



**RECREATIONAL EQUIPMENT, INC.**

Consolidated Financial Statements

January 3, 2026 and December 28, 2024

(With Independent Auditors' Report Thereon)

## RECREATIONAL EQUIPMENT, INC.

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KPMG LLP  
Suite 2800  
401 Union Street  
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## Independent Auditors' Report

The Board of Directors  
Recreational Equipment, Inc.:

### *Opinion*

We have audited the consolidated financial statements of Recreational Equipment, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of January 3, 2026 and December 28, 2024, and the related consolidated statements of comprehensive loss, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 3, 2026 and December 28, 2024, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*KPMG LLP*

Seattle, Washington  
March 26, 2026

**RECREATIONAL EQUIPMENT, INC.**

Consolidated Balance Sheets

January 3, 2026 and December 28, 2024

(In thousands)

| <b>Assets</b>                                    | <b>January 3,<br/>2026</b> | <b>December 28,<br/>2024</b> |
|--|----------------------------|------------------------------|
| Current assets:                                  |                            |                              |
| Cash and cash equivalents                        | \$ 380,421                 | 283,959                      |
| Short-term investments                           | 158,809                    | 55,269                       |
| Accounts receivable, net                         | 46,906                     | 59,740                       |
| Inventories                                      | 566,805                    | 564,662                      |
| Prepaid expenses and other                       | 78,467                     | 73,665                       |
| Income taxes receivable                          | —                          | 1,779                        |
| Total current assets                             | 1,231,408                  | 1,039,074                    |
| Property and equipment, net                      | 485,613                    | 541,612                      |
| Operating lease right-of-use assets              | 437,675                    | 452,286                      |
| Other  | 35,561                     | 39,467                       |
| Total assets                                     | \$ 2,190,257               | 2,072,439                    |
| <b>Liabilities and Members' Equity</b>           |                            |                              |
| Current liabilities:                             |                            |                              |
| Accounts payable                                 | \$ 217,502                 | 267,261                      |
| Customer-related obligations                     | 222,980                    | 219,502                      |
| Co-op member reward payable: promotional portion | 160,962                    | 158,984                      |
| Accrued payroll and benefits                     | 188,024                    | 172,100                      |
| Current lease liabilities                        | 92,012                     | 89,421                       |
| Business taxes and other accrued liabilities     | 60,146                     | 53,737                       |
| Income taxes payable                             | 796                        | —                            |
| Total current liabilities                        | 942,422                    | 961,005                      |
| Long-term lease liabilities                      | 416,337                    | 441,072                      |
| Other long-term liabilities                      | 257,582                    | 75,245                       |
| Total liabilities                                | 1,616,341                  | 1,477,322                    |
| Commitments and contingencies (note 9)           |                            |                              |
| Members' equity:                                 |                            |                              |
| Memberships                                      | 498,995                    | 465,939                      |
| Accumulated other comprehensive income           | 66                         | 39                           |
| Retained earnings                                | 74,855                     | 129,139                      |
| Total members' equity                            | 573,916                    | 595,117                      |
| Total liabilities and members' equity            | \$ 2,190,257               | 2,072,439                    |

See accompanying notes to the consolidated financial statements.

**RECREATIONAL EQUIPMENT, INC.**

Consolidated Statements of Comprehensive Loss

Periods ended January 3, 2026 and December 28, 2024

(In thousands)

|  | <b>December 29,<br/>2024 –<br/>January 3,<br/>2026</b> | <b>December 31,<br/>2023 –<br/>December 28,<br/>2024</b> |
|--|--|--|
| Net sales  | \$ 3,537,064   | 3,526,474  |
| Cost of sales  | 2,012,129  | 2,101,524  |
| Gross profit   | 1,524,935  | 1,424,950  |
| Operating expenses:  |  |  |
| Payroll-related expenses   | 875,499  | 879,970  |
| Occupancy, general, and administrative   | 700,620  | 699,574  |
| Operating expenses   | 1,576,119  | 1,579,544  |
| Operating loss   | (51,184)   | (154,594)  |
| Other expense, net   | (771)  | (43)   |
| Loss before co-op member rewards: dividend<br>portion and income taxes                               | (51,955)   | (154,637)  |
| Co-op member rewards: dividend portion, net  | —  | 775  |
| Loss before income taxes   | (51,955)   | (155,412)  |
| Provision for income taxes   | 2,329  | 1,027  |
| Net loss   | (54,284)   | (156,439)  |
| Other comprehensive income:  |  |  |
| Unrealized gain on available-for-sale securities, net of tax of<br>(\$194) and (\$424), respectively | 27   | 1,731  |
| Comprehensive loss   | \$ (54,257)  | (154,708)  |

See accompanying notes to the consolidated financial statements.

