



The way forward.

ANNUAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2021





OUR MISSION

Financially  
empowering  
the next  
generation.





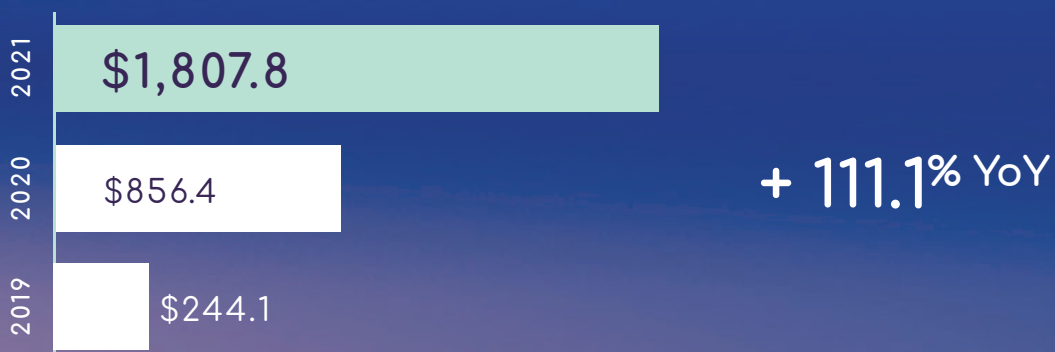
## CONTENTS

03	PERFORMANCE HIGHLIGHTS
05	EXECUTIVE CHAIRMAN AND CEO'S LETTER
11	DIRECTORS' REPORT
31	OPERATING & FINANCIAL REVIEW
47	KEY RISKS & BUSINESS CHALLENGES
81	CONSOLIDATED FINANCIAL STATEMENTS
111	DIRECTORS' DECLARATION
112	ADDITIONAL ASX INFORMATION
115	CORPORATE DIRECTORY

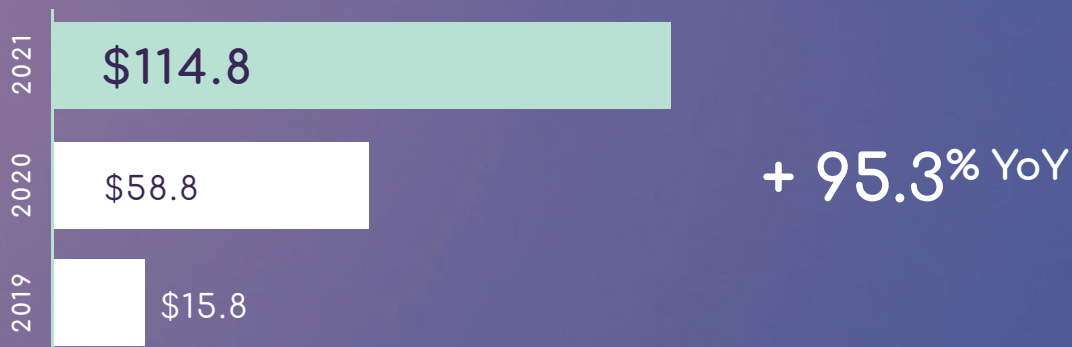


# Performance highlights.

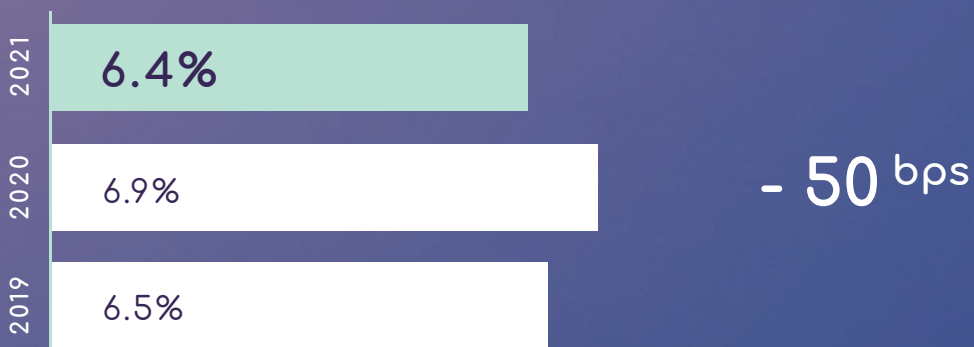
UNDERLYING  
MERCHANT  
SALES (UMS)  
(US\$000,000s)

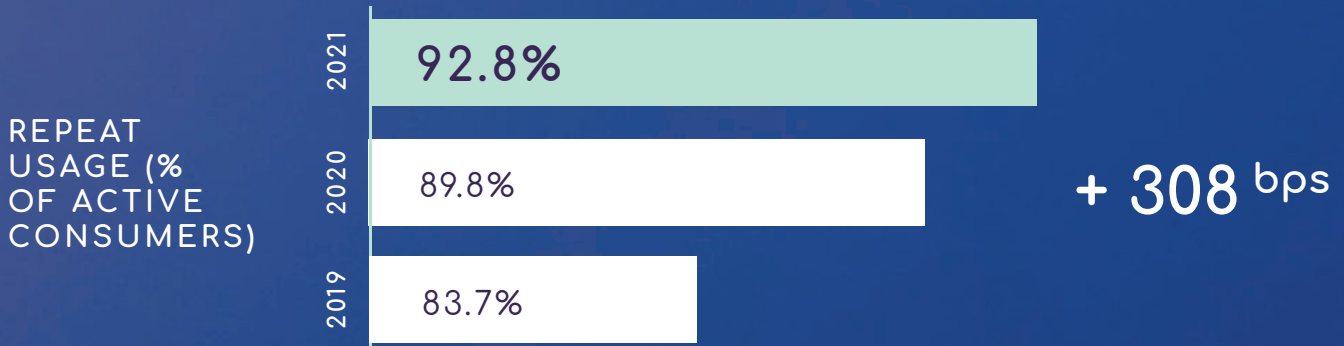
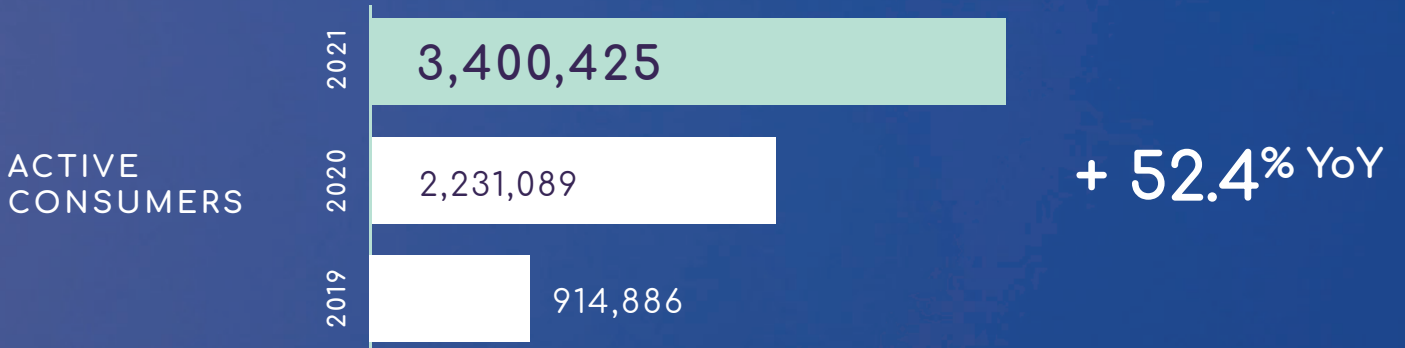
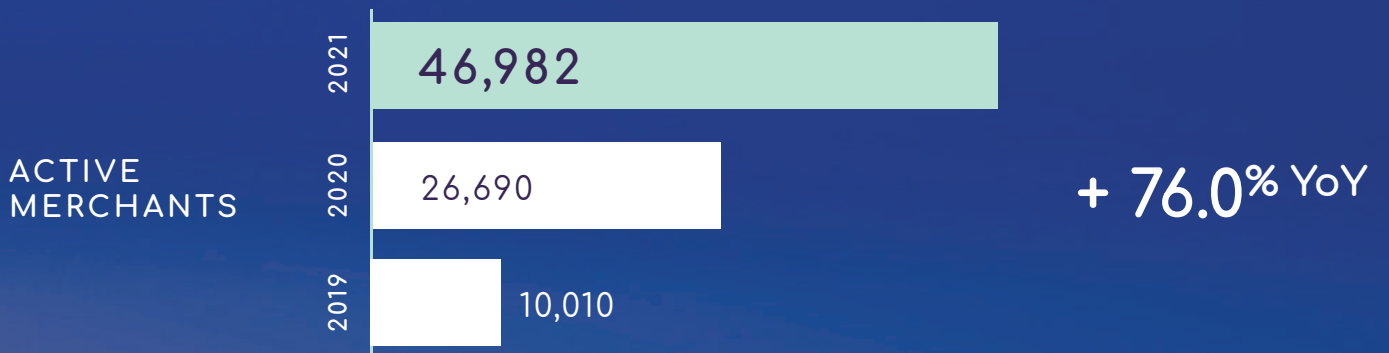


TOTAL  
INCOME  
(US\$000's)



TOTAL  
INCOME AS  
PERCENTAGE  
OF UMS







# Executive Chairman & CEO Letter





Dear Fellow Shareholders,

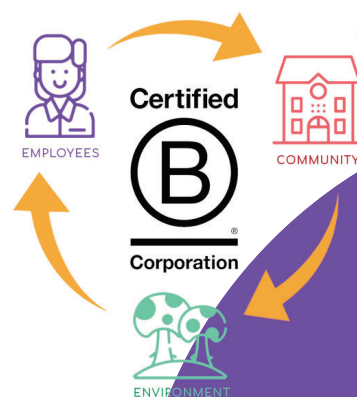
Two years ago, as I write this letter, I returned from a trip to Australia just as Covid-19 hit the world, changing it forever. Today, I feel optimistic, as I've just returned from Australia on my first business trip there in that timespan. It seems that my most recent Australian travels have formed the bookends for a time that has paused many aspects of our lives.

While the situation over the last couple of years has been challenging to accept, it is refreshing and invigorating to see the progress humanity has made since the start of the pandemic, as vaccines have allowed people to return to some form of normalcy. Although there is still more progress to be made, we are hopeful for the future.



As a purpose-driven company, our team went beyond finance by supporting empowerment across many facets of consumers' lives, creating a better world for the next generation through ethical initiatives: B Corp certification, Carbon Neutral verification, tree planting, and credit building.

- Sezzle achieved B Corp certification, joining a group of innovative leaders across the world intent on advancing important environmental, social, and economic causes.
- Through a combination of reduction efforts and carbon offsets, Sezzle became a Carbon Neutral Certified company.
- We partnered with Trees for the Future and made a commitment to plant a tree for every new user in 2021.



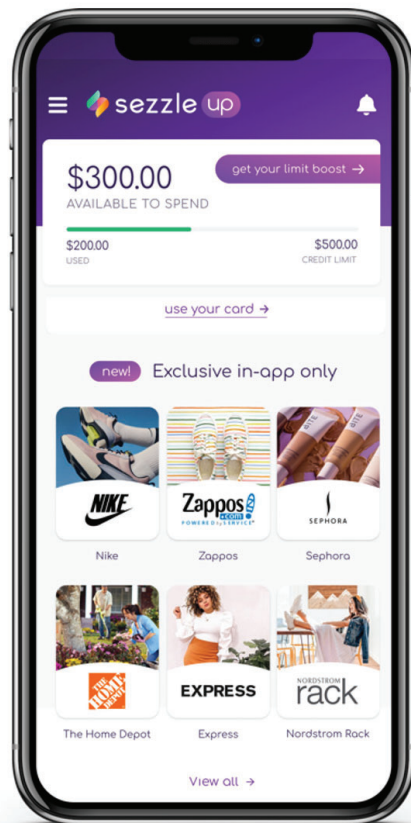




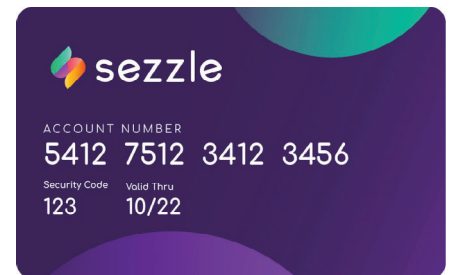
The combination of Sezzle's stakeholder-centric approach and consumers' aversion to high-interest rate products drove consumers toward our core interest free product and credit building offering (i.e., Sezzle Up). These factors led to an impressive adoption throughout our ecosystem with nearly 1.2 million Active Consumers and 20,000 Active Merchants being added to Sezzle's network in 2021. It remains clear that our mission resonates with consumers and merchants alike.

Engineering through innovation is at the heart of delivering a best-in-class and differentiated experience for our consumers. To assist consumers and empower them on their financial journey, we launched a long-term installment product and expanded the roll-out of our virtual card in-store.

- Our long-term installment product for high ticket purchases has terms ranging from 3 to 48 months and installment plans up to US\$40,000.



What's most exciting is that we are just getting started as we look to go deeper into financial services. Our latest initiative is the innovative development of our Sezzle Flex Card. The Flex Card will provide consumers greater control and flexibility over their finances – making everyday purchases anywhere with the ability to pay now or pay-in-4, all while building credit. We will not stop finding new ways to enhance our mission of financially empowering consumers through everyday purchases.



Providing long-term options allows us to extend our relationship with consumers over a lifetime with no balance sheet risk to us as we have partnered with leading financial service companies.

- We positioned ourselves to capitalize on the return to in-store with our frictionless, touch-free virtual card payment method that is available in Apple Pay and Google Pay. Our widescale roll-out to SMBs allows consumers to continue their financial journey with Sezzle, as they return to shop in-store.

We are also transforming the experience for our SMB merchant partners with Sezzle Capital in collaboration with Wayflyer. Our merchant partners can now qualify for same-day funding on working capital up to US\$10 million. Another win-win solution without us taking balance sheet risk.



## SUSTAINABILITY

Our commitment to driving value for stakeholders extends beyond checkout. We are proud to say that we achieved B Corp certification in 2021, meeting the highest verified standards of social and environmental performance, transparency, and accountability to people and the planet. Further, in partnership with Trees for the Future, we planted over 2.1 million trees in 2021 via a combination of planting a tree for every new user, employee donations, and company matching.

