Overstock.com, Inc. is an American internet retailer headquartered in Midvale, Utah. Patrick M. Byrne co-founded Overstock.com in 1999. The company initially sold exclusively surplus and returned merchandise on an online e-commerce marketplace, liquidating the inventories of failed dot-com companies at below-wholesale prices. The company has since transitioned to selling both new and closeout merchandise. It sells primarily home decor, furniture, bedding, and housewares.

What is Overstock's primary line of business?

Through our online Retail business, we offer a broad range of price-competitive products, including furniture, home decor, bedding and bath, and housewares, among other products. We sell our products and services through our Internet websites located at www.overstock.com, www.o.co, www.overstock.ca, and www.overstockgovernment.com (referred to collectively as the "Website"). Although our four websites are located at different domain addresses, the technology and equipment and processes supporting the Website and the process of order fulfillment described herein are the same for all four websites. Our Retail business initiatives are described in more detail below under "Our Retail Business".

Our Retail Business

For the last three fiscal years, our Retail business has generated nearly all of our net revenues. In our Retail business, our goal is to provide goods to furnish and accessorize "Dream Homes for All", particularly for our target customers—consumers who seek smart value on quality, stylish merchandise at competitive prices. We offer millions of products of which over 99% were in-line products (products in active production). We believe that the furniture and home goods market, which is highly fragmented and has traditionally been served by brick and mortar stores, will continue transitioning to online sales, particularly as Millennial consumers (which we define as those born between 1981 - 1996), who are generally comfortable shopping online, start families and move into new homes. We regularly update our product assortment to meet the evolving preferences of our customers and current trends. Our products include, among others, furniture, home décor including area rugs, bedding and bath, home improvement, and kitchen and dining items. We compete primarily based on:

- Simple and easy customer experience with an emphasis on price, value, and quality with a wide assortment of products delivered in a personalized format with the convenience of our mobile app, and with the benefits of our award-winning customer care;
- Proprietary technologies which we believe help us provide our customers with an intuitive shopping experience;
- Logistics capabilities tailored to the furniture and home furnishings category and developed over our many years of e-commerce experience;
- Long-term mutually beneficial relationships with our partners, which numbered approximately 3,000 as of December 31, 2020; and
- Our Club O Loyalty Program, which we believe increases customer engagement and retention.

Overstock's merchandise is *purchased by* or *manufactured specifically for* the company. Among their products are handmade goods produced for Overstock by workers in developing nations. The company also provides the platform wherein its partners can manage their inventory through the Overstock global supply chain.

What is Overstock's value proposition?

For the last three fiscal years, our Retail business has generated nearly all of our net revenues. In our Retail business, our goal is to provide goods to furnish and accessorize "Dream Homes for All", particularly for our target customers—consumers who seek smart value on quality, stylish merchandise at competitive prices. We offer millions of products of which

Overstock's value proposition is "**Dream Homes for All**". In 2020, 97.8% of its revenues came from selling furnishings and home accessories through the Overstock.com web platform. It has been important to keep this in perspective while analyzing the company's financials, as the firm has made significant investments in eighteen different blockchain-related ventures through its Medici Ventures segment. Currently, it is not clear how these blockchain-related ventures support Overstock's value proposition or its core business operations.

For 2020, nearly all our Retail sales through our Website were from transactions in which we fulfilled orders through our network of approximately 3,000 third-party manufacturers, distributors and other suppliers ("partners") selling on our Website. Our use of the term "partner" does not mean that we have formed any legal partnerships with any of our retail partners. We provide our partners with access to a large customer base and convenient services for order fulfillment, customer service, returns handling, and other services. Our supply chain allows us to ship directly to our customers from our suppliers or from our warehouses. Our warehouses primarily fulfill orders from direct sales of our partners owned inventory, including some customer returns of partner products. Our warehouses ship over 2,000 packages per day on average and up to approximately 3,200 packages per day during peak periods.

During the years ended December 31, 2020, 2019 and 2018 our sales were almost entirely to customers located in the United States and no single customer accounted for more than 1% of our total net revenue.

Additional Offerings

We offer additional products or services that may complement our primary retail offerings but are not significant to our retail revenues, including:

- Businesses advertising products or services on our Website;
- Our international business where we offer products to customers outside the United States using third party logistics providers; and
- Supplier Oasis, a single integration point through which our partners can manage their products, inventory and sales channels, and obtain multi-channel fulfillment services through our distribution network.

Patrick Byrne

Patrick M. Byrne is the former CEO and co-founder of the Internet retailer Overstock.com. Byrne received his B.A. from Dartmouth, studied at Cambridge University as a Marshall Scholar, and earned a PhD in Philosophy from Stanford University.

He co-founded Overstock.com in 1997 and became CEO in 1999. In 2005, Byrne initiated a controversial campaign against "naked short selling" in which he accused a "Sith Lord" (Michael Milken/Stephen Cohen) and various financial firms (SAC Capital) of sabotaging Overstock's share price.

Byrne is described by his critics as "… smart, charming, complex, and brilliant", and has claimed periodically to be working in conjunction with aspects of Federal law enforcement and/or U.S. Intelligence. As CEO of Overstock, Byrne appeared at times to be pursuing an agenda or agendas other than maximizing shareholder value. As we looked closely at Overstock's financials and tried to gain an understanding of the company, we realized that Overstock became a platform wherein Byrne attempted to tackle systemic issues, and his Medici Ventures segment is evidence of that.

Byrne on Naked Short Selling

"I'll never forget. … one guy got through, and I put him on the speakerphone as I was packing up a suitcase. And he described this very arcane thing for about 45 minutes. At the end of it I was saying, *Fine buddy. I understand, and thanks a lot.* … he could tell I was giving him the brush off, and he said,

> *Look, I can tell you're giving me the brush off, so I'm going to give you a series of predictions. And when these come true, you call me. And the predictions are:*
>
> - *five journalists are going to call you… and they're gonna do hatchet jobs on you.*
> - *…you're gonna find yourself the target of a federal investigation.*
> - *You're going to find yourself trading on some foreign exchanges that you never heard of. . . you know, Bahamas and Australia and stuff.*
> - *And fourth, the SCC is going to start publishing a list of companies that are seeing a certain oddity occur in their stock. It's called the Regulation Show of Threshold List. And when they start publishing that in a couple of months, there's only . . . half of one percent of companies are gonna be on it, but you're gonna be on it.*

Well over the next eight weeks, every one of those stories came true. In fact, on that trip that I was packing for, the journalists started calling me. Well, that was odd. . .. The journalists called me. We . . . we became the object of an FTC investigation that was sort of a very flimsy investigation that went nowhere, and they dropped it. We started trading on exchanges in Stuttgart and . . . Munich, Bahamas having nothing to do with that. And when this list came out of . . . 30 or 40 companies out of 7,000. We were on the list. ... I gradually realized the guy was right.

There is this crack in the financial system, and the savings of Americans are being drained out of that crack. There is a Harvard economist who says it may be tens of billions. It may be hundreds of billions of dollars that have been stolen through this crack. Now what is the crack?

A normal stock trade is you're buying stock from me, you give me money, and I'll give you stock. That's called settlement. Believe it or not there's a loophole that exists in the system. And when the time comes for me to give you the stock that you bought from me, I can give you just an IOU basically for some stock.

Now you or I couldn't do this, but big hedge funds and prime brokers have ways of doing this. And all they're really giving is an IOU and you never know that. You get your broker statement from Merrill Lynch or Morgan Stanley, and it says you got the stock. Well, no stock ever came. All you got was an IOU. . .. it happens only about one or two percent of the time, but . . . <u>what seems to have happened is some hedge funds have figured out how to manipulate this loophole and inject hundreds of millions or even billions of these what are, in effect, fake shares into the market. … you can destroy companies using this technique</u>. … This is . . . it's . . . it's massive. It's endemic in the system, and it's clearly being used to manipulate.

It's clearly being targeted. And how it is targeted . . . is you go after a small company … And you just flood the market with fake shares of that company, and you can crack the market. … if you can do this while you have a couple of your fake journalists just write stories after stories banging the company, you can basically drop it to nothing. …Well, you can snap that life cycle . . . The company will collapse, and you can walk out with this market cap. And maybe you can. . . walk out with that market cap two or three times over."

Byrne on Corporate Democracy

"…there was an article by Bob Drummond in *Bloomberg Markets* magazine … called The Corporate Voting Charade. Well, here is people on the record in the back offices of Wall Street – the transfer agents who count votes – that say . . .:

> *This is positively criminal. We regularly do not have any idea who's entitled to vote and who isn't. We regularly get two to three times as many votes as there are shares.*

Now as crazed as all that sounds, the New York Stock Exchange did a study on 341 elections and found over voting in all 341. … after WorldCom and Enron … the American government solution was to … tighten up corporate governance. Well corporate governance in the Boards of Directors that's based on corporate elections, which is built demonstrably on quicksand. … If you have all these fake shares in the system, and people voting the fake shares, … there aren't even any rules… on which votes get thrown out and which don't. So, the whole system is a joke."

What do they do that is different from their peers? –*Blockchain Innovation*

tZERO

tZERO is a leader in blockchain innovation and liquidity for digital assets. The financial technology company is aiming to democratize access to private capital markets by focusing on the development and adoption of digital securities (which we define below). tZERO offers institutional-grade solutions for issuers looking to digitize their capitalization table through blockchain technology, and trade on a regulated alternative trading system. tZERO democratizes access to private assets by providing a simple, automated, and efficient trading venue to broker-dealers, institutions, and investors. tZERO has developed a suite of technologies (the "tZERO Technology Stack") that enables issuers to issue, and relevant regulated market participants to support the issuance, trading, clearance and settlement of digital securities. tZERO also supports the adoption of digital securities by developing the tZERO Technology Stack for use by regulated venues on which those digital securities can trade, as well as investing in subsidiaries and joint venture entities that own and operate such trading venues. These investments include the alternative trading system (the "tZERO ATS") run by its wholly-owned subsidiary, tZERO ATS, LLC, a U.S. Securities and Exchange Commission ("SEC")-registered broker-dealer which provides a regulated venue for matching buy and sell orders to its broker-dealer subscribers, including for the trading of digital securities, and its joint venture with BOX Digital Markets LLC ("BOX Digital"), intended to develop a U.S. national securities exchange facility with regulatory approvals enabling it to support trading in a type of digital security called a security token. Another wholly-owned subsidiary of tZERO, tZERO Markets, LLC ("tZERO Markets"), is an SEC-registered broker-dealer which offers a website, and in the future intends to provide a mobile application, that allows retail customers to conduct self-directed trading of digital securities. In addition, tZERO also maintains certain other businesses.

tZERO is a blockchain-based asset exchange launched by Overstock's Medici Ventures. In other words, the company focuses on being a regularly compliant platform for the trading of tokenized securities as well as cryptocurrencies.

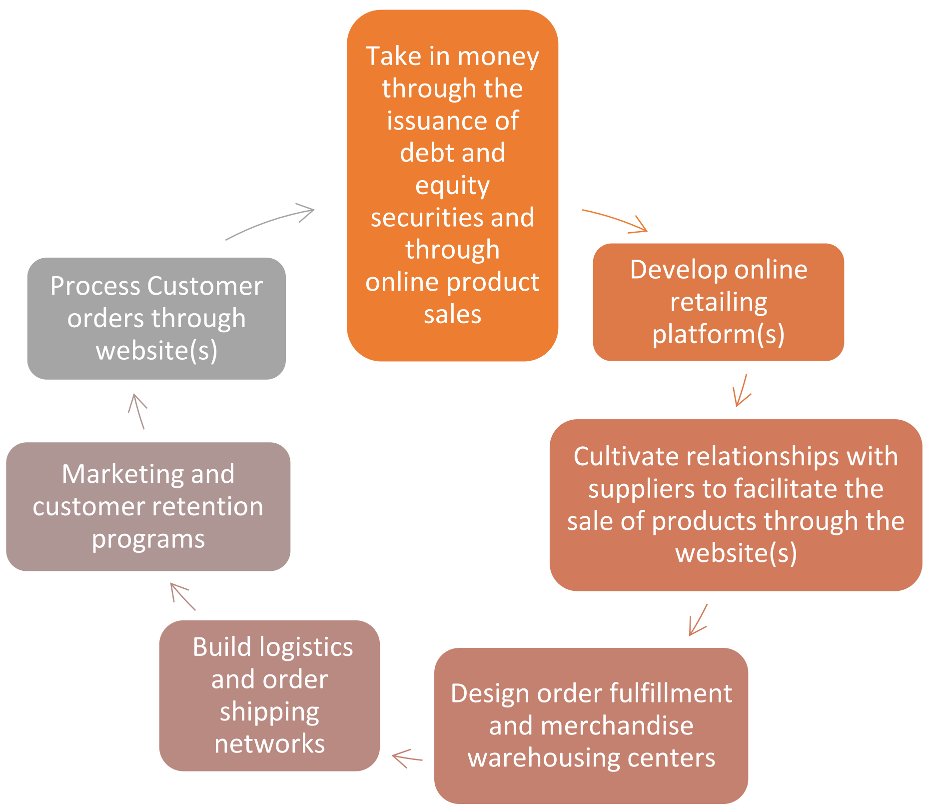
In comparison to its peers, tZERO represents the most dominating venue in the secondary securities market available to this date. As such, tZERO has a competitive edge and first-mover advantage if security tokens increase in popularity and become more commonplace in the years to come.

With blockchain technology, the trade is the settlement, meaning settlement is instant (T+0 or *tZERO*), not trade date, plus two business days (T+2). Blockchain technology eliminates the risk exposure associated with unsettled positions which create the potential for mischief, i.e., naked short selling.

Naked short selling occurs when short sellers or their brokers borrow stock to settle the trade two days later (T+2). Because of that delay in settlement and the lack of transparency into available shares, over lending can occur, meaning that more shares are sold than issued. Tzero eliminates the ability for bad actors to sell more shares into the market than were issued.

Overstock Vs. BLOK 2018 – Present

What is Overstock's Life Cycle?



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- Businesses advertising products or services on our Website;
- Our international business where we offer products to customers outside the United States using third party logistics providers; and
- Supplier Oasis, a single integration point through which our partners can manage their products, inventory and sales channels, and obtain multi-channel fulfillment services through our distribution network.

Manufacturer, Distributor, and Supplier Relationships

To the extent possible we maintain manufacturer, distributor, and supplier relationships, and seek new manufacturer, distributor, and supplier relationships, and also use our working capital, to ensure a continuous allotment of product offerings for our customers. Generally, our manufacturers, distributors, or suppliers regularly communicate to us the quantity of products that are held in reserve for us, but our arrangements with them generally do not guarantee the availability of those products for a set duration. Our manufacturer, distributor, and supplier relationships are based on historical experience and are generally non-exclusive and we retain the right to select and change our suppliers at our discretion. Generally, manufacturers, distributors, and suppliers do not control the terms under which products are sold through our Website.

Sales and Marketing

We use a variety of methods to target our retail consumer audience, including online campaigns, such as advertising through keywords, product listing ads, display ads, search engines, affiliate marketing programs, social coupon websites, portals, banners, e-mail, direct mail, and viral and social media campaigns. We also do brand advertising through television, video on demand, radio, print ads, and event sponsorships.