**RECREATIONAL EQUIPMENT, INC.**

Consolidated Statements of Members' Equity

Periods ended January 3, 2026 and December 28, 2024

(In thousands)

|  | <u>Memberships</u> | <u>Retained earnings</u> | <u>Accumulated other comprehensive income (loss)</u> | <u>Total members' equity</u> |
|--|--------------------|--------------------------|--|------------------------------|
| Balance at December 30, 2023                                 | \$ 431,913         | 285,578                  | (1,692)  | 715,799                      |
| Unrealized gain on available-for-sale securities, net of tax | —                  | —                        | 1,731  | 1,731                        |
| Memberships issued   | 34,026             | —                        | —  | 34,026                       |
| Net loss   | —                  | (156,439)                | —  | (156,439)                    |
| Balance at December 28, 2024                                 | 465,939            | 129,139                  | 39   | 595,117                      |
| Unrealized gain on available-for-sale securities, net of tax | —                  | —                        | 27   | 27                           |
| Memberships issued   | 33,056             | —                        | —  | 33,056                       |
| Net loss   | —                  | (54,284)                 | —  | (54,284)                     |
| Balance at January 3, 2026                                   | \$ <u>498,995</u>  | <u>74,855</u>            | <u>66</u>  | <u>573,916</u>               |

See accompanying notes to the consolidated financial statements.

**RECREATIONAL EQUIPMENT, INC.**

Consolidated Statements of Cash Flows

Periods ended January 3, 2026 and December 28, 2024

(In thousands)

|   | <b>December 29,<br/>2024 –<br/>January 3,<br/>2026</b> | <b>December 31,<br/>2023 –<br/>December 28,<br/>2024</b> |
|---|--|--|
| Operating activities:   |  |  |
| Net loss  | \$ (54,284)  | (156,439)  |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |  |  |
| Depreciation and amortization   | 91,765   | 91,863   |
| Amortization of investment premium/discount   | (328)  | (174)  |
| Change in provision for sales returns   | 5,831  | 323  |
| Deferred income taxes, net  | (193)  | (425)  |
| (Gain) loss on sale and disposal of property and equipment                                | (25,377)   | 2,776  |
| Changes in operating assets and liabilities:  |  |  |
| Accounts receivable   | 18,050   | 10,059   |
| Inventories   | (2,143)  | 71,279   |
| Prepays and other assets  | 456  | 12,554   |
| Accounts payable and other accrued expenses   | (29,642)   | 3,082  |
| Operating lease right-of-use assets and lease liabilities                                 | (11,131)   | (7,374)  |
| Net cash provided by (used in) operating activities                                       | <u>(6,996)</u>   | <u>27,524</u>  |
| Investing activities:   |  |  |
| Purchases of short-term investments   | (307,496)  | —  |
| Proceeds from sale and maturities of short-term investments                               | 204,504  | 146,232  |
| Purchases of property and equipment   | (50,042)   | (70,541)   |
| Proceeds from sale of property and equipment  | 39,576   | 4,340  |
| Purchases of long-term investments  | (437)  | (1,809)  |
| Net cash provided by (used in) investing activities                                       | <u>(113,895)</u>                                       | <u>78,222</u>  |
| Financing activities:   |  |  |
| Proceeds from line of credit  | —  | 175,000  |
| Repayment of line of credit   | —  | (175,000)  |
| Proceeds from buyer/lessor on distribution centers financing transaction                  | 186,611  | —  |
| Payments on distribution centers financing transaction                                    | (2,314)  | —  |
| Proceeds from sale of memberships   | 33,056   | 34,026   |
| Net cash provided by financing activities   | <u>217,353</u>   | <u>34,026</u>  |
| Net increase in cash and cash equivalents   | 96,462   | 139,772  |
| Cash and cash equivalents at beginning of period  | <u>283,959</u>   | <u>144,187</u>   |
| Cash and cash equivalents at end of period  | <u>\$ 380,421</u>                                      | <u>283,959</u>   |
| Supplemental disclosure of cash flow information:   |  |  |
| Cash paid for:  |  |  |
| Income taxes  | \$ 1,196   | 993  |
| Noncash investing activity:   |  |  |
| Property and equipment additions in accounts payable                                      | \$ 1,335   | 3,210  |

See accompanying notes to the consolidated financial statements.

## RECREATIONAL EQUIPMENT, INC.

### Notes to the Consolidated Financial Statements

January 3, 2026 and December 28, 2024

#### (1) Basis of Presentation and Summary of Significant Accounting Policies

##### (a) *Business Overview*

Recreational Equipment, Inc. (REI or the Company) operates as a specialty outdoor retail cooperative. REI is dedicated to inspiring, educating, and outfitting its growing community of more than 26 million members to live their most fulfilling life outdoors and engaging them in the fight to protect it. REI sells goods and services through more than 190 retail stores located throughout the United States and online through rei.com.

##### (b) *Principles of Consolidation*

The consolidated financial statements present the results of operations, financial position, and cash flows of the Company in U.S. dollars, in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of Recreational Equipment, Inc., and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

##### (c) *Fiscal Year*

REI reports results on a 52/53-week fiscal year ending on the Saturday closest to December 31. Reported results relate to the 53-week and 52-week fiscal years ended January 3, 2026 and December 28, 2024, respectively.

