,263
Finance leases	—	—

Note 7: Commitments and Contingencies

Legal Proceedings—On August 28, 2019, Devin Cook, who is one of our former independent contractor licensed sales associates, filed a complaint against us in the Superior Court of California, County of San Francisco alleging that we misclassified her as an independent contractor instead of an employee.

On May 11, 2020, David Eraker, our co-founder and former chief executive officer who departed Redfin in 2006, filed two complaints against us. Mr. Eraker filed 1 complaint in his individual capacity in the Superior Court of Washington for King County against us and Madrona Venture Group, LLC ("Madrona"). In this complaint, Mr. Eraker asserts 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 filed another complaint through 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. In this complaint, Surefield alleges that we are infringing patents claimed to be owned by Surefield without its authorization or license.

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 above, 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 above, we do not believe that any of the pending litigation, claims, and other proceedings are material to our business.

Leases and Other Commitments—We lease office space under noncancelable operating leases with original terms ranging from one to 11 years and vehicles under noncancelable finance leases with terms of four years. Generally, the operating leases require a fixed minimum rent with contractual minimum rent increases over the lease term. 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.

The following are future minimum payments due under these agreements as of September 30, 2020:

	Leases	Other Commitments
2020, excluding the nine months ended September 30, 2020	$ 3,901	$ 23,580
2021	15,295	6,244
2022	14,583	6,602
2023	13,566	—
2024 and thereafter	$ 34,383	$ —
Total future minimum payments	$ 81,728	$ 36,426

Note 8: Acquired Intangible Assets

The following are the details of our intangible assets subject to amortization as of the dates presented:

		September 30, 2020			December 31, 2019		
	Useful Lives (Years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trade names	10	$ 1,040	$ (624)	$ 416	$ 1,040	$ (546)	$ 494
Developed technology	10	2,980	(1,788)	1,192	2,980	(1,564)	1,416
Customer relationships	10	860	(516)	344	860	(452)	408
Total		$ 4,880	$ (2,928)	$ 1,952	$ 4,880	$ (2,562)	$ 2,318

Acquired intangible assets are amortized using the straight-line method over their estimated useful life, which approximates the expected use of these assets. Amortization expense amounted to $122 and $366 for each of the three and nine months ended September 30, 2020 and 2019, respectively. We will recognize the remaining amortization expense of $1,952 over a four-year period at a rate of $ 488 per year.

Note 9: Accrued Liabilities

The following are details of accrued liabilities as of the dates presented:

	September 30, 2020	December 31, 2019
Accrued compensation and benefits	$ 44,232	$ 30,462
Miscellaneous accrued liabilities	13,285	7,560
Total accrued liabilities	$ 57,517	$ 38,022

Note 10: Other Payables

Other payables consist 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 following are details of other payables as of the dates presented:

	September 30, 2020	December 31, 2019
Customer deposits	$ 9,206	$ 7,109
Miscellaneous payables	1,344	775
Total other payables	$ 10,550	$ 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 September 30, 2020, the carrying value of our convertible preferred stock, net of issuance costs, is $ 39,812, and holders have earned unpaid stock dividends in the amount of 30,640 shares of common stock. This stock dividend was issued on October 1, 2020. These shares are included in basic and diluted net loss per share attributable to common stock in Note 13. As of September 30, 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 September 30, 2020 and December 31, 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 September 30, 2020 and December 31, 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 options under our 2004 Equity Incentive Plan, as amended (our "2004 Plan"), until July 26, 2017, when we terminated it in connection with our initial public offering. 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 (our "2017 EIP") became effective on July 26, 2017, and provides for the issuance of incentive and nonqualified common stock options and restricted stock units to employees, directors, 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 over a two-year or four-year period.

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

	September 30, 2020	December 31, 2019
Stock options issued and outstanding	5,924,213	7,792,181
Restricted stock units issued and outstanding or deferred	3,948,967	5,023,412
Shares available for future equity grants	12,155,042	7,100,499
Total shares reserved for future issuance	22,028,222	19,916,092

2017 Employee Stock Purchase Plan—Our 2017 Employee Stock Purchase Plan (our "ESPP") was approved by our 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:

	Nine Months Ended September 30, 2020	Year Ended December 31, 2019
Shares available for issuance at beginning of period	3,330,271	2,890,973
Shares issued during the period	186,925	490,717
Total shares available for future issuance at end of period	3,143,346	2,400,256

Stock Options—The following table summarizes activity for stock options for the nine months ended September 30, 2020 :

	Number of Options	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2020	7,792,181	$ 7.00	5.28	$ 111,122
Options exercised	(1,825,684)	6.30		
Options forfeited	(31,990)	8.92		
Options expired	(10,294)	8.98		
Outstanding at September 30, 2020	5,924,213	7.20	4.66	253,117
Options exercisable at September 30, 2020	5,635,344	6.59	4.51	244,262

The grant date fair value of options to purchase common stock is recorded as stock-based compensation over the vesting period. As of September 30, 2020, there was $1,232 of total unrecognized compensation cost related to stock options. These costs are expected to be recognized over a weighted-average period of 0.87 years. The total fair value of stock options vested for the three months ended September 30, 2020 and 2019 was $ 9,775 and $6,205, respectively, and $27,640 and $19,021 for the nine months ended September 30, 2020 and 2019, respectively. The total intrinsic value of stock options exercised for the three months ended September 30, 2020 and 2019 was $21,400 and $3,426, respectively, and $47,875 and $17,509 for the nine months ended September 30, 2020 and 2019, respectively.

On June 1, 2019, we granted stock options subject to performance conditions, with a target of 150,000 shares and a maximum 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. None of the options vested during the nine months ended September 30, 2020.

Restricted Stock Units—The following table summarizes activity for restricted stock units for the nine months ended September 30, 2020 :

	Restricted Stock Units	Weighted Average Grant-Date Fair Value
Outstanding as of January 1, 2020	5,023,412	$ 18.69
Granted	617,728	30.72
Vested(1)	(1,017,675)	18.98
Forfeited or canceled	(674,498)	19.22
Outstanding or deferred as of September 30, 2020(1)	3,948,967	$ 20.40

(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 September 30, 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 September 30, 2020, there was $69,507 of total unrecognized compensation cost related to restricted stock units, which is expected to be recognized over a weighted-average period of 2.46 years.

As of September 30, 2020, there were outstanding 314,999 restricted stock units subject to performance conditions ("PSUs") at 100% of the target level. Depending on our achievement of the performance 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 award will vest, subject to the recipient 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 conditions. Stock-based compensation expense for PSUs will be recognized when it is probable that the performance conditions will be achieved. During the nine months ended September 30, 2020, we recognized net expense of $1,493 for share-based compensation for PSUs, which included a reversal of the adjustments incurred for the six months ended June 30, 2020 related to expense from the year ended December 31, 2019 as it is probable of achieving a higher target level of the performance condition as of September 30, 2020. During the nine months ended September 30, 2019, we recognized a net $(126) for share-based compensation expense for PSUs, which included (i) an adjustment of

$(610) for the reversal of expense from the year ended December 31, 2018 related to the expense for PSUs we granted during 2018, as the probability of achieving the performance conditions was determined to not be probable, and (ii) an expense of $484 for PSUs granted in 2019.

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) changes to the probability of achieving outstanding performance-based equity awards, each as included in our consolidated statements of comprehensive income (loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenue	$ 2,574	$ 1,605	$ 5,981	$ 4,398
Technology and development	4,964	3,320	11,736	8,661
Marketing	403	390	1,130	1,025
General and administrative	3,407	2,195	6,917	5,708
Total stock-based compensation	$ 11,348	$ 7,510	$ 25,764	$ 19,792

We capitalize stock-based compensation related to work performed on internally developed software. There was $ 563 and $370 of stock-based compensation that was capitalized in the three months ended September 30, 2020 and 2019, respectively, and $1,714 and $931 in the nine months ended September 30, 2020 and 2019, respectively. All capitalized stock-based compensation is related to employees in technology and development.

Note 13: Net Income (Loss) per Share Attributable to Common Stock

Net income (loss) per share attributable to common stock is computed by dividing the net income (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 2023 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 income (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 participating securities. 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 following table sets forth the calculation of basic and diluted net income (loss) per share attributable to common stock during the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income (loss)	$ 34,166	$ 6,782	$ (32,562)	$ (73,023)
Dividend on convertible preferred stock	(1,530)	—	(2,814)	—
Undistributed earnings attributable to participating securities	(653)	—	—	—
Net income (loss) attributable to common stock—basic and diluted	$ 31,983	$ 6,782	$ (35,376)	$ (73,023)
Denominator:				
Weighted average shares—basic[1]	99,840,144	91,994,731	97,365,122	91,279,086
Dilutive shares from stock plans	7,767,567	5,176,539	—	—
Weighted average shares—diluted[1]	107,607,711	97,171,270	97,365,122	91,279,086
Net income (loss) per share:				
Net income (loss) attributable to common stock—basic	$ 0.32	$ 0.07	$ (0.36)	$ (0.80)
Net income (loss) attributable to common stock—diluted	$ 0.30	$ 0.07	$ (0.36)	$ (0.80)

(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 income (loss) per share for the periods presented because their effect would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Convertible senior notes, as if converted	4,705,398	—	4,705,398	—
Convertible preferred stock, as if converted	2,040,000	—	2,040,000	—
Stock options outstanding	—	—	5,924,213	8,102,171
Restricted stock units outstanding(1)	—	1,744,366	3,932,539	4,536,677
Employee stock purchase plan	—	—	130,589	283,676
Total	6,745,398	1,744,366	16,732,739	12,922,524

(1) Net of vested restricted stock units whose settlement into common stock were deferred at the option of certain non-employee directors. The deferred shares of common stock are included in basic and diluted weighted average shares outstanding. See Note 12 for more information.

Due to the uncertainty in the economic environment as the result of the COVID-19 pandemic and in order to preserve our liquidity, we intend to settle any conversion of our 2023 notes in cash, shares or a combination thereof. The dilutive impact of the notes on our net income (loss) per share is considered using the if-converted method for the three and nine months ended September 30, 2020. For periods ending prior to September 30, 2020, we considered the impact of the notes on our diluted net income (loss) per share based on 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 three and nine months ended September 30, 2019 there was no dilutive impact from the notes.