We realize reshaping the future doesn't just involve environmental giving, but also societal contributions. We happily stood alongside our employees in their personal beliefs by matching each charitable donation dollar-for-dollar. While we currently work to attract top talent, we also want to assist in developing the leaders of tomorrow. Sezzle awarded multiple scholarships in 2021 to future leaders for their pursuit of a post-secondary education.



COVID caused great disruption to everyday lives, including those of our employees. Professional lives blurred into personal lives, our social support systems and loved ones faded away into digital screens, and new daily responsibilities arose. At Sezzle, we strive to ensure our employees operate in a safe and healthy environment while balancing the current circumstances of life. Sezzle proudly adopted a hybrid remote work policy in the beginning of the year to help our employees operate in the safest and most productive personal manner. I'm pleased to say that the policy has paid dividends for our organization and has vastly expanded our talent pool and improved employee happiness.

## GOVERNANCE

Sound governance and oversight practices are core components to our everyday processes and strategic decisions. Over the course of the year, Sezzle enhanced our overall governance, risk, compliance, and audit ("GRCA") frameworks to address our expanding size and complexity, and support more diverse product offerings. We also enhanced internal oversight by hiring a Chief Compliance Officer and developing a robust internal audit function.

Our Board of Directors continued to play an important role in our governance efforts with contribution from our Audit & Risk and Remuneration Committee. The diverse experience of our Board members has brought instrumental financial and relevant industry knowledge and expertise to Sezzle.

## REGULATORY ENGAGEMENT

Sezzle actively engages in constructive dialogue with regulators at the international, federal, state, and local levels. In 2021, Sezzle became a member of the Financial Technology Association ("FTA"), an organization that aims to drive financial inclusion, equity, and opportunity to advance consumer-focused regulatory frameworks that protect consumers and facilitate responsible innovation. We are also an active member of the Canadian Lenders Association, with the common goal of creating a trustworthy, transparent, and fair lending market.

We are strong advocates for creating a prosperous and equitable lending ecosystem, and we look forward to continuing conversations with regulators to help shape that environment.



## REMUNERATION

Our performance and growth is dependent upon the ability to attract and retain the best talent in the market. We strive to achieve this by crafting an effective and competitive remuneration framework that ensures a fair outcome for all Sezzle team members. Our 2021 remuneration results for key management personnel can be found in the Directors' Report section of this report.

## THE ROAD AHEAD

The changing geopolitical and economic landscape creates a new operating environment; one with higher interest rates and rising inflation. While the past several years set the stage for a period of exceptional growth at Sezzle, our focus in this new environment is now set on driving sustainable growth and achieving profitability. The Company will continue to optimize our business model and make operational changes to meet this paradigm shift in the growth tech environment.

The organization is excited for the future with our announced partner Zip. We see great alignment on mission with shared visions of supporting our consumers in their everyday financial journeys. The combination creates a well-diversified and differentiated product suite with global reach and scale. Together our merchant and consumer bases will benefit substantially from the combination as we continue to financially empower the next generation.

I would be remiss if I didn't mention those who believed in our mission and made the past six years the meaningful and prosperous journey it turned out to be. The sensational group of employees at Sezzle were the true pillars of our success, and I can't thank them enough.

Our Board provided the endless guidance and knowledge to help Sezzle flourish through the good times and the challenging. And to our consumers, merchants, and all stakeholders, we wouldn't be the company we are today if it wasn't for you trusting our products and mission. Thank you all. I'm looking forward to the journey ahead.

Charlie Youakim  
Executive Chairman and  
Chief Executive Officer





# Directors' Report





The Directors present their report, together with the consolidated financial statements, of Sezzle Inc. (ASX:SZL, Sezzle, or Company), and its wholly owned subsidiaries for the year ended December 31, 2021.

## DIRECTORS

Our directors, their respective ages as of March 30, 2022, and certain other information are as follows:

Name	Age	Director Since	Position	Committee Membership
Charles Youakim	45	2016	Co-Founder, Executive Chairman, and Chief Executive Officer	—
Paul Paradis	38	2018	Co-Founder, Executive Director, and President	—
Paul Lahiff	69	2019	Independent Non-Executive Director	Audit and Risk Committee (Chair), Remuneration and Nomination Committee (Chair)
Kathleen Pierce-Gilmore	44	2019	Independent Non-Executive Director	Audit and Risk Committee (Member), Remuneration and Nomination Committee (Member)
Paul Purcell	47	2019	Independent Non-Executive Director	Audit and Risk Committee (Member), Remuneration and Nomination Committee (Member)
Mike Cutter	56	2020	Independent Non-Executive Director	Audit and Risk Committee (Member), Remuneration and Nomination Committee (Member)

## INFORMATION ON DIRECTORS



### Charles Youakim

#### *Executive Chairman and Chief Executive Officer*

Mr. Youakim is our co-founder, Executive Chairman, and Chief Executive Officer of Sezzle. Mr. Youakim is a serial technology entrepreneur with nearly ten years of experience in growing fintech companies from inception to large-scale businesses. Mr. Youakim began his career as an engineer and software developer. After successfully advancing in his early career, he returned to business school where he was able to focus on expanding his knowledge of finance, marketing, and business strategy.

In 2010, after completing business school, Mr. Youakim founded his first payments company, Passport Labs, Inc. ("Passport"). Passport became a leader in software and payments for the transportation industry. At Passport, Mr. Youakim led the construction and the original technology and led the company as it disrupted the industry through the introduction of white label systems and payment wallets. Passport is the technology behind enterprise transportation installations like ParkChicago, ParkBoston, and the GreenP in Toronto.

Mr. Youakim co-founded Sezzle in 2016 and also planned much of the business' technology architecture. Mr. Youakim has a degree in Mechanical Engineering from the University of Minnesota and an MBA from the Carlson School of Management at the University of Minnesota. Mr. Youakim does not currently hold any other directorships. We believe Mr. Youakim is well-qualified to serve as a member of our board of directors due to his perspective and experience from serving as co-founder and Chief Executive Officer of Sezzle, as well as his experience leading other technology companies.

**Interests in Shares:** 88,368,983

**Interests in Options:** 500,000

**Interests in Performance-based Restricted Stock Units:** 1,262,993



### Paul Paradis

#### *Executive Director and President*

Mr. Paradis co-founded Sezzle and has served as a member of our board of directors since May 2018. Mr. Paradis has served as President since July 2020 and, prior to serving as President, Mr. Paradis was our Chief Revenue Officer since May 2016. Mr. Paradis has extensive experience in sales and marketing. He began his career in sales with the Minnesota Timberwolves. He left the Timberwolves to attain his MBA from the Carlson School of Management at the University of Minnesota, where he focused on marketing and strategy. After graduating from the Carlson School of Management, Mr. Paradis spent six years leading sales and marketing at Dashe & Thomson and the Abreon Group, boutique management consultancies focused on IT transformation adoption. Mr. Paradis left the Abreon Group in 2016 when he co-founded

Sezzle. At Sezzle, Mr. Paradis oversees sales, strategic partnerships, customer and merchant support, corporate strategy, and international expansion.

Mr. Paradis has a Bachelor of Arts in Political Science from Davidson College and an MBA from the University of Minnesota. Mr. Paradis does not currently hold any other directorships. We believe Mr. Paradis is well-qualified to serve as a member of our board of directors due to his experience from serving as co-founder and President at Sezzle, in addition to his experience in IT transformation.

**Interests in Shares:** 10,009,443

**Interests in Options:** 500,000

**Interests in Performance-based Restricted Stock Units:** 1,262,993



## Paul Lahiff

### *Independent Non-Executive Director*

Mr. Lahiff has served as a member of our board of directors since May 2019. Mr. Lahiff was previously Chief Executive Officer of Mortgage Choice and prior to that, Chief Executive Officer of Permanent Trustee and Heritage Bank. He previously held roles on the boards of directors with Sunsuper, Thorn Group, New Payments Platform Australia, RFi, Cuscal and Cancer Council NSW. Mr. Lahiff holds a Bachelor of Agricultural Science from the University of Sydney and is a graduate of the Australian Institute of Company Directors. Mr. Lahiff is a Non-Executive Director of AUB Holdings and the Chairman of Harmoney, NESS Superannuation, and 86400. We believe Mr. Lahiff is well-qualified to serve as a member of our board of directors due to his senior management experience and prior and other director roles.

**Interests in Shares:** 0

**Interests in Options:** 500,000



## Kathleen Pierce-Gilmore

### *Independent Non-Executive Director*

Ms. Pierce-Gilmore has served as a member of our board of directors since April 2019. Ms. Pierce-Gilmore has been a payments and fintech executive for 20+ years across firms. She is currently the Head of Global Payments at Silicon Valley Bank, where she began in August 2020. Prior to Silicon Valley Bank, she was the Chief Executive Officer of Lingua Franca from August 2019 to March 2020. Before Lingua Franca, she was Chief Executive Officer of Flexa Technologies from March 2018 to September 2018, before which she was President and Chief Operating Officer of Raise Marketplace since October 2017. Prior to Raise Marketplace, Ms. Pierce-Gilmore was General Manager of Consumer Credit at PayPal from September 2015 to October 2017. In addition to her deep expertise in customer experience, consumer lending, product development, and P&L

management, Ms. Pierce-Gilmore has also led businesses on the merchant side of the payments ecosystem.

Ms. Pierce-Gilmore graduated with a Bachelor of Arts from the Integrated Sciences Program at Northwestern University and has completed the Non-Executive Director Diploma program through the Financial Times. Ms. Pierce-Gilmore also serves as a Director for Tala. We believe Ms. Pierce-Gilmore is well-qualified to serve as a member of our board of directors due to her management experience in the payment technology industry.

**Interests in Shares:** 252,778

**Interests in Options:** 97,222





## Paul M. Purcell

### *Independent Non-Executive Director*

Mr. Purcell has served as a member of our board of directors since April 2019. Mr. Purcell has invested in financial services companies (public and private markets) for nearly 20 years. He retains a specific specialization in emerging financial innovation as well as non-bank financial services. He has been the Chief Investment Officer of Jupiter Management since January 1, 2019 and prior to assuming that position led the sourcing and origination of investments at Continental Investors since 1999. Mr. Purcell is a frequent panelist at industry conferences and has published several articles on the trends and developments in the emerging commerce and financial services marketplaces.

Before joining Continental Investors, Mr. Purcell was a co-founder of Continental Advisors, a manager of two sector-based hedge funds. He was also Manager of Internet Marketing at the Chicago Board Options Exchange (CBOE), a department he helped found.

Mr. Purcell is a graduate of the University of San Diego where he is a member of the Board of Trustees. He currently serves on the board of directors of AeroPay, GigWage, Prizeout, Lantern, thedrop.com, Listol, Winestyr, CarHop, and What's Next Media. We believe Mr. Purcell is well-qualified to serve as a member of our board of directors due to his various experiences in financial services industry and his service as a director at numerous companies.

**Interests in Shares:** 0

**Interests in Restricted Stock Awards:** 0<sup>1</sup>

<sup>1</sup> In accordance with Paul Purcell's director appointment agreement, 350,000 restricted stock awards were issued to Continental Investment Partners on 29 March 2019 which comprises compensation for Paul Purcell's services as director.



## Michael Cutter

### *Independent Non-Executive Director*

Mr. Cutter has served as a member of our board of directors since June 2020. Prior to serving as a director, Mr. Cutter served as an advisor to the board from May 2019 until joining as a member of the board of directors. Mr. Cutter has more than 33 years' experience in a wide range of financial services businesses in Australia, New Zealand, Asia and Europe.

Most recently from 2015 to 2019 he served as the Group Managing Director for the information services business Equifax ANZ. Prior to that he held various CEO, CRO, Product and Operations roles with GE, ANZ, Wesfarmers, Halifax/BankOne and NAB.

Mr. Cutter is a Graduate of the Australian Institute of Company Directors (GAICD) and a Senior Fellow of the Financial Services Institute of Australia and has previously served on the board of directors of the Women's Cancer Foundation, Ovarian Cancer Institute, the Australian Finance Congress, the National Insurance Brokers Association and the Australian Retail Credit Association.

In addition to his role with Sezzle, Mr. Cutter is currently a director for Pepper Money Australia New Zealand, is the Chair of Arvea Premium Funding, a Board Advisor to Revolut Australia and serves as a Director for Kadre Consulting. Mr. Cutter has a Bachelor of Science (Hons) from Hertfordshire University. We believe Mr. Cutter is well-qualified to serve as a member of our board of directors due to his experiences in the financial services industry across varied geographical locations.

**Interests in Shares:** 0

**Interests in Options:** 250,000

## INFORMATION ON CORPORATE SECRETARY

Justin Clyne is a company director and company secretary for public-listed and unlisted companies. He has significant experience and knowledge in international law, the Corporations Act, the ASX Listing Rules and corporate regulatory requirements. Mr. Clyne was admitted as a solicitor of the Supreme Court of New South Wales and High Court of Australia in 1996 before gaining admission as a barrister in 1998. He had 15 years of experience in the legal profession acting for the country's largest corporations, initially in the areas of corporate and commercial law before dedicating himself full time to the provision of corporate advisory and related services. Mr. Clyne holds a Master of Laws in International Law from the University of New South Wales. He is also a qualified Chartered Company Secretary and a Member of the Australian Institute of Company Directors.

## MEETINGS OF DIRECTORS

During the financial year ended December 31, 2021, Sezzle held thirteen meetings of the Board of Directors and separate meetings of the noted committees, all of which were standard meetings.

	Full Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended
Charles Youakim	13	13	5	5 <sup>(1)</sup>	6	5 <sup>(1)</sup>
Paul Paradis	13	13	5	2 <sup>(1)</sup>	6	3 <sup>(1)</sup>
Paul Lahiff	13	13	5	5	6	6
Kathleen Pierce-Gilmore	13	13	5	5	6	6
Paul Purcell	13	13	5	5	6	6
Mike Cutter	13	13	5	5	6	6

(1) Mr. Youakim and Mr. Paradis are not members of either of the Board committees. Their attendance at meetings of the Audit & Risk Committee and Remuneration & Nomination Committee was as observers at the invitation of the respective Committee.