Customer Service

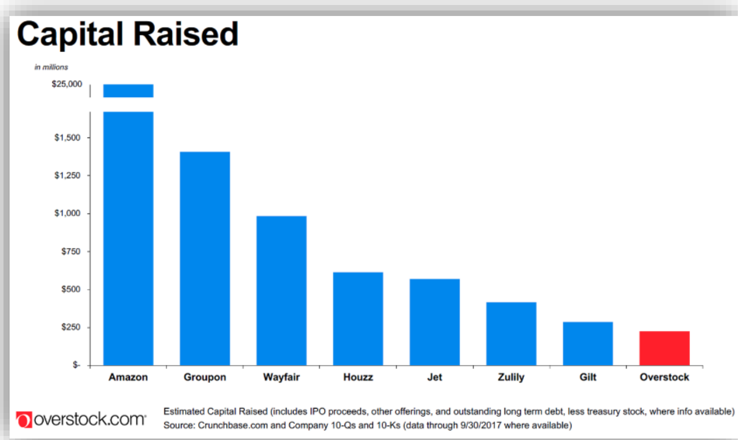
We are committed to providing superior customer service. We staff our customer service department with dedicated in-house and outsourced professionals who respond to phone, SMS, instant online chat, and e-mail inquiries on products, ordering, shipping status, returns, and other areas of customer inquiry.

Overstock's e-commerce retail business deals with price-competitive, new and replenishable merchandise. They use the Internet to aggregate both supply and demand to create an efficient marketplace for selling these products. Overstock provides suppliers with access to a large customer base and convenient services for order fulfillment, customer service, returns handling, and other services. The merchandise offered is from various sources including well-known, brand-name manufacturers. Overstock has two components to its retail business, a *direct business*, and a *partner business*.

For the **partner business**, Overstock sells merchandise from manufacturers, distributors, and other suppliers. Overstock controls the specific good before it is transferred to the customer. These partners perform the same fulfillment operations as Overstock's warehouses, such as order picking and shipping. However, Overstock handles returns and customer service.

The **direct business** includes sales made to individual consumers and businesses from Overstock owned inventory and that are fulfilled primarily from the warehouse in Salt Lake City, Utah.

<u>The partner business enjoys a higher margin than the direct business (19-20% vs. 3-7%) so over the last few years, Overstock has been winding down the direct business to focus on the more profitable one.</u>



While giants such as Amazon and Wayfair have raised billions of dollars in capital, Overstock has raised barely $250MM USD *and* is struggling to obtain new sources of fresh capital.

In 2018, Byrne had to resort to expensive sources of capital to pay debt that was due. His mother and brother, via PCL L.L.C., lent the company 40MM USD at an interest rate of 8% and the loan was secured by the headquarters.

Also, in 2018, Overstock obtained another 100MM USD in capital when George Soros exercised a warrant to acquire 100MM USD worth of stocks. As for an equity raise, it has been put on hiatus indefinitely as Overstock's management is not willing to dilute shareholders.

Who are the Stockholders?

It appears that the stock of Overstock is spread out among many different institutions and individuals. Below is a breakdown of the stockholders who hold more than 5% and specific directors and other officer's stockownership holdings.

Beneficial Owner (Name and Address)	Common Stock Shares Beneficially Owned Number	Common Stock Shares Beneficially Owned Percent	Digital Voting Series A-1 Preferred Stock Shares Beneficially Owned Number	Digital Voting Series A-1 Preferred Stock Shares Beneficially Owned Percent	Voting Series B Preferred Stock Shares Beneficially Owned Number Percent
5% Stockholders					
Morgan Stanley Morgan Stanley Investment Management Inc. 1585 Broadway New York, NY 10036	4,110,066 (1)	9.6%			
Allianz Global Investors U.S. Holdings LLC 1633 Broadway New York, NY 10019	3,203,562 (2)	7.5%			
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	3,073,033 (3)	7.1%			
Directors, Nominees and Named Executive Officers					
Allison H. Abraham	90,266 (4)	*	8,206	*	
Barclay F. Corbus	48,650 (5)	*	4,734	*	
Joseph J. Tabacco, Jr.	69,433 (6)	*	12,090	*	
Dr. Robert J. Shapiro	6,333 (7)	*	—		
William B. Nettles, Jr.	— (8)		—		
Barbara H. Messing	— (9)		—		
Jonathan E. Johnson III	102,610 (10)	*	8,574	*	
Adrianne B. Lee	— (11)		—		

Beneficial Owner (Name and Address)	Common Stock Shares Beneficially Owned Number	Common Stock Shares Beneficially Owned Percent	Digital Voting Series A-1 Preferred Stock Shares Beneficially Owned Number	Digital Voting Series A-1 Preferred Stock Shares Beneficially Owned Percent	Voting Series B Preferred Stock Shares Beneficially Owned Number Percent
Robert P. Hughes	170 (12)	*	5,174	*	
Anthony D. Strong	— (13)		(13)		
David J. Nielsen	22,840 (14)	*	868	*	
Carter P. Lee	16,292 (15)	*	2,845	*	
Joel G. Weight	2,658 (16)	*	43	*	
Directors and Executive Officers as a Group (17 persons)	404,805 (17)	1.1%	46,210	1.1%	

* Less than 1% of the outstanding shares of common stock.

Who are the Creditors?

Overstock entered into two loans agreements in March 2020. They were a $34.5 million Senior Note, with an annual interest of 4.242%, and a $13 million Mezzanine Note, with an annual interest rate of 5.002%. The total outstanding debt for these loans at the end of 2020 was $44.2 million. Other debt obligations include various current and long-term leases for buildings that Overstock currently holds.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of December 31, 2020 and the effect such obligations and commitments are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating leases (1)	$ 32,796	$ 8,412	$ 12,834	$ 5,697	$ 5,853
Loan agreements (2)	59,420	4,826	10,528	3,261	40,805
Total contractual cash obligations	$ 92,216	$ 13,238	$ 23,362	$ 8,958	$ 46,658

(1) — Represents the future minimum lease payments under non-cancellable operating leases. For information regarding our operating lease obligations, see Item 8 of Part II, "Financial Statements and Supplementary Data"—Note 13—Leases contained in the "Notes to Consolidated Financial Statements" of this Annual Report on Form 10-K.

(2) — Represents future interest and principal payments on our financing agreements. For information regarding our financing agreements, see Item 8 of Part II, "Financial Statements and Supplementary Data"—Note 12—Borrowings contained in the "Notes to Consolidated Financial Statements" of this Annual Report on Form 10-K.

Borrowings

2020 loan agreements

In March 2020, we entered into two loan agreements. The loan agreements provide a $34.5 million Senior Note, carrying interest at an annual rate of 4.242%, and a $13.0 million Mezzanine Note, carrying interest at an annual rate of 5.002%. The loans carry a blended annual interest rate of 4.45%. The Senior Note is for a 10-year term (stated maturity date is March 6, 2030) and requires interest only payments, with the principal amount and any then unpaid interest due and payable at the end of the 10-year term. The Mezzanine Note has a stated 10-year term, though the agreement requires principal and interest payments monthly over approximately a 46-month term payment period. Both loans are secured by our corporate headquarters and the related land. We incurred insignificant debt issuance costs with the new loan agreements.

We compared the distribution of customer reviews Overstock received with those received by its competitors. To do so, we measured the percent of positive reviews to the percent of negative reviews for each company, with a lower number being worse.

For instance, a score of 0.5 would mean there is one positive review for every two negative reviews. As can be seen in the chart to the right, Overstock scored by far the worst of all the companies we measured.

Property

ITEM 2. PROPERTIES

We own and lease various properties in the United States and internationally. We use the properties for corporate office space, data centers, and warehouse, fulfillment and customer service space. As of February 19, 2021, we operated the following facilities (square feet in thousands):

	United States	International	Total
Owned facilities	236	—	236
Leased facilities	1,065	21	1,086
Total facilities	1,301	21	1,322

Employees

Human Capital Management

At December 31, 2020, we had approximately 1,750 full-time employees. We seasonally increase our workforce during our fourth quarter to handle increased workload in both our warehouse and customer service operations. We have never had a work stoppage and none of our employees are represented by a labor union. We consider our employee relations to be

In 2020, we hired 201 new employees, excluding our customer service department, and 682 new customer service employees. We have an average tenure of five years, with an average tenure of three years in customer service.

Additionally, many employees at Overstock seem to be dissatisfied. We found several recent Glassdoor reviews which are shocking, one example reads:

"The company is an absolute disaster with no real plan. The Retail side of the business is always in talks to be sold so the company can focus on the worthless crypto side."

Although Overstock management makes positive statements about the tZERO and Medici Ventures businesses.

Source: glassdoor

We believe the evidence suggests that tZERO is struggling to gain traction in the cryptocurrency community. We looked for the tZERO app in the Google Play store and found that adoption of tZERO has been limited.

Google Play App	Reviews	Downloads
Coinbase	166,389	5,000,000+
Blockchain Wallet	62,493	5,000,000+
Bitcoin Wallet	20,433	1,000,000+
Coinomi Wallet	19,024	500,000+
Mycelium	6,426	500,000+
Bitpay	5,432	500,000+
BRD Bitcoin Wallet	3,430	500,000+
Coinbase Wallet	1,851	100,000+
Exodus	284	50,000+
tZERO	36	500+

Operating Assets

Overstock.com, Inc.
Consolidated Balance Sheets
(in thousands)

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 516,500	$ 112,266
Restricted cash	2,681	2,632
Marketable securities at fair value	1,762	10,308
Accounts receivable, net	30,125	24,728
Inventories	6,243	5,840
Prepaids and other current assets	25,429	21,589
Total current assets	582,740	177,363
Property and equipment, net	122,550	130,028
Intangible assets, net	13,997	11,756
Goodwill	34,950	27,120
Equity securities	47,290	42,043
Operating lease right-of-use assets	24,523	25,384
Other long-term assets, net	4,164	4,033
Total assets	$ 830,214	$ 417,727

Restricted cash

We consider cash that is legally restricted and cash that is held as compensating balances for credit arrangements as restricted cash.

	Year ended December 31,				
	2020	2019	2018	2017	2016
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue, net					
Retail	$2,493,915	$1,434,974	$1,800,187	$1,728,104	$1,784,782
Other	55,868	24,444	21,405	16,652	15,181
Total net revenue	2,549,783	1,459,418	1,821,592	1,744,756	1,799,963

Operating cash equals the **lesser** of: (1) two percent of total revenues or (2) total cash and cash equivalents.

We found that RNOA was more in line with industry norms when Operating Cash was set to 10% of total revenues.

Operating Cash

	12/31/2020	12/31/2019
Revenues	2,549,783	1,459,418
	X .10	X .10
Total Operating Cash	**254,978**	**112,266**

Total Operating Assets

	12/31/2020	12/31/2019
Operating cash	254,978	112,266
Restricted cash	2,681	2,632
Accounts receivable, net	30,125	24,728
Inventories	6,243	5,840
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Property and equipment, net	122,550	130,028
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Goodwill	34,950	27,120
Operating lease right-of-use assets	24,523	25,384
Other long-term assets, net	4,164	4,033
Total Operating Assets	519,640	365,376

Operating Liabilities

Total Operating Liabilities

	12/31/2020	12/31/2019
Accounts payable	109,749	75,416
Accrued liabilities	135,595	88,197
Unearned revenue	72,311	41,821
Total Operating Liabilities	**317,655**	**205,434**

Financial Liabilities

Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 109,749	$ 75,416
Accrued liabilities	135,595	88,197
Unearned revenue	72,311	41,821
Operating lease liabilities, current	6,630	6,603
Other current liabilities	3,296	3,962
Total current liabilities	327,581	215,999
Long-term debt, net	41,334	—
Operating lease liabilities, non-current	20,305	21,554
Other long-term liabilities	4,668	2,319
Total liabilities	393,888	239,872

Current liabilities:		
Accounts payable	$ 109,749	$ 75,416
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Total liabilities	393,888	239,872

Leases

We determine if an arrangement is a lease at inception. We account for lease agreements as either operating or finance leases depending on certain defined criteria. Operating leases are recognized in Operating lease right-of-use ("ROU") assets, Operating lease liabilities, current, and Operating lease liabilities, non-current on our consolidated balance sheets. Finance leases are included in Other long-term assets, net, Other current liabilities, and Other long-term liabilities on our consolidated balance sheets. Lease assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. In certain of our lease agreements, we receive rent holidays and other incentives. We recognize lease costs on a straight-line basis over the lease term without regard to deferred payment terms, such as rent holidays, that defer the commencement date of required payments. Our lease terms may include options to extend or terminate the lease, and we adjust our measurement of the lease when it is reasonably certain that we will exercise that option. Lease payments used in measurement of the lease liability typically do not include executory costs, such as taxes, insurance, and maintenance, unless those costs can be reasonably estimated at lease commencement. Leasehold improvements are capitalized at cost and amortized over the lesser of their expected useful life or the life of the lease, without assuming renewal features, if any, are exercised. We do not separate lease and non-lease components for our leases.

overstock

Financial Obligations/Liabilities

	12/31/2020	12/31/2019
Operating lease liabilities, current	6,630	6,603
Other current liabilities	3,296	3,962
Long-term debt, net	41,334	-
Operating lease liabilities, non-current	20,305	21,554
Other long-term liabilities	4,668	2,319
Total Financial Obligations/Liabilities	**76,233**	**34,438**

Financial Assets

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 516,500	$ 112,266
Restricted cash	2,681	2,632
Marketable securities at fair value	1,762	10,308
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Total current assets	582,740	177,363
Property and equipment, net	122,550	130,028
Intangible assets, net	13,997	11,756
Goodwill	34,950	27,120
Equity securities	47,290	42,043
Operating lease right-of-use assets	24,523	25,384
Other long-term assets, net	4,164	4,033
Total assets	$ 830,214	$ 417,727

overstock

Excess Cash

	12/31/2020	12/31/2019
Cash and cash equivalents	516,500	112,266
Less: Operating cash	254,978	112,266
Equals: Excess cash	**261,522**	-

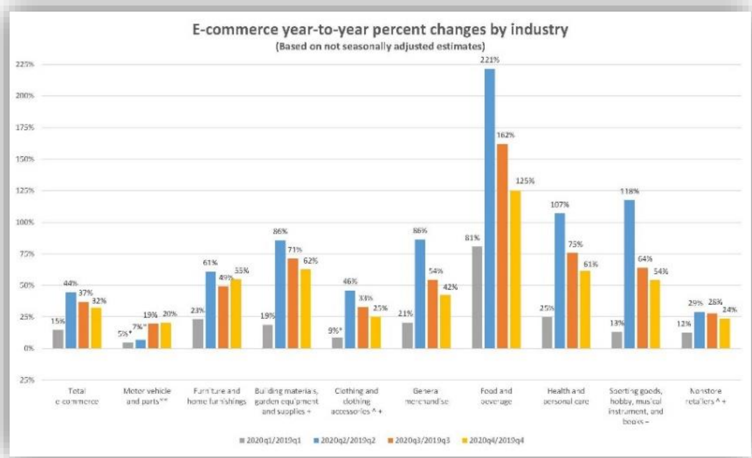
Financial Assets

	12/31/2020	12/31/2019
Excess cash	261,522	-
Marketable securities at fair value	1,762	10,308
Equity securities	47,290	42,043
Total Financial Assets	**310,574**	**52,351**

Net Financial Obligations/Average Net Financial Obligations

Net Financial Obligations

	2020	2019
Financial obligations	76,233	34,438
Financial assets	310,574	52,351
Total net financial obligations	**(234,341)**	**(17,913)**
Avg. net financial obligations		**(126,127)**



Online shopping was trending positive before the pandemic, but consumers were pushed to rely on digital retailers even more during Covid-19, as many physical stores were closed, and people opted to stay indoors as much as possible to slow the spread of the coronavirus.

This is readily apparent in Overstock's financials as <u>Operating Assets grew 42.2% and Operating Liabilities increased 54.6% in 2020. Incredibly, Overstock's revenues increased by an amazing 74.7% because of the impact Covid-19 had on e-commerce.</u>

Americans spent $791.7 billion online during 2020, up 32.4% from 2019. Meanwhile, total retail sales in 2020 increased 3.4% from the year prior. That behavior translated to e-commerce claiming a bigger piece of the pie of total retail sales than before. E-commerce ended the year accounting for 14% of all U.S. sales, up from 11% in 2019.