Note 14: Income Taxes

Our effective tax rate for the nine months ended September 30, 2020 and 2019 was 0% as a result of our recording a full valuation allowance against the deferred tax assets.

In determining the realizability of the net U.S. federal and state deferred tax assets, we consider numerous factors including historical profitability, estimated future taxable income, prudent and feasible tax planning strategies, and the industry in which we operate. Management reassesses the realization of the deferred tax assets each reporting period, which resulted in a valuation allowance against the full amount of our U.S. deferred tax assets for the nine months ended September 30, 2020 and 2019. To the extent that the financial results of our U.S. operations improve in the future and the deferred tax assets become realizable, we will reduce the valuation allowance through earnings.

Under Section 382 of the Internal Revenue Code of 1986, as amended, substantial changes in our ownership may limit the amount of net operating loss ("NOL") carryforwards that could be utilized annually in the future to offset taxable income. Any such annual limitation may significantly reduce the utilization of the NOLs before they expire. A Section 382 limitation study performed as of March 31, 2017 determined there was an ownership change in 2006 and $1,538 of the 2006 net operating loss is unavailable.

As of December 31, 2019, we had accumulated approximately $ 195,133 of federal tax losses and approximately $ 10,421 (tax effected) of state tax losses. Federal net operating losses are available to offset federal taxable income and begin to expire in 2025. Federal net operating loss carryforwards of $109,484 generated during 2018 and 2019 are available to offset future U.S. federal taxable income over an indefinite period.

Our material income tax jurisdiction is the United States (federal). As a result of NOL carryforwards, we are subject to audit for all tax years for federal 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 associated with the loan. The following table summarizes borrowings under these facilities as of the periods presented:

Lender	Borrowing Capacity as of September 30, 2020	Borrowings as of September 30, 2020	Borrowings as of December 31, 2019
Western Alliance Bank	$ 50,000	$ 13,459	$ 8,489
Texas Capital Bank, N.A.	40,000	19,650	10,210
Flagstar Bank	15,000	7,199	2,603
Total	$ 105,000	$ 40,308	$ 21,302

Borrowings under the facility with Western Alliance Bank ("Western Alliance") 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) 3.50%. The weighted average interest rate on outstanding borrowings as of September 30, 2020 and December 31, 2019 was 3.52% and 3.79%, respectively. 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 September 30, 2020. See Note 16 for developments subsequent to September 30, 2020 with respect to this facility.

Borrowings under the facility with Texas Capital Bank, N.A. ("Texas Capital") 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 0.50% or (ii) 3.50%. The weighted average interest rate on outstanding borrowings as of September 30, 2020 and December 31, 2019 was 3.50% and 3.51%, respectively. Redfin Corporation has guaranteed Redfin Mortgage's obligations under the agreement. See Note 16 for developments subsequent to September 30, 2020 with respect to this facility.

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%. The weighted average interest rate on outstanding borrowings as of September 30, 2020 and December 31, 2019 was 3.00% and 3.69%, respectively. 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. 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 periods presented:

Lender	Borrowing Capacity as of September 30, 2020	Borrowings as of September 30, 2020	Borrowings as of December 31, 2019
Goldman Sachs Bank USA	$ 100,000	$ 14,923	$ 4,444

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. The weighted average interest rate on outstanding borrowings as of September 30, 2020 and December 31, 2019 was 4.38% and 4.45%, respectively.

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 September 30, 2020, RedfinNow Borrower had $41,981 of total assets, of which $23,713 related to inventory and $12,914 in cash and cash equivalents. As of December 31, 2019, RedfinNow Borrower had $16,200 of total assets, of which $7,456 related to inventory and $5,663 in cash and equivalents.

For the three months ended September 30, 2020 and 2019, we amortized $155 and $102 of the debt issuance costs, respectively, and recognized $101 and $0 of interest expense, respectively. For the nine months ended September 30, 2020 and 2019, we amortized $464 and $102 of the debt issuance costs, respectively, and recognized $432 and $0 of interest expense, respectively.

Convertible Senior Notes due 2023—On July 23, 2018, we issued $143,750 aggregate principal amount of convertible senior notes due 2023 (our "2023 notes"). The notes are our general unsecured, senior obligations and bear interest at a fixed rate of 1.75% per year, payable semi-annually in arrears on January 15 and July 15. The effective interest rate of the liability portion of the debt is 7.25%. The notes mature on July 15, 2023, unless earlier repurchased, redeemed or converted. For more than 20 trading days during the 30 consecutive trading days ended September 30, 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 notes will be convertible at the option of the holders during the quarter ending December 31, 2020, and have been reclassified from non-current liabilities to current liabilities on our consolidated balance sheet as of September 30, 2020. As of the date of the filing of this report, we have received an immaterial amount of conversion requests with respect to the notes, and we will settle these conversion requests by paying and delivering a combination of cash and shares of our common stock. 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. As of September 30, 2020, the if-converted value of the 2023 notes exceeded the principal amount by $91,190.

The following details the carrying value of our 2023 notes as of the dates presented:

	September 30, 2020	December 31, 2019
Principal	$ 143,750	$ 143,750
Less: debt discount, net of amortization	(17,013)	(21,231)
Less: debt issuance costs, net of amortization	(2,242)	(2,803)
Net carrying amount of the 2023 notes	$ 124,495	$ 119,716

The total estimated fair value of our 2023 notes as of September 30, 2020 and December 31, 2019 was approximately $250,039 and $142,672, respectively, based on the closing trading price of the notes on last day of trading for the period. The fair value has been classified as Level 2 within the fair value hierarchy given the limited trading activity of the notes.

The following table sets forth total interest expense recognized related to our 2023 notes for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Amortization of debt discount	$ 1,422	$ 1,359	$ 4,217	$ 4,031
Amortization of debt issuance costs	189	182	562	541
Total amortization of debt issuance costs and accretion of equity portion	1,611	1,541	4,779	4,572
Contractual interest expense	629	629	1,887	1,887
Total interest expense related to the notes	$ 2,240	$ 2,170	$ 6,666	$ 6,459

Note 16: Subsequent Events

Texas Capital Warehouse Credit Facility—On October 5, 2020, we amended our warehouse credit facility with Texas Capital to provide that borrowings under the facility will generally bear interest at a rate equal to the greater of (i) the rate of interest accruing on the outstanding principal balance of a mortgage loan minus 0.25% or (ii) 3.35%.

Convertible Senior Notes due 2025—On October 20, 2020, we issued $661,250 aggregate principal amount of convertible senior notes due 2025 (our "2025 notes"). Our proceeds from the issuance, after deducting the initial purchaser's discount but before estimated offering expenses payable by us, was $648,025. The notes are our general unsecured, senior obligations. The notes will not bear regular cash interest, and the principal amount will not accrete. The notes will mature on October 15, 2025, unless earlier converted, redeemed or repurchased. As of the date of this report, no conversion events have occurred. We will settle 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.

Repurchases of a Portion of Our 2023 Notes—Following our issuance of our 2025 notes, we repurchased and retired $116,914 aggregate principal amount of our 2023 notes, and paid accrued and unpaid interest thereon, using (i) $107,365 of the proceeds from our 2025 notes issuance and (ii) 2,056,180 shares of our common stock.

Western Alliance Warehouse Credit Facility—On October 23, 2020, we amended our warehouse credit facility with Western Alliance to provide that borrowings under the facility will generally bear interest at a rate equal to the greater of (i) one-month LIBOR plus 2.00% or (ii) 3.25%.

Fair Housing Act Lawsuit—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 complaint alleges that certain of our business policies and practices violate certain provisions of the Fair Housing Act. 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. Given the preliminary stage of this case and the claims and issues presented, we cannot estimate a range of reasonably possible losses.

Item 2. 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 quarterly report and our annual report for the year ended December 31, 2019. In particular, the disclosure contained in Item 1A in our annual report, as updated by Part II, Item 1A in this quarterly report, 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 COVID-19's anticipated impacts on our business, our future operating results and financial position, our business strategy and plans, our market growth and trends, and our objectives for future operations. Please 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. Please 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. Our primary business is a residential real estate brokerage, representing customers in over 90 markets throughout the United States and Canada. 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.

COVID-19 Impact and Associated Actions

Impact on Customer Demand

Beginning in March 2020, COVID-19 began having a negative effect on our customer demand, which affects our real estate services transaction volume, and in turn our revenue growth and cash flow. Subsequently, in May, customer demand rebounded and has continued to rebound. We had taken actions in March and April as our customer demand began to decline and then, since May, adjusted our actions as customer demand returned. Given the lengthy process to buy or sell a home, a change in customer demand trends may not impact our real estate services transaction volume or affect our financial results until at least one to two months following the change, if at all.

One way that we assess our customer demand is growth in our monthly average visitors. In January and February 2020, our monthly average visitors increased 20% as compared with the same period in 2019. In March and April 2020, our monthly average visitors increased only 0.5% as compared with the same period in 2019. However, monthly average visitor growth has since returned to and exceeded early-year levels, with 44% growth in September as compared with the same period in 2019.

One way that we have assessed COVID-19's impact on our customer demand is homebuyer inquiries. For this assessment, we compare the average daily number of inquiries from prospective homebuyers that our lead agents or our partner agents received during a particular week, to that average daily number in January and February 2020, which we refer to as the threshold level, adjusted for seasonality. We count each of the following as an inquiry: (i) requesting to tour a home; (ii) requesting to speak to an agent about buying a home; and (iii) submitting an offer to buy a home. At its lowest level, since the beginning of March 2020, the average daily number of inquiries for the week ended April 5 decreased 33% from the threshold level. Since then, our homebuyer inquiries have rebounded to exceed the threshold level, reaching 42% above the threshold level for the week ended October 18. For the week ended November 1, the average daily number of inquiries increased 31% from the threshold level.