As of the date of this report, Sezzle has an Audit and Risk Committee and a Remuneration and Nomination Committee of the Board of Directors. All committee members are independent non-executive directors. The members of each committee are as follows:

Audit and Risk Committee	Remuneration and Nomination Committee
Paul Lahiff (Chair)	Paul Lahiff (Chair)
Kathleen Pierce-Gilmore	Kathleen Pierce-Gilmore
Paul Purcell	Paul Purcell
Mike Cutter	Mike Cutter

## OPERATING AND FINANCIAL PERFORMANCE

### PRINCIPAL ACTIVITIES

We are a purpose-driven payments company that is on a mission to financially empower the next generation. Launched in 2017, we have built a digital payments platform that allows merchants to offer their consumers a flexible alternative to traditional credit. As of December 31, 2021, our platform has supported the business growth of over 47 thousand Active Merchants while serving approximately 3.4 million Active Consumers. Through our payments products we aim to enable consumers to take control over their spending, be more responsible, and gain access to financial freedom. Our vision is to create a digital ecosystem benefiting all of our stakeholders - merchant partners, consumers, employees, communities and investors - while continuing to drive ethical growth.

### FINANCIAL RESULT

The Company reported a net loss of \$75.2 million after tax for the year ended December 31, 2021, compared to a net loss of \$32.4 million after tax for the previous year ended December 31, 2020.

### OPERATING AND FINANCIAL REVIEW

Refer to the "Operating and Financial Review" and "Key Risks and Challenges" sections of this annual report for a discussion of the Company's financial and operating performance, and the Company's key risks and challenges, respectively.

### FUTURE DEVELOPMENTS

The Company's UMS outlook reflects an annualized run-rate of US\$4.9 billion by the end of 2022. Any other information on likely developments in the operations of the Company and its prospective financial future have not been included in this report because the Directors believe it to be commercial-in-confidence and, as a result, likely to result in unreasonable prejudice to the Company.

### SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

We have evaluated subsequent events through the date of the audit report and determined that there have been no events, other than those disclosed below, that have occurred that would require adjustment to the disclosures in the consolidated financial statements.

#### Proposed Merger with Wholly-Owned Subsidiary of Zip Co Limited ("Zip")

On February 28, 2022, the Company entered into the Zip Merger Agreement, pursuant to which, upon the terms and subject to the conditions thereof, the Merger Sub will be merged with and into the Company, with the Company surviving the merger as a wholly-owned subsidiary of Zip. Subject to the terms and conditions of the Zip Merger Agreement, each share of the Company's common stock (including each share of the Company's common stock in respect of which a Company CHES Depositary Interest, or CDI, (as defined in the Zip Merger Agreement) has been issued) issued and outstanding immediately prior to the Effective Time (other than shares of the Company's common stock that are held by the Company (or any of its subsidiaries), Zip (or any of its subsidiaries or Merger Sub) shall be cancelled and converted into the right to receive, at the election of the Company's stockholders (subject to the immediately following sentence), (a) a number of Zip ordinary shares equal to the "Exchange Ratio" or (b) a number of Zip ADRs representing a number of Zip ordinary shares equal to the Exchange Ratio. Any person who is an Australian Stockholder (as defined in the Zip Merger Agreement) will only be entitled to consideration in the form of Zip ordinary shares.

The Zip Merger Agreement includes customary representations, warranties and covenants of the Company, Zip and Merger Sub. Subject to the terms of the Zip Merger Agreement and certain exceptions, the Company and Zip have agreed to operate their respective businesses in the ordinary course consistent with past practice and use commercially reasonable efforts to maintain their respective business organizations and advantageous business relationships until the closing of the transaction. Concurrently with the execution and delivery of the Zip Merger Agreement, certain significant stockholders of both the Company (Charles Youakim and Paul Paradis) and Zip (Larry Diamond and Peter Gray) entered into support agreements pursuant to which, among other things, they agreed to vote all of their stock or ordinary shares, as applicable, in favor of the transaction.

### Recent Amendment to Credit Agreement and Guaranty

On February 25, 2022, we entered into Amendment No. 3 (the “Credit Agreement Amendment”) to that certain Revolving Credit and Security Agreement, dated as of February 10, 2021, as amended as of April 29, 2021, as further amended as of October 15, 2021, by and among Sezzle Funding SPE II, LLC (the “Borrower”), Goldman Sachs Bank USA (the “Administrative Agent”) and the other lenders party thereto from time to time (the “Existing Credit Agreement”).

The Credit Agreement Amendment amends, among other things, certain definitions and events of default under the Existing Credit Agreement to clarify the terms of applicable cure periods involving replacement of the Servicer or Backup Servicer (each as defined therein).

On February 25, 2022, we also entered into Amendment No. 1 (the “Limited Guaranty Amendment”) to that certain Limited Guaranty and Indemnity Agreement, dated as of February 10, 2021, by and among the Company (as “Limited Guarantor” thereunder) and the Administrative Agent (the “Existing Limited Guaranty”).

The Limited Guaranty Amendment amends the Existing Limited Guaranty to adjust and provide alternatives for certain Limited Guarantor financial covenant measurement thresholds and requires certain Limited Guarantor compliance reporting obligations during a defined modification period. The length of the modification period is dependent in part upon the ongoing status of the Merger Agreement and progress toward closing of the merger.



## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity during the financial period, except as otherwise noted in this report.

## DIVIDENDS

We have never proposed, declared, or issued dividends on shares of our common stock. We currently intend to retain any future earnings to finance the operation and growth of our business, and do not expect to propose, declare, or issue and dividends in the foreseeable future.

## STOCK-BASED PAYMENT PLANS

Refer to Note 13. Equity Based Compensation on the accompanying notes to our consolidated financial statements for discussion about our issuances of common stock.

## SUSTAINABILITY

We are focused on the environmental, social and governance concerns that are important to our consumers, merchant partners, employees and other stakeholders. We are committed to integrating consideration of these concerns into the decisions made across our business with a view to enhancing sustainability, promoting employee equity and wellness, and supporting the communities in which we operate.

### Carbon Footprint and Land Regeneration

On July 15, 2021, through a combination of reduction efforts and carbon offsets, we officially became 100% carbon neutral. As a Climate Neutral Certified company, we reduce our carbon emissions by choosing to do business in a way that aids environmental conservation. By taking responsibility for decreasing climate-changing greenhouse gas emissions, we are taking action to affect climate change. During 2020, we also partnered with Trees for the Future, helping the organization by planting one tree per new Sezzle user, contributing to their mission to end hunger and poverty by training farmers to regenerate their land.

### Community Engagement

Sezzle Inc. is proud to make a positive difference in the communities that it serves.

In 2020, we launched Sezzle Up, an upgraded version of the core Sezzle experience which provides a credit-building solution for new-to-credit consumers, helping consumers adopt credit responsibly and build their credit history. We have also collaborated with the University of Minnesota to provide “full-ride” scholarships to underrepresented students pursuing degrees in technology. We also partner with nonprofits on initiatives such as Blacks in Technology, a global platform establishing standards for technical excellence and serving members through community, media and mentorship, to provide financial support, mentoring and free legal advice to their entrepreneurs.

### Biennial Public Benefit Corporation Statement

Under Delaware law, a public benefit corporation is required to no less than biennially provide its stockholders with a statement as to the corporation’s promotion of the public benefit or public benefits identified in the certificate of incorporation and of the best interests of those materially affected by the corporation’s conduct. The following is intended to serve as the required statement to stockholders.

As a Delaware public benefit corporation, we have committed to pursuing opportunities for positive change in the community and the planet. Our management team and board of directors strongly believe that our long-standing commitment to financial education and helping young adults with their approach to personal finances, as well as creating alternative means for consumers to purchase items they need without incurring high-interest finance charges, benefit the community and serve as a public good.

When considering Environmental, Social and Governance (ESG) and Corporate Social Responsibility (CSR), Sezzle focuses on five primary areas: governance, impact on workers (human capital), environment, customers and the community ("Factors"). These Factors align with the targeted focus of the B Lab, BCorp Impact Assessment.

Each section focuses on a different area and opportunity to maximize value for ESG and CSR initiatives. The governance portion gauges the overall mission, ethics/transparency, and social/environmental impact; including Sezzle's ability to protect the mission and stakeholder considerations through corporate structure and/or governing documents.

The workers/human capital portion assesses Sezzle's contributions to its employees through various areas including financial security, health, safety, wellness, career development, engagement and satisfaction.

The community portion analyzes Sezzle's relationship with and impact on the community. Focus here includes diversity, equity and inclusion (DEI), impact on the economy, community engagement, charity, and supply chain management.

The environment portion evaluates Sezzle's management practices as they relate to air, climate, water, land, and biodiversity. This evaluation includes the direct impact of a company's operations and, when applicable, its supply chain channels.

The customer portion evaluates Sezzle's commitment to its customers through the quality of its services, ethical marketing, data privacy/security, and other customer/consumer factors. This initiative recognizes services that improve the social impact of the community.

Sezzle maintains annual Key Performance Indicators (KPIs) to measure its successful progress in achieving and promoting sustainable and meaningful commitment to ESG/CSR. The annual reporting occurs in June of each year. The KPIs are based on the identified Factors derived from the B Lab Impact Assessment which offer the largest opportunity of improvement for Sezzle. The Board of Directors receives annual updates on progress made against such KPIs. Additionally, the Board ensures that social responsibility remains a factor in its decision making process.

Upon initial certification, Sezzle had a B Lab rating of 80.7. To date, Sezzle's metrics indicate an improvement of at least 8%. While figures may change over time due to new strategic initiatives, changes in operations and external factors, current metrics show a consistent improvement in Sezzle's commitment to ESG/CSR. We believe that the improvements in our B Lab rating during 2021, in conjunction with the activities described above, support the conclusion that the Company has been successful in promoting our stated public benefits.

## CORPORATE GOVERNANCE

The Company's Corporate Governance Statement ("CGS") for the year ended December 31, 2021 can be found on our website ([investors.sezzle.com](https://investors.sezzle.com)) under the "Leadership & Governance" heading. A copy of the CGS is also lodged with the ASX together with a copy of this Annual Report.

## REMUNERATION REPORT

The Directors of the Company present the Remuneration Report for Non-Executive Directors, Executive Directors and other Key Management Personnel ("KMP"), prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001. The Remuneration Report is set out under the following main headings:

- Remuneration philosophy and structure;
- Performance;
- Details of remuneration;
- Service agreements;
- Share-based compensation;
- Remuneration of Non-Executive Directors; and
- Other information.

### Remuneration Philosophy and Structure

The performance of Sezzle depends upon our ability to attract and retain KMP. To prosper, we must attract, motivate and retain these highly skilled individuals. To that end, Sezzle embraces the following principles in its remuneration framework:

- Offer competitive rewards to attract high caliber executives;
- Clear alignment of remuneration with strategic objectives;
- Focus on creating sustainable value for all of the Company's stakeholders;
- Merit-based remuneration across a diverse workforce; and
- Ensure total remuneration is competitive by market standards.

The Remuneration and Nomination Committee ("RNC") is responsible for determining and reviewing compensation arrangements for the KMP. The RNC assesses the appropriateness of the nature and amount of remuneration for KMP on a periodic basis by reference to relevant market conditions within the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality board and executive team.

The Board of the Company believes the remuneration framework to be appropriate and effective in attracting and retaining the best KMP to operate and manage the Company.

The KMP remuneration framework is designed to support the Company's reward philosophies and to underpin the Company's growth strategy and is based on the following:

- Base salary - appropriate to the position and experience and is competitive in the market
- Short Term Incentive Plan
- Long Term Incentive Plan

For 2021, the RNC has approved the short-term and long-term compensation programs for executive KMP described below.

### **Short-Term Incentive Plan ("STIP")**

Our named executive officers are eligible to participate in our STIP, which provides an annual bonus opportunity based on a combination of a Company Performance Score ("CPS") and individual performance.

STIP bonus amounts for each named executive officer, which cannot exceed a maximum of 50% of the base salary for the named executive officer for the performance year, were delivered in 2020 in the form of RSUs. For Messrs. Youakim and Paradis, the grants of the RSUs were subject to prior stockholder approval under ASX listing rules. Stockholders approved the RSU grants to Messrs. Youakim and Paradis at the 2021 Annual Meeting.

The Remuneration and Nomination Committee has determined that the relevant Company performance metrics for the STIP were not met in 2021; therefore no STIP awards for that period will be granted.

### **Long-Term Incentive Plan ("LTIP")**

Our named executive officers are also eligible to participate in our LTIP, which provides for grants of stock options under the 2019 Equity Incentive Plan, with vesting subject to the satisfaction of both time- and performance-based vesting conditions over a three-year period. The performance-based vesting condition for LTIP stock options consists of the Company's total shareholder return ("TSR") measured against that of the S&P/ASX All Technology Index (excluding materials and energy companies) for each one-year period within the three-year performance period starting on January 1, 2020 and ending on December 31, 2022. For comparative purposes, our volume weighted average price ("VWAP") over a 30-day period up to the end of the relevant performance period will be used and compared to the average S&P/ASX All Technology Index price over that same period. One-third of the total number of LTIP Options, as defined below, are eligible to be earned each year within the three-year performance period based on the following TSR performance for the applicable year:

<b>Comparative TSR Target</b>	<b>Percentage of LTIP Options Earned (Measured on an Annual Basis)</b>
Less than 51st percentile of companies in S&P/ASX All Technology Index (excluding materials and energy companies)	0%
Greater than or equal to 51st percentile but less than the 90th percentile of companies in S&P/ASX All Technology Index (excluding materials and energy companies)	Pro rata between 1% and 100%
Greater than or equal to 90th percentile of companies in S&P/ASX All Technology Index (excluding materials and energy companies)	100%

The board of directors has the discretion to amend the comparative TSR performance condition at any time during the performance period applicable to the LTIP Options if the board of directors believes it is appropriate to do so to reflect the Company's circumstances. Any LTIP Options that are earned for a measurement year within the three-year performance period remain subject to a time-based vesting condition, which is satisfied upon the named executive officer's continued employment with the Company through December 31, 2022.