##### (d) *Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses and disclosure of contingent assets and liabilities. Uncertainties regarding such estimates and assumptions are inherent and, as a result, actual results could differ.

##### (e) *Cash and Cash Equivalents*

Cash equivalents are highly liquid short-term money market investments with original maturities of three months or less. Cash and cash equivalents include payments due from financial institutions for third-party credit card and debit card deposits, which are typically received within two to four business days. The Company maintains a portion of its cash and cash equivalent balances with financial institutions that exceed federally insured limits. The Company has not experienced any losses related to these balances, and management believes its credit risk to be minimal.

##### (f) *Short-term Investments*

The Company invests cash in accordance with its investment policy. The Company's short-term investments are classified as available-for-sale securities and consist primarily of U.S. Treasury securities, municipal bonds, corporate bonds, and BBB to AAA-rated asset-backed securities. The Company is exposed to credit risk in the event of default by issuers and counterparties of the short-term investments. The Company's available-for-sale securities consist primarily of investments that regularly trade in active markets; as such, the Company has classified the entire available-for-sale portfolio as a current asset on the consolidated balance sheets. The Company's investments are stated at fair value, with any unrealized gains and losses, net of deferred income taxes, reported as a component of accumulated other comprehensive income (loss). Realized gains and losses on these

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securities are included in other expenses, net in the consolidated statements of comprehensive loss. The cost of securities sold is determined using the specific-identification method. The Company periodically evaluates unrealized losses in its investment securities for credit impairment, using both qualitative and quantitative criteria. In the event a security is deemed to be impaired as the result of a credit loss, the Company records a charge against net loss. No such charges were recorded for the periods ended January 3, 2026 and December 28, 2024.

The Company classifies all non-money market short duration securities as short-term investments rather than cash equivalents, consistent with ASC 230 and the Company's investment policy. Although highly liquid, these instruments are actively managed as invested cash assets and are therefore excluded from cash equivalents.

The cost and fair value of the Company's available-for-sale securities that are carried at fair value at January 3, 2026, by contractual maturity, are as follows (in thousands):

|                           | <b>Cost</b> | <b>Fair value</b> |
|---------------------------|-------------|-------------------|
| Due in one year or less   | \$ 90,817   | 90,837            |
| Due in more than one year | 67,903      | 67,972            |
| Total                     | \$ 158,720  | 158,809           |

**(g) Accounts Receivable**

Accounts receivable are primarily due from vendors and landlords. The Company estimates its allowance for credit losses based on historical loss experience and assessment of the collectability of cash flows. The Company's allowance for credit losses was \$1.3 million for 2025 and \$0.4 million for 2024.

**(h) Inventories**

Inventories are carried at the lower of cost or net realizable value, defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation, on an average cost basis. The Company records a write-down of inventories, which are obsolete or slow-moving, based upon historical experience.

**(i) Property and Equipment**

Property and equipment are recorded at historical cost, less accumulated depreciation and impairments. Depreciation is computed primarily by using the straight-line method based on the assets' estimated useful lives, which are 10 to 30 years for buildings and improvements and 3 to 10 years for software, equipment, furniture, and fixtures. Renewals and betterments that add to the productive capacity or extend the useful life of the asset are capitalized. Capitalized software includes the costs of developing or obtaining internal-use software, including external direct costs of materials and services and internal payroll costs related to each software project.

Leasehold improvements made at the inception of the lease are amortized over the shorter of the initial lease term or the asset life. Leasehold improvements made during the lease term are amortized over

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the shorter of the asset life or the remaining lease term of the initial lease, plus any renewals that are reasonably certain at the date the leasehold improvements are made.

Maintenance and repairs are charged to expenses as incurred.

**(j) Goodwill**

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

The Company previously elected the private company alternative to amortize goodwill over seven years and to assess impairment at the entity-wide level. As of January 3, 2026, no goodwill remains on the consolidated balance sheet. No goodwill impairment was recognized for the period ended January 3, 2026. An immaterial goodwill impairment was recognized for the period ended December 28, 2024.

**(k) Long-Lived Assets**

When facts or circumstances indicate that the carrying values of long-lived assets, including buildings, equipment, and internal-use software may not be recoverable, an evaluation for impairment is performed. An asset is considered impaired when estimated undiscounted future cash flows are less than the carrying amount of the asset. If the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon a discounted future cash flow model. Property and equipment assets are grouped at the lowest level in which there are identifiable cash flows when assessing impairment. Cash flows for retail assets are identified at the individual store level. Impairment is reflected within occupancy, general, and administrative expenses. No material impairment was recognized for the periods ended January 3, 2026 and December 28, 2024.

**(l) Customer-Related Obligations**

Sales return reserves and deferred revenue for unredeemed gift cards are reflected within customer-related obligations.