Our Actions in March and April

In March and April, we took the following actions in response to COVID-19 and the associated impact on our business:

- built and enhanced technology to allow our agents to virtually tour customers through homes, instead of touring homes in person, while significant parts of the country were subject to stay-at-home or similar isolation orders; and during April, 31% of our tours were virtual, compared to 8% during March; the percentage of our tours that were virtual declined to 9% during September, which we believe correlates to the resumption of in-person activities across the country;
- shifted demand across our markets to our lead agents, instead of having our partner agents serve some of the demand;
- ceased most performance and mass media advertising campaigns to the extent possible;
- with respect to our RedfinNow business:
  - temporarily paused making new offers to purchase homes on March 17;
  - beginning in mid-March and continuing through mid-May, regularly evaluated inventory levels to reasonably avoid extended holding periods for owned properties, due in part to significant economic uncertainty at the time; this evaluation resulted in a relatively shorter holding period for certain properties;
- sold $110 million in capital stock, consisting of $70 million of our common stock and $40 million of our convertible preferred stock, on April 1;
- to ensure that our workforce numbers and compensation levels reflected declining demand, we
  - reduced, in April, our number of employees by approximately 400 people, which represented approximately ten percent of our employees, and placed approximately an additional 1,000 employees on furlough; as a result of these actions, as of April 30, we had 1,123 lead agents; and
  - moved to further reduce compensation expenses by (i) reducing our chief executive officer's salary for 2020 to $0, effective from March 17, (ii) temporarily reducing the salary of our employees earning above a certain threshold by 10% or 15% depending on their compensation structure, effective from April 12, (iii) canceling executive bonuses and bonuses for our technology and development, marketing, and general and administrative teams, and (iv) eliminating cash compensation for our board of directors for 2020.

We recorded the incremental and non-recurring costs associated with these actions as restructuring charges and are included in our general and administrative expenses. See Note 1 to our consolidated financial statements and "—Results of Operations" for further information.

Our Actions since the Beginning of May

As we have seen customer demand rebound, we have:

- shifted demand across our markets to partner agents, if we did not have enough lead agents to serve some of the demand;
- restarted most performance and mass media campaigns, including running a new television commercial from June through September; however, we have paused development of mass media campaigns for early 2021;

- resumed making offers to purchase homes in eleven RedfinNow markets and added two additional markets;
- welcomed back most Redfin employees who were furloughed in early April and, in some cases, began hiring for new positions; and
- eliminated, effective June 7, employee salary reductions that went into effect on April 12, and reinstated bonuses for our technology and development, marketing, and general and administrative teams effective July 1.

Issuance of 0% Convertible Senior Notes due 2025 and Repurchase of a Portion of 1.75% Convertible Senior Notes due 2023

On October 20, 2020, we issued $661.3 million aggregate principal amount of convertible senior notes due 2025. The notes are our general unsecured, senior obligations. The notes will not bear regular cash interest, and the principal amount will not accrete. The notes will mature on October 15, 2025, unless earlier converted, redeemed or repurchased. Our proceeds from the issuance, after deducting the initial purchaser's discount but before estimated offering expenses payable by us, was $648.0 million. We used some of the proceeds to repurchase and retire a portion of our 2023 notes, as described below. We expect to use the remainder of the proceeds for working capital and other general corporate purposes. We may also use a portion of the proceeds to invest in or acquire third-party businesses, products, services, technologies or other assets.

Following our issuance of our 2025 notes, we repurchased and retired $116.9 million aggregate principal amount of our 2023 notes, and paid accrued and unpaid interest thereon, using (i) $107.4 million of the proceeds from our 2025 notes issuance and (ii) 2,056,180 shares of our common stock. See Note 15 to our consolidated financial statements for more information about our 2023 notes.

Our Outlook

As a result of our decision to temporarily suspend making offers to purchase homes through our RedfinNow business from March 17 to May 6, and with not all RedfinNow markets having resumed making offers since that time, we expect a significant decline in the number of homes sold during the fourth quarter of 2020 compared to the fourth quarter of 2019. This decline will likely result in a year-over-year decrease in our properties revenue for the fourth quarter of 2020. However, we do not expect this decline to have a meaningful adverse impact on our net income for the fourth quarter of 2020, compared to the fourth quarter of 2019, due to the relative contributions of our properties segment and our real estate services segment to our gross profit. See "—Components of Our Results of Operations–Cost of Revenue and Gross Margin."

We expect that our customer demand may continue to fluctuate through the rest of 2020 and into early-2021 in response to COVID-19 developments and their associated economic impacts. We believe that COVID-19's future impact on our customer demand may vary by market and be highly sensitive to COVID-19 developments and economic conditions in that market. Any future downturn in our customer demand will adversely affect our financial condition, results of operations, and liquidity.

Impact of the CARES Act on Us

Pursuant to the CARES Act's relief related to federal employment taxes, we have (i) elected to defer payment of such taxes beginning in April 2020, with $8.7 million in deferred taxes as of September 30, 2020, which will be due in two equal installments in 2021 and 2022, and (ii) claimed the legislation's employee retention credit to reduce our costs for such taxes by $1.3 million for the nine months ended September 30, 2020.

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.

	Three Months Ended								
	Sep. 30 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sep. 30, 2018
Monthly average visitors (in thousands)	49,258	42,537	35,519	30,595	35,633	36,557	31,107	25,212	29,236
Real estate services transactions									
Brokerage	18,980	13,828	10,751	13,122	16,098	15,580	8,435	9,822	12,876
Partner	5,180	2,691	2,479	2,958	3,499	3,357	2,125	2,749	3,333
Total	24,160	16,519	13,230	16,080	19,597	18,937	10,560	12,571	16,209
Real estate services revenue per transaction									
Brokerage	$ 10,241	$ 9,296	$ 9,520	$ 9,425	$ 9,075	$ 9,332	$ 9,640	$ 9,569	$ 9,227
Partner	2,988	2,417	2,535	2,369	2,295	2,218	2,153	2,232	2,237
Aggregate	8,686	8,175	8,211	8,127	7,865	8,071	8,134	7,964	7,790
Aggregate home value of real estate services transactions (in millions)	$ 12,207	$ 7,576	$ 6,098	$ 7,588	$ 9,157	$ 8,986	$ 4,800	$ 5,825	$ 7,653
U.S. market share by value	1.04 %	0.93 %	0.93 %	0.94 %	0.96 %	0.94 %	0.83 %	0.81 %	0.85 %
Revenue from top-10 Redfin markets as a percentage of real estate services revenue	63 %	63 %	61 %	62 %	63 %	64 %	64 %	66 %	66 %
Average number of lead agents	1,820	1,399	1,826	1,526	1,579	1,603	1,503	1,419	1,397

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 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.

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.

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 customers. 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. RedfinNow is our primary properties offering.

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

Interest Expense

Interest expense consists primarily of interest payable and the amortization of debt discounts and issuance cost related to our 2023 notes. Interest is payable on the notes at the rate of 1.75% semiannually in arrears on January 15 and July 15.

For the nine months ended September 30, 2020, interest expense also includes interest on borrowings and the amortization of debt issuance costs related to our secured revolving credit facility. 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 agreed upon additional rate.

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Revenue	$ 236,916	$ 238,683	$ 641,576	$ 546,605
Cost of revenue[1]	143,844	185,306	489,586	442,127
Gross profit	93,072	53,377	151,990	104,478
Operating expenses				
Technology and development[1]	22,452	18,801	60,687	50,421
Marketing[1]	12,421	8,361	47,611	68,611
General and administrative[1][2]	21,190	18,779	68,539	57,881
Total operating expenses	56,063	45,941	176,837	176,913
Income (loss) from operations	37,009	7,436	(24,847)	(72,435)
Interest income	319	1,576	1,859	5,804
Interest expense	(2,522)	(2,274)	(7,631)	(6,564)
Other income (expense), net	(640)	44	(1,943)	172
Net income (loss)	$ 34,166	$ 6,782	$ (32,562)	$ (73,023)

(1) Includes stock-based compensation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Cost of revenue	$ 2,574	$ 1,605	$ 5,981	$ 4,398
Technology and development	4,964	3,320	11,736	8,661
Marketing	403	390	1,130	1,025
General and administrative	3,407	2,195	6,917	5,708
Total stock-based compensation	$ 11,348	$ 7,510	$ 25,764	$ 19,792

(2) Includes, for the three and nine months ended September 30, 2020, direct and incremental costs related to COVID-19 of $0.3 million and $7.8 million, which are partially offset by $0.1 million and $1.3 million in employee retention credits allowed under the CARES Act.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(as a percentage of revenue)			
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue[1]	60.7	77.6	76.3	80.9
Gross profit	39.3	22.4	23.7	19.1
Operating expenses				
Technology and development[1]	9.5	7.9	9.5	9.2
Marketing[1]	5.2	3.5	7.4	12.6
General and administrative[1][2]	9.0	7.9	10.7	10.6
Total operating expenses	23.7	19.3	27.6	32.4
Income (loss) from operations	15.6	3.1	(3.9)	(13.3)
Interest income	0.1	0.7	0.3	1.1
Interest expense	(1.0)	(1.0)	(1.2)	(1.2)
Other income (expense), net	(0.3)	—	(0.3)	—
Net income (loss)	14.4 %	2.8 %	(5.1)%	(13.4)%

(1) Includes stock-based compensation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(as a percentage of revenue)			
Cost of revenue	1.1 %	0.7 %	0.9 %	0.8 %
Technology and development	2.1	1.4	1.8	1.6
Marketing	0.2	0.2	0.2	0.2
General and administrative	1.4	0.9	1.1	1.0
Total	4.8 %	3.1 %	4.0 %	3.6 %

(2) Includes, for the three and nine months ended September 30, 2020, direct and incremental costs related to COVID-19 of $0.3 million and $7.8 million, which are partially offset by $0.1 million and $1.3 million in employee retention credits allowed under the CARES Act.

