

Revenue Recognition

Revenue is primarily derived from the sale of apparel merchandise through the Company's online websites, stores, third-party marketplaces and, when applicable, shipping revenue.

Revenue is recognized in an amount that reflects the consideration expected to be received in exchange for products. To determine revenue recognition for contracts with customers in accordance with *Revenue from Contracts with Customers (Topic 606)*, the Company recognizes revenue from the commercial sales of products and contracts by applying the following five steps: (1) identification of the contract, or contracts, with the customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, the Company satisfies its performance obligation. A contract is created with the customer at the time the order is placed by the customer, which creates a single performance obligation. The Company recognizes revenue for its single performance obligation at the time control of the product passes to the customer, which is when the goods are transferred to a third-party common carrier, for purchases through the Company's online websites, or at point of sale, for purchases in its stores. In addition, the Company has elected to treat shipping and handling as fulfillment activities and not a separate performance obligation.

Net sales from product sales includes shipping charged to the customer and is recorded net of taxes collected from customers, which are recorded in accrued liabilities and are remitted to governmental authorities. Cash discounts earned by the customers at the time of purchase and estimates for sales return allowances are deducted from gross revenue in determining net sales.

The Company generally provides refunds for goods returned within 30 to 45 days from the original purchase date. A returns reserve is recorded by the Company based on historical refund experience with a corresponding reduction of sales and cost of sales. The sales return reserve was \$9.6 million and \$4.0 million as of December 31, 2023 and 2022, respectively.

The following table presents a summary of the Company's sales return reserve:

	December 31,	
	2023	2022
Beginning balance	\$ 3,968	\$ 6,887
Returns	(101,025)	(101,716)
Allowance	106,667	98,797
Ending balance	<u>\$ 9,610</u>	<u>\$ 3,968</u>

The Company also sells gift cards and issues online credits in lieu of cash refunds or exchanges. Proceeds from the issuance of gift cards and online credits issued are recorded as deferred revenue and recognized as revenue when the gift cards or online credit are redeemed or upon inclusion in gift card and online credit breakage estimates. Breakage estimates are determined based on prior historical experience.

Revenue recognized in net sales on breakage of gift cards and online credit for the years ended December 31, 2023, 2022 and 2021 was \$ 1.6 million, \$0.2 million and \$0.5 million, respectively.

The following table presents the disaggregation of the Company's net sales by geography, based on customer address:

	Year Ended December 31,		
	2023	2022	2021
United States	\$ 315,496	\$ 312,977	\$ 270,028
Australia/New Zealand	202,777	268,873	265,365
Rest of world	27,985	29,888	26,798
Total	<u>\$ 546,258</u>	<u>\$ 611,738</u>	<u>\$ 562,191</u>

Cost of Sales

Cost of sales consists of the purchase price of merchandise sold to customers and includes import duties and other taxes, freight-in, defective merchandise returned from customers, inventory write-offs and other miscellaneous shrinkage.