On May 22, 2020, each of our named executive officers (and several other of our executive officers) were declared eligible to receive a grant under the LTIP (the "LTIP Awards"). Ms. Hartje's LTIP Award was awarded in the form of options to purchase 1,171,875 shares of our common stock at an exercise price of \$1.37 (using a conversion rate of A\$1.53 to \$1.00) per share, based on the closing sale price of CDIs on the ASX on May 21, 2020. The number of shares of common stock subject to Ms. Hartje's LTIP Award was calculated so that the Monte Carlo value of her LTIP Award was equal to 300% of her salary in effect at the time (i.e., 100% for each of the three years in the performance period). The LTIP Awards granted to Messrs. Youakim and Paradis required advance approval of the stockholders in accordance with ASX listing standards. At the 2021 Annual Meeting, stockholders approved LTIP Awards to Messrs. Youakim and Paradis in the form of the issuance of up to 1,500,000 PRSUs to each of them in an amount that was intended to replicate the performance conditions of the LTIP Awards granted to other executive officers. Each of Messrs. Youakim and Paradis were subsequently granted 1,262,993 PRSUs (the "LTIP PRSUs").



The Remuneration and Nomination Committee has determined that the relevant Company performance metrics for the LTIP were not met in 2021; therefore no portion of LTIP awards will become vested for that period. If the merger closes, the Zip Merger Agreement provides for deemed vesting of certain milestones applicable to LTIP awards, discussed more fully under “Proposed Merger with Wholly-Owned Subsidiary of Zip” under the “Operating and Financial Review” section of this annual report.

## Performance

A summary of the Company’s key performance indicators is included below:

Year ended December 31	2021		2020		2019
	(in thousands)				
Underlying Merchant Sales (US\$)	\$	1,807,846	\$	856,382	\$ 244,126
Active Consumers		3,400		2,231	915
Active Merchants		47		27	10
Total income (US\$)	\$	114,817	\$	58,788	\$ 15,801

## Details of Remuneration

Details of the remuneration of KMP of the Company for the year ended December 31, 2021 are set out in the following tables. The KMP of the Company during the reporting period consisted of the following:

- Charles Youakim, Executive Chairman and Chief Executive Officer;
- Paul Paradis, Executive Director and President;
- Paul Purcell, Non-Executive Director;
- Kathleen Pierce-Gilmore, Non-Executive Director;
- Paul Lahiff, Non-Executive Director;
- Mike Cutter, Non-Executive Director; and
- Karen Hartje, Chief Financial Officer

	Short Term		Long Term	
	Cash Salary and Fees	Restricted Stock Units (RSUs)	Performance-Based RSUs	
<b>Executive Directors</b>				
C. Youakim	US\$ 250,000	13,832 RSUs	1,262,993 RSUs	
P. Paradis	US\$ 250,000	13,606 RSUs	1,262,993 RSUs	
<b>Non-Executive Directors</b>				
P. Purcell	A\$ 20,000	—	—	
K. Pierce-Gilmore	A\$ 80,000	—	—	
P. Lahiff	A\$ 100,000	—	—	
M. Cutter	A\$ 80,000	—	—	
<b>Executive Management</b>				
K. Hartje	US\$ 250,000	17,957 RSUs	—	

## Service Agreements

Remuneration and other terms of employment for KMP are formalized in service agreements. Details of these agreements are as follows:

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**Name:** Charles Youakim  
**Title:** Executive Chairman and CEO  
**Agreement commenced:** June 21, 2019  
**Terms of agreement:** Charles serves as Executive Chairman and Chief Executive Officer. Charles' agreement commenced June 21, 2019, and he receives an annual US\$250,000 salary. He is entitled to participate in the Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP) and is entitled to severance upon termination of employment in some circumstances as described below. His employment may be terminated: (i) at any time upon mutual written agreement of the parties; (ii) by the Company immediately and without prior notice for cause; (iii) immediately upon Charles' death or disability; (iv) by the Company other than for cause with advance written notice of at least 12 months; or (v) by Charles, other than due to Charles' death or disability, with advance written notice of at least 12 months.

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**Name:** Paul Paradis  
**Title:** Executive Director and President  
**Agreement commenced:** June 21, 2019  
**Terms of agreement:** Paul serves as Executive Director and President. Paul's agreement commenced on June 21, 2019, and he receives an annual salary of US\$250,000. He is entitled to participate in the STIP and LTIP and is entitled to severance upon termination of employment in some circumstances as described below. His employment may be terminated: (i) at any time upon mutual written agreement of the parties; (ii) by the Company immediately and without prior notice for cause; (iii) immediately upon Paul's death or disability; (iv) by the Company other than for cause with advance written notice of at least 12 months; or (v) by Paul, other than due to Paul's death or disability, with advance written notice of at least 12 months.

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**Name:** Karen Hartje  
**Title:** CFO  
**Agreement commenced:** June 21, 2019  
**Terms of agreement:** Karen serves as Chief Financial Officer. Her agreement commenced June 21, 2019, and she receives an annual base salary of US\$250,000. She is entitled to participate in the STIP and LTIP and is entitled to severance upon termination of employment in some circumstances as described below. Her employment may be terminated: (i) at any time upon mutual written agreement of the parties; (ii) by the Company immediately and without prior notice for cause; (iii) immediately upon Karen's death or disability; (iv) by the Company other than for cause with advance written notice of at least 6 months; or (v) by Karen, other than due to Karen's death or disability, with advance written notice of at least 6 months.

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**Name:** Paul Purcell  
**Title:** Non-Executive Director  
**Agreement commenced:** March 28, 2019  
**Terms of agreement:** The Agreement shall continue until terminated by either party for any reason upon five (5) days prior written notice without further obligation or liability other than as otherwise set forth in the Agreement. 350,000 RSAs at US\$0.05 per share were issued to Continental Investment Partners on March 29, 2019 which comprises compensation for Paul Purcell's services as Director. Additionally, Paul is compensated A\$20,000 per year for serving as a member of the ARC and RNC committees.

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**Name:** Kathleen Pierce-Gilmore  
**Title:** Non-Executive Director  
**Agreement commenced:** March 26, 2019  
**Terms of agreement:** The Agreement shall continue until terminated by either party for any reason upon five (5) days prior written notice without further obligation or liability other than as otherwise set forth in the Agreement. Kathleen received 350,000 options exercisable at US\$0.05 each and expiring March 29, 2029 vesting monthly over 3 years engagement as a director but automatically vesting in full upon certain circumstances including a sale, merger or consolidation. Additionally, Kathleen receives a total of A\$80,000 per annum comprising A\$60,000 as a director and an additional A\$20,000 serving as a member of the RNC and ARC committees.

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**Name:** Paul Lahiff  
**Title:** Non-Executive Director  
**Agreement commenced:** May 3, 2019  
**Terms of agreement:** The Agreement shall continue until terminated in accordance with the provisions of the Agreement including in the event that Paul is not re-elected as a director of the Company by shareholders or becomes disqualified from acting as a director. Paul receives a total of A\$100,000 per annum comprising A\$60,000 as a director and an additional A\$40,000 serving as the chair of both the ARC and RNC committees. Additionally, Paul was granted 250,000 options exercisable at US\$0.84 each, vesting monthly over a three year term from the July 27, 2019 grant date.

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**Name:** Mike Cutter  
**Title:** Non-Executive Director  
**Agreement commenced:** June 1, 2020  
**Terms of agreement:** The Agreement shall continue until terminated in accordance with the provisions of the Agreement including in the event that Mike is not re-elected as a director of the Company by shareholders or becomes disqualified from acting as a director. Mike receives a total of A\$80,000 per annum comprising A\$60,000 as a director and an additional A\$20,000 serving as a member of the RNC and ARC committees. Additionally, Mike was granted 250,000 options exercisable at US\$0.84 each, vesting monthly over a three year term from the July 27, 2019 grant date.

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## Remuneration of Non-Executive Directors

The Board sets the fees for Non-Executive Directors based on recommendations of the RNC.

The Board's policy is to reward Non-Executive Directors ("NEDs") at competitive market rates to attract and retain NEDs of caliber and quality, having regard to fees paid and/or options granted for comparable companies and the size, complexity, and spread of the Company's operations.

## Share-Based Compensation

### Shares/CDIs held by KMP:

The number of ordinary shares in the Company during the 2021 reporting period held by each of the Company's key management personnel, including their related parties, is set out below:

Member of KMP	Balance at Start of Year	Granted as Remuneration	Received on Exercise	Other Changes	Balance at End of Year
Charles Youakim	88,359,809	—	—	9,174 <sup>(2)</sup>	88,368,983
Paul Paradis	10,000,000	—	—	9,443 <sup>(3)</sup>	10,009,443
Paul Purcell	—	—	—	—	—
Kathleen Pierce-Gilmore	—	—	252,778 <sup>(1)</sup>	—	252,778
Paul Lahiff	42,627	—	—	(42,627) <sup>(4)</sup>	—
Mike Cutter	—	—	—	—	—
Karen Hartje	8,075	—	—	19,337 <sup>(5)</sup>	27,412

(1) Ms. Gilmore exercised 252,778 options through a monetary purchase at US\$0.05 per award on June 4, 2021.

(2) Restricted stock units totaling 13,832 issued to Mr. Youakim vested on December 15, 2021, resulting in 13,832 common shares issued and valued at US\$32,643 on the vesting date. 4,658 of these shares were withheld to cover minimum required US income tax withholding.

(3) Restricted stock units totaling 13,606 issued to Mr. Paradis vested on December 15, 2021, resulting in 13,606 common shares issued and valued at US\$32,110 on the vesting date. 4,163 of these shares were withheld to cover minimum required US income tax withholding.

(4) Mr. Lahiff sold CDIs totaling 42,627 as announced to the ASX on March 5, 2021.

(5) Restricted stock units totaling 28,608 issued to Ms. Hartje vested throughout 2021, resulting in 28,608 common shares issued and valued at US\$146,469 upon the dates of vesting during the year. 9,271 of these shares were withheld to cover minimum required US income tax withholding.

## Options held by KMP:

The number of options in the Company during the 2021 reporting period held by each of the Company's KMP, including their related parties, is set out below:

Member of KMP	Balance at Start of Year	Granted as Remuneration	Other Changes	Balance at End of Year
Charles Youakim	500,000 <sup>(1)</sup>	—	—	500,000 <sup>(1)</sup>
Paul Paradis	500,000 <sup>(1)</sup>	—	—	500,000 <sup>(1)</sup>
Paul Purcell	— <sup>(2)</sup>	—	—	— <sup>(2)</sup>
Kathleen Pierce-Gilmore	350,000 <sup>(3)</sup>	—	(252,778)	97,222 <sup>(3)</sup>
Paul Lahiff	250,000 <sup>(4)</sup>	—	—	250,000 <sup>(4)</sup>
Mike Cutter	250,000 <sup>(5)</sup>	—	—	250,000 <sup>(5)</sup>
Karen Hartje	3,406,875 <sup>(6)</sup>	—	—	3,406,875 <sup>(6)</sup>

(1) 1/48th of the options for these KMPs vest each month after the grant of the options, provided the individual remains an employee of the Company as at the applicable date. The options were granted at a strike price of US\$0.84 and expire 10 years from July 27, 2019.

(2) In accordance with Paul Purcell's director appointment agreement, 350,000 restricted stock awards were issued to Continental Investment Partners on March 29, 2019 which comprises compensation for Paul Purcell's services as Director.

(3) Kathleen Pierce-Gilmore received 350,000 options on March 29, 2019 with an exercise price of US\$0.05, which comprises her compensation for her services. 1/36th of the options granted to Kathleen Pierce-Gilmore vest each month after the grant of the options, provided that she remains a Director of the Company as at the applicable date. During 2021, Ms. Gilmore exercised 252,778 options. The remaining outstanding options expire 10 years from March 29, 2019.

(4) 1/36th of options granted to Paul Lahiff vest each month after the grant date of the options, provided he remains a Director of the Company as of the applicable date and are exercisable at the exercise price per option of US\$0.84. The options expire 10 years from July 27, 2019.

(5) 1/36th of options granted to Mike Cutter vest each month after the grant date of the options, provided he remains a Director of the Company as of the applicable date and are exercisable at the exercise price per option of US\$0.84. The options expire 10 years from July 27, 2019.

(6) At the beginning of 2020, Karen Hartje held 1,735,000 options, exercisable at US\$0.05 per share, and 500,000 options, exercisable at US\$0.84 per share. On May 22, 2020, Karen was granted 1,171,875 options through the Company's LTIP plan.

## Other Information - Loans to KMP

There were no loans made during the year to any Key Management Personnel.

## PROCEEDINGS ON BEHALF OF THE COMPANY

We are not currently involved in any material legal proceedings, other than ordinary routine litigation incidental to the business, to which we or any of our subsidiaries is a party or of which any of their property is subject. While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any of these matters, individually or in the aggregate, will have a material adverse effect on our consolidated balance sheets, operations and comprehensive loss, or cash flows.

## INSURANCE OF DIRECTORS AND OFFICERS

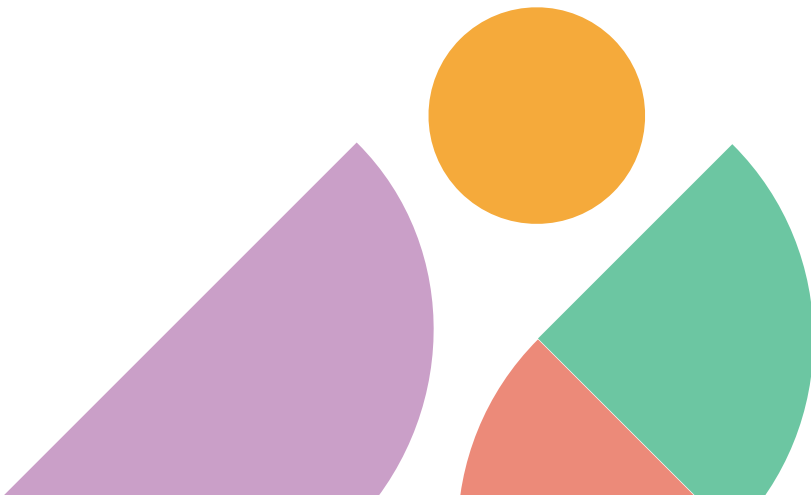
During the year, Sezzle paid a premium for a Directors and Officers Liability Insurance Policy ("D&O Insurance"). This policy covers directors and officers of the Company and the Consolidated entity. In accordance with normal commercial practices under the terms of the insurance agreements, the disclosure of the nature of the liabilities insured against and the amount of the premiums are prohibited by the policy.