Comparison of the Three Months Ended September 30, 2020 and 2019

Revenue

	Three Months Ended September 30,		Change	
	2020	2019	Dollars	Percentage
	(in thousands, except percentages)			
Real estate services revenue				
Brokerage revenue	$ 194,375	$ 146,096	$ 48,279	33 %
Partner revenue	15,478	8,030	7,448	93
Total real estate services revenue	209,853	154,126	55,727	36
Properties revenue	19,005	80,164	(61,159)	(76)
Other revenue	8,503	5,161	3,342	65
Intercompany elimination	(445)	(768)	323	(42)
Total revenue	$ 236,916	$ 238,683	$ (1,767)	(1)
Percentage of revenue				
Real estate services revenue				
Brokerage	82.1 %	61.2 %		
Partner revenue	6.5	3.4		
Total real estate services revenue	88.6	64.6		
Properties revenue	8.0	33.6		
Other revenue	3.6	2.1		
Intercompany elimination	(0.2)	(0.3)		
Total revenue	100.0 %	100.0 %		

For the three months ended September 30, 2020, revenue decreased by $1.8 million, or 1%, as compared with the same period in 2019. This decrease in revenue was primarily attributable to a $61.2 million decrease in properties revenue, and a $55.7 million increase in real estate services revenue. Properties revenue decreased by 76% as compared with 2019, driven by our decisions to significantly reduce our inventory, and not acquire a significant amount of new inventory, in the months leading into the start of the third quarter of 2020. See "—COVID-19 Impact and Associated Actions." These decisions resulted in us having fewer homes to sell during the third quarter and accordingly, a 78% decrease in the number of homes sold. This was partially offset by a $48.3 million increase in brokerage revenue, and a $7.4 million increase in partner revenue. Brokerage revenue increased by 33% as compared with 2019, driven by a 18% increase in brokerage transactions and a 13% 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.

Cost of Revenue and Gross Margin

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Change Dollars	Change Percentage
	(in thousands, except percentages)			
Cost of revenue				
Real estate services	$ 117,944	$ 100,048	$ 17,896	18 %
Properties	20,460	80,909	(60,449)	(75)
Other	5,885	5,117	768	15
Intercompany elimination	(445)	(768)	323	(42)
Total cost of revenue	$ 143,844	$ 185,306	$ (41,462)	(22)
Gross profit (loss)				
Real estate services	$ 91,909	$ 54,078	$ 37,831	70 %
Properties	(1,455)	(745)	(710)	95
Other	2,618	44	2,574	5,850
Total gross profit	$ 93,072	$ 53,377	$ 39,695	74
Gross margin (percentage of revenue)				
Real estate services	43.8 %	35.1 %		
Properties	(7.7)	(0.9)		
Other	30.8	0.9		
Total gross margin	39.3	22.4		

For the three months ended September 30, 2020, total cost of revenue decreased by $41.5 million, or 22%, as compared with the same period in 2019. This decrease was primarily attributable to a $57.5 million decrease in home purchase costs and related capitalized improvements, and a $2.1 million decrease in home-selling expenses, both due to selling fewer homes by our properties business. This was partially offset by a $18.0 million increase in personnel costs and transaction bonuses, due to increased headcount and increased brokerage transactions, respectively.

For the three months ended September 30, 2020, total gross margin increased 1,690 basis points as compared with the same period in 2019, driven primarily by our properties business contributing to a lesser proportion of our revenue relative to our real estate services and other businesses, and improvements in real estate services and other gross margin.

For the three months ended September 30, 2020, real estate services gross margin increased 870 basis points as compared with the same period in 2019. This was primarily attributable to a 350 basis-point decrease in personnel costs and transaction bonuses, a 300 basis-point decrease in home-touring and field expenses, a 60 basis-point decrease in listing expenses, and a 40 basis-point decrease in occupancy and office expenses, each as a percentage of revenue.

For the three months ended September 30, 2020, properties gross margin decreased 680 basis points as compared with the same period in 2019. This was primarily attributable to a 900 basis-point increase in personnel costs and transaction bonuses as a percentage of revenue. This was partially offset by a 430 basis-point decrease in home purchase costs and related capitalized improvements as a percentage of revenue.

For the three months ended September 30, 2020, other gross margin increased 2,990 basis points as compared with the same period in 2019. This was primarily attributable to a 1,480 basis point decrease in personnel costs and transaction bonuses, a 960 basis-point decrease in outside services costs, and a 220 basis-point decrease in personal technology expenses, each as a percentage of revenue.

Operating Expenses

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Change Dollars	Change Percentage
	(in thousands, except percentages)			
Technology and development	$ 22,452	$ 18,801	$ 3,651	19 %
Marketing	12,421	8,361	4,060	49
General and administrative	21,190	18,779	2,411	13
Total operating expenses	$ 56,063	$ 45,941	$ 10,122	22
Percentage of revenue				
Technology and development	9.5 %	7.9 %		
Marketing	5.2	3.5		
General and administrative	8.9	7.9		
Total operating expenses	23.6 %	19.3 %		

For the three months ended September 30, 2020, technology and development expenses increased by $3.7 million, or 19%, as compared with the same period in 2019. The increase was primarily attributable to a $3.3 million increase in personnel costs due to increased headcount, and a $0.6 million increase in technology infrastructure expenses, primarily hosted services.

For the three months ended September 30, 2020, marketing expenses increased by $4.1 million, or 49%, as compared with the same period in 2019. The increase was primarily attributable to a $4.3 million increase in marketing media costs as we expanded advertising.

For the three months ended September 30, 2020, general and administrative expenses increased by $2.4 million, or 13%, as compared with the same period in 2019. The increase was primarily attributable to (i) a $1.8 million increase in personnel costs due to increased headcount and an increased probability of achieving a higher target level for our performance-based restricted stock units (see Note 12 to our consolidated financial statements), and (ii) a $0.7 million increase in technology infrastructure expenses, primarily hosted services.

Comparison of the Nine Months Ended September 30, 2020 and 2019

Revenue

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Change Dollars	Change Percentage
	(in thousands, except percentages)			
Real estate services revenue				
Brokerage revenue	$ 425,269	$ 372,809	$ 52,460	14 %
Partner revenue	28,269	20,053	8,216	41
Total real estate services revenue	453,538	392,862	60,676	15
Properties revenue	170,287	141,445	28,842	20
Other revenue	19,999	13,490	6,509	48
Intercompany elimination	(2,248)	(1,192)	(1,056)	89
Total revenue	$ 641,576	$ 546,605	$ 94,971	17
Percentage of revenue				
Real estate services revenue				
Brokerage	66.3 %	68.2 %		
Partner revenue	4.4	3.7		
Total real estate services revenue	70.7	71.9		
Properties revenue	26.5	25.9		
Other revenue	3.1	2.4		
Intercompany elimination	(0.3)	(0.2)		
Total revenue	100.0 %	100.0 %		

For the nine months ended September 30, 2020, revenue increased by $95.0 million, or 17%, as compared with the same period in 2019. This increase in revenue was primarily attributable to a $52.5 million increase in brokerage revenue, and a $28.8 million increase in properties revenue. Brokerage revenue increased by 14% as compared with 2019, driven by a 9% increase in brokerage transactions and a 5% increase in brokerage revenue per transaction. We believe this increase in brokerage transactions was attributable to higher levels of customer awareness of Redfin and greater customer demand generally that was partially offset by lower customer demand in March and April due to the impact of COVID-19. Properties revenue increased by 20% as compared with 2019, driven by a greater market presence and consumer awareness of RedfinNow, which resulted in a 27% increase in the number of homes sold. This increase in the number of homes sold was partially offset a 78% decrease in the number of homes sold during the third quarter of 2020 compared to the same period of 2019. This decrease in the third quarter was partially attributable to our decision to pause making new offers on homes from mid-March through mid-May due to the impact of COVID-19. See "—COVID-19 Impact and Associated Actions." As a result, we had fewer homes to sell during the third quarter.

Cost of Revenue and Gross Margin

	Nine Months Ended September 30,		Change	
	2020	2019	Dollars	Percentage
	(in thousands, except percentages)			
Cost of revenue				
Real estate services	$ 300,305	$ 284,447	$ 15,858	6 %
Properties	173,107	144,807	28,300	20
Other	18,422	14,065	4,357	31
Intercompany elimination	(2,248)	(1,192)	(1,056)	89
Total cost of revenue	$ 489,586	$ 442,127	$ 47,459	11
Gross profit (loss)				
Real estate services	$ 153,233	$ 108,415	$ 44,818	41 %
Properties	(2,820)	(3,362)	542	(16)
Other	1,577	(575)	2,152	(374)
Total gross profit	$ 151,990	$ 104,478	$ 47,512	45
Gross margin (percentage of revenue)				
Real estate services	33.8 %	27.6 %		
Properties	(1.7)	(2.4)		
Other	7.9	(4.3)		
Total gross margin	23.7	19.1		

For the nine months ended September 30, 2020, total cost of revenue increased by $47.5 million, or 11%, as compared with the same period in 2019. This increase was primarily attributable to a $25.5 million increase in home purchase costs and related capitalized improvements, due to selling more homes by our properties business, and a $24.4 million increase in personnel costs and transaction bonuses, due to increased headcount and increased brokerage transactions, respectively. This was partially offset by a $1.8 million decrease in technology infrastructure expenses.

For the nine months ended September 30, 2020, total gross margin increased 460 basis points as compared with the same period in 2019, driven primarily by increases in real estate services, properties, and other gross margin.

For the nine months ended September 30, 2020, real estate services gross margin increased 620 basis points as compared with the same period in 2019. This was primarily attributable to a 230 basis-point decrease in home-touring and field expenses, a 200 basis-point decrease in personnel costs and transaction bonuses, and a 70 basis-point decrease in listing expenses, each as a percentage of revenue.

For the nine months ended September 30, 2020, properties gross margin increased 70 basis points as compared with the same period in 2019. This was primarily attributable to a 70 basis-point decrease in home purchase costs and related capitalized improvements, and a 40 basis-point decrease in personnel costs and transaction bonuses, each as a percentage of revenue. This was partially offset by a 50 basis-point increase in home selling expenses as a percentage of revenue.

For the nine months ended September 30, 2020, other gross margin increased 1,220 basis points as compared with the same period in 2019. This was attributable to a 590 basis-point decrease in outside services costs, a 150 basis-point decrease in personal technology expenses, a 130 basis-point decrease in personnel costs and transaction bonuses, and a 90 basis point decrease in office and occupancy expenses, each as a percentage of revenue.

Operating Expenses

	Nine Months Ended September 30,		Change	
	2020	2019	Dollars	Percentage
	(in thousands, except percentages)			
Technology and development	$ 60,687	$ 50,421	$ 10,266	20 %
Marketing	47,611	68,611	(21,000)	(31)
General and administrative	68,539	57,881	10,658	18
Total operating expenses	$ 176,837	$ 176,913	$ (76)	0
Percentage of revenue				
Technology and development	9.5 %	9.2 %		
Marketing	7.4	12.6		
General and administrative	10.7	10.6		
Total operating expenses	27.6 %	32.4 %		

For the nine months ended September 30, 2020, technology and development expenses increased by $10.3 million, or 20%, as compared with the same period in 2019. The increase was primarily attributable to a $8.2 million increase in personnel costs due to increased headcount, and a $1.8 million increase in technology infrastructure expenses, primarily hosted services.