Average Net Operating Assets/Average Invested Capital

Net Operating Assets

	12/31/2020	12/31/2019
Total Operating Assets	519,640	365,376
Less: Total Operating Liabilities	317,655	205,434
Net Operating Assets	201,985	159,942
Avg. Net Operating Assets		**180,964**

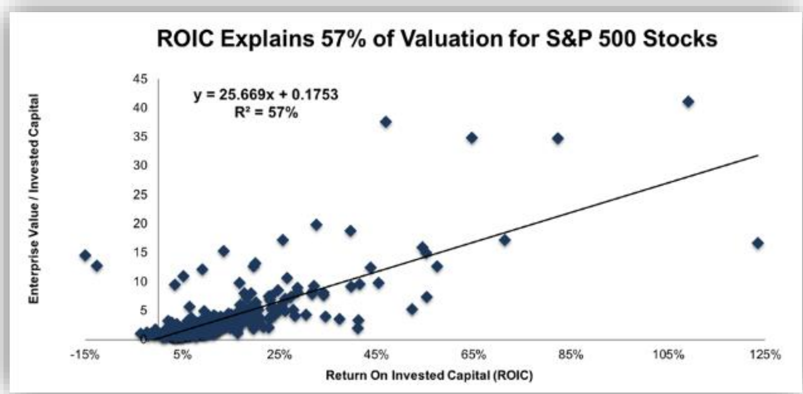
Avg. Net Operating Assets	=	**Avg. Invested Capital**

Invested Capital

	12/31/2020	12/31/2019
Total common stockholers' equity	436,326	177,855
Plus: Financial obligations	76,233	34,438
Less: Financial Assets	310,574	52,351
Equals: Invested Capital	201,985	159,942
Avg. Invested Capital		**180,964**

Total stockholders' equity	436,326	177,855

Invested capital is the total amount of money raised by a company by issuing securities to equity shareholders and debt to bondholders, where the total debt and capital lease obligations are added to the amount of equity issued to investors.



Companies must generate more in earnings than the cost to raise the capital provided by bondholders, shareholders, and other financing sources, or else the firm does not earn an economic profit.

Overstock's Return on Invested Capital is an impressive 24.16%. However, because of the firm's historical share price volatility, it has a high 4.4 beta. This makes the cost of raising equity capital over 26% which exceeds its ROIC by two hundred and fifty basis points.

Net Operating Profit After Tax (NOPAT)

Overstock.com, Inc.
Consolidated Statements of Operations
(in thousands, except per share data)

	Year Ended December 31,		
	2020	**2019**	**2018**
Revenue, net			
Retail	$ 2,493,915	$ 1,434,974	$ 1,800,187
Other	55,868	24,444	21,405
Total net revenue	2,549,783	1,459,418	1,821,592
Cost of goods sold			
Retail	1,922,559	1,147,025	1,452,195
Other	47,691	19,300	15,489
Total cost of goods sold	1,970,250	1,166,325	1,467,684
Gross profit	579,533	293,093	353,908
Operating expenses:			
Sales and marketing	263,046	143,120	274,479
Technology	136,998	135,338	132,154
General and administrative	127,263	138,124	164,481
Total operating expenses	527,307	416,582	571,114
Operating income (loss)	52,226	(123,489)	(217,206)
Interest income	1,733	1,797	2,208
Interest expense	(1,971)	(342)	(1,468)
Other expense, net	(4,828)	(12,501)	(3,488)
Income (loss) before income taxes	47,160	(134,535)	(219,954)
Provision (benefit) for income taxes	989	185	(2,384)
Consolidated net income (loss)	$ 46,171	$ (134,720)	$ (217,570)

Our Other revenue occurs primarily through our broker-dealer subsidiaries in our tZERO segment. We recognize revenue for our broker-dealer subsidiaries based on the gross amount of consideration that we expect to receive on securities transactions (commission revenue) on a trade date basis.

Cost of goods sold

Our Retail cost of goods sold includes product costs, warehousing costs, outbound shipping costs, handling and fulfillment costs, customer service costs, and merchant fees, and is recorded in the same period in which related revenues have been recorded. Our Other cost of goods sold primarily consists of exchange fees, clearing agent fees, and other exchange fees from our broker-dealer subsidiaries in our tZERO segment. These fees are primarily for executing, processing, and settling trades on exchanges and other venues. These fees fluctuate based on changes in trade and share volumes, rate of clearance fees charged by clearing brokers, and exchanges.

We made the decision not to include *other revenues* and *other COGS* in our NOPAT calculations. We did not feel like Overstock's blockchain investments were in operational alignment with its core online retailing business or its value proposition—*Dream Homes for All*.

20. OTHER EXPENSE, NET

Other expense, net consisted of the following (in thousands):

	Years ended December 31,		
	2020	2019	2018
Gain on deconsolidation of net assets of Medici Land Governance, Inc.	$ 10,741	$ —	$ —
Gain/(loss) on equity securities and marketable securities	(2,188)	2,358	1,084
Equity method losses	(14,459)	(7,734)	(3,869)
Impairment of equity securities	(1,017)	(7,090)	(536)
Other	2,095	(35)	(167)
Total other expense, net	$ (4,828)	$ (12,501)	$ (3,488)

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Net Operating Profit After Taxes (NOPAT)

(In Thousands)

	12/31/2020	12/31/2019	12/31/2018
Revenue, net			
Retail	2,493,915	1,434,974	1,800,187
Total net revenue	2,493,915	1,434,974	1,800,187
Cost of goods sold			
Retail	1,922,559	1,147,025	1,452,195
Total cost of goods sold	1,922,559	1,147,025	1,452,195
Gross profit	571,356	287,949	347,992
Operating expenses			
Sales and marketing	263,046	143,120	274,479
Technology	136,998	135,338	132,154
General and administrative	127,263	138,124	164,481
Total operating expenses	527,307	416,582	571,114
Net operating profit (loss) before tax (NOPBT)	44,049	(128,633)	(223,122)

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Taxes on Operating Activities

	12/31/2020	12/31/2019	12/31/2018
Other revenue	55,868	24,444	21,405
Other cost of goods sold	(47,691)	(19,300)	(15,489)
Interest income	1,733	1,797	2,208
Interest expense	(1,971)	(342)	(1,468)
Other expense, net	(4,828)	(12,501)	(3,488)
Net financial gain before tax	3,111	(5,902)	3,168
xTax rate	21%	21%	35%
Tax gain attributable to financing activities	653	(1,239)	1,109
Plus: Provision (benefit) for income taxes	989	185	(2,384)
Taxes on operating activities	336	1,424	(3,493)
Net operating profit after tax (NOPAT)	**43,713**	**(130,057)**	**(219,629)**

Income on Invested Capital

Income on Invested Capital

	12/31/2020	12/31/2019	12/31/2018
Net financial gain before tax	3,111	(5,902)	3,168
Less: Tax gain attributable to financing activities	(653)	(1,239)	1,109
Net financial expense after tax	2,458	(4,663)	2,059
Plus: Consolidated net income	46,171	(134,720)	(217,570)
Income on invested capital	**43,713**	**(130,057)**	**(219,629)**

Return on Net Operating Assets (RNOA)/Return on Invested Capital (ROIC)

Return on Net Operating Assets (RNOA)

	12/31/2020
Net operating profit after tax (NOPAT)	43,713
Avg. Net Operating Assets	180,964
Return on Net Operating Assets (RNOA)	**24.16%**

RNOA = ROIC

Return on Invested Capital (ROIC)

	12/31/2020
Income on invested capital	43,713
Avg. Invested Capital	180,964
Return on Invested Capital (ROIC)	**24.16%**

Free Cash Flow

Free cash flow is a metric that investors use to help analyze the financial health of a company. It looks at how much cash is left over after operating expenses and capital expenditures are accounted for.

	Net operating profit after tax (NOPAT)
-	Δ(Net operating assets)
=	Free cash flow (FCF)

In general, the higher the free cash flow is, the healthier a company is, and in a better position to pay dividends, pay down debt, and contribute to growth. Because free cash flow is made up of a variety of components in the financial statement, understanding its composition can provide investors with a lot of useful information.

Depending on the method used, Overstock either has low or negative Free Cash Flow. One drawback to using the free cash flow method is that capital expenditures can vary dramatically from year to year and between different industries. That's why it's critical to measure FCF over multiple periods and against the backdrop of a company's industry.

It's important to note that an exceedingly high FCF might be an indication that a company is not investing in its business properly, such as updating its plant and equipment. Conversely, negative FCF might not necessarily mean a company is in financial trouble, but rather, investing heavily in expanding its market share, which would likely lead to future growth.

overstock **Free Cash Flows -*Income Statement Method***

	2020
NOPAT	43,713
Minus: change in net operating assets	42,043
FCF	**1,670**

	Net financial expense after tax
-	Δ(Net financial obligations)
+	Dividends[1]
=	Free cash flow (FCF)

In Overstock's case, we're afraid that the culprit for its low Free Cash Flows is probably multifaceted.

First, Overstock was attacked early in the growth phase of its life cycle by predatory naked short sellers. These attacks introduced artificial volatility into the firm's share price history which resulted Overstock's current beta of 4.4. This has undoubtedly put a strain on the firm's ability to raise capital and to gain the market share and economies of scale that it would have needed to compete with the likes of Amazon.

overstock **Free Cash Flows -*Statement of Cash Flows Method***

	2020
Net financial expense after tax	(2,458)
Minus: change in net financial obligations	(216,428)
Plus: dividends	(205,622)
FCF	**(13,263)**

Second, Byrne has utilized the resources and balance sheet of Overstock to invest in blockchain ventures and to pursue his crusade against Wall Street criminality. In our opinion, these activities fall outside of his mandate as CEO to maximize shareholder value. While we are sympathetic of his motives for pursuing such investments, the firm has not benefitted from these deviations from its online-retailing business.

Common-Size Net Operating Profit After Tax (NOPAT)

Net Operating Profit After Taxes (NOPAT)

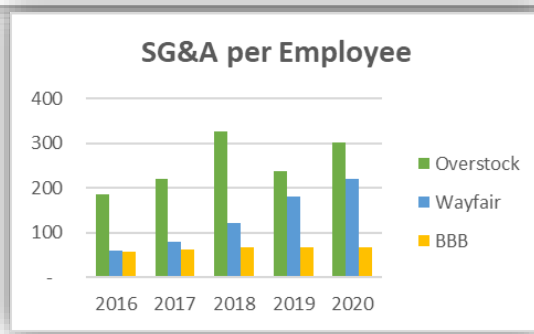
Common-Size Statement

(In Thousands)

	12/31/2020		12/31/2019		12/31/2018	
Revenue, net						
Retail	2,493,915		1,434,974		1,800,187	
Total net revenue	2,493,915	100.00%	1,434,974	100.00%	1,800,187	100.00%
Cost of goods sold						
Retail	1,922,559	77.09%	1,147,025	79.93%	1,452,195	80.67%
Total cost of goods sold	1,922,559	77.09%	1,147,025	79.93%	1,452,195	80.67%
Gross profit	571,356	22.91%	287,949	20.07%	347,992	19.33%
Operating expenses						
Sales and marketing	263,046	10.55%	143,120	9.97%	274,479	15.25%
Technology	136,998	5.49%	135,338	9.43%	132,154	7.34%
General and administrative	127,263	5.10%	138,124	9.63%	164,481	9.14%
Total operating expenses	527,307	21.14%	416,582	29.03%	571,114	31.73%
Net operating profit (loss) before tax (NOPBT)	44,049	1.77%	(128,633)	-8.96%	(223,122)	-12.39%
Taxes on Operating Activities						
Net financial gain before tax	3,111	0.12%	(5,902)	-0.41%	3,168	0.18%
xTax rate	21%		21%		35%	
Tax gain attributable to financing activities	653	0.03%	(1,239)	-0.09%	1,109	0.06%
Plus: Provision (benefit) for income taxes	989	0.04%	185	0.01%	(2,384)	-0.13%
Taxes on operating activities	336	0.01%	1,424	0.10%	(3,493)	-0.19%
Net operating profit after tax (NOPAT)	**43,713**	1.75%	**(130,057)**	-9.06%	**(219,629)**	-12.20%

SG&A Expenses as per Employee

	Full-Time Employees	2016	2017	2018	2019	2020	Trend
overstock	1,750	185	221	326	238	301	
wayfair	16,985	59	80	121	181	221	
BED BATH & BEYOND	55,000	58	63	67	67	68	



As a percentage of sales, Overstock's SG&A expenses declined from 2018 to 2020. However, on a per employee basis, SG&A is trending upward.

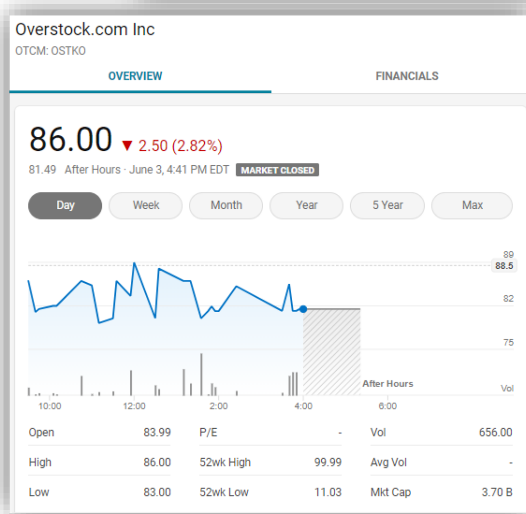
Further analysis uncovered that Overstock's high SG&A expense can be partly attributed to impairments the company made to some of its less successful blockchain assets which are reported as part of SG&A.

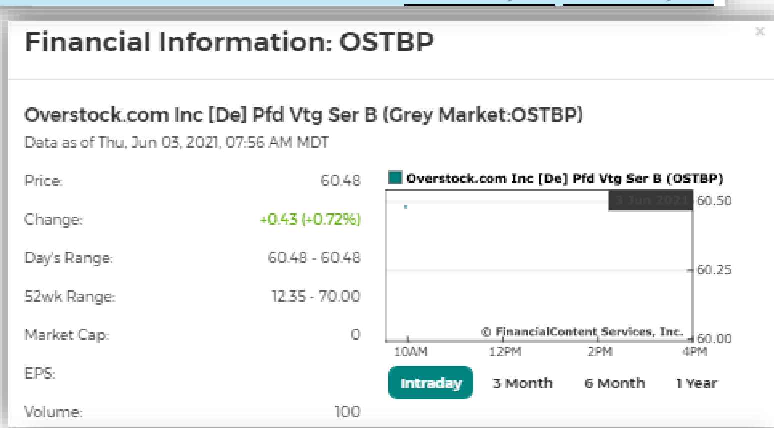
Enterprise Value

Cash flows from financing activities

The $231.4 million provided by financing activities during the year ended December 31, 2020 resulted primarily from $195.5 million of net proceeds from sales of our common stock, net of offering costs (including commissions), and $47.5 million of proceeds from our long-term debt secured by our building and land.

Stockholders' equity:		
Preferred stock, $0.0001 par value, authorized shares - 5,000		
Series A-1, issued and outstanding - 4,204 and 4,210	—	—
Series B, issued and outstanding - 357 and 357	—	—
Common stock, $0.0001 par value, authorized shares - 100,000		
Issued shares - 46,331 and 42,790		
Outstanding shares - 42,768 and 39,464	4	4
Additional paid-in capital	970,873	764,845
Accumulated deficit	(525,233)	(580,390)
Accumulated other comprehensive loss	(553)	(568)
Treasury stock at cost - 3,563 and 3,326	(71,399)	(68,807)
Equity attributable to stockholders of Overstock.com, Inc.	373,692	115,084
Equity attributable to noncontrolling interests	62,634	62,771
Total stockholders' equity	436,326	177,855





Overstock's Debt-to-Equity ratio is 11.4%, and its Net Financial Rate is low at 1.95%. However, obtaining inexpensive debt financing is probably not likely without offering collateral.