## NON-AUDIT SERVICES

Our Audit Committee has established a policy governing the use of our independent registered public accounting firm's services. Under the policy, our Audit Committee is required to pre-approve all audit and permissible non-audit services performed by our independent registered public accounting firm to ensure that the rendering of such services does not impair the accounting firm's independence. Pursuant to the Sarbanes-Oxley Act of 2002, we do not employ our independent registered public accounting firm for engagements related to:

- Bookkeeping;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions or human resources;
- Broker-dealer, investment adviser, or investment banking services; or
- Legal services and expert services unrelated to the audit.

All fees paid to Baker Tilly US, LLP for the years ended December 31, 2021 and 2020 were pre-approved by our Audit Committee.







# Operating & Financial Review







## OVERVIEW

We are a purpose-driven payments company that is on a mission to financially empower the next generation. Launched in 2017, we have built a digital payments platform that allows merchants to offer their consumers a flexible alternative to traditional credit. As of December 31, 2021, our platform has supported the business growth of 47,000 Active Merchants while serving 3.4 million Active Consumers. Through our payments products we aim to enable consumers to take control over their spending, be more responsible, and gain access to financial freedom. Our vision is to create a digital ecosystem benefiting all our stakeholders—merchant partners, consumers, employees, communities, and investors—while continuing to drive ethical growth.

The Sezzle Platform connects consumers with merchants via our core proprietary, digital payments platform that instantly extends credit at the point-of-sale. Our core product is differentiated from traditional lenders through our credit-and-capital-light approach, and we believe that it is mutually beneficial for our merchants and consumers given the network effects inherent in our platform. We enable consumers to acquire merchandise upfront and spread payments over four equal, interest-free installments over six weeks. We realize high repeat usage rates by many of our consumers, with the top 10% of our consumers measured by Underlying Merchant Sales (UMS, as defined below) transacting an average of 49 times per year based on the transaction activity during the rolling twelve months ended December 31, 2021, although historical transaction activity is not an indication of future results.

Our core product offering is completely free for consumers who pay on time; instead, we generate a substantial majority of our revenues by charging our merchants fees in the form of a Merchant Discount Rate. We also offer Sezzle Up, an upgraded version of the core Sezzle experience which provides a credit-building solution for new-to-credit consumers, helping consumers adopt credit responsibly and build their credit history. Additionally, we have expanded our product suite to provide consumers with access to a long-term installment lending option through partnerships, of which is still in an early pilot stage.

A critical component of our business model is the ability to effectively manage the repayment risk inherent in allowing consumers to pay over time. To that end, a team of Sezzle engineers and risk specialists oversee our proprietary systems, identify transactions with elevated risk of fraud, assess the credit risk of the consumer and assign spending limits, and manage the ultimate receipt of funds. Further, we believe repayment risk is more limited relative to other traditional forms of unsecured credit because consumers primarily settle 25% of the purchase value upfront. Additionally, ongoing user interactions allow us to continuously refine and enhance the effectiveness of these platform tools through machine learning.



## PROPOSED MERGER WITH WHOLLY-OWNED SUBSIDIARY OF ZIP

On February 28, 2022, we entered into the Zip Merger Agreement, pursuant to which, upon the terms and subject to the conditions thereof, Merger Sub will be merged with and into Sezzle Inc., with Sezzle Inc. surviving the merger as a wholly-owned subsidiary of Zip. Subject to the terms and conditions of the Zip Merger Agreement, each share of our common stock (including each share of our common stock in respect of which a Company CDI (as defined in the Zip Merger Agreement) has been issued) issued and outstanding immediately prior to the Effective Time (other than shares of our common stock that are held by us (or any of our subsidiaries), Zip (or any of its subsidiaries) or Merger Sub) shall be cancelled and converted into the right to receive, at the election of our stockholders (subject to the immediately following sentence), (a) a number of Zip ordinary shares equal to 0.98 (the "Exchange Ratio") or (b) a number of Zip American depositary receipts ("Zip ADRs") representing a number of Zip ordinary shares equal to the Exchange Ratio. Any person who is an Australian Stockholder (as defined in the Zip Merger Agreement) will only be entitled to consideration in the form of Zip ordinary shares.

The Zip Merger Agreement includes customary representations, warranties and covenants by us, Zip and Merger Sub. Subject to the terms of the Zip Merger Agreement and certain exceptions, we and Zip have agreed to operate our respective businesses in the ordinary course consistent with past practice and use commercially reasonable efforts to maintain their respective business organizations and advantageous business relationships until the closing of the transaction. Concurrently with the execution and delivery of the Zip Merger Agreement, certain significant stockholders of both us (Charles Youakim and Paul Paradis) and Zip (Larry Diamond and Peter Gray) entered into support agreements pursuant to which, among other things, they agreed to vote all of their stock or ordinary shares of common stock, as applicable in favor of the transaction.

Subject to the terms and conditions of the Zip Merger Agreement, unvested and outstanding options and RSUs will be converted into Zip options and performance rights with similar terms and conditions as existing options and RSUs, provided, that each company option that is subject to a Company total shareholder return performance-based vesting condition ("Company TSR") shall, immediately prior to the Effective Time, become earned, if at all, by using the Closing Date (as defined in the Zip Merger Agreement) as the end of the applicable performance period for purposes of measuring performance based vesting with the resulting option, if any, subject to service-based vesting through the end of the original performance period, and vested options and RSUs will be cancelled and converted into the right to receive merger consideration.

The consummation of the transaction is subject to certain closing conditions, including, but not limited to (i) the declaration by the SEC of the effectiveness of the registration statements on Form F-4 and Form F-6 (and the absence of any stop order or proceedings suspending such effectiveness), (ii) the Zip ADRs being authorized for listing on a United States Exchange (as defined in the Zip Merger Agreement) and the Zip Ordinary Shares issuable pursuant to the Zip Merger Agreement being authorized for listing on the ASX, (iii) the Australian Prospectus (to the extent required by applicable Law (as defined in the Zip Merger Agreement)) being lodged with the Australian Securities and Investments Commission (the "ASIC") and the exposure period prescribed by section 727(3) of the Corporations Act will have elapsed (if applicable) and no stop order is issued by ASIC in relation to the Australian Prospectus and remains in effect (or waivers from the requirement to lodge the Australian Prospectus have been received from ASIC), (iv) receipt of required waivers from the ASX and the ASIC, (v) the expiration or termination of any applicable waiting period under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, (vi) no governmental order or law prohibiting the consummation of the Contemplated Transactions or making the consummation of the Contemplated Transactions illegal and (vii) the required Australian approvals having been obtained and the condition described in the preceding clause (v) being satisfied without the imposition of a Burdensome Condition (as defined in the Zip Merger Agreement). If the Zip Merger Agreement is terminated under certain circumstances, the Company may be required to pay Zip a termination fee of A\$7,800,000 or Zip may be required to pay the Company a termination fee of A\$31,400,000.

## FACTORS AFFECTING RESULTS OF OPERATIONS

We have set out below a discussion of the key factors that have affected our financial performance and that are expected to impact our performance going forward.

### Adoption of the Sezzle Platform

Our ability to profitably scale our business is reliant on adoption of the Sezzle Platform by both consumers and merchants. Changes in our Active Merchant and Active Consumer bases (as such terms are defined below) have had, and will continue to have, an impact on our results of operations. It is costly for us to recruit (and in some cases retain) Active Merchants. Turnover in our merchant base could result in higher than anticipated overhead costs.

We believe that we have built a sustainable, transparent business model in which our success is aligned with the financial success of our merchants and consumers. We earn fees from our merchants predominately based on a percentage of the UMS value plus a fixed fee per transaction, or the Merchant Discount Rate. We pay our merchants for transaction value upfront net of the merchant fees owed to us and assume all costs associated with the consumer payment processing, fraud and payment default. Merchant-related fees comprised approximately 82% and 81% of our Total Income for the years ended December 31, 2021 and 2020, respectively.

### Growth and Diversification of Merchants offered on the Sezzle Platform

We depend on continued relationships with our current merchants or merchant partners and on the acquisition of new merchants to maintain and grow our business. We added 20 thousand Active Merchants during the year ended December 31, 2021, totaling 47 thousand Active Merchants on the platform at the end of the same period. Although for the year ended December 31, 2021, we did not depend on any one merchant for more than 10% of Merchant-related fees, our business is still at a relatively early stage and our merchant revenue is not as diversified as it might be for a more mature business.

Our integration into scaled e-commerce platforms is expected to give more merchants the opportunity to offer Sezzle as a payment option at checkout, and we expect that our partnerships with larger retailers will familiarize more consumers with the Sezzle Platform.

In addition, investment in sales, co-marketing, and offering of competitively priced merchant fee rates and incentives are critical for us to onboard new and retain existing merchants and grow utilization of the Sezzle Platform. We currently provide our merchants with a toolkit to grow their businesses. Our merchants gain access to our marketing efforts that begin with a launch campaign to introduce new brands to Sezzle consumers. We face intense competitive pressure to bring new larger merchants on to our platform. In order to stay competitive, we have and may continue to need to adjust our pricing or offer incentives to larger merchants to increase payments volume. These pricing structures with merchants include up-front cash payments, fee discounts, rebates, credits, performance-based incentives, marketing, and other support payments that impact our revenues and profitability. We expect to continue to incur substantial costs to acquire these larger merchants. Certain agreements contain provisions that may require us to make payments to certain merchants and are contingent on us and/or the merchants meeting specified criteria, such as achieving volume targets and implementation benchmarks. If we are not able to increase our volumes as predicted, the financial impact of these incentives, fee discounts, and rebates, these arrangements with certain merchants will impact our results of operations and financial performance.

There is a risk that we may lose merchants for a variety of reasons, including a failure to meet key contractual or commercial requirements, or merchants shifting to other service providers, including competitors or in-house offerings. We also face the risk that our key partners could become competitors of our business if such partners are able to determine how we have designed and implemented our model to provide our services.

## New Products

Our expanding product suite enables us to further promote our mission of financial empowerment, and the adoption of these products by our consumers is expected to drive operating and financial performance. In partnership with TransUnion, we engineered Sezzle Up, an upgraded version of the core Sezzle experience that supports consumers in building their credit scores by permitting us to report their payment histories to credit bureaus. As these consumers pay on time, their credit scores and spending limits on the Sezzle Platform can increase, which is likely to result in larger purchases that will generate an increase in merchant fees. Other parts of our product suite and proprietary merchant interface are specifically designed to streamline the merchant experience. For example, we believe that our Sezzle Virtual Card bolsters our omnichannel offering and provides a rapid-installation, point-of-sale option for brick-and-mortar retailers through its compatibility with Apple Pay and Google Pay. With the Sezzle Virtual Card, consumers can enjoy in-store shopping with the convenience of immediately tapping into the Sezzle Platform with the “swipe” of their card at the point-of-sale. In addition, we work with other lending partners to offer consumers at participating merchants longer-term, monthly fixed-rate installment-loan products, which will support consumer purchases for big ticket items and earn us a fee on such transactions. We continue to seek out new partners to adopt our existing products and strategize on new products to complement our platform and core products, which we believe will have an impact on continued growth of our business.

## Growth of our Consumer Base

To continue to grow our business, we need to maintain and increase our existing Active Consumer base and introduce new consumers to our platform. We rely heavily on our growing merchant base to offer our core product to new consumers at the point of sale for online transactions. We have developed new offerings such as Sezzle Spend to enable our merchants to offer rewards and promotions to new consumers. We have consistently added Active Consumers each quarter since our inception, while the number of transactions per Active Consumer has typically increased each quarter as well. We added 1.2 million Active Consumers during the year ended December 31, 2021, totaling 3.4 million Active Consumers on the platform at the end of the same period. We realize high repeat usage rates as a result of our differentiated offering, with the top 10% of our consumers measured by UMS transacting 49 times per year based on the transaction activity during the rolling twelve months ended December 31, 2021, although historical transaction activity is not an indication of future results.

## Managing Credit Risk

A critical component of our business model is the ability to effectively manage the repayment risk inherent in allowing consumers to pay over time. To that end, a team of Sezzle engineers and risk specialists oversee our proprietary systems, identify transactions with elevated risk of fraud, assess the credit risk of the consumer and assign spending limits, and manage the ultimate receipt of funds. Because consumers primarily settle 25% of the purchase value upfront at the point of sale, we believe repayment risk is more limited relative to other traditional forms of unsecured consumer credit. Further, ongoing user interactions allow us to continuously refine and enhance the effectiveness of these platform tools through machine learning.

We absorb the costs of all core product uncollectible receivables from our consumers. The provision for uncollectible accounts is a significant component of our operating expenses, and excessive exposure to consumer repayment failure may impact our results of operations. We believe our systems and processes are highly effective and allow for predominantly accurate, real-time decisions in connection with the consumer transaction approval process. As our consumer base grows, the availability of data on consumer repayment behavior will also better optimize our systems and ability to make real-time consumers repayment capability decisions on a go forward basis. Optimizing repayment capacity decisions of our current and future consumer base may reduce our provision for uncollectible accounts and related charge-offs by providing optimal credit limits to qualified consumers.

## Maintaining our Capital-Light Strategy

Maintaining our funding strategy and our low cost of capital is important to our ability to grow our business. We have created an efficient funding strategy which, in our view, has allowed us to scale our business and drive rapid growth. The speed with which we are able to recycle capital due to the short-term nature of our products has a multiplier effect on our committed capital.

Our funding helps drive our low cost of capital. We rely on more efficient revolving credit facilities with high advance rates to fund our receivables over time and also use merchant account payables as an alternative low-cost funding source.

## General Economic Conditions and Regulatory Climate

Our business depends on consumers transacting with merchants, which in turn can be affected by changes in general economic conditions. For example, the retail sector is affected by such macro-economic conditions as unemployment, interest rates, consumer confidence, economic recessions, downturns or extended periods of uncertainty or volatility, all of which may influence customer spending, and suppliers' and retailers' focus and investment in outsourcing solutions. This may subsequently impact our ability to generate income. Additionally, in weaker economic environments, consumers may have less disposable income to spend and so may be less likely to purchase products by utilizing our services and bad debts may increase as a result of consumers' failure to repay the loans originated on the Sezzle Platform. Our industry is also impacted by numerous consumer finance and protection regulations, both domestic and international, and the prospects of new regulations, and the cost to comply with such regulations, have an ongoing impact on our results of operations and financial performance.