For the nine months ended September 30, 2020, marketing expenses decreased by $21.0 million, or 31%, as compared with the same period in 2019. The decrease was primarily attributable to a $21.0 million decrease in marketing media costs as we expanded advertising.

For the nine months ended September 30, 2020, general and administrative expenses increased by $10.7 million, or 18%, as compared with the same period in 2019. The increase was primarily attributable to a $7.8 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 $5.3 million, net, that would otherwise be classified as cost of revenue. We had no such restructuring expenses for any periods prior to the nine months ended September 30, 2020. The increase was also attributable to a $2.2 million increase in technology infrastructure expenses, primarily hosted services.

Liquidity and Capital Resources

As of September 30, 2020, we had cash and cash equivalents of $371.6 million and investments of $146.9 million, which consist primarily of operating cash on deposit with financial institutions, money market instruments, U.S. treasury securities, and agency bonds. Additionally, on October 20, 2020, as a result of the issuance of our 2025 notes, we received cash proceeds of $648.0 million, after deducting the initial purchaser's discount but before estimated offering expenses payable by us. We used $107.4 million of these proceeds, together with shares of our common stock, to repurchase and retire a portion of our 2023 notes. See Note 16 to our consolidated financial statements for a description of our 2025 notes and the repurchase transaction.

Also as of September 30, 2020, we had $143.8 million aggregate principal amount of our 2023 outstanding. The notes mature on July 15, 2023, unless earlier repurchased, redeemed or converted, and interest is payable in arrears on January 15 and July 15 of each year. Following the issuance of our 2025 notes, we repurchased and retired $116.9 million aggregate principal amount of our 2023 notes. See Note 16 to our consolidated financial statements for a description of this repurchase.

Also as of September 30, 2020, we had $40.0 million aggregate principal amount of convertible preferred stock outstanding. Unless earlier redeemed or converted, on November 30, 2024, we will be required to redeem any outstanding shares of the preferred stock, and each holder may elect to receive cash, shares of our common stock, or a combination of cash and shares, as payment for the preferred stock that it holds. Dividends accrue on each $1,000 of the preferred stock at a rate of 5.5% per year 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 our common stock, but if we fail to satisfy those conditions, we will be required to pay dividends in cash.

With respect to the cash outlay for our properties business, for the nine months ended September 30, 2020, we relied (i) on a combination of our cash on hand and borrowings from our 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 our secured revolving credit facility.

As discussed in "—COVID-19 Impact and Associated Actions," our properties business temporarily paused making offers to purchase homes on March 17, 2020, but since early-May, has resumed making offers in most of its markets. With its resumption of making offers, we expect that our cash outlay for costs related to our properties business will increase for the three months ending December 31, 2020, compared to the three months ended September 30, 2020. We also expect that, with the resumption of making offers, our borrowings from our secured revolving credit facility will increase during the fourth quarter of 2020.

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 our 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 and the discussion under "Risks Related to Our Indebtedness" in Part II, Item 1A for more information regarding our warehouse credit facilities.

We believe that our existing cash and cash equivalents and investments (including proceeds from the issuance of our 2025 notes), together with cash we expect to generate from future operations, borrowings from our secured revolving credit facility and our warehouse credit facilities, and the cost savings resulting from the actions we have taken in response to COVID-19, will provide sufficient liquidity to meet our operational needs, satisfy any payments required by our convertible preferred stock, and fulfill our debt obligations (including our 2025 notes). 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 presented:

	Nine Months Ended September 30,	
	2020	2019
	(in thousands)	
Net cash provided by (used in) operating activities	$ 51,535	$ (132,638)
Net cash used in investing activities	(56,154)	(112,979)
Net cash provided by financing activities	145,153	25,752

Net cash provided by (used in) operating activities

Our operating cash flows result primarily from cash generated by commissions paid 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 of operating cash flow activity from the origination and sale of loans held for sale.

Net cash provided by operating activities was $51.5 million for the nine months ended September 30, 2020, primarily attributable to a net loss of $32.6 million, offset by changes in assets and liabilities of $34.3 million and $49.8 million of non-cash items related to stock based compensation, depreciation and amortization, amortization of debt discounts and issuance costs, lease expense related to right-of-use assets, impairment charge on one of our cost method investments, and other non-cash items. Changes in assets and liabilities increased cash provided by operating activities driven primarily by a reduction in inventory of $49.6 million, a $27.9 million increase in accrued liabilities, primarily related to timing of payments, a $7.1 million decrease in prepaid expenses. This was partially offset by an increase of $21.9 million in accounts receivable primarily related to higher revenue, $19.5 million in net loans held for sale related to our mortgage business. A majority of the loans held for sale as of September 30, 2020 have been subsequently sold.

Net cash used in operating activities was $132.6 million for the nine months ended September 30, 2019, primarily attributable to a net loss of $73.0 million, offset by $35.2 million of non-cash items related to stock-based compensation, depreciation and amortization, amortization of debt discounts and issuance costs, and lease expense related to right-of-use assets. Changes in assets and liabilities increased cash used in operating activities by $94.8 million driven primarily by a $82.8 million increase in inventory related to our properties business, a $17.3 million increase in net loans held for sale related to our mortgage business, and a $9.1 million increase in accounts receivable as a result of higher revenue and timing of real estate services transactions at the end of the period. This was partially offset by an increase of $19.0 million in accrued liabilities primarily related to timing of payments.

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 $56.2 million for the nine months ended September 30, 2020. We had $135.1 million of purchases of investments that was partially offset by $89.4 million of maturities and sales of investments of similar type investments. In addition, we had $6.6 million of capitalized software development expenses.

Net cash used in investing activities was $113.0 million for the nine months ended September 30, 2019, primarily attributable to $106.0 million in purchases of investments, $7.4 million related to equipment, furnishings, and leasehold improvements for new or expansion of existing office spaces, and $5.4 million of capitalized software development expenses.

Net cash provided by financing activities

Our primary financing activities as of September 30, 2020 have come from (i) our initial public offering in August 2017, (ii) sales of our common stock and 2023 notes in July 2018 and our common stock and convertible preferred stock in April 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 $145.2 million for the nine months ended September 30, 2020, primarily attributable to net proceeds of $109.5 million from our April 2020 common stock and convertible preferred stock offering, a $19.0 million increase in our net borrowings under our warehouse credit facilities, and $15.1 million in proceeds from the sale of shares under our equity compensation plans.

Net cash provided by financing activities was $25.8 million for the nine months ended September 30, 2019, primarily attributable to a $17.3 million increase in our net borrowings under our warehouse credit facilities, and $10.9 million in proceeds from the issuance of shares resulting from employee equity plans.

Critical Accounting Policies and Estimates

Discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which we 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. Our critical accounting policies and estimates are described in Note 1 of our annual report for the year ended December 31, 2019, and there have been no material changes to those critical accounting policies and estimates.

Recent Accounting Standards

See Note 1 to our consolidated financial statements for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted.

Item 3. Qualitative and Quantitative 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 September 30, 2020, we had cash and cash equivalents of $371.6 million and investments of $146.9 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 cash and cash equivalents and investments as of September 30, 2020, we estimate a 100 basis-point decline in interest rates, occurring throughout the fourth quarter of 2020, will 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. If the value of the loans held for sale and mortgage-backed securities do not correlate as expected, then our hedging activity will be less effective and there will be an impact on the profitability of the loans we originate. 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 IRLCs and forward sales commitments.

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 fourth quarter of 2020, we estimate a 100 basis-point increase in the interest rate applicable to outstanding borrowings will 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 risk with respect to foreign currency exchange rates.

Item 4. 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 quarterly 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.

Changes in Internal Control

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 September 30, 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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Lawsuits by David Eraker

On May 11, 2020, David Eraker, our co-founder and former chief executive officer who departed Redfin in 2006, filed two complaints against us. Mr. Eraker filed one complaint in his individual capacity and the other 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 a complaint filed in the Superior Court of Washington for King County against us and Madrona Venture Group, LLC ("Madrona"), Mr. Eraker asserts 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 alleges that he would not have accepted Madrona's investment if he had known about the alleged concealment of the patent application. Mr. Eraker is seeking an unspecified amount of damages. On November 2, 2020, the court granted our motion to compel Mr. Eraker to arbitrate these claims with us, instead of litigating them in court. Accordingly, we will proceed to arbitrate these claims with Mr. Eraker. The court has stayed this case pending resolution of the arbitration.

In a complaint filed by Surefield in the U.S. District Court for the Western District of Texas, Waco Division, Surefield 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.

Item 1A. Risk Factors.

Except as discussed below, there have not been any material changes from the risk factors included in Item 1A of our annual report for the year ended December 31, 2019*. You should carefully consider the risks described below, together with all other information in this quarterly 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

COVID-19 has significantly and adversely affected our business and may continue to significantly and adversely 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 significantly and adversely affected, and may continue to significantly and adversely 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 COVID-19's economic impacts, including those described below, will also adversely affect residential real estate transaction volume, to the extent they continue.

- 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. Disruptions in these markets or events that disproportionately affect these markets could harm our business. Furthermore, 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 quarter ended September 30, 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, including those arising from COVID-19's impacts discussed elsewhere in this Item 1A, in these markets may differ significantly from prevailing conditions in the United States or other parts of the country. Accordingly, events, such as COVID-19, 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.

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.

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. As discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations—COVID-19 Impact and Associated Actions," we reduced our number of lead agents in April 2020 in response to falling customer demand driven by COVID-19 at the time. As our customer demand increases from those 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 and our third-party partnerships 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.

In certain markets where RedfinNow does not currently operate, we have a partnership with Opendoor whereby home sellers can request, through Redfin's website and mobile applications, an instant offer from Opendoor to purchase their home. Home sellers will have this ability to request an Opendoor offer in addition, and as an alternative, to retaining a Redfin agent to represent them during the home selling process.