This is because any increase in leverage would likely increase the firm's beta which would in turn increase its cost of equity capital such that any improvements in its WACC obtained through inexpensive debt financing would be offset by an increase in the firm's cost of equity and by extension its WACC.

Enterprise Value

Stockholder's Equity	Shares	Price	Total
Common stock	42,768,000	93.45	3,996,669,600
Total Equity			3,996,669,600
Financial Obligations			
Operating lease liabilities, current			6,630,000
Other current liabilities			3,296,000
Long-term debt			41,334,000
Operating Lease Liabilities, non-current			20,305,000
Other long-term liabilities			4,668,000
Series A-1 preferred	4,204,000	86.00	361,544,000
Series B preferred	357,000	60.48	21,591,360
Total Financial Obligations			459,368,360
Less: Cash			(516,500,000)
Total Equity + Financial Obligations - Cash			**3,939,537,960**

RNOA vs. WACC

$$WACC = r_E \times \frac{\text{Equity market value}}{\text{Enterprise value}} + r_D \times \frac{\text{Market value of net debt}}{\text{Enterprise value}}$$

Beta	4.44
Risk Free Rate	1.47%
Market Risk Premium	5.60%
CAPM (Re) 2020	26.33%

Net Financial Expense After Tax	2,458
Average Net Financial Obligations	126,127
Net Financial Rate (Rd) 2020	1.95%

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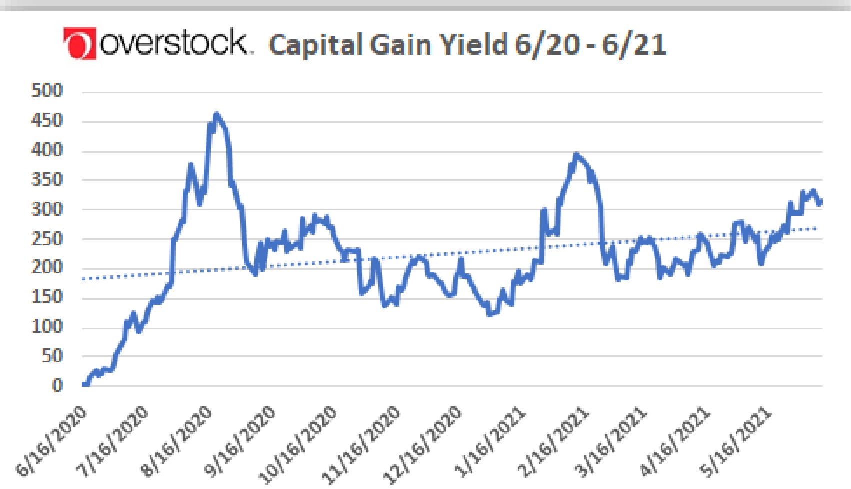
Weighted Average Cost of Capital --WACC

$$26.33\% \times \frac{3{,}996{,}669{,}600}{3{,}939{,}537{,}960} + 1.95\% \times \frac{459{,}368{,}360}{3{,}939{,}537{,}960} = 26.94\%$$

Re	X	Total Equity/Enterprise Value	+	Rd	x	Financial Obligations/Enterprise Value	=	WACC

RNOA		WACC
24.16%	<	26.94%

RNOA provides useful insights into a company's ability to generate profits from its equity resources. It distinguishes the financial and investment income from the operating income.



Similarly, a firm's WACC is a measurement of the cost of debt and equity expressed as a percentage, which tells us how much we should expect in return for investing in a company.

If the RNOA is greater than the WACC, then the company is creating value because the company is investing in value-creating projects.

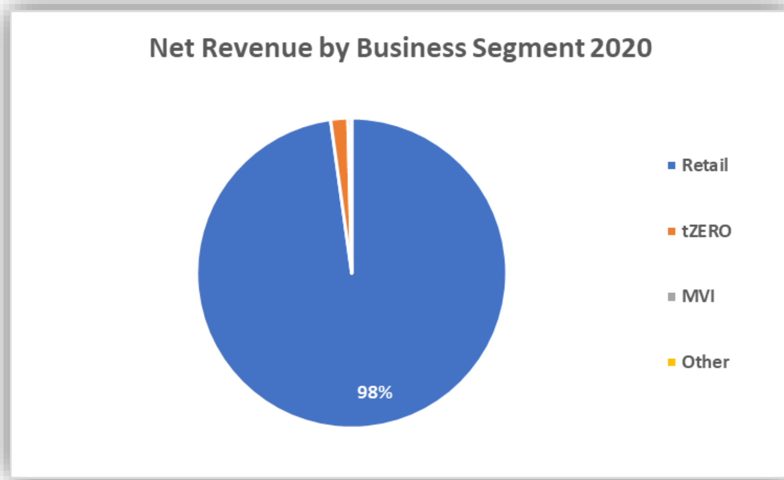
However, if the RNOA is lower than the WACC, then the company is destroying value because the projects it is investing in are lower than the costs of funding these projects.

It is interesting to note that <u>despite having an RNOA that is less than its WACC, Overstock's share price performed well in 2020 and 2021. It is our opinion that most of this can be attributed to speculation surrounding the benefit that continued COVID-19 lockdowns might have on Overstock and other e-retailers.</u>

Business Segments

overstock

2020	Retail	tZERO	MVI	Other	Total
Net revenue	$ 2,493,915	$ 45,792	$ 9,664	$ 412	$ 2,549,783
Cost of goods sold	1,922,559	38,033	9,656	2	1,970,250
Gross profit	571,356	7,759	8	410	579,533
Operating expenses (1)	457,110	47,084	11,540	11,573	527,307
Interest and other income (expense), net (2)	(225)	(6,348)	1,509	(2)	(5,066)
Income (loss) before income taxes	$ 114,021	$ (45,673)	$ (10,023)	$ (11,165)	47,160
Provision for income taxes					989
Net income (3)					$ 46,171



Byrne initiated an IPO of Overstock.com in 2002, becoming one of the first companies to go public under the "**Dutch auction**" method, to retain a greater share of capital within the company rather than going to the investment banks underwriters used in conventional public offerings. Byrne has said that competing banks reacted against this, attempting to obstruct the success of the offering through negative reports and by shorting the company's stock.

This initiated Byrne's long-running campaign against short sellers. Critics have observed that this campaign, which began in 2005, has distracted him from Overstock's core business. The company has had losses in some years, and modest profits in others. Byrne's tenure was marked by a series of initiatives that were rolled out with much enthusiasm, but that were later abandoned or had disappointing outcomes.

In 2013, Byrne began to invest in cryptocurrency and blockchain, and Overstock became the first major retailer to accept Bitcoin as a form of payment. Byrne shifted some of Overstock's balance sheet to support Tzero, billed as a "blockchain version of Nasdaq; Tzero's initial coin offering in 2018 was largely unsuccessful. As Bryne's focus on blockchain technology intensified in 2017 and 2018, Overstock incurred significant losses—$316 million over two years, more than twice the profits ever made by the company.

25. BUSINESS SEGMENTS

Segment information has been prepared in accordance with ASC Topic 280 *Segment Reporting*. We determined our segments based on how we manage our business. Beginning in the first quarter of 2019, we began allocating corporate support costs (administrative functions such as finance, human resources, and legal) to our operating segments based on their estimated usage and based on how we manage our business. Comparative prior year information has not been recast and as a result our corporate support costs for those comparative prior periods remain allocated to our Retail segment. We use income (loss) before income taxes as the measure to determine our reportable segments.

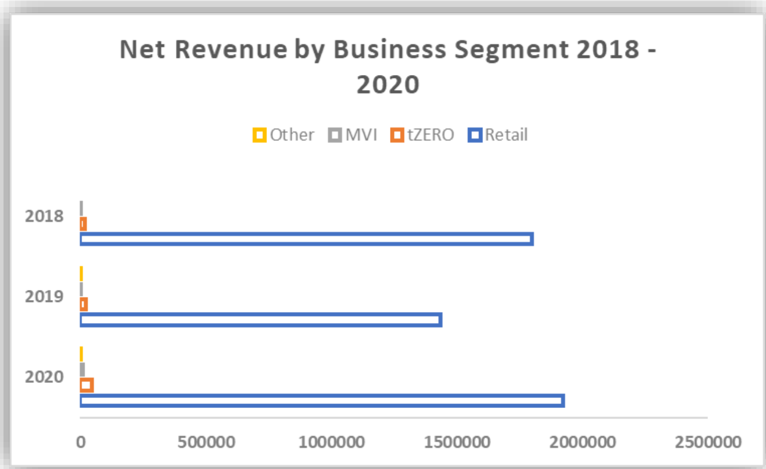
Our Retail segment primarily consists of amounts earned through e-commerce sales through our Website, excluding intercompany transactions eliminated in consolidation.

Our tZERO segment primarily consists of amounts earned through securities transaction through our broker-dealers and costs incurred to execute our tZERO business initiatives, excluding intercompany transactions eliminated in consolidation.

Our MVI segment primarily consists of costs incurred to create or foster a set of products and solutions that leverage blockchain technology to generate efficiencies and increase security and control through our Medici Ventures initiatives, excluding intercompany transactions eliminated in consolidation. MVI was identified as a reportable segment separate from Other during 2019. We have recast prior period segment information to conform with current year presentation.

Other consists of our unallocated corporate support costs, Bitt, and Medici Land Governance. We deconsolidated Medici Land Governance consolidated net assets and noncontrolling interest from our consolidated financial statements beginning on February 22, 2020, the date that control ceased.

Through our online retail business, we offer a broad range of price-competitive products, including furniture, home decor, bedding and bath, and housewares, among other products. We sell our products and services through our Internet websites located at www.overstock.com, www.o.co, www.overstock.ca, and www.overstockgovernment.com (referred to collectively as the "Website"). Although our four websites are located at different domain addresses, the technology, equipment, and processes supporting the Website and the process of order fulfillment described herein are the same for all four websites.



The primary concern we have with Overstock is how management has diverted resources away from fulfilling its value proposition into business ventures with dubious tenability and few synergies with its retail business. Overstock's value proposition statement is as follows:

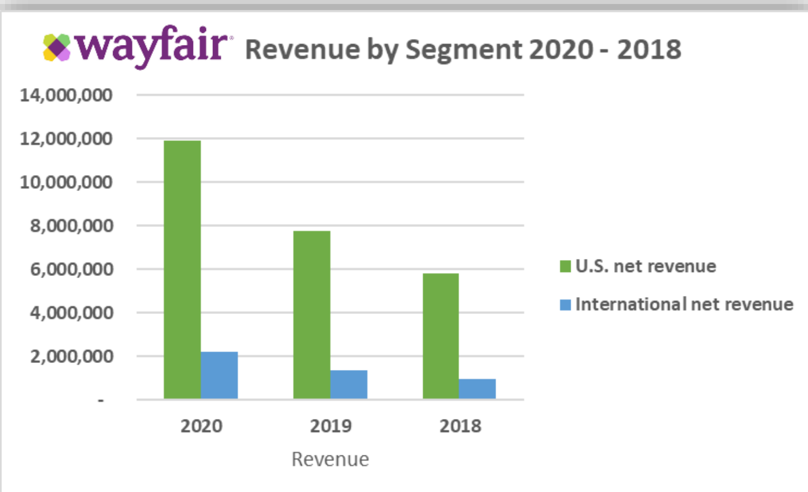
"Our goal is to provide goods to furnish and accessorize *Dream Homes for All*, particularly for our target customers who seek smart value on quality, stylish merchandise at competitive prices."

As is demonstrated by the graph to the left, <u>Overstock's retail business is by far its most successful and should be its primary focus.</u> We are of the opinion that the company should divest itself of any business segment that doesn't directly support its core retail business.

Business Segments

wayfair

	2020	2019	2018
	Year Ended December 31,		
	(in thousands)		
U.S. net revenue	$ 11,900,658	$ 7,764,831	$ 5,813,070
International net revenue	2,244,498	1,362,226	966,104
Total net revenue	$ 14,145,156	$ 9,127,057	$ 6,779,174



Equities analysts list Wayfair's business segments as the following:

- Product Sales
- Installation Services
- Advertising
- Interchange Fees

It is interesting that Wayfair's financials have considerably less detail in that they list only US and International as being the sources of corporate revenues.

	2020	2019	2018
	Year Ended December 31,		
	(in thousands)		
Adjusted EBITDA:			
U.S.	$ 1,041,892	$ (179,010)	$ (19,049)
International	(95,004)	(317,534)	(195,937)
Total reportable segments Adjusted EBITDA	946,888	(496,544)	(214,986)
Less: reconciling items (1)	(761,892)	(488,040)	(289,094)
Net income (loss)	$ 184,996	$ (984,584)	$ (504,080)

BED BATH & BEYOND

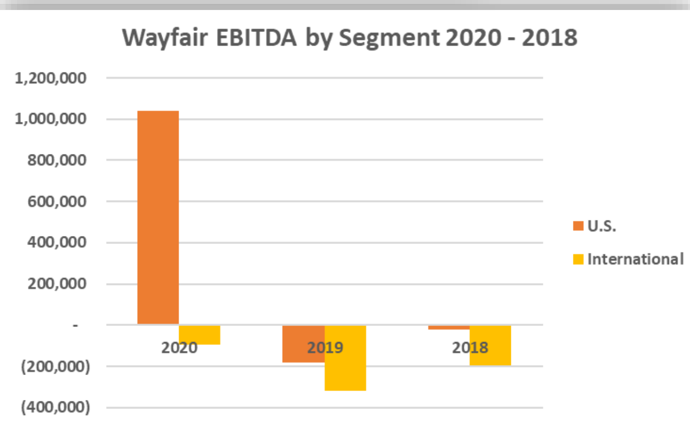
Bed Bath & Beyond - a leading specialty home retailer in North America that sells a wide assortment of domestics merchandise and home furnishings. BBB is a preferred destination in the home space, particularly in key product categories including bedding, bath, kitchen food prep, home organization and indoor decor.

For fiscal 2020, 2019 and 2018, we accounted for our operations as two operating segments: North American Retail and Institutional Sales, the latter of which did not meet the quantitative thresholds under GAAP and, therefore, was not a reportable segment. The Institutional Sales operating segment, comprised of Linen Holdings, was divested in October 2020. We will continue to account for our operations as one North American Retail reporting segment going forward. Net sales outside of the U.S. were not material for fiscal 2020, 2019 and 2018.

Bed, Bath & Beyond does not report any business segments in its financial statements other than its North American retail segment.

Competition

Wayfair, much like Overstock, is a home goods and furnishings e-commerce business. While Wayfair is a larger company than Overstock, they actively compete for the same customers. Both companies offer a wide array of product options and regularly advertise discounts and promotions to consumers.



Wayfair strictly focuses on home furniture and home good offerings, while Overstock offers a slightly broader array of products. These additional product offerings include electronics, apparel, and even health and beauty products.

However, the bulk of Overstock's web presence is geared towards its home furnishings, which is why we believe it to be a great comparison company to Wayfair.

Item 1. Business

Overview

Wayfair is one of the world's largest online destinations for the home. Its co-founders are lifetime tech innovators who have worked together in the commercial Internet sector since 1995. As engineers themselves, they have created a company culture deeply rooted in technology and data, and their significant equity ownership in Wayfair has informed their leadership and allowed them to take a long-term view when building the company. Unless the context indicates otherwise, "Wayfair," "the company," "we," "us," "our" and similar terms refer to Wayfair Inc. and its subsidiaries.