**(m) Co-op Member Reward**

The Company declares and issues a co-op member reward: dividend portion (dividend) as a patronage dividend to members based on the level of qualifying member purchases during each calendar year. As required by the Company's bylaws, the dividend is limited to annual income on a cooperative basis (as defined).

The Company may elect to issue a co-op member reward: promotional portion (promotional reward), which is intended to provide a benefit to members in lieu of a patronage dividend in periods when a patronage dividend is not declared.

Co-op member reward liabilities in any given year may be comprised of only the dividend portion, only the promotional portion, or a combination of both. In 2025 and 2024, the Company issued a co-op member reward: promotional portion. At January 3, 2026 and December 28, 2024, the net balance of

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co-op member reward payable: promotional portion was \$161.0 million (including \$1.3 million estimated for the 2026 co-op member reward) and \$159.0 million, respectively.

The Company records the co-op member reward payable based upon its estimate of rewards that will be redeemed by co-op members prior to the expiration date. The Company has historical experience demonstrating that less than 100% of members redeem their entire reward within the time period these rewards are available to them. In 2025 and 2024, the co-op member reward payable: promotional portion was issued net of an estimated \$49.2 million (including \$0.5 million estimated for the 2026 co-op member reward) and \$31.9 million, respectively, which will not be redeemed.

**(n) Sabbatical Leave**

The Company provides paid leave to employees with service of 15 or more years. The Company records the compensation cost associated with sabbatical leaves over the requisite service periods.

**(o) Leases**

Lease agreements cover certain retail locations, office space, warehouse and storage space, and equipment. All leases are categorized as operating leases. Operating leases are included in operating lease right-of-use assets and current and long-term lease liabilities in the consolidated balance sheets.

Leased assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses the 10-year Treasury interest rate as the discount rate for present value of lease payments when the rate implicit in the contract is not readily determinable. The Company determines and updates the discount rate prospectively on a quarterly basis. For operating leases with variable payments dependent upon an index or rate, the Company applies the active index or rate as of the lease commencement date. Variable lease payments not based on an index or rate are not included in the operating lease liability, as they cannot be reasonably estimated and are recognized in the period in which the obligation for those payments is incurred. Leases that have a term of 12 months or less upon commencement date are considered short-term in nature.

Accordingly, short-term leases are not included in the consolidated balance sheets and are expensed on a straight-line basis over the lease term, which commences on the date the Company has the right to control the property.

The Company assesses sale-leaseback arrangements to determine whether a sale has occurred under ASC Topic 606. Additionally, the Company assesses whether the classification of the lease or repurchase option conditions preclude sale accounting under ASC Topic 842. These assessments involve a determination of whether control of the underlying property has been transferred to the buyer. If control of the underlying property has been transferred to the buyer, the Company accounts for the arrangement as a sale-leaseback transaction. If control of the underlying property has not been transferred to the buyer, the Company accounts for the arrangement as a financing transaction. The short-term and long-term portions of financing transaction liabilities are recorded in business taxes and other accrued liabilities and other long-term liabilities, respectively, on the consolidated balance sheet.

## RECREATIONAL EQUIPMENT, INC.

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### **(p) Memberships**

The Company is a cooperative made up of members. Each active member is entitled to vote in the election of the Company's board of directors. A member remains an active member during the calendar year in which the member joins REI and in subsequent years as long as the member makes at least \$10 worth of eligible purchases or pays at least \$10 in shipping fees during the current calendar year or previous calendar year. In 2025, the one-time fee for a nonrefundable, nontransferable membership was \$30. As of January 3, 2026, there were 8.1 million voting eligible members.

### **(q) Net Sales**

The Company recognizes revenue from product sales when products are purchased or picked up by customers at the Company's stores or when products are shipped to customers. Revenue is recorded net of sales taxes and estimated allowances for returns. The allowance for sales returns is based on historical information and reduces both sales and cost of sales. The Company records, on a gross basis, a refund liability and an asset for recovery, which are included in customer-related obligations and other current assets, respectively, in the consolidated balance sheets. Shipping revenue is included in net sales, and the related costs of shipping are included in cost of sales.

Substantially all of the Company's sales are single performance obligation arrangements for which the transaction price is equivalent to the stated price of the product or service, net of any stated discounts applicable at a point in time. The Company is the principal for the majority of its transactions and recognizes revenue on a gross basis. The Company is the principal when it has control of the merchandise or service before it is transferred to the customer.

The Company offers no-fee, non-expiring gift cards to its customers. At the time gift cards are sold, no revenue is recognized; rather, the Company records an accrued liability to customers. The liability is relieved, and revenue is recognized equal to the amount redeemed at the time gift cards are redeemed for merchandise. The Company records revenue from unredeemed gift cards (breakage) in net sales in proportion over the time period gift cards are redeemed. Historical redemption data is used to determine actual redemption patterns.