From time to time we may enter into additional arrangements to refer consumers to, or partner with, third parties when we are unable or unwilling to serve those consumers directly.

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, including COVID-19's impacts discussed elsewhere in this Item 1A. RedfinNow's geographic concentration in four states - California, Colorado, Nevada, and Texas - 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.

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.

COVID-19 has adversely affected, and may adversely affect in the future, Redfin Mortgage's ability to receive net proceeds from the sale of originated loans that exceed the loan amount. COVID-19 has also increased the risk that Redfin Mortgage (i) will be unable to sell originated loans at all or (ii) will be required to repurchase an originated loan that it had previously sold to an investor. We expect that investors may be less likely to purchase certain loans due to the (i) ability of borrowers of qualified mortgage loans to seek forbearance of loan payments for up to 12 months under the CARES Act or similar legislation and (ii) potentially increased financial hardship faced by some borrowers as a result of COVID-19's economic impacts discussed elsewhere in this Item 1A. Furthermore, with respect to originated loans that Redfin Mortgage has already sold to investors, Redfin Mortgage may be obligated to repurchase the loan from, or pay additional fees to, the investor if the borrower seeks forbearance for a monthly loan payment before the investor has sold the loan to a government-sponsored enterprise, such as Fannie Mae and Freddie Mac.

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, including those stemming from COVID-19, 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.

Our decision to launch new service offerings or expand existing service offerings into new markets may consume significant financial and other resources and may not achieve the desired results.

We regularly evaluate launching new service offerings or expanding our brokerage and non-brokerage services into new markets. Any launch or expansion may require significant expenses and the time of our key personnel, particularly at the outset of the process. New service offerings or markets may also subject us to new regulatory environments, which could increase our costs as we evaluate compliance with the new regulatory regime. Notwithstanding the expenses and time devoted to launching a new service offering or expanding an existing service offering into a new market, we may fail to achieve the financial and market share goals associated with the expansion.

For example, in response to COVID-19, we launched several new offerings that have historically not been frequently used in the residential real estate industry. These include: (i) video-chat tours of a home led by one of our lead agents; (ii) an option for potential homebuyers to use our mobile application to unlock the door and tour certain vacant homes where we represent the home seller; and (iii) live-video open houses in some of our markets. These methods for homebuyers to tour a home, and for home sellers to make their homes available for tour, have not been widely adopted in the residential real estate industry. Accordingly, there is uncertainty regarding regulatory issues associated with these methods, and we may be subject to government enforcement actions or third-party claims due to our new offerings or increased use of existing offerings.

Our website is hosted at a single facility, the failure of which could interrupt our website and mobile application.

Our website and mobile application are hosted at a single facility in Seattle, Washington. If this facility experiences outages or downtimes for any reason, including human error, natural disaster, power loss, telecommunications failure, physical or electronic break-ins, terrorist attack, act of war, or other forces outside of our control, we could suffer a significant interruption of our website and mobile application while we implement the disaster recovery procedures we have developed to restore the function of our website and mobile application on a cloud-based hosting service. This service interruption may be extended if we discover previously unknown errors in our disaster recovery procedures.

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 Note 7 to our consolidated financial statements and Part II, Item 1 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).

As described in Note 7 to our consolidated financial statements, we are currently the subject of a claim by one of our former associate agents alleging that we had misclassified her, and similarly-situated associate agents, as independent contractors instead of employees. Additionally, another one of our former associate agents has threatened to file a similar claim. While we have previously settled similar complaints, there is no assurance that we will be able to settle either of these claims on similar terms or at all. Accordingly, these complaints may be costly to resolve, require significant time from management, result in negative publicity, or require us to change certain business practices related to our associate agents. Furthermore, we may be subject to additional lawsuits or administrative proceedings for similar claims, which may have similar negative effects on us.

We have also, in the past, been the subject of complaints alleging that we had improperly classified certain of our employees as exempt from minimum wage and overtime laws. The legal tests for determining overtime exemptions consider many factors that vary from state to state and have evolved based on case law, regulations, and legislative changes, as well as complicated factual analysis. We may be subject to additional complaints or administrative proceedings regarding our employee classification.

We may fail to maintain an effective system of disclosure controls or internal control over financial reporting as our employees work in a remote environment or as we grow our business.

We have established, and intend to maintain, effective disclosure controls and internal control over financial reporting. However, we may fail to maintain effective control systems due to our employees continuing to work in a remote environment or as we grow our business.

As a result of COVID-19, most of our employees - including those critical to maintaining an effective system of disclosure controls and internal control over financial reporting - are working, and may continue to work for the near term, in a remote environment and not in the office environment from which they have historically performed their duties. We have limited experience maintaining effective control systems with our employees working in remote environments, and risks that we have not contemplated may arise and result in our failure to maintain effective disclosure controls or internal control over financial reporting.

Additionally, as our current lines of business grow or if we enter into new lines business, we may need to develop new, or revise existing, controls. Any failure to develop new, or revise existing, controls could result in our failure to maintain effective disclosure controls or internal control over financial reporting.

Any failure to maintain effective control systems could cause us to not meet our financial reporting obligations, require us to restate previously issued financial statements, or cause investors to lose confidence in our reported financial statements, even after we remedy the failure.

Some of our potential losses may not be covered by insurance. We may not be able to obtain or maintain adequate insurance coverage.

We maintain insurance to cover costs and losses from certain risk exposures in the ordinary course of our operations, but our insurance may not cover one hundred percent of the costs and losses from all events, including those arising from litigation or other actions related directly or indirectly to COVID-19. We are responsible for certain retentions and deductibles that vary by policy, and we may suffer losses that exceed our insurance coverage limits by a material amount. We may also incur costs or suffer losses arising from events against which we have no insurance coverage. In addition, large-scale market trends or the occurrence of adverse events in our business may raise our cost of procuring insurance or limit the amount or type of insurance we are able to secure. We may not be able to maintain our current coverage, or obtain new coverage, in the future on commercially reasonable terms or at all. Incurring uninsured or underinsured costs or losses could harm our business.

Risks Related to Our Indebtedness

We may not have sufficient cash flow to make the payments required by our 2023 notes and our 2025 notes (together, 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, if any of the conditional conversion features under our 2023 notes or 2025 notes are triggered (see the risk factor immediately below), 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 December 31, 2020.

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 $26,836,000 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.

The triggering of the conditional conversion feature of our 2023 notes, and the potential triggering of the conditional conversion feature of our 2025 notes, may have the effect of materially reducing our net working capital, even if noteholders do not convert any such notes.

Our 2023 notes are convertible prior to the close of business on the business day preceding April 15, 2023, and our 2025 notes are convertible prior to the close of business on the business day preceding July 15, 2025, only during the times and upon any of the conditions described below:

- during any calendar quarter (and in the case of the 2025 notes, only during a calendar quarter commencing after the calendar quarter ending on December 31, 2020), and only during such 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.

Regardless of whether such conditions have been satisfied, (i) holders of our 2023 notes may convert all or a portion of their notes between April 15, 2023 and the close of business on the second scheduled trading day preceding July 15, 2023 and (ii) holders of our 2025 notes may convert all or a portion of their notes between July 15, 2025 until the close of business on the second scheduled trading day immediately preceding October 15, 2025.

In the event the conditional conversion feature of either of our convertible senior notes is triggered, then we could be required under accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current, rather than long-term, liability, even if holders do not elect to convert their notes. Any such reclassification may have the effect of materially reducing our net working capital, even if noteholders do not convert any such notes. As of September 30, 2020, a conditional conversion feature of the 2023 notes was triggered, and accordingly, we reclassified all of the outstanding principal of the 2023 notes as a current, rather than long-term, liability, on our September 30, 2020 balance sheet.

The existence of our convertible senior notes may have the effect of depressing our stock price. Additionally, any conversion of our convertible senior notes may dilute the ownership interest of our stockholders and depress the price of our common stock.

The existence of our convertible senior notes may encourage short selling by market participants because they could rely on conversion of the notes to satisfy short positions. The creation of these short positions may have the effect of depressing our stock price.

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 some or all 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.

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 satisfy its financial covenants under the facility and the lender refused to waive the breach. 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.

Certain provisions in the agreements governing our indebtedness may delay or prevent an otherwise beneficial takeover attempt of us.

Certain provisions in the agreements governing our indebtedness may make it more difficult or expensive for a third party to acquire us. These provisions may have the effect of delaying or preventing a takeover that would otherwise be beneficial to our stockholders.

For example, the indentures for our convertible senior notes will require us, subject to certain exceptions for our 2025 notes, to repurchase our convertible senior notes for cash upon the occurrence of a fundamental change (as defined in the applicable indenture) of us and, in certain circumstances, to increase the conversion rate for a holder that converts its notes in connection with a make-whole fundamental change. A takeover of us may trigger the requirement that we repurchase our convertible senior notes and/or increase the conversion rate, which could make it more costly for a potential acquirer to engage in such takeover.

Furthermore, under our secured revolving credit facility with Goldman Sachs and our warehouse credit facility with Western Alliance, an event of default occurs upon a change in control (as defined in the agreement for the applicable facility), unless Goldman Sachs or Western Alliance, as the case may be, consents to the change in control. Accordingly, a takeover may require us and the third-party acquiror to obtain the consent of Goldman Sachs and Western Alliance.

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.

The dividends payable upon, and any conversion or redemption of, our convertible preferred stock will dilute the ownership interest of our common stockholders and may depress the price of our common stock.

Assuming we satisfy certain conditions, we will pay dividends that have accrued on our convertible preferred stock in shares of our common stock. We may also issue shares of our common stock upon (i) a preferred stockholder's conversion of its shares of preferred stock or (ii) the automatic conversion of our preferred stock upon the satisfaction of certain conditions. Furthermore, a preferred stockholder may request to receive shares of our common stock upon our redemption of the preferred stock (i) on November 30, 2024 and (ii) following the occurrence of certain events and the preferred stockholder requests redemption. The issuance of our common stock in these situations will dilute the ownership interests of our common stockholders and may depress the trading price of our common stock.

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

On July 27, 2017, the U.S. Securities and Exchange Commission declared effective the Registration Statement on Form S-1 (file number 333-219093) for our initial public offering. 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.

Item 6. Exhibits.