Through our e-commerce platform, we offer customers visually inspired browsing, compelling merchandising, easy product discovery and attractive prices for over twenty-two million products from over 16,000 suppliers. We are focused on bringing our customers an experience that is at the forefront of shopping for the home online. Wayfair customers span a wide range of demographics, with annual household income ranging from $25,000 to $250,000, and also include business professionals. Because each of our customers has a different taste, style, purchasing goal and budget when shopping for her home, we have built one of the largest online selections of furniture, décor, housewares and home improvement products. We are able to offer this vast selection of products because we hold minimal inventory. We specialize in the home category and this has enabled us to build a shopping experience and logistics infrastructure that is tailored to the unique characteristics of our market.

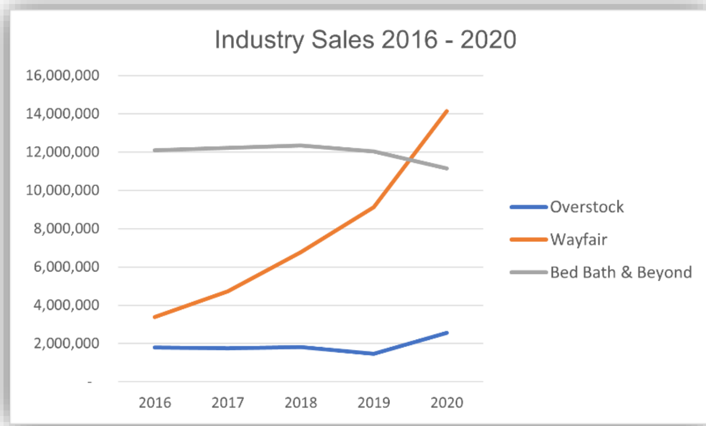
Bed Bath & Beyond - a leading specialty home retailer in North America that sells a wide assortment of domestics merchandise and home furnishings. BBB is a preferred destination in the home space, particularly in key product categories including bedding, bath, kitchen food prep, home organization and indoor decor.

ITEM 1 – BUSINESS

Overview

We are an omnichannel retailer that makes it easy for our customers to feel at home. We sell a wide assortment of merchandise in the Home, Baby, Beauty & Wellness markets and operate under the names Bed Bath & Beyond ("BBB"), buybuy BABY ("BABY"), and Harmon, Harmon Face Values, or Face Values (collectively, "Harmon"). We also operate Decorist ("Decorist"), an online interior design platform that provides personalized home design services.

Bed Bath & Beyond Inc. operates a chain of retail stores where it sells a range of domestic merchandise, including bed linens and related items, bath items, and kitchen textiles; and home furnishings, such as kitchen and tabletop items, fine tabletop, basic housewares, general home furnishings, consumables, and various juvenile products.



As of February 27, 2021, the company had 1,020 stores, including 834 Bed Bath & Beyond stores in 50 states, the District of Columbia, Puerto Rico, and Canada; 132 buybuy BABY stores; and 54 stores under the names Harmon, Harmon Face Values or Face Values.

BBB also offers products through various Websites and applications, such as bedbathandbeyond.com. The company was incorporated in 1971 and is headquartered in Union, New Jersey.

We thought it would be interesting to include Bed Bath and Beyond in our analysis as a competitor of Overstock, because the company is grappling with the challenge of demonstrating value to its customers amid nimble online sellers in an omnichannel shopping world. BBB is struggling to implement data-driven price optimization and processes that would help it keep up with pure-play e-commerce retailers such as Overstock and Wayfair.

Financial Distress

	Overstock	Wayfair
Total liabilities to total assets	0.47	1.26

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Leverage Ratios

	2020	2019	Trend
FLEV	1.91%	0.86%	
Net financial obligations to invested capital	0.38	0.22	
Net financial obligations to operating assets	0.15	0.09	
Net financial obligations to common equity	0.17	0.19	
Financial obligations to total assets	0.09	0.08	
Total liabilities to common equity	0.90	1.35	
Total liabilities to total assets	0.47	0.57	
Financial assets to financial obligations	4.07	1.52	

The total liabilities to total assets ratio illustrates how much each company's assets are financed through debt.

Overstock's assets are financed more from equity as compared to Wayfair. A good portion of Wayfair's assets is financed through debt.

	Overstock	Wayfair
Current Ratio	1.78	1.41

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Liquidity Ratios

	2020	2019	Trend
Current Ratio	1.78	0.82	
Quick Ratio	0.95	0.24	

The current ratio measures a company's ability to pay any short-term debt that it may have. Therefore, a higher current ratio means that a company will have an easier time paying back its debt due within one year. At this time, Overstock appears to be in a better position to pay back its short-term obligations compared to Wayfair.

	Overstock	Wayfair
EBITDA to net interest	-16.39	4.39

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Coverage Ratios

	2020	2019	Trend
NOPAT to net interest	(8.63)	11.77	
EBITDA to net interest	(16.39)	11.18	
Cash flow from operations to net interest	(38.78)	7.39	
Net financial obligations to NOPAT	(5.36)	0.14	
Net financial obligations to EBITDA	(2.82)	0.15	
Net financial obligations to cash flow from ops.	(1.19)	0.22	
Financial obligations to NOPAT	1.74	(0.26)	
Financial obligations to EBITDA	0.92	(0.28)	
Financail obligations to cash flow from ops.	0.39	(0.42)	
Total liabilities to NOPAT	9.01	(1.84)	
Total liabilities to EBITDA	4.74	(1.94)	
Total liabilities to cash flow from ops.	2.00	(2.94)	

The EBITDA to net interest ratio's purpose is to give the analyst a good understanding of how well a company can pay off its interest expenses.

Overstock's EBITDA to net interest ratio is -16.39 while Wayfair is 4.39.

This shows that Overstock is less capable of paying its interest expense than Wayfair. Also, the significant ratio disparity helps to illustrate that Overstock has far more debt than Wayfair does at present.

Revenue Recognition

Revenue recognition

Revenue is recognized when, or as, control of a promised product or service transfers to a customer, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services. Revenue excludes taxes that have been assessed by governmental authorities and that are directly imposed on revenue-producing transactions between the Company and its customers, including sales and use taxes. Revenue recognition is evaluated through the following five-step process:

1) identification of the contract with a 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 a performance obligation is satisfied.

Overstock recognizes their revenue when control of the product passes to the customer or when a service is provided. Otherwise, the revenue is considered unearned before the delivery of the product or service. The product is considered passed to the customer when the actual delivery of the product occurs from the shipping carrier. Due to high volumes, shipping estimates based on historical average shipping times are used to determine when revenue should be recognized in any given period.

Overstock records revenue as gross when they are the principal in a transaction and has control of the product or service before its transfer to a customer. Still, they record revenue on a net basis when they are not the principal and do not have control of the product. Shipping and handling fees are included in net revenue, along with sales tax, discounts, and expected refunds.

Product Revenue

We derive our revenue primarily from our Retail business through our Website but may also derive revenue from sales of merchandise through offline and other channels. Our Retail revenue is derived primarily from merchandise sold at a point in time and shipped to customers. Merchandise sales are fulfilled with inventory sourced through our partners or from our owned inventory, depending on the most efficient means of fulfilling the customer contract. The majority of our sales, however, are fulfilled from inventory sourced through our partners.

Revenue is recognized when control of the product passes to the customer, typically at the date of delivery of the merchandise to the customer or the date a service is provided and is recognized in an amount that reflects the expected consideration to be received in exchange for such goods or services. As such, customer orders are recorded as unearned revenue prior to delivery of products or services ordered. As we ship high volumes of packages through multiple carriers, we use estimates to determine which shipments are delivered and, therefore, recognized as revenue at the end of the period. Our delivery date estimates are based on average shipping transit times, which are calculated using the following factors: (i) the type of shipping carrier (as carriers have different in-transit times); (ii) the fulfillment source (either our warehouses, those warehouses we control, or those of our partners); (iii) the delivery destination; and (iv) actual transit time experience, which shows that delivery date is typically one to eight business days from the date of shipment. We review and update our estimates on a quarterly basis based on our actual transit time experience. However, actual shipping times may differ from our estimates.

Overstock allows for the use of gift cards and has a Club O rewards program. The gift cards and Club O rewards are recognized during the period in which they are redeemed. Overstock does receive some revenue from its tZERO business; however, most of its revenue is derived from its online retail business. Regarding tZERO revenue recognition, they recognize revenue on the gross amount of consideration expected to be received through their broker-dealer transactions.

Club O loyalty program

We have a customer loyalty program called Club O for which we sell annual memberships. For Club O memberships, we record membership fees as unearned revenue and we recognize revenue ratably over the membership period.

The Club O loyalty program allows members to earn Club O Reward dollars for qualifying purchases made on our Website. As such, the initial transaction price giving rise to the reward dollar is allocated to each separate performance obligation based upon its relative standalone selling price. In determining the stand-alone selling price, we incorporate assumptions about the redemption rates of loyalty points. We recognize revenue for Club O Reward dollars when customers redeem such rewards as part of a purchase on our Website.

We evaluate the criteria outlined in ASC 606-10-55, *Principal versus Agent Considerations*, in determining whether it is appropriate to record the gross amount of merchandise sales and related costs or the net amount earned as commissions. When we are the principal in a transaction and control the specific good or service before it is transferred to the customer, revenue is recorded gross; otherwise, revenue is recorded on a net basis. Through contractual terms with our partners, we have the ability to control the promised goods or services and as a result record the majority of our Retail revenue on a gross basis.

Our Other revenue occurs primarily through our broker-dealer subsidiaries in our tZERO segment. We evaluate the revenue recognition criteria above for our broker-dealer subsidiaries and we recognize revenue based on the gross amount of consideration that we expect to receive on securities transactions (commission revenue) on a trade date basis.

What is unique about Overstock's revenue recognition is that they use historical average shipping times rather than the actual shipping and delivery dates to determine when the product has been delivered. It makes sense to use a historical average as it would be costly and time-consuming to have to watch thousands of orders and their delivery dates to determine when revenue needs to be recognized.

Our merchandise sales contracts include terms that could cause variability in the transaction price for items such as discounts, credits, or sales returns. Accordingly, the transaction price for product sales includes estimates of variable consideration to the extent it is probable that a significant reversal of revenue recognized will not occur. At the time of sale, we estimate a sales return liability for the variable consideration based on historical experience, which is recorded within Accrued liabilities in the consolidated balance sheet. We record an allowance for returns based on current period revenues and historical returns experience. We analyze actual historical returns, current economic trends and changes in order volume and acceptance

Management discretion is involved in the average shipping times used to determine when revenue should be recognized. Hypothetically, the management team could decide to change the estimated shipping and delivery times to recognize revenue earlier, which could increase its revenue in each period.

Advertising Revenue

Advertising revenues are derived primarily from sponsored links and display advertisements that are placed on our Website, distributed via email, or sent out as direct mailers. Advertising revenue is recognized in Retail revenue when the advertising services are rendered. Advertising revenues were less than 2% of total net revenues for all periods presented.

Revenue Disaggregation

Disaggregation of revenue by major product line is included in Segment Information in Note 25—Business Segments.

Note 25—Business Segments

2020	Retail	tZERO	MVI	Other	Total
Net revenue	$ 2,493,915	$ 45,792	$ 9,664	$ 412	$ 2,549,783
Cost of goods sold	1,922,559	38,033	9,656	2	1,970,250
Gross profit	571,356	7,759	8	410	579,533
Operating expenses (1)	457,110	47,084	11,540	11,573	527,307
Interest and other income (expense), net (2)	(225)	(6,348)	1,509	(2)	(5,066)
Income (loss) before income taxes	$ 114,021	$ (45,673)	$ (10,023)	$ (11,165)	47,160
Provision for income taxes					989
Net income (3)					$ 46,171

Unearned Revenue

When the timing of our provision of goods or services is different from the timing of the payments made by our customers, we recognize a contract liability (customer payment precedes performance).

Customer orders are recorded as unearned revenue when payment is received prior to delivery of products or services ordered. We record amounts received for Club O membership fees as unearned revenue and we recognize it ratably over the membership period. We record Club O Reward dollars earned from purchases as unearned revenue at the time they are earned based upon the relative standalone selling price of the Club O Reward dollar and we recognize it as Retail revenue in proportion to the estimated pattern of rights exercised by the customer. If reward dollars are not redeemed, we recognize Retail revenue upon expiration. In addition, we sell gift cards and record related unearned revenue at the time of the sale. We sell gift cards without expiration dates and we recognize revenue from a gift card upon redemption of the gift card. The unredeemed portion of our gift cards are recognized in Retail revenue over the expected redemption period based upon the estimated pattern of rights exercised by the customer.

Working Capital

Accounts receivable, net, Inventories, Accounts payable, and Unearned revenue are balance sheet items that we will be including in our calculations of Overstock's Working Capital.

Accounts receivable, net

Accounts receivable consist primarily of trade amounts due from customers in the United States and uncleared credit card transactions at period end. Accounts receivable are recorded at invoiced amounts and do not bear interest. From time to time, we grant credit to some of our business customers on normal credit terms (typically 30 days). We maintain an allowance for expected credit losses based upon our business customers' financial condition and payment history, our historical collection experience, and any future expected economic conditions.

Overstock's Receivable and Allowance Policy

Overstock's Receivable and Allowance Policy falls under the line item "sales returns allowance(s)". Sales return allowances are the expected product returns that may be experienced in each period. This line item is determined by analyzing the actual historical returns and experience. This is unique compared to other

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consist of the following (in thousands):

	December 31, 2020	December 31, 2019
Credit card receivables, trade	$ 16,376	$ 10,515
Accounts receivable, trade	12,418	10,553
Other receivables	2,869	6,134
	31,663	27,202
Less: allowance for credit losses	(1,538)	(2,474)
Total accounts receivable, net	$ 30,125	$ 24,728

businesses because Overstock is an e-commerce business that is primarily business-to-consumer focused. So, money is exchanged the moment that any customer goes through the checkout process, and no terms (ex. Net 30) are given on any transaction. Therefore, the only way that money could be lost from a sale would be through a refund or a chargeback. It would be safe to assume that sales returns allowances will continue to climb at a steady pace as many people continue to shop online due to the lingering effects of the pandemic and the overall shift away from brick-and-mortar store shopping.

Cash flows from operating activities

Cash received from customers generally corresponds to our net revenues as our customers primarily use credit cards to buy from us causing our receivables from these sales transactions to settle quickly. We have payment terms with our partners that generally extend beyond the amount of time necessary to collect proceeds from our customers. As a result of increased online shopping migration from the COVID-19 pandemic, we saw our Retail product sales accelerate beginning in the second half of March 2020 and continuing through December 2020, as customers turned to online shopping, which caused our cash, cash equivalents and accounts receivable balances to increase compared to prior year-end and also resulted in an increase in our accounts payable and unearned revenue balance as of December 31, 2020. Due to uncertainty surrounding the COVID-19 pandemic, we are unable to predict the duration such favorable conditions and its sustained impact on cash flows. We continue to monitor, evaluate, and manage our operating plans, forecasts, and liquidity in light of the most recent developments driven by the COVID-19 pandemic.

Inventory Accounting

Overstock accounts for inventory using the FIFO method valued at the lower of cost and net realizable value. Inventory increased from 2019 to 2020 by ~7%, which was most likely due to the increased demand placed on e-commerce stores during the pandemic. However, there does not appear to be anything strange or out of the ordinary with Overstock's production levels or gross margins.

Inventories

Inventories include merchandise purchased for resale which are accounted for using a standard costing system which approximates the first-in-first-out ("FIFO") method of accounting and are valued at the lower of cost and net realizable value. Inventory valuation requires us to make judgments, based on currently available information, about the likely method of disposition, such as through sales to individual customers, returns to product vendors, liquidations, and expected recoverable values of each disposition category.