As discussed in note 1(m), in 2025 and 2024, the Company issued a co-op member reward: promotional portion to its members. The Company reduced revenue to reflect the deferred revenue associated with the reward, and a corresponding liability was established. The deferral is based on the estimated value for which the reward is expected to be redeemed, net of estimated unredeemed rewards (breakage). When a reward is redeemed, revenue is recognized for the value of the reward, and the liability is reduced.

The Company records consideration received under the REI cobrand credit card program agreement to net sales.

### **(r) Cost of Sales**

Cost of sales includes the cost to purchase and transport merchandise to the Company. The Company receives rebates, allowances, and cooperative advertising funds from vendors. Amounts received related to the reimbursement of costs incurred, such as advertising, are recognized as a reduction in the related expense when the vendor receives a specific incremental, identifiable benefit. Other

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consideration received from vendors in the form of cash and credits are recorded as a reduction of cost of sales as the related merchandise is sold.

**(s) Occupancy, General, and Administrative Expenses**

Occupancy, general, and administrative expenses consist primarily of advertising, rent, information technology, bankcard fees, depreciation, and other miscellaneous expenses.

**(t) Advertising Costs**

Advertising production costs for internet, photo, video, direct mail, and other media are expensed the first time the advertisement is delivered. Other advertising costs are expensed as incurred. Advertising expense for 2025 and 2024 was \$94.3 million and \$99.6 million, respectively, and is included in occupancy, general, and administrative expenses.

**(u) Income Taxes**

The Company operates as a cooperative subject to taxes on all income not distributed to members. The Company computes income taxes using the asset-and-liability method, under which deferred income taxes are provided for the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax basis. The deferred tax assets and liabilities are calculated using the enacted tax rates that are expected to be in effect when the differences are expected to reverse. The Company establishes a valuation allowance for deferred tax assets, if it is more likely than not that these items will expire before the Company is able to realize the benefit or future deductibility is uncertain.

**(v) Recent Accounting Pronouncements not yet Adopted**

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires disclosure of additional income tax information, primarily related to the rate reconciliation and income taxes paid. For non-public entities, ASU No. 2023-09 is effective for annual reporting periods beginning after December 15, 2025. Early adoption is permitted. The Company is evaluating the effect it will have on the consolidated financial statements and related disclosures and does not anticipate a material impact.

In September 2025, the FASB issued ASU No. 2025-06, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software*, which makes updates to increase the operability of the recognition guidance considering different methods of software development. For non-public entities, ASU No. 2025-06 is effective for fiscal years beginning after December 15, 2027. Early adoption is permitted. The Company is evaluating the effect it will have on the consolidated financial statements and related disclosures and does not anticipate a material impact.

**(2) Fair Value**

The Company applies fair value accounting for certain financial assets and liabilities that are recognized at fair value in the financial statements, including cash equivalents and investments. In accordance with ASC 820, the fair value is defined as the price that would be received from selling an asset or paid to

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transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for certain assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions, and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Other inputs that are directly or indirectly observable in the marketplace

Level 3 – Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability.

As of January 3, 2026 and December 28, 2024, there were no liabilities within Level 1, 2, or 3 and no financial instruments within Level 3 of the hierarchy. Nonfinancial assets, including property and equipment and goodwill, are reported at carrying value and are not required to be measured at fair value on a recurring basis. However, on a periodic basis, or whenever events or changes in circumstances indicate their carrying value may not be recoverable, the Company assesses long-lived assets for impairment.

Nonrecurring assessments use significant unobservable inputs and, therefore, fall under Level 3 of the fair value hierarchy.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments. The carrying amount of the Company’s accounts receivable and accounts payable on the consolidated balance sheets approximate fair value due to their short-term nature.

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Assets measured at fair value consist of the following as of January 3, 2026 (in thousands):

|                          | <u>Cost basis</u> | <u>Unrealized gains</u> | <u>Fair value</u> | <u>Cash and cash equivalents</u> | <u>Short-term investments</u> |
|--------------------------|-------------------|-------------------------|-------------------|----------------------------------|-------------------------------|
| Cash                     | \$ 34,758         | —                       | 34,758            | 34,758                           | —                             |
| Level 1:                 |                   |                         |                   |                                  |                               |
| Money market             | 345,663           | —                       | 345,663           | 345,663                          | —                             |
| U.S. Treasury securities | 7,258             | 1                       | 7,259             | —                                | 7,259                         |
| Subtotal                 | <u>387,679</u>    | <u>1</u>                | <u>387,680</u>    | <u>380,421</u>                   | <u>7,259</u>                  |
| Level 2:                 |                   |                         |                   |                                  |                               |
| Asset-backed securities  | 28,214            | 53                      | 28,267            | —                                | 28,267                        |
| Corporate bonds          | 100,495           | 35                      | 100,530           | —                                | 100,530                       |
| Municipal bonds          | 17,188            | —                       | 17,188            | —                                | 17,188                        |
| Other                    | 5,565             | —                       | 5,565             | —                                | 5,565                         |
| Subtotal                 | <u>151,462</u>    | <u>88</u>               | <u>151,550</u>    | <u>—</u>                         | <u>151,550</u>                |
| Total                    | <u>\$ 539,141</u> | <u>89</u>               | <u>539,230</u>    | <u>380,421</u>                   | <u>158,809</u>                |