The exhibits required to be filed or furnished as part of this Quarterly Report are listed below. 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 Quarterly Report for purposes of Section 18 of the Securities Exchange Act of 1934.

		Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Form**	**Exhibit**	**Filing Date**	**Filed or Furnished Herewith**
10.1	Form of Change in Control Severance Agreement				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

SIGNATURES

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

Redfin Corporation
(Registrant)

November 5, 2020	/s/ Glenn Kelman
(Date)	Glenn Kelman President and Chief Executive Officer *(Duly Authorized Officer)*
November 5, 2020	/s/ Chris Nielsen
(Date)	Chris Nielsen Chief Financial Officer *(Principal Financial Officer)*

Change in Control Severance Agreement

This Change in Control Severance Agreement (the " **Agreement**") is entered into by and between ________________ (the " **Executive**") and Redfin Corporation, a Delaware corporation ("**Redfin**"), and subject to approval by the Board or the compensation committee of the Board, as applicable, is effective as of the earlier of July 28, 2020 and the date that this Agreement is signed (in either case, the "**Effective Date**"). [This Agreement supersedes and replaces in its entirety any currently effective Change in Control Severance Agreement between Executive and the Company (the "**Prior Agreement**").][1]

1. **Term of Agreement.**

This Agreement shall terminate on the earlier of (i) July 28, 2023, (ii) the date Executive's employment with Redfin terminates for a reason other than a CIC Qualifying Termination or (iii) the date Redfin has met all of its obligations under this Agreement following a CIC Qualifying Termination (the "**Expiration Date**"). This Agreement shall expire on the Expiration Date unless renewed by the Board or extended pursuant to the immediately following sentence. Notwithstanding the foregoing, if a definitive agreement relating to a Change in Control has been signed by Redfin on or before the Expiration Date, then this Agreement shall remain in effect through the earlier of (a) 12 (twelve) months following such Change in Control; (b) the date Executive's employment with Redfin terminates for a reason other than a CIC Qualifying Termination or (c) the date Redfin has met all of its obligations under this Agreement following a CIC Qualifying Termination.

For the avoidance of doubt, and notwithstanding anything to the contrary in Section 2 below, Redfin's non-renewal of this Agreement shall not constitute a CIC Qualifying Termination.

2. **Severance Benefit.**

Any other provision of this Agreement notwithstanding, Executive's receipt of any payments or benefits under Section 2(a) is subject to Executive's delivery to Redfin of a general release (in a form prescribed by Redfin) of all known and unknown claims that he or she may then have against Redfin or persons affiliated with Redfin (the "**Release**"), and satisfaction of all conditions to make the Release effective, within thirty (30) days (the "**Release Period**") following Executive's CIC Qualifying Termination. In no event will any payment or benefits under Section 2(a) be paid or provided until the Release becomes effective and irrevocable.

(a) **Qualifying Termination During a Change in Control Period.** If Executive is subject to a CIC Qualifying Termination, Executive shall be entitled to the following:

(i) Severance Payments. Redfin shall pay Executive six (6) months of Executive's base salary at the rate in effect immediately prior to the actions that resulted in the CIC Qualifying Termination or when the Change in Control occurred, whichever is greater, in a cash lump-sum on the later of (x) the fifth (5th) business day following expiration of the Release Period and (y) the closing of the Change in Control.

(ii) Health Care Benefit. Redfin shall pay Executive a taxable cash lump-sum payment in an amount equal to six (6) months of Executive's COBRA payments for Executive and his or her eligible

[1] NTD: To be included for Executives with currently effective Change in Control Severance Agreements.

dependents for continued health benefits, on the later of (x) the fifth (5th) business day following expiration of the Release Period and (y) the closing of the Change in Control.

(iii) Equity.

Each of Executive's then-outstanding unvested Equity Awards, other than Performance Awards (defined below), shall accelerate and become vested and exercisable or settleable as if Executive had continued in service for an additional twenty-four (24) months. With respect to awards that would otherwise vest only upon satisfaction of performance criteria ("**Performance Awards**"), then the vesting will accelerate as set forth in the terms of the applicable performance-based Equity Award agreement. The accelerated vesting described above shall be effective as of the later of (x) the fifth (5th) business day following expiration of the Release Period and (y) the closing of the Change in Control; provided, that if (1) Redfin terminates Executive's employment for any reason other than Cause before a Change in Control or (2) Executive voluntarily resigns his or her employment for Good Reason before a Change in Control, then any unvested Equity Awards that would otherwise forfeit upon such termination shall remain outstanding and eligible to vest for three (3) months following such termination (provided that in no event will the Equity Awards remain outstanding beyond the expiration of the Equity Award's maximum term) to permit the acceleration described above. In the event that a Change in Control is not completed during such three (3) month period, any unvested portion of the Equity Awards will be automatically and permanently forfeited without having vested effective three (3) months following such termination.

(b) **Non-Assumption of Equity Awards granted under the 2004 Plan & 2017 Plan.** Notwithstanding anything to the contrary, if the successor or acquiring corporation (if any) of Redfin refuses to assume, convert, replace or substitute Executive's unvested Equity Awards (x) as provided in Section 21.1 of Redfin's 2017 Equity Incentive Plan (the "**2017 Plan**") in connection with a Corporate Transaction (as defined in the 2017 Plan), or (y) as provided in Section 12(c) of Redfin's 2004 Stock Plan, as amended and restated (the "**2004 Plan**" and together with the 2017 Plan, the "**Plans**") in connection with a Change in Control (as defined in the 2004 Plan), then notwithstanding any other provision in this Agreement, the Plans or any Equity Award Agreement to the contrary, each of Executive's then-outstanding and unvested Equity Awards, other than Performance Awards, that are not assumed, converted, replaced or substituted, shall accelerate and become vested and exercisable as to 100% of the then-unvested shares subject to the Equity Awards effective immediately prior to the Corporate Transaction or Change in Control, as applicable and terminate to the extent not exercised (as applicable) upon the Corporate Transaction or Change in Control, as applicable. With respect to Performance Awards, the vesting for such Performance Awards will accelerate as set forth in the terms of the applicable performance-based Equity Award agreement.

(c) **2004 Plan Section 12(c)(ii).** Notwithstanding anything to the contrary herein, this Agreement does not supersede, modify or impose additional requirements or restrictions on Section 12(c)(ii) of the 2004 Plan.

(d) **Accrued Compensation and Benefits.** Notwithstanding anything to the contrary in Section 2(a) above, in connection with any termination of employment, Redfin shall pay Executive's earned but unpaid base salary and other vested but unpaid cash entitlements, including unused earned vacation pay and unreimbursed documented business expenses incurred by Executive through and including the date of termination (collectively "**Accrued Compensation and Expenses**"). In addition, Executive shall be entitled to any other vested benefits earned by Executive for the period through and including the termination date of Executive's employment under any other employee benefit plans and arrangements maintained by Redfin, in accordance with the terms of such plans and arrangements, except as modified herein (collectively " **Accrued Benefits**"). Any Accrued Compensation and Expenses to which Executive is entitled shall be paid to Executive in cash as soon as administratively practicable after the termination, and, in any event, no later than two and one-half (2-1/2) months after the end of the taxable year of Executive in which the termination occurs or at such earlier time as may be required by applicable law. Any Accrued Benefits to which Executive is entitled shall be paid to Executive as provided in the relevant plans and arrangements.

3. **Redfin Policies.** Executive will be bound by and comply fully with Redfin's standard confidentiality agreement (a form of which was been provided to Executive), insider trading policy, code of conduct, and any other policies and programs adopted by Redfin regulating the behavior of its employees, as such policies and programs may be amended from time to time to the extent the same are not inconsistent with this Agreement.

4. **Definitions.**

(a) "**Board**" means Redfin's Board of Directors.

(b) "**Cause**" means the occurrence of any of the following events, as determined by Redfin and/or the Board in its and/or their sole and absolute discretion:

(i) Executive has been convicted of, or has pleaded guilty or nolo contendere to, any felony or any crime involving moral turpitude;

(ii) Executive has engaged in willful act of gross misconduct that results in (or would reasonably be expected to result in) harm to Redfin;

(iii) Executive has made any unauthorized disclosure or use of Redfin's confidential or proprietary information;

(iv) Executive has breached any material term or condition of Executive's Confidential Information and Invention Assignment Agreement with Redfin;

(v) Executive has committed any act of fraud, theft, embezzlement, misappropriation of funds, breach of fiduciary duty or other willful act of material dishonesty against Redfin that results in (or would reasonably be expected to result in) harm to Redfin; or

(vi) Executive has breached any material term or condition of this Agreement or any other material agreement with Redfin;

provided; however that the action or conduct described in clause (vi) above will constitute "Cause" only if such action or conduct continues after Redfin has provided Executive with written notice thereof and ten (10) business days to cure the same if such action or conduct is curable. The determination as to the existence of grounds for Executive's termination for Cause shall be made in good faith by Redfin or the Board and shall be final and binding on Executive.

(c) "**COBRA**" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

(d) "**Code**" means the Internal Revenue Code of 1986, as amended.

(e) "**Change in Control**" means the occurrence of any of the following events: (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of Redfin representing more than fifty percent (50%) of the total voting power represented by Redfin's then outstanding voting securities; or (ii) the consummation of the sale or disposition by Redfin of all or substantially all of Redfin's assets; or (iii) the consummation of a merger or consolidation of Redfin with any other corporation, other than a merger or consolidation which would result in the voting securities of Redfin outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of Redfin or such surviving entity or its parent outstanding immediately after such merger or consolidation.

(f) "**CIC Qualifying Termination**" means a Separation (i) within twelve (12) months following a Change in Control or (ii) within three (3) months preceding a Change in Control, but as to part (ii) only if the Separation occurs following a Potential Change in Control, in each case, resulting from (X) Redfin terminating Executive's employment for any reason other than Cause or (Y) Executive voluntarily resigning his or her employment for Good Reason. "**Potential Change in Control**" means the date of execution of a definitive agreement for a corporate transaction which, if consummated, would constitute the applicable Change in Control. A termination or resignation due to Executive's death or disability shall not constitute a CIC Qualifying Termination.

(g) "**Equity Awards**" means all awards for Redfin common stock granted to Executive, including but not limited to options, stock bonus awards, restricted stock, restricted stock units and stock appreciation rights.