## International Operations

We primarily operate in the United States and have operations in Canada, India, Brazil and certain countries in Europe. We are currently evaluating our business opportunities in international markets and may determine to exit markets outside of North America.

## Seasonality

We experience seasonality as a result of spending patterns of our Active Consumers. Sezzle Income and UMS in the fourth quarter have historically been strongest for us, in line with consumer spending habits during the holiday shopping season, which has typically been accompanied by increased charge-offs when compared to the prior three quarters. This is most evident in merchant fees as these are recognized over the duration of the note with the consumer once the terms of the executed merchant agreement have been fulfilled and the merchant successfully confirms the transaction.

## Impact of COVID-19

The COVID-19 pandemic has had, and continues to have, a significant impact on the U.S. economy and the markets in which we operate. We believe that our performance during this period demonstrates the value and effectiveness of our platform, the resilience of our business model, and the capabilities of our risk management and underwriting approach.

We experienced improved collections of notes receivables during 2020 through the first quarter of 2021 as a result of consumers having improved ability for repayment due to stimulus checks offered through the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") of 2020 and the American Rescue Plan Act of 2021. Also during 2020, we enacted an expansion of fee forgiveness and payment flexibility programs offered to consumers as a response to the COVID-19 pandemic.

In March 2020, we rolled out a work-from-home program for our employees, which has continued throughout 2021. In addition, we implemented restrictions in travel and attendance of group events, including industry-related conferences, during the onset of the COVID-19 pandemic. During 2020, these COVID-19 related measures resulted in lower than anticipated operating expenses. Beginning in 2021, we began to incur additional travel-related expenses for our sales and marketing teams to attend group events and industry-related conferences where it was safe to do so. We expect future operating expenses to continue to increase in future periods as a result of planned efforts to begin working from the office under a hybrid part-time, in-person model and the rolling back of our travel restrictions.

## KEY OPERATING METRICS

### Underlying Merchant Sales

	For the years ended December 31,		Change	
	2021	2020	\$	%
	(in thousands)			
Underlying Merchant Sales ("UMS")	\$ 1,807,846	\$ 856,382	\$ 951,464	111.1 %

UMS is defined as the total value of sales made by merchants based on the purchase price of each confirmed sale where a consumer has selected the Sezzle Platform as the applicable payment option. UMS does not represent revenue earned by us, is not a component of our income, nor is included within our financial results prepared in accordance with GAAP. However, we believe that UMS is a useful operating metric to both us and our investors in assessing the volume of transactions that take place on the Sezzle Platform, which is an indicator of the success of our merchants and the strength of the Sezzle Platform.

For the years ended December 31, 2021 and 2020, UMS totaled \$1.8 billion and \$0.9 billion, respectively, which was an increase of 111.1%.

### Active Merchants and Active Consumers

	As of December 31,		Change	
	2021	2020	#	%
	(in thousands)			
Active Merchants	47	27	20	76.0 %
Active Consumers	3,400	2,231	1,169	52.4 %

Active Merchants is defined as merchants who have had transactions with us in the last twelve months. As of December 31, 2021, we had 47 thousand Active Merchants, an increase of 76.0% when compared to the 27 thousand Active Merchants as of December 31, 2020. There is no minimum required number of transactions to meet the Active Merchant criteria.

Active Consumers is defined as unique end users who have placed an order with us within the last twelve months. As of December 31, 2021, we had 3.4 million Active Consumers, an increase of 52.4% when compared to our 2.2 million Active Consumers as of December 31, 2020.

## COMPONENTS OF RESULTS OF OPERATIONS

### Total Income

We refer to our primary component of total income as "Sezzle Income". Sezzle Income is comprised primarily from fees paid by merchants in exchange for our payment processing services. These fees are applied to the underlying sales to consumers passing through our platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction. Consumer installment payment plans typically consist of four installments, with the first payment of 25% of the consumer order value made at the time of purchase and subsequent payments coming due every two weeks thereafter. Additionally, consumers may reschedule their initial installment plan by delaying payment for up to two weeks, for which we generally earn a rescheduled payment fee. The total of merchant fees and rescheduled payment fees, less note origination costs (underwriting costs incurred that result in a successful transaction with the consumer), are collectively referred to as Sezzle Income within the consolidated statements of operations and comprehensive loss. Sezzle Income is then recognized over the average duration of the note using the effective interest rate method.

We also earn income from consumers in the form of account reactivation fees, recorded within "Account reactivation fee income" (a component of Total Income) on the consolidated statements of operations and comprehensive loss. When a consumer's payment fails in the automated payment process the consumer must pay a fee, which we refer to as an Account Reactivation Fee, before the consumer is able to use the Sezzle Platform again. We allow, at a minimum and subject to state jurisdiction regulation, a 48-hour waiver period where fees are dismissed if the installment is paid by the consumer. Account reactivation fees are recognized at the time the fee is charged to the consumer, less an allowance for uncollectible amounts.

### Personnel

Personnel primarily comprises all wages and salaries paid to employees, contractor payments, employer-paid payroll taxes and employee benefits, and stock and incentive-based compensation.

### Transaction Expense

Transaction expense primarily comprises processing fees paid to third parties to process debit, credit and ACH payments received from consumers, merchant affiliate program and partnership fees, and consumer communication costs. We incur merchant affiliate program and partnership fees when consumers make purchases with merchants who either were referred by another merchant or are associated with partner platforms with which we have a contractual agreement. We incur customer communication costs when we notify the consumer about the transaction status and upcoming payments. Communications are primarily made via text message directly to the consumer.

### Third-Party Technology and Data

Third-party technology and data primarily comprises costs related to fraud prevention, other cloud-based computing services, and costs of failed loan applications. Underwriting costs incurred that result in successfully originated loans are an element of Sezzle Income and recognized as a reduction of the overall income and, therefore, are not included in third-party technology and data.

### Marketing, Advertising, and Tradeshows

Marketing, advertising, and tradeshows primarily comprises costs related to marketing, sponsorships, advertising, attending tradeshows, promotions, and co-marketing the Sezzle brand with our merchants.

### General and Administrative

General and administrative primarily comprises legal, compliance, audit, tax, and other consultation costs; third-party implementation fees; and charitable contributions.



## Provision for Uncollectible Accounts

We calculate our provision for uncollectible accounts on notes receivable on an expected-loss basis. We maintain an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal and reschedule fee receivables from consumers. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. We use our judgment to evaluate the allowance for uncollectible accounts based on current economic conditions and historical performance of consumer payments.

## Net Interest Expense

We incur interest expense on a continuous basis as a result of draws on our revolving line of credit to fund consumer notes receivable as well as our Merchant Interest Program, whereby merchants may defer their payments owed by us in exchange for interest. The interest paid on borrowings under our revolving credit facility and Merchant Interest Program are based on LIBOR. Effective January 1, 2022, we amended our line of credit agreement to replace references to LIBOR with the U.S. Federal Reserve's Secured Overnight Financing Rate (SOFR).

## Income Tax Expense

Income tax expense consists of income taxes in various jurisdictions, primarily U.S. Federal and state income taxes, and also the other foreign jurisdictions in which we operate. Tax effects of transactions reported in the consolidated financial statements consist of taxes currently due. Additionally, we record deferred taxes related primarily to differences between the basis of receivables, property and equipment, equity based compensation, and accrued liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Given our history of losses, a full valuation allowance is recorded against our deferred tax assets.

## Other Comprehensive Income

Other comprehensive income is comprised of foreign currency translation adjustments.



## RESULTS OF OPERATIONS

### Total Income

	For the years ended December 31,		Change	
	2021	2020	\$	%
Sezzle income	\$ 98,200,184	\$ 49,659,042	\$ 48,541,142	97.7 %
Account reactivation fee income	16,616,451	9,129,231	7,487,220	82.0 %
<b>Total income</b>	<b>\$ 114,816,635</b>	<b>\$ 58,788,273</b>	<b>\$ 56,028,362</b>	<b>95.3 %</b>

Total income is comprised of Sezzle income and account reactivation fees. Sezzle income for the years ended December 31, 2021 and 2020 totaled \$98.2 million and \$49.7 million, respectively, which was an increase of 97.7%. The increase compared to the prior year was driven by growth in our Active Merchants and Active Consumers, as well as increased repeat usage.

Account reactivation fee income recognized totaled \$16.6 million and \$9.1 million for the years ended December 31, 2021 and 2020, respectively. Account reactivation fees as a percentage of total income was 14.5% and 15.5% for the years ended December 31, 2021 and 2020, respectively. The decrease in this metric during the year ended December 31, 2021 when compared to the year ended December 31, 2020 was due to changes in our account reactivation fees assessment policy.

The breakout of Sezzle income for the years ended December 31, 2021 and 2020 is as follows:

	For the years ended December 31,		Change	
	2021	2020	\$	%
Merchant fees	\$ 94,374,892	\$ 47,745,048	\$ 46,629,844	97.7 %
Consumer reschedule fees	4,487,401	2,512,470	1,974,931	78.6 %
Direct note origination costs	(662,109)	(598,476)	(63,633)	10.6 %
<b>Sezzle income</b>	<b>\$ 98,200,184</b>	<b>\$ 49,659,042</b>	<b>\$ 48,541,142</b>	<b>97.7 %</b>

Merchant fees totaled \$94.4 million and \$47.7 million for the years ended December 31, 2021 and 2020, respectively. Merchant fees as a percentage of Sezzle income remained consistent year-over-year at 96.1%. Despite a greater share of transactions taking place with enterprise merchants who have a lower Merchant Discount Rate in the current year, we maintained this percentage by realizing lower consumer reschedule fees and direct note origination costs relative to Sezzle income.

Consumer reschedule fees totaled \$4.5 million and \$2.5 million for the years ended December 31, 2021 and 2020, respectively. Consumer reschedule fee income as a percentage of Sezzle income was 4.6% and 5.1% for the years ended December 31, 2021 and 2020, respectively. The decrease in this metric was due to changes in our consumer reschedule fee policy.

### Personnel

	For the years ended December 31,		Change	
	2021	2020	\$	%
Personnel	\$ 56,831,368	\$ 30,689,462	\$ 26,141,906	85.2 %

Personnel costs increased by 85.2% to \$56.8 million for the year ended December 31, 2021, from \$30.7 million for the year ended December 31, 2020. The increase in personnel costs was primarily a result of hiring more employees to support our operations.

Recorded within personnel, equity and incentive-based compensation totaled \$18.1 million and \$13.6 million for the years ended December 31, 2021 and 2020, respectively, which was a 32.6% increase. The increase in equity and incentive-based compensation was a result of expenses related to stock options and the vesting of restricted stock units under our equity incentive plans and our long-term incentive program. Long-term incentive plan expenses were \$6.7 million and \$5.9 million for the years ended December 31, 2021 and 2020, respectively.

## Transaction Expense

	For the years ended December 31,		Change	
	2021	2020	\$	%
Payment processing costs	\$ 33,302,891	\$ 17,400,352	\$ 15,902,539	91.4 %
Affiliate and partner fees	5,789,966	3,539,157	2,250,809	63.6 %
Other transaction expense	4,383,286	1,550,117	2,833,169	182.8 %
<b>Transaction expense</b>	<b>\$ 43,476,143</b>	<b>\$ 22,489,626</b>	<b>\$ 20,986,517</b>	<b>93.3 %</b>

Transaction expenses were \$43.5 million and \$22.5 million for the years ended December 31, 2021 and 2020, respectively.

Payment processing costs were \$33.3 million and \$17.4 million for the years ended December 31, 2021 and 2020, respectively. The 91.4% increase in costs year-over-year were primarily driven by the increase in volume of orders transacted by consumers and the related processing of payments associated with those orders.

Merchant affiliate program and partnership fees are incurred by us when consumers make purchases with merchants who either were referred by another merchant, or are associated with a partner platforms with which we have contractual agreements. Such costs were \$5.8 million and \$3.5 million for the years ended December 31, 2021 and 2020, respectively. The increase in costs was related to our increased volume of orders originating from merchants that were referred or are associated with our partnered platforms.

Other costs included in transaction expense were \$4.4 million and \$1.6 million for the years ended December 31, 2021 and 2020, respectively. Such costs are comprised of consumer communication costs and consumer and merchant service adjustments. The increase in costs were a result of increased Active Consumers and Active Merchants on the Sezzle Platform, as well as our efforts to improve recoveries of past due receivables.

## Third-Party Technology and Data

	For the years ended December 31,		Change	
	2021	2020	\$	%
Third-party technology and data	\$ 5,549,844	\$ 2,464,113	\$ 3,085,731	125.2 %

Third-party technology and data costs totaled \$5.5 million and \$2.5 million for the years ended December 31, 2021 and 2020, respectively. The increase in expense was primarily related to our growth in Active Consumers and Underlying Merchant Sales and includes cloud-based infrastructure, fraud prevention, obtaining underwriting data that resulted in failed loan applications, and connecting consumer bank accounts to the Sezzle Platform. Additionally, the increase in costs year-over-year was due to the implementation and expanded use of key cloud-based systems to support the growth of our operations.

## Marketing, Advertising, and Tradeshows

	For the years ended December 31,		Change	
	2021	2020	\$	%
Marketing, advertising, and tradeshows	\$ 9,251,854	\$ 4,274,929	\$ 4,976,925	116.4 %

Marketing, advertising, and tradeshow costs increased to \$9.3 million for the year ended December 31, 2021, compared to \$4.3 million for the year ended December 31, 2020. The increase in costs were primarily a result of increased initiatives to co-market the Sezzle brand with our merchants. Costs related to Sezzle Spend promotions and digital advertising also contributed to increased expenses year-over-year.

## General and Administrative

	For the years ended December 31,		Change	
	2021	2020	\$	%
General and administrative	\$ 15,768,583	\$ 7,214,535	\$ 8,554,048	118.6 %

General and administrative costs increased to \$15.8 million for the year ended December 31, 2021, compared to \$7.2 million for the year ended December 31, 2020. The increase in expense was primarily related to professional fees, implementation incentives with merchants, recruiting new employees, and charitable contributions. Professional fees include legal, compliance, audit, tax, and consulting services to support the growth of our company.