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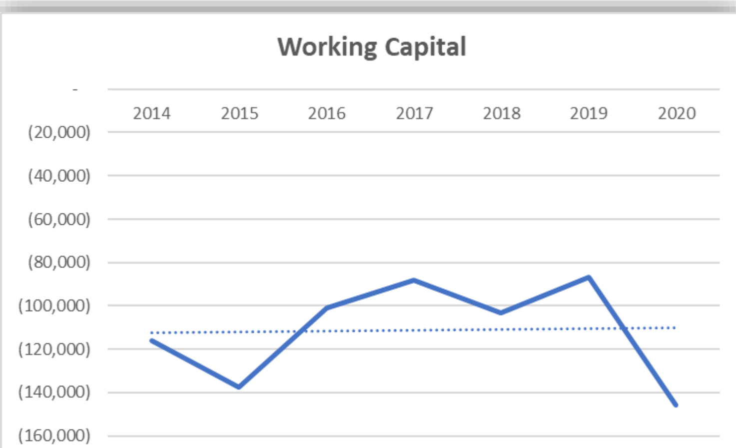
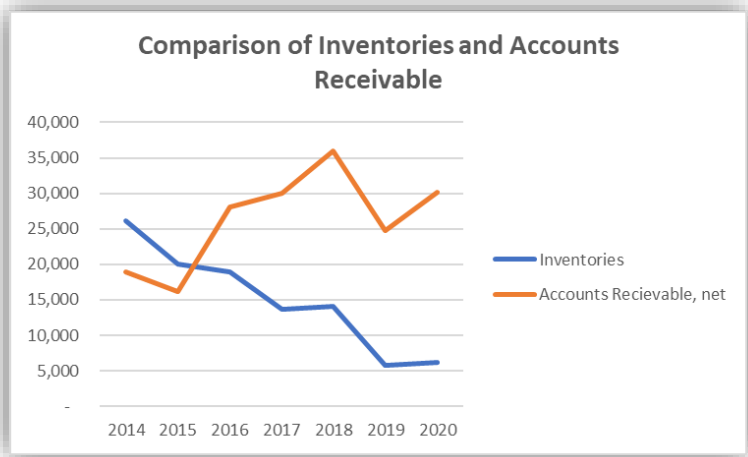
Working Capital Analysis

		2014	2015	2016	2017	2018	2019	2020	Trend
	Accounts Recievable, net	18,963	16,128	28,142	30,080	35,930	24,728	30,125	
+	Inventories	26,208	20,042	18,937	13,703	14,108	5,840	6,243	
-	Accounts Payable	112,787	122,705	106,337	85,406	102,574	75,416	109,749	
-	Unearned/Deferred Revenue	48,451	50,944	41,780	46,468	50,578	41,821	72,311	
=	Working Capital	(116,067)	(137,479)	(101,038)	(88,091)	(103,114)	(86,669)	(145,692)	





Overstock's Working Capital fell 26% between 2014 and 2020. Additionally, as we drill down into the components of Working Capital, we see several interesting countervailing trends. For example, Overstock's Accounts Receivable increased 59% from 2014 to 2020. This increase would have had a significant impact on Working Capital, were it not offset by a -76% decrease in Inventories and a 49% increase in Unearned Revenue.

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Gross Margin/Gross Profit Percentage 2014 - 2020

	2014	2015	2016	2017	2018	2019	2020	Trend
Operating Revenues	1,349,643	1,520,055	1,698,385	1,661,704	1,800,187	1,434,974	2,493,915	
Operating COGS	1,088,791	1,225,107	1,372,343	1,323,620	1,452,195	1,147,025	1,922,559	
Gross Margin	260,852	294,948	326,042	338,084	347,992	287,949	571,356	
Gross Profit Percentage	19.33%	19.40%	19.20%	20.35%	19.33%	20.07%	22.91%	

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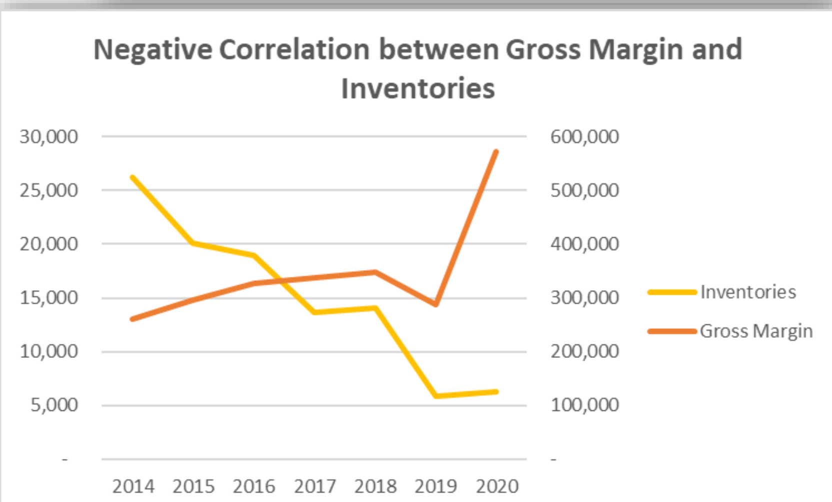
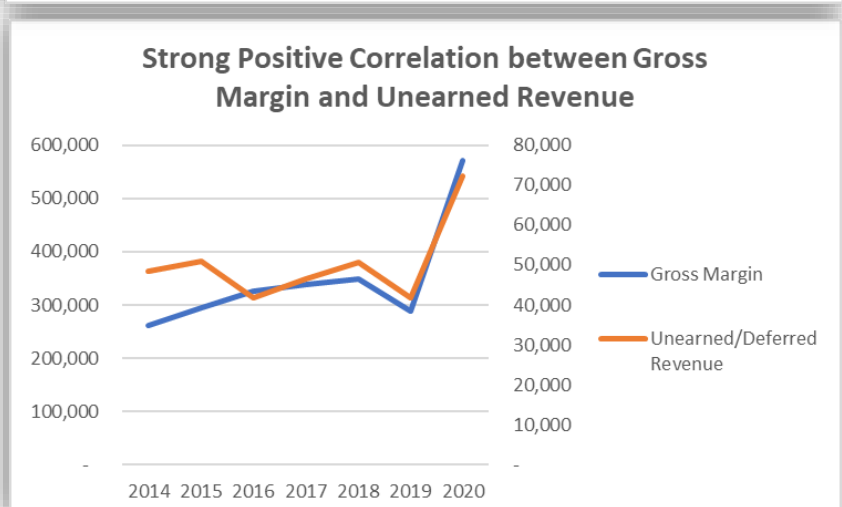
Correlation of Gross Margin to the Components of Working Capital

Gross Margin to Accounts Recievable	0.478335	Positively Correlated
Gross Margin to Inventories	-0.590817	Negatively Correlated
Gross Margin to Accounts Payable	0.133567	Uncorrelated
Gross Margin to Unearned Revenue	0.894208	Strongly Positively Correlated
Gross Margin to Working Capital	-0.543081	Negatively Correlated





Between 2014 and 2020, Overstock's Gross Margin rose by 119% at the same time Inventories fell by 76%.

<u>These metrics mirror Overstock's transition from its less-profitable *direct business* where it maintains inventories to focus on its more profitable *partner business*, where it sells merchandise from manufacturers, distributors, and other suppliers.</u>

Additionally, between 2014 and 2020, there is an .89 positive correlation coefficient between Overstock's Gross Margin and its Unearned Revenue.

Revenue is considered unearned *before* the delivery of the product or service. The product is considered passed to the customer when the actual delivery of the product occurs from the shipping carrier.

It is unclear why there is currently such a strong correlation between Gross Margin and Unearned Revenue, but further investigation is merited.

Leases

Starting in 2019, Overstock began reporting operating leases on its balance sheet according to the FASB accounting rule change ASC 842. The rule change required that just about all lease activities (operating leases and capital leases) be reported on the balance sheet rather than operating leases left off the balance sheet, as was the custom before the rule change.

The operating and finance leases listed on the balance sheet are for warehouses, office space, data centers, and certain equipment. Overstock's per year assets rose by around $25 million when the rule took effect, and their per year liabilities rose around $28 million. By complying with this rule change, Overstock's net operating assets and invested capital would have increased. Therefore, their return on net operating assets and return on invested capital decreased.

Impairments

In 2020 Overstock did not report any impairments or write-downs on its books. However, in 2019 and 2018, Overstock experienced impairment losses of $1.4 million and $6 million, respectively, related to patents that are held by Medici Ventures, which is Overstock's blockchain technology portfolio of companies. These impairments were reported as part of Overstock's SG&A expense. As a result, Overstock's SG&A expense is much higher on a per employee basis than its competitors.

Impairment of long-lived assets

We review property and equipment, right-of-use assets, and other long-lived assets, including intangible assets other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability is measured by a comparison of the assets' carrying amount to future undiscounted net cash flows the asset group is expected to generate. Cash flow forecasts are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions. If such asset group is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair values.

There were no impairments to long-lived assets recorded during the year ended December 31, 2020. For the year ended December 31, 2019, we realized a $1.4 million impairment loss included in General and administrative expense in our consolidated statements of operations related to certain patents held by our Medici Ventures segment. The estimated fair value of the patents were determined based on Level 3 inputs, which were unobservable (see the *Fair value of financial instruments* section above), including market participant assumptions for similar assets in an inactive market. For the year ended December 31, 2018, we realized a $6.0 million impairment loss included in General and administrative expense in our consolidated statements of operations related to certain patents held by our Medici Ventures segment. The estimated fair value of the patents

were determined based on Level 3 inputs, which were unobservable (see the *Fair value of financial instruments* section above), including market participant assumptions for similar assets in an inactive market. In conjunction with our annual assessment, we concluded the remaining useful life of these licenses were zero based on current contractual arrangements.

It is unlikely that any write-downs would be necessary for 2020 as the global Covid-19 pandemic drove consumers to online retailers as brick-and-motor stores were shut down, and cryptocurrencies saw a huge spike in prices, which are dependent on blockchain technology.

Acquisitions

Overstock has made many acquisitions over the last several years. The consolidated financial statements include the acquisition of the following companies:

- **Bitt, Inc. (completed October 20, 2020),**
- **tZERO Crypto, Inc. (completed January 1, 2019),**
- **Verify Investor, LLC (completed February 12, 2018,**
- **Mac Warehouse, LLC (completed June 25, 2018)**

However, in February of 2020, Overstock's subsidiary Medici Land Governance ("MLG") sold shares of its common stock to an unrelated third party, reducing Overstock's ownership from 57% down to 35%. Due to this reduction in ownership, on February 22, 2020, Overstock no longer had control of MLG and deconsolidated its financials from Overstock's financial statements.

Bitt, Inc.

In October 2020, Medici Ventures, entered into a Subscription Agreement (the "Agreement") with Bitt Inc. ("Bitt"), a privately-held Barbadian financial technology company that is developing a system whereby the value of the national Barbadian currency (a fiat currency) is directly linked to an equivalent crypto-currency, along with additional crypto-financial technologies. This resulted in an 84% interest in Bitt, and we consolidated the results of Bitt beginning from the acquisition date of October 27, 2020. The acquisition of Bitt fits into the overall business initiatives of Medici Ventures to enable its existing keiretsu companies to extend their operating runway to profitability.

On the consolidated balance sheets and statements of operations, Marketable securities at fair value, Goodwill, Equity securities, Equity attributable to noncontrolling interests, and Net loss attributable to noncontrolling interests are where Overstocks acquisitions can be found.

tZERO Crypto, Inc.

Through a series of transactions in 2018, Medici Ventures acquired a 33% equity interest in tZERO Crypto, Inc. ("tZERO Crypto"), formerly Bitsy, Inc., a U.S.-based startup that built a regulatory-compliant bridge between traditional fiat currencies and cryptocurrencies, allowing customers the ability to store, purchase and sell cryptocurrencies. tZERO Crypto was founded by Steve Hopkins, Overstock's current Vice President of Government, who was Medici Ventures' chief operating officer and general counsel at the time of such transaction who held a significant equity interest in tZERO Crypto. On December 21, 2018, tZERO entered into a stock purchase agreement with the owners of tZERO Crypto to acquire the remaining 67% equity interest for $8.0 million with effective control of tZERO Crypto transferring to tZERO effective January 1, 2019. In connection with the December 2018 stock purchase agreement, Medici Ventures transferred its 33% equity interest in tZERO Crypto to tZERO for a $4.0 million convertible promissory note and an assignment of certain intellectual property to Medici Ventures.

The balance sheet includes equity and marketable securities at fair value of public and private entities that Overstock holds less than 20% interest in. The equity method is used to account for these interests on the financial statements. Impairments for equity securities without readily determinable fair values amount to $6.4 million over 2018 to 2020. $958,000 of upward adjustments were recognized in 2018 due to price adjustments to equity securities.

Restricted Stock Activity Table

The following table summarizes restricted stock award activity (in thousands, except fair value data):

	2020		2019		2018	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Outstanding—beginning of year	1,051	$ 26.22	559	$ 44.08	540	$ 17.05
Granted at fair value	484	10.39	982	17.80	387	65.42
Vested	(710)	23.58	(270)	34.92	(234)	17.68
Forfeited	(186)	23.43	(220)	23.36	(134)	42.85
Outstanding—end of year	639	$ 17.98	1,051	$ 26.22	559	$ 44.08

Overstock does not offer employee stock options (ESO's); rather, they offer their employees restricted stock. The main difference between an ESO and restricted stock is that ESO's give the employee the option to buy the stock at a predetermined price, whereas restricted stock is stock shares given to an employee. Something unique about Overstock's restricted stock is that their vesting period is only three years.

It's also interesting to note that the fair value of the stock in 2018 was $65.42, but the stock in 2019 and 2020 was $17.80 and $10.39, respectively. Based on the current OSTK stock price (as of July 27, 2021, the stock price was $82.68), it is likely that the grant value will rebound to 2018 levels for the 2021 year-end.

Rabbi Trust

3. FAIR VALUE MEASUREMENT

The following tables summarize our assets and liabilities measured at fair value on a recurring basis using the following levels of inputs as of December 31, 2020 and 2019, as indicated (in thousands):

	Fair Value Measurements at December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents—Money market mutual funds	$ 567	$ 567	$ —	$ —
Equity securities, at fair value	1,127	1,127	—	—
Marketable securities, at fair value	1,762	1,762	—	—
Trading securities held in a "rabbi trust" (1)	139	139	—	—
Total assets	$ 3,595	$ 3,595	$ —	$ —
Liabilities:				
Deferred compensation accrual "rabbi trust" (2)	$ 148	$ 148	$ —	$ —
Total liabilities	$ 148	$ 148	$ —	$ —

(1) — Trading securities held in a rabbi trust are included in Prepaids and other current assets and Other long-term assets, net in the consolidated balance sheets.
(2) — Non-qualified deferred compensation in a rabbi trust is included in Accrued liabilities and Other long-term liabilities in the consolidated balance sheets.

A rabbi trust is a trust created to support the non-qualified benefit obligations of employers to their employees. In essence, it is a non-qualified employee trust created for the benefit of both the employer and employee. Overstock uses a Rabbi Trust to compensate its senior executives. Assets held inside a Rabbi

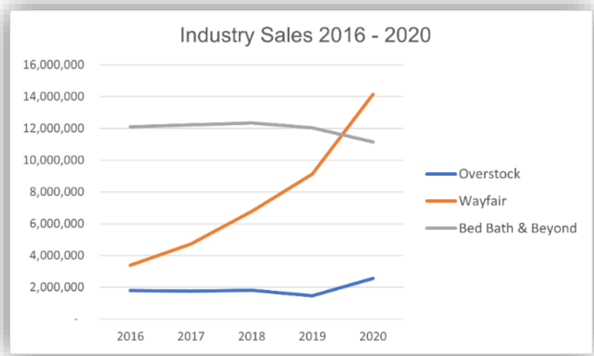
Trust are sheltered from taxes until they are withdrawn. Additionally, because contributions are irrevocable, an employer cannot retrieve funds once they have been contributed.