Assets measured at fair value consist of the following as of December 28, 2024 (in thousands):

|                            | <u>Cost basis</u> | <u>Unrealized losses</u> | <u>Fair value</u> | <u>Cash and cash equivalents</u> | <u>Short-term investments</u> |
|----------------------------|-------------------|--------------------------|-------------------|----------------------------------|-------------------------------|
| Cash                       | \$ 42,401         | —                        | 42,401            | 42,401                           | —                             |
| Level 1:                   |                   |                          |                   |                                  |                               |
| Money market               | 241,558           | —                        | 241,558           | 241,558                          | —                             |
| U.S. Treasury securities   | 35,537            | (96)                     | 35,441            | —                                | 35,441                        |
| Subtotal                   | <u>319,496</u>    | <u>(96)</u>              | <u>319,400</u>    | <u>283,959</u>                   | <u>35,441</u>                 |
| Level 2:                   |                   |                          |                   |                                  |                               |
| Asset-backed securities    | 2,849             | (19)                     | 2,830             | —                                | 2,830                         |
| Mortgage backed securities | 1,400             | (2)                      | 1,398             | —                                | 1,398                         |
| Corporate bonds            | 15,165            | (15)                     | 15,150            | —                                | 15,150                        |
| Other                      | 450               | —                        | 450               | —                                | 450                           |
| Subtotal                   | <u>19,864</u>     | <u>(36)</u>              | <u>19,828</u>     | <u>—</u>                         | <u>19,828</u>                 |
| Total                      | <u>\$ 339,360</u> | <u>(132)</u>             | <u>339,228</u>    | <u>283,959</u>                   | <u>55,269</u>                 |

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**(3) Property and Equipment**

Property and equipment consists of the following as of January 3, 2026 and December 28, 2024 (in thousands):

|                                    | <u>2025</u>       | <u>2024</u>      |
|------------------------------------|-------------------|------------------|
| Land, buildings, and improvements  | \$ 424,520        | 450,200          |
| Equipment, furniture, and fixtures | 482,699           | 486,804          |
| Software                           | 248,581           | 281,594          |
| Leasehold improvements             | 402,950           | 392,195          |
| Construction-in-progress           | 8,830             | 12,423           |
|                                    | <u>1,567,580</u>  | <u>1,623,216</u> |
| Less: accumulated depreciation     | <u>1,081,967</u>  | <u>1,081,604</u> |
| Total                              | <u>\$ 485,613</u> | <u>541,612</u>   |

The Company's depreciation expense was \$88.6 million for 2025 and \$88.0 million for 2024.

**(4) Goodwill**

Goodwill activity is as follows for the periods ended January 3, 2026 and December 28, 2024 (in thousands):

|   | <u>2025</u> | <u>2024</u> |
|---|-------------|-------------|
| Goodwill, beginning balance             | \$ —        | 1,333       |
| Goodwill impaired during the period     | —           | (800)       |
| Goodwill amortization during the period | —           | (533)       |
|   | <u>\$ —</u> | <u>—</u>    |

As of January 3, 2026, no goodwill remains on the consolidated balance sheet.

**(5) Line of Credit**

In 2025, the Company renewed a credit agreement that permits borrowings up to \$300 million, which expires on December 4, 2028. Interest expense related to the credit facility was \$0 for the period ended January 3, 2026, and \$0.8 million for the period ended December 28, 2024. No amounts were outstanding under the line of credit at January 3, 2026 or December 28, 2024. At January 3, 2026, approximately \$12.9 million of the amount available under the line of credit was reserved for outstanding letters of credit. The Company was in compliance with all covenants imposed by the line of credit agreements as of January 3, 2026 and December 28, 2024.

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**(6) Income Taxes**

The provision for income taxes is as follows for the periods ended January 3, 2026 and December 28, 2024 (in thousands):

|                                  | <b>2025</b> | <b>2024</b> |
|----------------------------------|-------------|-------------|
| Current:                         |             |             |
| Federal                          | \$ 654      | (92)        |
| State                            | 1,675       | 1,119       |
| Deferred:                        |             |             |
| Federal                          | —           | —           |
| State                            | —           | —           |
| Total provision for income taxes | \$ 2,329    | 1,027       |