## Provision for Uncollectible Accounts

	For the years ended December 31,		Change	
	2021	2020	\$	%
Provision for uncollectible accounts	\$ 52,621,682	\$ 19,587,918	\$ 33,033,764	168.6 %

The total provision for uncollectible accounts was \$52.6 million for the year ended December 31, 2021, compared to \$19.6 million for the year ended December 31, 2020. As a percentage of Sezzle income, the provision for uncollectible accounts was 53.6% and 39.4% for the years ended December 31, 2021 and 2020, respectively.

During the year ended December 31, 2020, our provision expense in the first half of the year as a percentage of Sezzle income was relatively lower due to both our tightening of credit to consumers as an initial response to COVID-19 and overall improved collections driven in part by the U.S. government stimulus checks offered to many of our consumers through the CARES Act. This lower provision was offset by increased losses associated with testing various credit underwriting strategies with enterprise merchants, which began in the third quarter of 2020.

During the year ended December 31, 2021, our provision increased year-over-year primarily as a result of increases in UMS and Active Consumers. Additionally, the provision, and our provision as a percentage of Sezzle income, increased year-over-year as a result of several factors. Most significantly, our non-integrated product offerings with enterprise merchants drove adverse selection, resulting in higher provision expense. Compounding this negative impact on total portfolio performance, enterprise merchant volume grew as a percentage of our total volume throughout the year. Additionally, we experienced higher loss rates associated with first payments made via ACH.

To mitigate these higher losses, we have implemented and are continuing to implement processes to reduce loss rates. During the third quarter we improved our recoveries process. Additionally, in September 2021 we began requiring a debit or credit card on file to make the initial installment payment when selecting to pay via ACH, which substantially reduced our first payment loss rates. Finally, we are continuing to work with enterprise merchants to integrate our product, which will further reduce our loss rates.

## Net Interest Expense

	For the years ended December 31,		Change	
	2021	2020	\$	%
Net interest expense	\$ 5,269,284	\$ 4,303,175	\$ 966,109	22.5 %

Net interest expense was \$5.3 million and \$4.3 million for the years ended December 31, 2021 and 2020, respectively. The increase in expense was driven by higher costs in the current year related to our Merchant Interest Program, unused line of credit fees, and amortization of debt issuance costs related to our line of credit. These higher costs were offset with a lower interest expense on our new line of credit that went into effect in February 2021, which carries a lower interest rate than our previous line of credit facility.

## Income Taxes

Income tax expense for the years ended December 31, 2021 and 2020 was \$58,416 and \$30,964, respectively. Our effective income tax rate for the year ended December 31, 2021 was 0.1%, consistent with the prior year, was minimal due to a full valuation allowance, and is comprised of minimum income taxes owed to state and local jurisdictions. Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2021. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. On the basis of this evaluation, a full valuation allowance is recorded against our net deferred tax assets as of December 31, 2021 and December 31, 2020.

## Other Comprehensive Income

We had \$69,406 and \$494,505 of foreign currency translation adjustments recorded within other comprehensive income for the years ended December 31, 2021 and 2020, respectively. Foreign currency translation adjustments are a result of the financial statements of our non-U.S. subsidiaries being translated into U.S. dollars in accordance with ASC 830, "Foreign Currency Matters". We expect to record foreign currency translation adjustments in future years and changes will be dependent on fluctuations in foreign currencies of countries in which we have operations.

## LIQUIDITY AND CAPITAL RESOURCES

We have incurred net losses since inception, incurring a net loss of \$75.2 million and \$32.4 million for the years ended December 31, 2021 and 2020, respectively. We have historically financed our operating and capital needs primarily through private sales of equity, our initial public offering on the Australian Securities Exchange, and our revolving line of credit. As of December 31, 2021, our principal sources of liquidity were cash, cash equivalents, restricted cash, the unused borrowing capacity on our line of credit, and certain cash flows from operations.

As of December 31, 2021, we had cash, cash equivalents, and restricted cash of \$78.9 million, compared to \$89.1 million as of December 31, 2020. Our cash and cash equivalents were held primarily for working capital requirements and the continued investment in our business. Substantially all of our restricted cash is made available for use within 2-3 business days.

As of December 31, 2021 and 2020, we had working capital of \$113.7 million and \$104.6 million, respectively. Additionally, as of December 31, 2021 we had an unused borrowing capacity on our line of credit of \$29.8 million, compared to \$23.9 million as of December 31, 2020.

We meet our liquidity requirements primarily through proceeds from our line of credit, which is subject to various covenants. If our net losses continue at the same level in future periods, it would result in the breach of one or more of such line of credit covenants. Our line of credit is a significant component of our working capital management.

On February 25, 2022 we amended our existing line of credit covenants as disclosed in Note 17. Subsequent Events within the accompanying notes to consolidated financial statements. Additionally, on March 10, 2022 we undertook a workforce reduction to provide us with additional annualized cost savings of approximately \$10 million. We will undertake further cost cutting measures if the actions taken during the first quarter of 2022 do not fully mitigate the risk of breaching one or more of our line of credit covenants.

We believe that the implementation of these plans, along with our existing cash, cash equivalents, restricted cash, our unused borrowing capacity on our line of credit, and certain cash flows from operations will be sufficient to meet our working capital and investment requirements beyond the next 12 months.

### Cash Flows

The following table summarizes our cash flows for the years ended December 31, 2021 and 2020:

	For the years ended	
	December 31, 2021	December 31, 2020
Net Cash Used for Operating Activities	\$ (72,132,050)	\$ (24,808,861)
Net Cash Used for Investing Activities	(1,420,027)	(732,911)
Net Cash Provided from Financing Activities	63,239,966	77,565,841
Effect of exchange rate changes on cash	98,376	455,216
Net (decrease) increase in cash, cash equivalents, and restricted cash	\$ (10,312,111)	\$ 52,024,069

## Operating Activities

Net cash used for operating activities was \$72.1 million and \$24.8 million for the years ended December 31, 2021 and 2020, respectively.

During the year ended December 31, 2021, receipts from consumers totaled \$1.656 billion compared with cash payments to merchants of \$1.615 billion. Cash receipts from consumers exceeded payments to merchants primarily due to the deferral of payments to merchants under the Merchant Interest Program. Additionally, the Company incurred cash outflows of \$37.0 million for personnel related expenses, \$40.7 million for transaction expenses (primarily payment processing costs), \$8.8 million for advertising, marketing and tradeshow related expenses, \$4.8 million of interest expense payments, and \$21.8 million of cash outflows for third-party technology and other general and administrative expenses.

During the year ended December 31, 2020, receipts from consumers totaled \$773.4 million compared with cash payments to merchants of \$743.3 million. Cash receipts from consumers exceeded payments to merchants primarily due to the deferral of payments to merchants under the Merchant Interest Program. Additionally, the Company incurred cash outflows of \$14.9 million for personnel related expenses, \$22.5 million for transaction expenses (primarily payment processing costs), \$4.0 million for advertising, marketing and tradeshow related expenses, \$3.8 million of interest expense payments, and \$9.7 million of cash outflows for third-party technology and data, along with various general and administrative expenses.

The net cash provided from consumers (to merchants) for the years ended December 31, 2021 and 2020 was \$40.9 million and \$30.1 million, respectively. Beginning in the third quarter of the current year, payments to merchants began growing at a faster rate than receipts from consumers due to a higher proportion of our merchants being enterprise-level. Large enterprise merchants typically do not participate in the Merchant Interest Program, and as a result do not defer their payments. The increase in personnel cash outflows, year over year, are driven by an increase in employee headcount. The increase in cash outflows for transaction and interest related expenses are driven by the overall increase in UMS. Other increases in cash outflows, year over year, are due to overall growth in the Company's operations.

## Investing Activities

Net cash used for investing activities during the year ended December 31, 2021 was \$1.4 million, compared to \$0.7 million during the year ended December 31, 2020. Cash outflows for investing activities were primarily used for purchasing computer equipment, as well as payments of salaries to employees who create capitalized internal-use software.

## Financing Activities

Net cash provided from financing activities during the year ended December 31, 2021 was \$63.2 million, compared to \$77.6 million during the year ended December 31, 2020.

Significant financing cash inflows during the year ended December 31, 2021 included net proceeds from our line of credit totaling \$38.8 million, net proceeds from the issuance of shares of common stock to Discover Financial Services LLC totaling \$30.0 million, and proceeds from stock option exercises totaling \$1.0 million.

Significant financing cash outflows during the year ended December 31, 2021 included payments of debt issuance and extinguishment costs totaling \$2.7 million related to the closing of our new line of credit, repayment of the principal on our Paycheck Protection Program (PPP) loan of \$1.2 million, and the repurchase of shares of common stock from employees to cover minimum statutory tax obligations totaling \$2.7 million.

## OFF BALANCE SHEET ARRANGEMENTS

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for the purpose of facilitating off balance sheet arrangements (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships. We enter into guarantees in the ordinary course of business related to the guarantee of our performance and the performance of our subsidiaries.



# Key Risks & Business Challenges







## SUMMARY OF KEY RISKS AND CHALLENGES

Our business is subject to numerous risks and uncertainties, including those highlighted in "Risk Factors". If any of these risks actually occur, our business, financial condition, or results of operations would likely be materially and adversely affected. In such case, the trading price of our shares of common stock would likely decline, and you may lose all or part of your investment. These risks include, but are not limited to, the following:

### Risks Related to the Proposed Merger with Zip Co Limited

- Certain of the conditions under the Zip Merger Agreement to our consummation of the merger with a wholly-owned subsidiary of Zip are beyond our control and may not be satisfied (or waived) at all or in the anticipated timeframe.
- The merger consideration payable to holders of shares of our common stock will not be adjusted for change in our or Zip's business, assets, liabilities, prospects, outlook, financial condition or results of operations. In addition, certain factors could affect the value of Zip ordinary shares, which would affect the value realized by our stockholders in connection with the proposed merger.
- While the proposed merger is pending, we are subject to business uncertainties and contractual restrictions that could disrupt our business.
- In the event that the proposed merger with a wholly-owned subsidiary of Zip is not consummated, the trading price of shares of our common stock represented by CDIs and our future business and results of operations may be negatively affected.
- The Zip Merger Agreement contains provisions that could make it difficult for a third party to acquire us prior to the completion of the proposed merger.
- Shareholder litigation could prevent or delay the closing of the proposed merger with Zip or otherwise negatively impact our business, operating results and financial condition.

### Risks Related to Our Industry

- The BNPL industry may become subject to increased regulatory scrutiny.
- We operate in a highly competitive industry.
- Our success is subject to macro-economic conditions that have an impact on consumer spending.
- Our industry may be subject to negative publicity.

### Risks Related to Our Strategy and Growth

- We are an early-stage financial technology company with a limited operating history and a history of operating losses.
- Our business depends on our ability to increase our merchant network, our base of consumers and UMS.
- Our ability to effectively manage growth.
- Our ability to maintain market share.
- We may not be able to sustain our growth rate.
- Our ability to comply with business and regulatory risks associated with international expansion of our operations.
- We may require additional capital.
- We may not realize any or all of our estimated costs savings or benefits from our recently announced workforce reduction plan.

### Risks Related to Our Financing Program

- Consumers may not treat their BNPL product loans with the same significance as other financial obligations.
- Merchants may fail to fulfill their obligations to consumers or comply with applicable law.
- Internet-based loan origination processes may give rise to greater risks than paper-based processes.
- Exposure to consumer bad debts and insolvency of merchants may adversely impact our financial success.
- Our ability to comply with the applicable requirements of payment processors.

## Risks Related to Our Technology and the Sezzle Platform

- The integration, support and prominent presentation of our platform by our merchants.
- Unanticipated surges or increases in transaction volumes.
- The occurrence of data security breaches, cyberattacks, employee or other internal misconduct, malware, phishing or ransomware, physical security breaches, natural disasters, or similar disruptions.
- Real or perceived software failures or outages.
- Disruption in service on our platform that prevents us from processing transactions.
- Fraudulent activities occurring on our platform.

## Other Risks Related to Our Business

- The failure of key vendors or merchants to comply with legal or regulatory requirements or to provide various services that are important to our operations.
- The loss of key partners and merchant relationships.
- Changes in market interest rate and the replacement of LIBOR.
- Exchange rate fluctuations in the international markets in which we operate.
- Our ability to protect our intellectual property rights.
- The loss of licenses or any quality issues with third-party technology that support our business operations or are integrated with our products or services.
- Our inability to retain employees or recruit additional employees.

## Risks Related to Our Regulatory Environment

- The costs of complying with various laws and regulations applicable to the BNPL industry in the United States and Canada.
- We are subject to various laws in the United States and Canada concerning lending programs, consumer finance and consumer protection and in other jurisdictions into which we are expanding.
- Litigation, regulatory actions, and compliance issues could subject us to increased costs.
- Stringent and changing laws and regulations relating to privacy and data protection could result in claims, harm our results of operations, financial condition, and prospects, or otherwise harm our business.
- Failure to operate without obtaining necessary licenses.
- Violating applicable state lending or other laws.

## Risks Related to Our Corporate Structure

- Our existing major stockholders own a large percentage of our stock and can exert significant influence over us.
- Failure to maintain effective internal control over financial reporting or disclosure controls may adversely affect our ability to report our financial results in a timely and accurate basis.
- We are an “emerging growth company,” and the reduced U.S. public company reporting requirements applicable to emerging growth companies may make our shares of common stock less attractive to investors.
- We have and will continue to incur significant costs and are subject to additional regulations and requirements as a public company in both Australia and the United States.
- As a public benefit corporation, we cannot provide any assurance that we will achieve our public benefit purpose or that producing a positive effect for society will benefit us.
- As a public benefit corporation, our focus on a public benefit purpose may negatively impact our financial condition.
- Our directors have a fiduciary duty to consider not only our stockholders’ interests, but also our specific public purpose and the interests of other stakeholders affected by our actions.
- Increased derivative litigation concerning our duty to balance stockholder and public benefit interest.
- If our ability to maintain our certification as a B Corporation or our publicly reported B Corporation score declines, our reputation could be harmed and our business could be adversely affected.