A rabbi trust protects employees from a company that is experiencing financial hardship and wants to remove some of the trust's assets to meet its other obligations. For example, an employer cannot withdraw $50,000 from a rabbi trust to pay employee wages. A rabbi trust's structure cannot be changed by the employer once it has been established, giving further protection to its beneficiaries.

Conclusion: Should You Invest in Overstock?

Answer: Not currently.

Reason #1: Overstock's management isn't sold on the company's long-term prospects, as evidenced by the fact that they've repeatedly diverted resources away from the company's core business to pursue non-complimentary business ventures in blockchain and crypto.



Reason #2: Overstock has thus far failed to achieve sufficient market share for it to be able to compete against the other big players in its space over time.

Reason #3: Overstock's cost of capital is too high. Despite having a 74.7% increase in revenues because of Covid-19 and having an RNOA of over 24% in 2020, the company still failed to hurdle its WACC which is an astronomical 26.94%.

RNOA		WACC
24.16%	<	26.94%

Reason #4: Years of losses and tepid business performance as well as ventures into non-core business activities has caused distortions in the firm's financial statements. These distortions have made many of the company's KPIs indecipherable and/or meaningless.

overstock

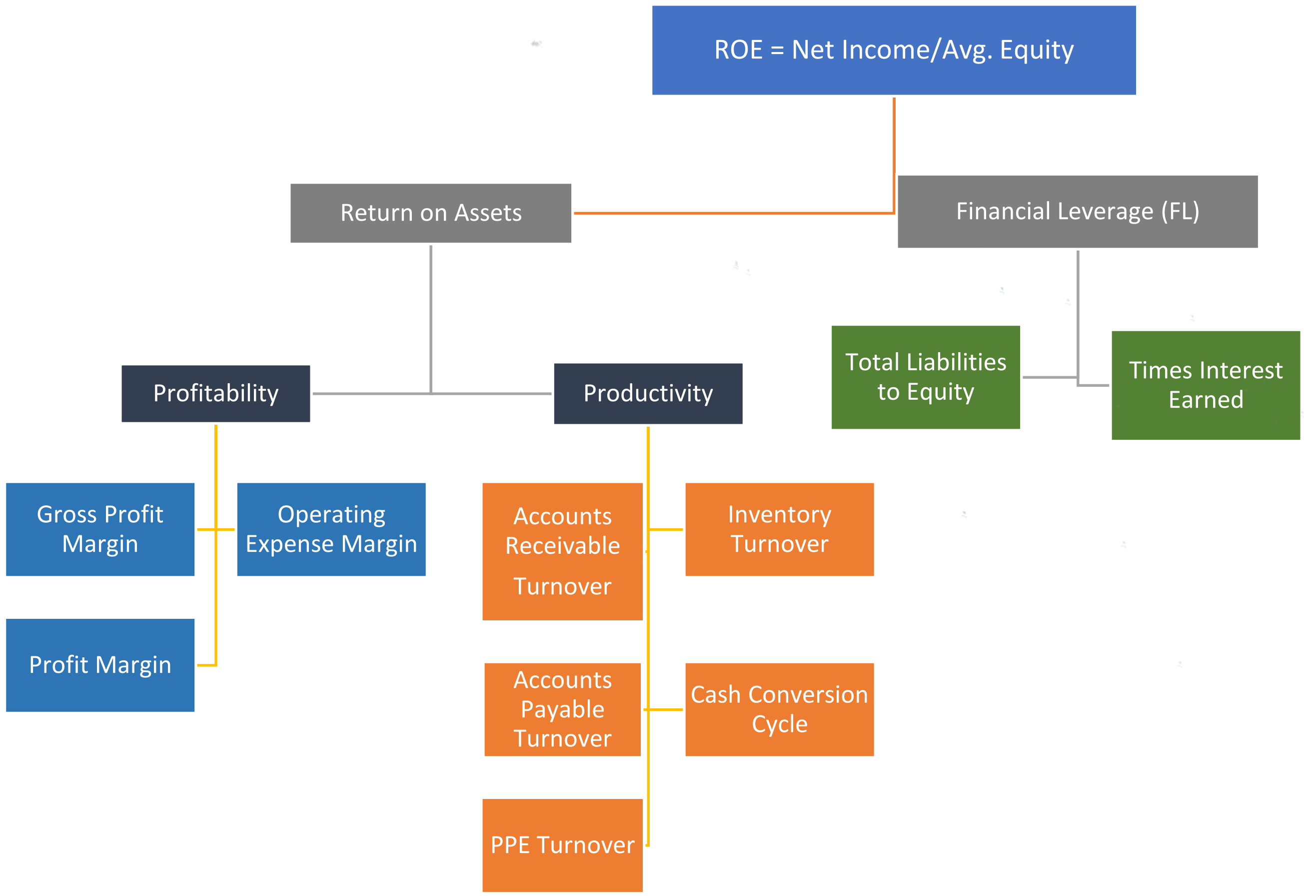
ROE and ROA	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Return on Equity	6.98%	-64.87%	-113.66%	-69.34%	15.03%		16.59%
Return on Assets	0.43%	-24.36%	-51.19%	-30.65%	7.40%		77.01%

Reason #5: Overstock has a very low Free Cash Flow Yield. This is seen as a negative indicator, because it means investors are putting money into the company but not receiving a very good return in exchange.

Overstock Free Cash Flow Yield		
FCF/Shares outstanding		0.0360
Divided by: $ per share	$	93.45
FCF Yield		**0.039%**

Addendum

Dupont Disaggregation



Return on Equity – Return on Assets

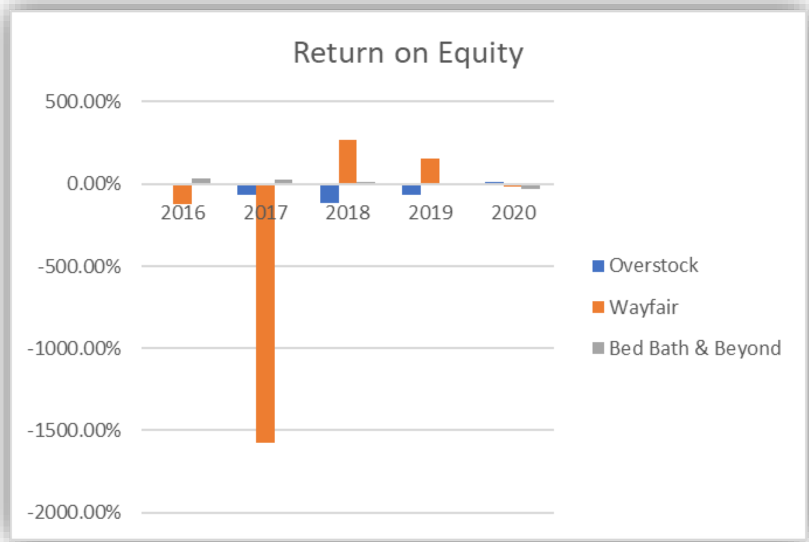
overstock ROE and ROA	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Return on Equity	6.98%	-64.87%	-113.66%	-69.34%	15.03%		16.59%
Return on Assets	0.43%	-24.36%	-51.19%	-30.65%	7.40%		77.01%

BED BATH & BEYOND

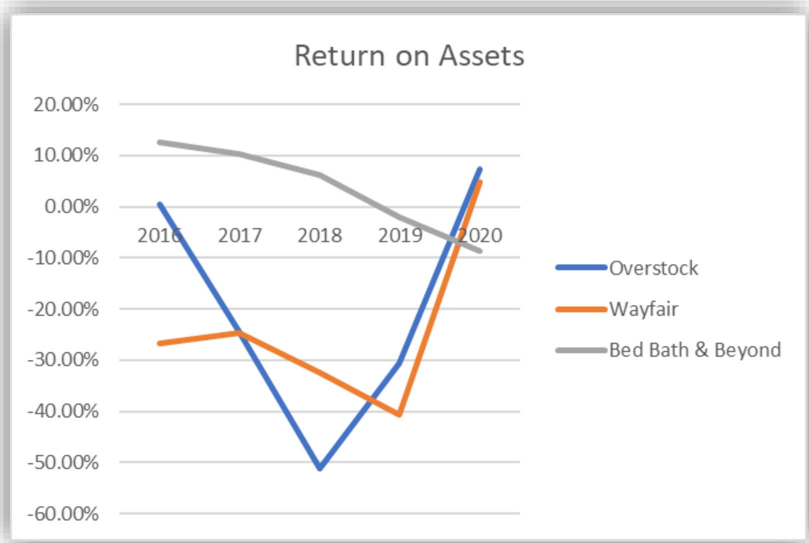
ROE and ROA	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Return on Equity	31.74%	25.96%	15.15%	-5.04%	-28.38%		-197.79%
Return on Assets	12.69%	10.29%	6.13%	-2.02%	-8.55%		-192.40%

wayfair

ROE and ROA	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Return on Equity	-120.76%	-1575.36%	265.97%	154.45%	-17.32%		-32.18%
Return on Assets	-26.70%	-24.77%	-32.48%	-40.65%	4.92%		-171.30%



Consistent, accumulated retained deficits for Overstock and Wayfair accompanied by repeated consolidated net losses by both Overstock and Wayfair have made calculating this metric essentially meaningless.



The contrast between the e-retailers and the traditional box-store retailer is particularly interesting in this graph as the impact of the Covid-19 lockdowns is observed.

Profitability

overstock

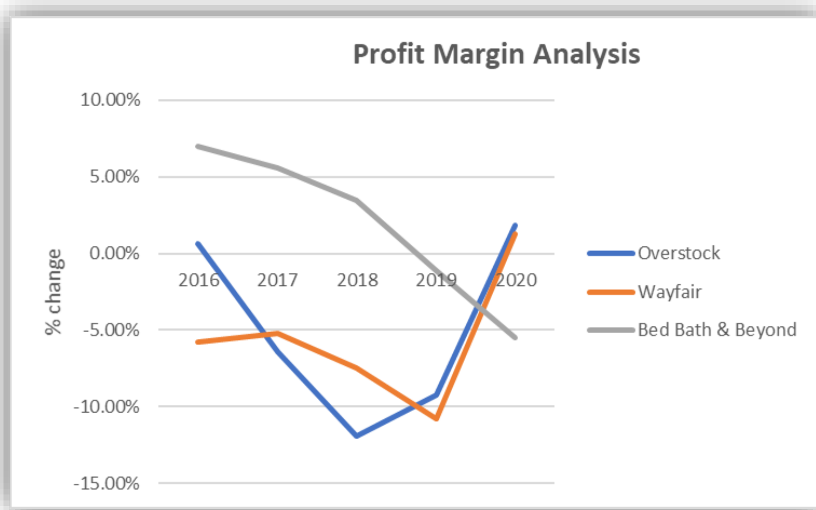
Profitability	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Gross Profit Margin	18.41%	19.52%	19.43%	20.08%	22.73%		4.31%
Operating Expense Margin	18.02%	22.19%	31.35%	28.54%	20.68%		2.79%
Profit Margin	0.62%	-6.41%	-11.94%	-9.23%	1.81%		23.71%

wayfair

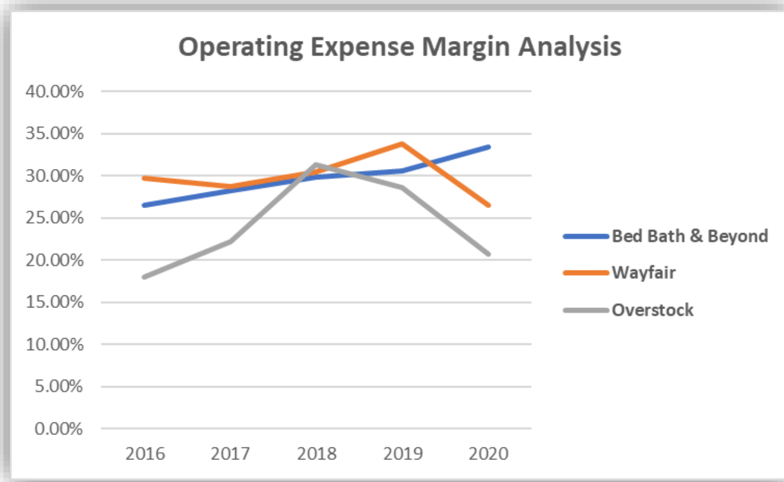
Profitability	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Gross Profit Margin	23.90%	23.70%	23.41%	23.53%	29.07%		4.00%
Operating Expense Margin	29.70%	28.69%	30.39%	33.72%	26.52%		-2.24%
Profit Margin	-5.75%	-5.18%	-7.44%	-10.79%	1.31%		-174.37%

BED BATH & BEYOND

Profitability	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Gross Profit Margin	38.17%	37.46%	35.98%	34.12%	31.74%		-3.62%
Operating Expense Margin	26.48%	28.17%	29.81%	30.60%	33.45%		4.78%
Profit Margin	6.95%	5.61%	3.44%	-1.14%	-5.50%		-195.42%



We see a steep negative trend in BBB's profit margin even when Wayfair and Overstock had a sharp increase. This graph is a good contrast of how traditional box-store retail struggles to compete in an environment that is increasingly moving online.



It is interesting that while Overstock had the best Profit Margin of the three firms, it has the worst Operating Expense Margin.

This is likely because it has significant overhead costs related to its Medici Ventures segments embedded in Operating Expenses.