A reconciliation from the U.S. statutory rate to the effective tax rate is as follows for the periods ended January 3, 2026 and December 28, 2024 (in thousands):

|  | <b>2025</b>   |                | <b>2024</b>   |                |
|--|---------------|----------------|---------------|----------------|
|  | <b>Amount</b> | <b>Percent</b> | <b>Amount</b> | <b>Percent</b> |
| Tax at federal statutory rate                  | \$ (10,910)   | 21.0 %         | (32,637)      | 21.0 %         |
| State income taxes, net of federal tax benefit | (1,924)       | 3.7            | (6,861)       | 4.4            |
| Tax credits                                    | (859)         | 1.7            | (2,007)       | 1.3            |
| Unrecognized tax benefits                      | 711           | (1.4)          | 631           | (0.4)          |
| Change in valuation allowance                  | 14,647        | (28.2)         | 40,762        | (26.2)         |
| Other  | 664           | (1.3)          | 1,139         | (0.7)          |
|  | \$ 2,329      | (4.5)%         | 1,027         | (0.6)%         |

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Significant components of the Company's deferred income taxes as of January 3, 2026 and December 28, 2024 are as follows (in thousands):

|   | <u>2025</u>    | <u>2024</u>    |
|---|----------------|----------------|
| Deferred tax assets:                                    |                |                |
| Co-op member reward: promotional portion                | \$ 4,556       | 4,912          |
| Inventory basis differences                             | 24,000         | 22,653         |
| Gift cards  | 11,753         | 11,091         |
| R&D expenses  | 1,998          | 33,516         |
| Sale-Leaseback financing liability                      | 48,636         | —              |
| Operating lease liabilities                             | 132,171        | 137,928        |
| Deferred income   | 7,849          | 7,301          |
| Nonqualified retirement plan accrual                    | 7,084          | 6,915          |
| Employee benefits and compensation                      | 9,399          | 8,509          |
| Net operating loss                                      | 89,769         | 81,259         |
| Charitable contributions carryforward and other credits | 20,755         | 18,786         |
| Valuation allowance                                     | (224,061)      | (209,414)      |
| Other   | 4,628          | 4,188          |
|   | <u>138,537</u> | <u>127,644</u> |
| Total deferred tax assets                               |                |                |
| Deferred tax liabilities:                               |                |                |
| Operating lease right-of-use assets                     | (113,795)      | (117,594)      |
| Fixed asset depreciation and basis differences          | (24,742)       | (10,050)       |
|   | <u>—</u>       | <u>—</u>       |
| Total net deferred tax assets                           | \$ —           | —              |

The Company's blended future expected tax rate prior to consideration of valuation allowance is 26%, comprised of the enacted 21% federal rate and an expected 5% state rate.

Significant judgment is required in evaluating the Company's tax positions and determining the Company's provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate determination is uncertain. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which additional taxes will be due. These reserves are established when Company management believes that certain positions might be challenged despite the Company's belief that their tax return positions are fully supportable. These reserves are adjusted in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense and tax liabilities. As of January 3, 2026, the liability for uncertain tax positions included an immaterial amount related to interest and penalties. Tax years 2021-2025 remain open to examination by the major taxing jurisdictions to which the Company is subject. Management does not anticipate any potential settlement or examination to result in a material change to the Company's financial position.

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The Company assesses the recoverability of deferred tax assets under ASC Topic 740. The Company assesses the available positive and negative evidence to estimate whether the Company will generate sufficient future taxable income to utilize its existing deferred tax assets. The Company has a limited carryback ability for certain state losses and credits and, therefore, must rely on future taxable income, including tax planning strategies, to support the realizability of its deferred tax assets. Under current accounting standards, a cumulative loss incurred over the three-year period ended January 3, 2026 is considered a significant piece of objective negative evidence in the assessment of recording a valuation allowance for a company's deferred tax asset balance. While the Company believes its financial outlook remains positive and it has adequate financial and tax planning strategies to support the future realizability of its long-lived and indefinite-lived deferred tax assets, due to the cumulative loss position, the Company has established a valuation allowance for its deferred tax assets.

On July 4, 2025, U.S. federal income tax legislation was enacted that amended certain corporate income tax provisions. The Company recognized the effects of the legislation in the period of enactment in accordance with ASC 740. The impact of the legislation was reflected in income tax expense from continuing operations and is included in the Company's effective tax rate for the year ended January 3, 2026.

#### **(7) Employee Benefits Plan**

The Company has a defined-contribution retirement plan covering employees meeting certain eligibility requirements (generally, one year of employment and 1,000 hours of service). Company contributions are based on 5% of eligible participant compensation. The retirement plan Company contributions were approximately \$20.8 million and \$21.1 million for 2025 and 2024, respectively.

The Company also has a nonqualified deferred compensation plan, which provides a voluntary pay deferral option enabling eligible participants to contribute a portion of their respective annual base salary and bonus plan payments. Compensation is charged to expense in the period earned. In order to fund the nonqualified deferred compensation plan's future obligations, the Company has purchased investments held in irrevocable trusts commonly referred to as "Rabbi Trusts." As the Company is the owner of the investments and to reflect the Company's policy to pay benefits equal to the accumulations, the assets and liabilities are reflected in the consolidated balance sheets. At January 3, 2026 and December 28, 2024, assets and liabilities recorded in connection with deferred compensation plan benefits totaled \$27.2 million and \$26.6 million, respectively.