(h) "**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

(i) "**Good Reason**" means the occurrence of any of the following events or conditions, without Executive's express written consent:

(i) a material reduction in Executive's base salary (other than a reduction generally applicable to executive officers of Redfin and in generally the same proportion as for Executive);

(ii) a material reduction in Executive's authority, duties or responsibilities at Redfin;

(iii) a change in the geographic location at which Executive must perform services which results in an increase in the one-way commute of Executive by more than 50 miles; or

(iv) Redfin's material breach of this Agreement comprised of its failure to ensure assumption of this Agreement by its successor, as set forth in Section 5(a) hereof.

With respect to each of subsection (i), (ii), (iii) and (iv) above, Executive must provide notice to Redfin of the condition giving rise to "Good Reason" within ninety (90) days of the initial existence of such condition, and Redfin will have thirty (30) days following such notice to remedy such condition.

Executive must resign Executive's employment and effect a Separation no later than thirty (30) days following expiration of Redfin's thirty (30) day cure period.

(j) "**Separation**" means a "*separation from service*," as defined in the regulations under Section 409A of the Code.

5. **Successors.**

(a) **Redfin's Successors**. Redfin shall require any successor (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of Redfin's business and/or assets, by an agreement in substance and form satisfactory to Executive, to assume this Agreement and to agree expressly to perform this Agreement in the same manner and to the same extent as Redfin would be required to perform it in the absence of a succession. For all purposes under this Agreement, the term "**Redfin**" shall include any successor to Redfin's business and/or assets or which becomes bound by this Agreement by operation of law.

(b) **Executive's Successors**. This Agreement and all rights of Executive hereunder shall inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

6. **Golden Parachute Taxes.**

(a) **Best After-Tax Result** . In the event that any payment or benefit received or to be received by Executive pursuant to this Agreement or otherwise ("**Payments**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code and (ii) but for this subsection (a), be subject to the excise tax imposed by Section 4999 of the Code, any successor provisions, or any comparable federal, state, local or foreign excise tax ("**Excise Tax**"), then, subject to the provisions of Section 6(b) hereof, such Payments shall be either (A) provided in full pursuant to the terms of this Agreement or any other applicable agreement, or (B) provided as to such lesser extent which would result in no portion of such Payments being subject to the Excise Tax ("**Reduced Amount**"), whichever of the foregoing amounts, taking into account the applicable federal, state, local and foreign income, employment and other taxes and the Excise Tax (including, without limitation, any interest or penalties on such taxes), results in the receipt by Executive, on an after-tax basis, of the greatest amount of payments and benefits provided for hereunder or otherwise, notwithstanding that all or some portion of such Payments may be subject to the Excise Tax. Unless Redfin and Executive otherwise agree in writing, any determination required under this Section shall be made by independent tax counsel designated by Redfin and reasonably acceptable to Executive ("**Independent Tax Counsel**"), whose determination shall be conclusive and binding upon Executive and Redfin for all purposes. For purposes of making the calculations required under this Section 6(a), Independent Tax Counsel may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code; provided that Independent Tax Counsel shall assume that Executive pays all taxes at the highest marginal rate. Redfin and Executive shall furnish to Independent Tax Counsel such information and documents as Independent Tax Counsel may reasonably request in order to make a determination under this Section. Redfin shall bear all costs that Independent Tax Counsel may reasonably incur in connection with any calculations contemplated by this Section. In the event that Section 6(a)(ii)(B) above applies, then based on the information provided to Executive and Redfin by Independent Tax Counsel, Executive may, in Executive's sole discretion and within 30 days of the date on which Executive is provided with the information prepared by Independent Tax Counsel, determine which and how much of the Payments (including the accelerated vesting of equity compensation awards) to be otherwise received by Executive shall be eliminated or reduced (as long as after such determination the value (as calculated by Independent Tax Counsel in accordance with the provisions of Sections 280G and 4999 of the Code) of the amounts payable or distributable to Executive equals the Reduced Amount). If the Internal Revenue Service (the "**IRS**") determines that any Payment is subject to the Excise Tax, then Section 6(b) hereof shall apply, and the enforcement of Section 6(b) shall be the exclusive remedy to Redfin.

(b) **Adjustments**. If, notwithstanding any reduction described in Section 6(a) hereof (or in the absence of any such reduction), the IRS determines that Executive is liable for the Excise Tax as a result of the receipt of one or more Payments, then Executive shall be obligated to surrender or pay back to Redfin, within 120 days after a final IRS determination, an amount of such payments or benefits equal to the "**Repayment Amount**." The Repayment Amount with respect to such Payments shall be the smallest such amount, if any, as shall be required to be surrendered or paid to Redfin so that Executive's net proceeds with respect to such Payments (after taking into account the payment of the Excise Tax imposed on such Payments) shall be maximized. Notwithstanding the foregoing, the Repayment Amount with respect to such Payments shall be zero if a Repayment Amount of more than zero would not eliminate the Excise Tax imposed on such Payments or if a Repayment Amount of more than zero would not maximize the net amount received by Executive from the Payments. If the Excise Tax is not eliminated pursuant to this Section 6(b), Executive shall pay the Excise Tax.

7. **Miscellaneous Provisions.**

(a) **Section 409A**. To the extent (i) any payments to which Executive becomes entitled under this Agreement, or any agreement or plan referenced herein, in connection with Executive's termination of employment with Redfin constitute deferred compensation subject to Section 409A of the Code and (ii) Executive is deemed at the time of such termination of employment to be a "specified" employee under Section 409A of the Code, then such payment or payments shall not be made or commence until the earlier of (i) the expiration of the six (6)-month period measured from the date of Executive's "separation from service" (as such term is at the time defined in regulations under Section 409A of the Code) with Redfin; or (ii) the date of Executive's death following such separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to Executive, including (without limitation) the additional twenty percent (20%) tax for which Executive would otherwise be liable under Section 409A(a)(1)(B) of the Code in the absence of such deferral. Upon the expiration of the applicable deferral period, any payments which would have otherwise been made during that period (whether in a single sum or in installments) in the absence of this paragraph shall be paid to Executive or Executive's beneficiary in one lump sum (without interest).

Except as otherwise expressly provided herein, to the extent any expense reimbursement or the provision of any in-kind benefit under this Agreement (or otherwise referenced herein) is determined to be subject to (and not exempt from) Section 409A of the Code, the amount of any such expenses eligible for reimbursement, or the provision of any in-kind benefit, in one calendar year shall not affect the expenses eligible for reimbursement or in kind benefits to be provided in any other calendar year, in no event shall any expenses be reimbursed after the last day of the calendar year following the calendar year in which Executive incurred such expenses, and in no event shall any right to reimbursement or the provision of any in-kind benefit be subject to liquidation or exchange for another benefit.

To the extent that any provision of this Agreement is ambiguous as to its exemption or compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder are exempt from Section 409A to the maximum permissible extent, and for any payments where such construction is not tenable, that those payments comply with Section 409A to the maximum permissible extent. To the extent any payment under this Agreement may be classified as a "short-term deferral" within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this Agreement (or referenced in this Agreement) are intended to constitute separate payments for purposes of Section 1.409A 2(b)(2) of the regulations under Section 409A.

(b) **Other Severance and Acceleration Arrangements**. Except as otherwise specified herein, this Agreement represents the entire agreement between Executive and Redfin with respect to any and all severance arrangements, vesting acceleration arrangements and post-termination stock option exercise period arrangements, and supersedes and replaces any and all prior verbal or written discussions, negotiations and/or agreements between Executive and Redfin relating to the subject matter hereof as may be set forth under, but not limited to, any and all prior agreements governing any Equity Award, any change in control and severance agreements [(including the Prior Agreement)] [2], employment agreement, offer letter or programs and plans which were previously offered by Redfin to Executive, and Executive hereby waives Executive's rights to any and all such other severance arrangements, vesting acceleration arrangements and post-termination stock option exercise period arrangements, as applicable.

(c) **Dispute Resolution**. To ensure rapid and economical resolution of any and all disputes that might arise in connection with this Agreement, Executive and Redfin agree that any and all disputes, claims, and causes of action, in law or equity, arising from or relating to this Agreement or its enforcement, performance, breach, or interpretation, will be resolved solely and exclusively by final, binding, and confidential arbitration, by a single arbitrator, in King County, WA, and conducted by the American Arbitration Association under its then-existing employment rules and procedures. Nothing in this section, however, is intended to prevent either party from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration. Each party to an arbitration or litigation hereunder shall be responsible for the payment of its own attorneys' fees.

(d) **Notice**. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid or deposited with Federal Express Corporation (or a comparable delivery Redfin), with shipping charges prepaid. In the case of Executive, mailed notices shall be addressed to him or her at the home address which he or she most recently communicated to Redfin in writing. In the case of Redfin, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

(e) **Amendment; Waiver**. This Agreement may not be amended or waived except by a writing signed by Executive and by a duly authorized representative of Redfin other than Executive. No provision of this Agreement shall be modified, waived, superseded or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of Redfin (other than Executive) and, to the extent it supersedes this Agreement, that this Agreement is referred to by date. No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(f) **Withholding Taxes**. All payments made under this Agreement shall be subject to reduction to reflect taxes or other charges required to be withheld by law.

---

[2] NTD: To be included for Executives with currently effective Change in Control Severance Agreements.

(g) **Severability**. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(h) **No Retention Rights**. Nothing in this Agreement shall confer upon Executive any right to continue in service for any period of specific duration or interfere with or otherwise restrict in any way the rights of Redfin or any subsidiary of Redfin or of Executive, which rights are hereby expressly reserved by each, to terminate his or her service at any time and for any reason, with or without Cause.

(i) **Choice of Law**. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Washington (other than their choice-of-law provisions).

[Signature Page Follows]

IN WITNESS WHEREOF, each of the parties has executed this **Change in Control Severance Agreement,** as of the day and year first above written.

REDFIN CORPORATION

[Name]

By:

Title:

[Signature Page to the Change in Control Severance Agreement]

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 Quarterly Report on Form 10-Q 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: November 5, 2020

/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 Quarterly Report on Form 10-Q 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: November 5, 2020

/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 Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 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: November 5, 2020

/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 Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 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: November 5, 2020

/s/ Chris Nielsen
Chris Nielsen
Chief Financial Officer