Productivity

overstock

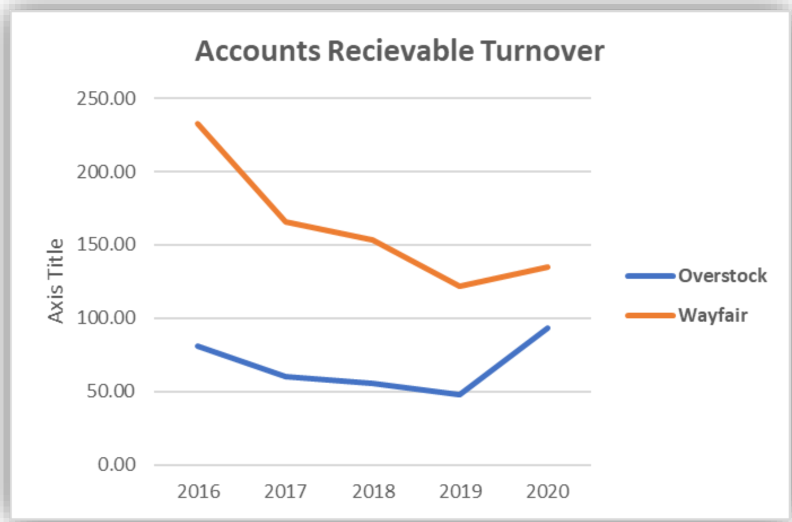
Productivity	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Accounts Receivable Turnover	81.32	59.93	55.19	48.12	92.97		2.71%
Days Sales Outstanding	4.49	6.09	6.61	7.59	3.93		-2.64%
Inventory Turnover	75.35	86.04	105.55	116.94	326.12		34.05%
Days Inventory Outstanding	4.84	4.24	3.46	3.12	1.12		-25.40%
Accounts Payable Turnover	12.82	14.65	15.62	13.11	21.28		10.66%
Days Payables Outstanding	28.46	24.92	23.37	27.85	17.15		-9.63%
Cash Conversion Cycle	-19.13	-14.59	-13.30	-17.14	-12.11		-8.74%
PPE Turnover	-	-	-	11.03	20.19		35.32%
Fixed Asset Turnover	13.29	11.43	10.23	7.10	12.75		-0.83%

wayfair

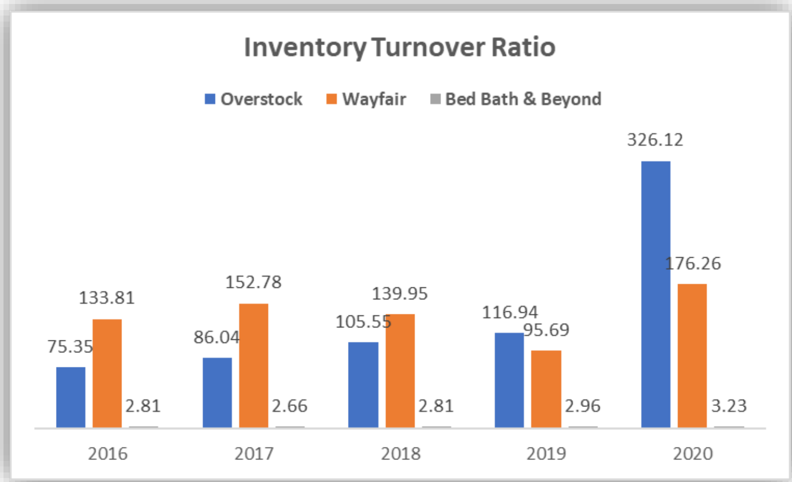
Productivity	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Accounts Receivable Turnover	232.98	165.47	153.11	121.43	134.70		-10.38%
Days Sales Outstanding	1.57	2.21	2.38	3.01	2.71		11.58%
Inventory Turnover	133.81	152.78	139.95	95.69	176.26		5.66%
Days Inventory Outstanding	2.73	2.39	2.61	3.81	2.07		-5.36%
Accounts Payable Turnover	7.91	8.79	9.52	8.96	9.72		4.20%
Days Payables Outstanding	46.14	41.54	38.33	40.74	37.56		-4.03%
Cash Conversion Cycle	-41.85	-36.94	-33.34	-33.92	-32.78		-4.77%
PPE Turnover	19.22	15.72	14.00	14.82	21.61		2.37%
Fixed Asset Turnover	14.12	14.01	9.38	12.63	18.51		5.57%

BED BATH & BEYOND

Productivity	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Accounts Receivable Turnover	-	-	-	-	-		-
Days Sales Outstanding	-	-	-	-	-		-
Inventory Turnover	2.81	2.66	2.81	2.96	3.23		2.83%
Days Inventory Outstanding	129.83	137.45	130.11	123.20	112.92		-2.75%
Accounts Payable Turnover	6.63	6.70	6.65	6.92	7.47		2.42%
Days Payables Outstanding	55.05	54.47	54.86	52.77	48.84		-2.37%
Cash Conversion Cycle	74.78	82.99	75.25	70.43	64.08		-3.04%
PPE Turnover	7.12	6.86	6.59	6.39	6.80		-0.92%
Fixed Asset Turnover	-	-	-	-	-		-

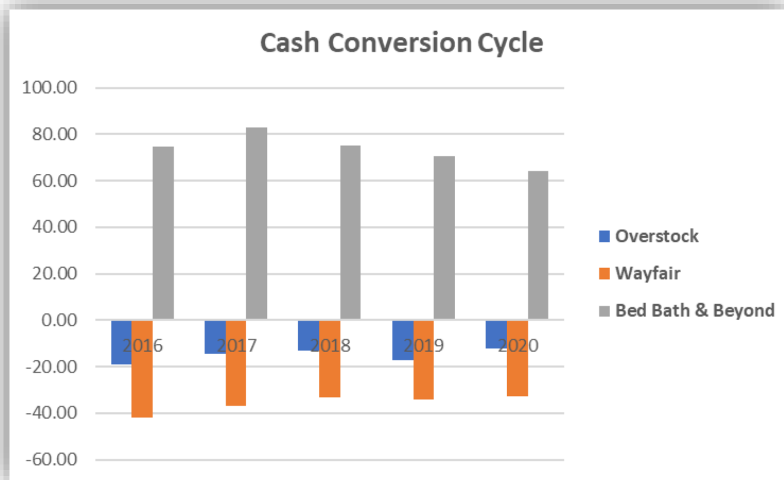


Wayfair has a higher overall A/R turnover, but Overstock's has risen to an all-time high vs. Wayfair's steeply declining A/R turnover since 2016.



Overstock is the shining star in this comparison with an inventory turnover ratio of 326.12 vs. Wayfair's 176.26 and BBB's dismal 3.23.

BBB's low turnover ratio is likely due to the large inventory required to stock all its retail locations.



BBB's business model requires a much larger investment in physical inventory. This inefficiency relative to the e-commerce businesses is contrast nicely in the Cash Conversion Cycle comparisons in the graph to the left.

Financial Leverage

overstock.

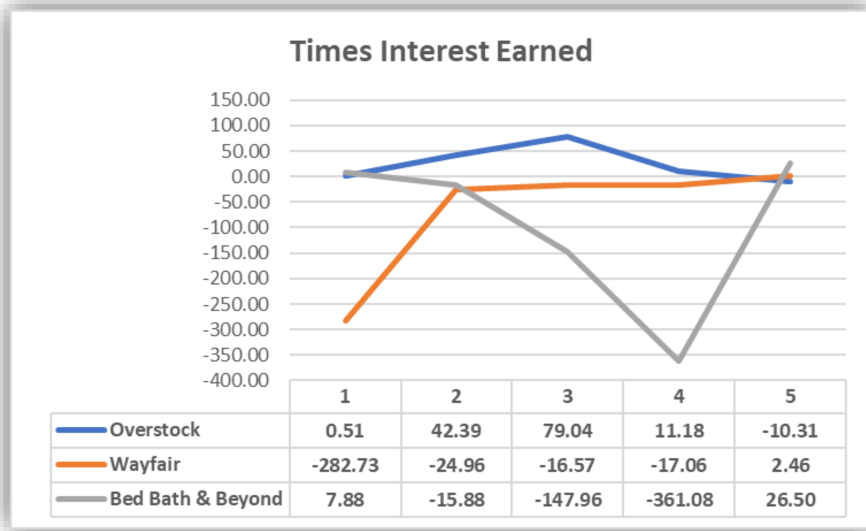
Financial Leverage	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Financial Leverage	2.83	2.66	2.34	2.26	2.03		-6.44%
Total Liabilities to Equity	180.46%	60.32%	54.32%	57.42%	90.27%		-12.94%
Times Interest Earned	0.51	42.39	79.04	11.18	-10.31		-282.64%

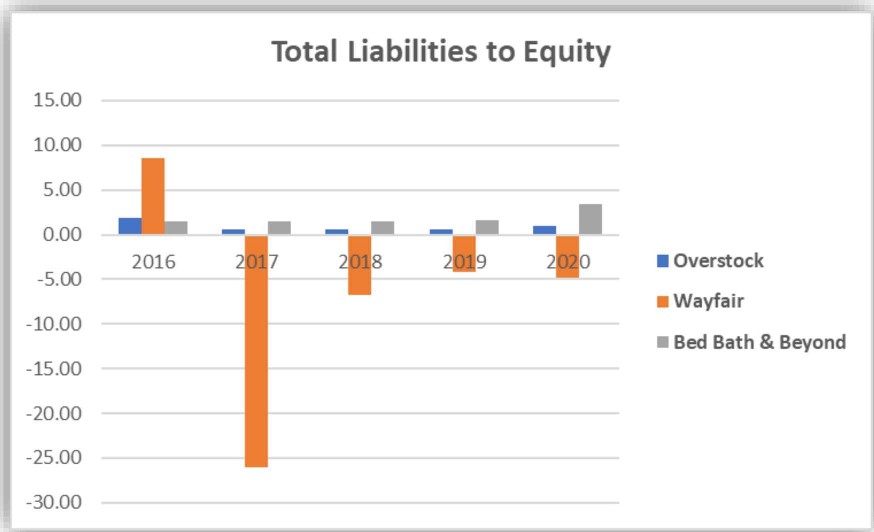
wayfair

Financial Leverage	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Financial Leverage	4.52	63.60	-8.19	-3.80	-3.52		-195.12%
Total Liabilities to Equity	8.59	-26.11	-6.72	-4.13	-4.83		-189.13%
Times Interest Earned	-282.73	-24.96	-16.57	-17.06	2.46		-138.72%

BED BATH & BEYOND

Financial Leverage	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
Financial Leverage	2.50	2.52	2.47	2.50	3.32		5.84%
Total Liabilities to Equity	1.54	1.51	1.44	1.57	3.41		17.27%
Times Interest Earned	7.88	-15.88	-147.96	-361.08	26.50		27.43%





Once again, Wayfair's accumulated retained deficits have made this metric less meaningful.

Altman Z-Score

overstock

Z-Score

Ratios	Weight	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
WC/TA	1.2	-0.010	0.117	-0.057	-0.092	0.307		0.04%
RE/TA	1.4	-0.317	-0.587	-0.995	-1.389	-0.633		-298.46%
EBIT/TA	3.3	0.014	-0.107	-0.471	-0.296	0.063		14.80%
MVE/TL	0.6	1.236	1.727	7.265	2.853	0.612		34.57%
S/TA	0.99	3.711	4.022	3.950	3.494	3.071		-13.11%
Z-Score		**4.01**	**3.98**	**5.25**	**2.14**	**3.10**		-3.71%

wayfair

Z-Score

Ratios	Weight	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
WC/TA	1.2	-0.105	0.064	0.062	-0.079	0.193		0.04%
RE/TA	1.4	-4.331	-0.481	-0.573	-0.699	-0.406		-212.86%
EBIT/TA	3.3	-0.258	-0.194	-0.250	-0.315	0.079		-37.71%
MVE/TL	0.6	3.063	1.656	2.534	1.976	0.951		-178.92%
S/TA	0.99	4.438	3.891	3.585	3.091	3.095		-20.86%
Z-Score		**-0.81**	**3.61**	**3.52**	**2.13**	**3.56**		-6.95%

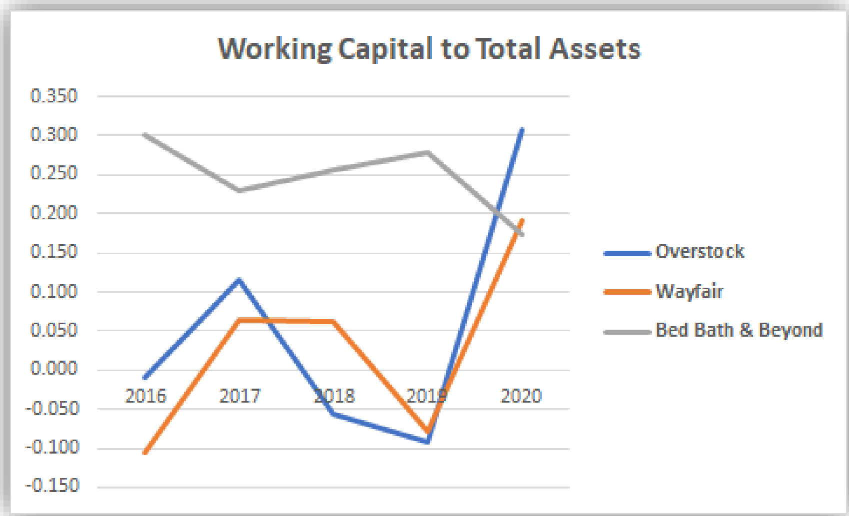
BED BATH & BEYOND

Z-Score

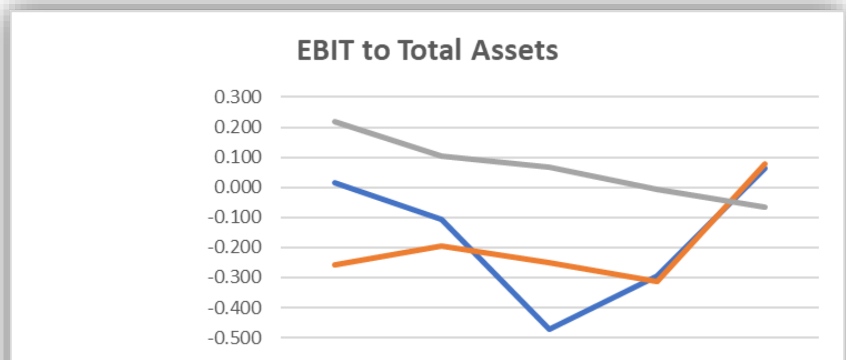
Ratios	Weight	2016	2017	2018	2019	2020	Trend	5-Yr CAGR
WC/TA	1.2	0.301	0.229	0.256	0.279	0.175		0.04%
RE/TA	1.4	1.599	1.613	1.611	1.691	1.332		-10.35%
EBIT/TA	3.3	0.218	0.103	0.067	-0.008	-0.067		-3.60%
MVE/TL	0.6	1.955	1.355	0.710	0.559	0.098		-179.11%
S/TA	0.99	1.862	1.790	1.754	1.831	1.432		-45.08%
Z-Score		**6.34**	**5.46**	**4.95**	**4.82**	**3.33**		-5.12%

The Altman Z-score is based on five financial ratios that can be calculated from data found on a company's annual 10-K report. It uses profitability, leverage, liquidity, solvency, and activity to predict whether a company has a high probability of becoming insolvent. In the charts above, we see mixed results for Overstock, improvement for Wayfair and decline for Bed, Bath and Beyond.

Z-Score > 3: Company is healthy | **2.99>Z-Score>1.8:** Grey area | **1.80>Z-Score:** Company is in financial distress

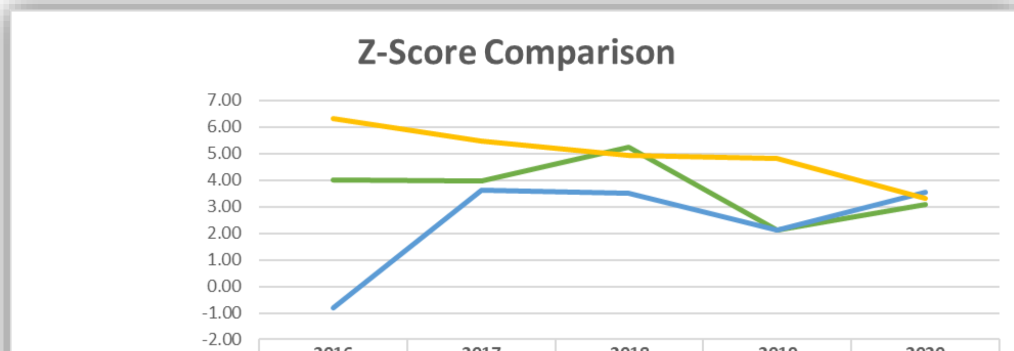


The effects of the Covid-19 lockdowns are very evident when comparing the two e-commerce retailers to the box retail chain.



	2016	2017	2018	2019	2020
Overstock	0.014	-0.107	-0.471	-0.296	0.063
Wayfair	-0.258	-0.194	-0.250	-0.315	0.079
Bed Bath & Beyond	0.218	0.103	0.067	-0.008	-0.067

What *is* unexpected is that even though favorable effects of the Covid-19 lockdowns are present in some of the Z-score metrics, overall, the firms are very close to one another with regards to their likelihood of insolvency.



	2016	2017	2018	2019	2020
Overstock	4.01	3.98	5.25	2.14	3.10
Wayfair	-0.81	3.61	3.52	2.13	3.56
Bed Bath & Beyond	6.34	5.46	4.95	4.82	3.33