The nonqualified deferred compensation plan also provides the Company's highly compensated employees with a contribution equal to that which would have been allocated to them under the qualified retirement plan were it not for the limitations imposed by Internal Revenue Code Section 401(a)(17) and Section 415 and one-time eligibility limitations due to hire date. The Company's contributions to the nonqualified deferred compensation plan are based on 5% of eligible participant compensation. Total Company contributions were \$0.3 million for 2025 and \$0.2 million for 2024.

#### **(8) Leases**

The Company leases more than 180 retail store locations, office spaces, and equipment. All leases are classified as operating leases and expire within the next 20 years but contain various renewal options. Certain lease agreements include rental payments based on an index or rate, and others include rental payments based on a percentage of sales.

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All lease costs are included within occupancy, general, and administrative under operating expenses. The components of lease cost are as follows (in thousands):

|                      | <u>2025</u>       | <u>2024</u>    |
|----------------------|-------------------|----------------|
| Operating lease cost | \$ 96,253         | 91,350         |
| Variable lease cost  | 51,255            | 49,479         |
| Sublease income      | <u>(696)</u>      | <u>(702)</u>   |
|                      | <u>\$ 146,812</u> | <u>140,127</u> |

ASC Topic 842 allows private companies to use a risk-free interest rate as the discount rate for the present value of lease payments when the rate implicit in the contract is not readily determinable. The Company determines a risk-free rate on a quarterly basis. Lease terms and discount rates are as follows:

|   | <u>2025</u> | <u>2024</u> |
|---|-------------|-------------|
| Weighted-average remaining lease term (years) | 6.8         | 7.0         |
| Weighted-average discount rate                | 3.1 %       | 2.7 %       |

The approximate future minimum lease payments under operating leases as of January 3, 2026 are as follows (in thousands):

|                                    |                   |
|------------------------------------|-------------------|
| 2026                               | \$ 114,811        |
| 2027                               | 90,351            |
| 2028                               | 74,320            |
| 2029                               | 72,434            |
| 2030                               | 64,231            |
| Thereafter                         | <u>161,085</u>    |
| Total lease payments               | 577,232           |
| Less: imputed interest             | <u>(68,883)</u>   |
| Present value of lease liabilities | <u>\$ 508,349</u> |

Reduction in the carrying amount of right-of-use assets and the change in the lease liability are included under operating lease right-of-use assets and lease liabilities in the consolidated statements of cash flows. Supplemental cash flow information related to leases is as follows (in thousands):

|  | <u>2025</u> | <u>2024</u> |
|--|-------------|-------------|
| Cash paid for amounts included in measurement of lease liabilities:    |             |             |
| Operating cash flows from operating leases                             | \$ 104,958  | 98,498      |
| Supplemental noncash information on lease liabilities:                 |             |             |
| Right-of-use assets obtained in exchange for new operating liabilities | 80,216      | 81,179      |

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On February 20, 2025, the Company entered into sale-leaseback transactions with an unrelated third party for its four distribution centers. The gross proceeds received by the Company for the transactions were \$229.8 million. Following ASC Topic 842 sale-leaseback accounting requirements, the proceeds received in the transactions were allocated between proceeds on the sale of the distribution centers and financing proceeds. Proceeds of \$38.1 million are recorded as sale proceeds resulting in a net gain on sale of \$25.9 million, recorded under occupancy, general and administrative expenses in the consolidated statements of comprehensive loss. Proceeds of \$191.7 million are recorded as financial liabilities that will be accreted using the effective interest method over the respective lease terms. Operating right-of-use assets and lease liabilities recognized in connection with the leaseback are \$22.9 million and \$21.0 million, respectively.

#### **(9) Commitments and Contingencies**

The Company is subject from time to time to various claims and lawsuits arising in the ordinary course of business. Some of these lawsuits purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. In management's opinion, the recorded reserves in the Company's consolidated financial statements are adequate in light of the probable and estimable liabilities. As of the date of this report, management does not believe any currently identified claim, proceeding, or litigation, either alone or in the aggregate with other claims, will have a material impact on the Company's results of operations, financial position, or cash flows. Because these matters are subject to inherent uncertainties, management's view of them may change in the future.

#### **(10) Subsequent Events**

The Company evaluated subsequent events through March 26, 2026, the date the consolidated financial statements were available to be issued. On February 4, 2026, the Company entered into settlement agreements to resolve litigation matters in which it was a plaintiff, for which it expects to receive a benefit of approximately \$45.2 million in the first quarter of 2026. Following ASC Topic 450 gain contingency guidance, gain conditions were not present as of January 3, 2026. Therefore, the gain will be recognized in the first quarter of 2026 when payment is received.

There were no other material subsequent events or transactions that required recognition or disclosure in these consolidated financial statements.