## RISKS RELATED TO THE PROPOSED MERGER WITH ZIP CO LIMITED

**Certain conditions under the Zip Merger Agreement to our consummation of the merger with a wholly-owned subsidiary of Zip are beyond our control may not be satisfied (or waived) at all or in the anticipated timeframe.**

Under the terms of the Zip Merger Agreement, the consummation of our merger with a wholly-owned subsidiary of Zip is subject to certain conditions. Satisfaction of certain of the conditions is not within our control, and difficulties in otherwise satisfying the conditions may prevent, delay or otherwise materially adversely affect the consummation of the transaction. It also is possible that a change, event, development, circumstance or occurrence since the date of the Zip Merger Agreement may have or reasonably be expected to have a material adverse effect on us, the non-occurrence of which is a condition to the consummation of the merger. We cannot predict with certainty whether and when any of the required conditions will be satisfied (including approvals relating to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and certain Australian approvals). If the merger does not receive, or timely receive, the required regulatory and shareholder approvals and clearances, or if another event occurs delaying or preventing the transaction, such delay or failure to complete the merger may create uncertainty or otherwise have negative consequences that may materially and adversely affect our income, financial condition and results of operations. Our share price may also fluctuate significantly based on announcements made by Zip and other third parties or us regarding the transaction with Zip or based on market perceptions of the likelihood of the satisfaction of the various conditions to closing. Such announcements may lead to perceptions in the market that the transaction may not be completed, which could cause our share price to fluctuate or decline. If we do not consummate the transaction with Zip, the price of our shares may decline (potentially significantly) from the current market price, which may reflect a market assumption that the transaction would be consummated. Any of these events could have a material adverse effect on our business, operating results and financial condition and could cause a decline in the price of our shares.

If the merger is not completed by November 28, 2022 (subject to a mutual right to extend the termination date until February 28, 2023 under certain circumstances), either we or Zip have the right to terminate the Zip Merger Agreement. We or Zip may also elect to terminate the Zip Merger Agreement in certain other circumstances. If the proposed acquisition is not completed, we would remain liable for significant transaction costs, including the potential payment of a termination fee to Zip under certain circumstances.

**The merger consideration payable to holders of our shares will not be adjusted for change in our business, assets, liabilities, prospects, outlook, financial condition or results of operations. In addition, certain factors could affect the value of Zip's common stock, which would affect the value realized by our stockholders in connection with the proposed merger.**

The consideration payable to our shareholders in connection with the transaction with Zip will not be adjusted for changes in our business, assets, liabilities, prospects, outlook, financial conditions or results of operations. Pursuant to the Zip Merger Agreement, upon the consummation of the proposed merger, our stockholders will be entitled to receive 0.98 Zip ordinary shares for each share of our common stock they hold. A variety of factors, including factors outside of our control, could affect the value of Zip's ordinary shares either before or after the consummation of the proposed merger. Additionally, if we experienced an improvement in our business, assets, liabilities, prospects, outlook, financial conditions or results of operations prior to the consummation of the transaction, there will be no adjustment to the amount of the consideration.

**While the proposed merger is pending, we are subject to business uncertainties and contractual restrictions that could disrupt our business.**

Whether or not the proposed merger is consummated, the proposed merger may disrupt our current plans and operations, which could have an adverse effect on our business and financial results. The pendency of the merger may also divert management's attention and our resources from ongoing business and operations and our employees and other key personnel may have uncertainties about the effect of the pending merger, and the uncertainties may impact our ability to retain, recruit and hire key personnel while the merger is pending or if it fails to close. We may incur unexpected costs, charges or expenses resulting from the merger. Furthermore, we cannot predict how our business partners and merchants will view or react to the merger upon consummation. If we are unable to reassure our partners and merchants to continue their relationships with us, our business, financial condition and results of operations may be adversely affected.

The preparations for integration between us and Zip have placed, and we expect will continue to place, a significant burden on many of our key employees and on our internal resources. If, despite our efforts, key employees depart because of these uncertainties and burdens, or because they do not wish to remain with the combined company, our business and results of operations may be adversely affected. In addition, whether or not the merger is consummated, while it is pending we will continue to incur costs, fees, expenses and charges related to the proposed merger, which may materially and adversely affect our financial condition and results of operations.

In addition, the Zip Merger Agreement generally requires us to operate our business in the ordinary course of business consistent with past practice pending consummation of the merger and also restricts us from taking certain actions without the consent of Zip. Such restrictions will be in place until either the merger is consummated or the Zip Merger Agreement is terminated. A breach of these covenants could result in termination of the Zip Merger Agreement. For these and other reasons, the pendency of the merger could adversely affect our business and results of operations.

**In the event that the proposed merger with a wholly-owned subsidiary of Zip is not consummated, the trading price of shares of our common stock and our future business and results of operations may be negatively affected.**

The conditions to the consummation of the proposed merger may not be satisfied as noted above. If the merger is not consummated, we generally would remain liable for significant transaction costs, and the focus of our management would have been diverted from seeking other potential strategic opportunities, in each case without realizing any benefits of the proposed merger. For these and other reasons, not consummating the merger could adversely affect our business and results of operations. Furthermore, if we do not consummate the merger, the price of shares of our common stock may decline (potentially significantly) from the current market price. Certain costs associated with the merger have already been incurred or may be payable even if the merger is not consummated. Further, a failed transaction may result in negative publicity and a negative impression of us in the investment community. Finally, any disruptions to our business resulting from the announcement and pendency of the merger, including any adverse changes in our relationships with our customers, partners, vendors and merchants or recruiting and retention efforts, could continue or accelerate in the event of a failed merger.

**The Zip Merger Agreement contains provisions that could make it difficult for a third party to acquire us prior to the completion of the proposed merger.**

The Zip Merger Agreement contains restrictions on our ability to obtain a third-party proposal for an acquisition of us. These provisions include our agreement not to solicit or engage in discussions with third parties regarding, enter into any agreement with respect to, or provide any confidential information in respect of, any Acquisition Proposal (as defined in the Zip Merger Agreement) or an IPO (as defined in the Merger Agreement), as well as restrictions on our ability to respond to such proposals, subject to certain expectations with respect to the fiduciary duties of our board of directors, among other conditions set forth in the Zip Merger Agreement. The Zip Merger Agreement also provides that under specified circumstances, including if the Merger Agreement is terminated by Zip because our board of directors changes its recommendation for approval of the merger, we may be required to pay to Zip a termination fee of A\$7,800,000. These provisions might discourage an otherwise-interested third-party from considering or proposing an acquisition of us, even if it were prepared to pay consideration with a higher per share cash or market value than the market value proposed to be received or realized in the transaction. These provisions also might result in a potential third party acquirer proposing to pay a lower price to our shareholder than it might otherwise have proposed to pay due to the added expense of the A\$7,800,000 termination fee than may become payable in certain circumstances. If the agreement is terminated and we determine to seek another business combination, we may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the transaction with Zip.

**Shareholder litigation could prevent or delay the closing of the proposed acquisition by Zip or otherwise negatively impact our business, operating results and financial condition.**

We may incur costs in connection with the defense or settlement of any future shareholder litigation in connection with the proposed transaction with Zip. Future shareholder litigation may adversely affect our ability to complete the proposed transaction with Zip. We could incur significant costs in connection with any such litigation lawsuits, including costs associated with the indemnification of obligations to our directors. Furthermore, one of the conditions to the closing of the transaction is the absence of any governmental order or law preventing the transaction or making the consummation of the transaction illegal. Consequently, if a plaintiff were to secure injunctive or other relief prohibiting, delaying or otherwise adversely affecting our ability to complete the proposed transaction, then such injunctive or other relief may prevent the proposed transaction from becoming effective within the expected time frame or at all.

## RISKS RELATED TO OUR INDUSTRY

**The BNPL industry may become subject to increased regulatory scrutiny, and our failure to manage our business to comply with new regulations would materially and adversely affect our business, results of operations and financial condition.**

There has recently been an increased focus and scrutiny by regulators in various jurisdictions with respect to BNPL arrangements, including in those jurisdictions in which we operate. There is potential that we may become subject to additional legal or regulatory requirements if laws or regulations change in the future, the interpretation of laws and regulations changes in the future, industry standards for BNPL arrangements change in the future, or regulators more heavily scrutinize BNPL arrangements. This increased risk may relate to state lending licensing or other state licensing or registration requirements, regulatory requirements concerning BNPL arrangements, consumer protection or consumer finance matters, or similar limitations on the conduct of our business. There is a risk that additional or changed legal, regulatory and industry compliance standards may make it economically unfeasible for us to continue to operate, or to expand in accordance with our strategy. This would likely have a material adverse effect on our business, results of operations and financial condition, including by preventing our business from reaching sufficient scale.

**We operate in a highly competitive industry, and our inability to compete successfully would materially and adversely affect our business, results of operations, financial condition, and prospects.**

We operate in a highly competitive and dynamic industry with a low barrier to entry, which makes increased competition more likely. Our technology platform faces competition from a variety of existing businesses and new market entrants, including competitors with BNPL products and those who enable transactions and commerce via digital payments.

Despite any competitive advantage we may have, there is always a risk of new entrants in the market, which may disrupt our business and decrease our market share. We expect competition to intensify in the future, both as emerging technologies continue to enter the marketplace and as large financial incumbents increasingly seek to innovate the services that they offer to compete with our products. Technological advances and the continued growth of e-commerce activities have increased consumers' accessibility to products and services and led to the expansion of competition in digital payment options such as pay-over-time solutions. We face competition in areas such as: flexibility on payment options; duration, simplicity, and transparency of payment terms; reliability and speed in processing applications; underwriting effectiveness; compliance and security; promotional offerings; fees; approval rates; ease-of-use; marketing expertise; service levels; products and services; technological capabilities and integration; customer service; brand and reputation; and consumer and merchant satisfaction. In addition, it may become more difficult to distinguish our platform, and products and services, from those of our competitors.

Some of our competitors are substantially larger than we are, which gives those competitors advantages we do not have, such as a more diversified product, a broader consumer and merchant base, the ability to reach more consumers, the ability to cross sell their products, operational efficiencies, the ability to cross-subsidize their offerings through their other business lines, more versatile technology platforms, the ability to acquire competitors, broad-based local distribution capabilities, and lower-cost funding. Our competitors may also have longer operating histories, more extensive and broader consumer and merchant relationships, and greater brand recognition and brand loyalty than we have. For example, more established companies that possess large, existing consumer and merchant bases, substantial financial resources, and established distribution channels could enter the market. Further, consumers' increased usage of BNPL platforms in recent years may encourage more of such competitors that may be in a better position, due to financial and other resources, to attract merchants and customers to their platforms.

Increased competition, particularly for large, well-known merchants, has in the past resulted and will result in the need for us to alter the pricing we offer to merchants. If we are unable to successfully compete, the demand for our platform and products could stagnate or substantially decline, and we could fail to retain or grow the number of consumers or merchants using our platform, which would reduce the attractiveness of our platform to other consumers and merchants, and which would materially and adversely affect our business, results of operations, financial condition, and prospects.

## **Economic conditions may adversely impact consumer demand for the merchandise and products on our platform, which could adversely impact our business, results of operations and financial condition.**

Our business depends on consumers transacting with merchants, which in turn can be affected by changes in general economic conditions. For example, the retail sector is affected by economic conditions such as unemployment, consumer confidence, economic recessions, consumer debt, the availability of consumer credit, inflation and deflation, currency exchange rates, taxation, fuel and energy prices and interest rates, downturns or extended periods of uncertainty or volatility, all of which may influence consumer spending. In weaker economic environments, consumers may have less disposable income to spend and so may be less likely to purchase merchandise by utilizing our services. Alternatively, consumers may purchase merchandise but become unable to repay loans, which would result in an increase of loans that will not be paid on time or at all. Furthermore, the COVID-19 pandemic has had, and continues to have, a significant impact on the U.S. and global economy and the communities in which we operate. While the COVID-19 pandemic's effect on the macroeconomic environment has yet to be fully determined and could continue for months or years, any prolonged economic downturn with sustained high unemployment rates would lead to decreased retail consumption and may materially decrease our transaction volume or increase defaults and delinquencies.

Some of our merchants have experienced a decrease in sales, supply chain disruptions, inventory shortages, and other adverse effects as a result of the COVID-19 pandemic, and the future impact of the COVID-19 pandemic remains uncertain. Such effects, if they continue for a prolonged period, may continue to have an adverse effect on our merchants, and would have a material adverse effect on our business, results of operations, financial condition, and prospects. In the short term, however, we have seen increased Sezzle Income since the outbreak of the COVID-19 pandemic. These results may not be indicative of results for future periods. Some of the increased demand could be due to consumers being required or encouraged to stay at home, school closures and employers requiring employees to work remotely, which increase their propensity to purchase goods over the internet. Our increased Sezzle Income during the COVID-19 pandemic could also be attributable to the timing of tax refunds in the United States and COVID-related stimulus payments. Much is unknown, including the duration and severity of the COVID-19 outbreak, the amount of time it will take for normal economic activity to resume if at all, and future government actions that may be taken, and accordingly the situation remains dynamic and subject to rapid and possibly material change, including but not limited to changes that may materially affect the operations of our merchants and partners, which ultimately could result in material adverse effects on our business, results of operations and financial condition.

## **Negative publicity about us or our industry could adversely affect our business, results of operations, financial condition, and prospects.**

Negative publicity about us or our industry, including the transparency, fairness, user experience, quality, and reliability of our platform or point-of-sale lending platforms in general, the effectiveness of our risk model, the setting and charging of merchant and consumer fees, our ability to effectively manage and resolve complaints, our privacy and security practices, litigation, regulatory activity, misconduct by our employees, funding sources, originating bank partners, service providers, or others in our industry, the experience of consumers and investors with our platform or services or point-of-sale lending platforms in general, or use of loan proceeds by consumers that have obtained loans facilitated through our platform or other point-of-sale lending platforms for illegal purposes, even if inaccurate, could adversely affect our reputation and the confidence in, and the use of, our platform. Any such reputational harm could further affect the behavior of consumers, including their willingness to obtain loans facilitated through our platform or to make payments on their loans. As a result, our business, results of operations, financial condition, and prospects would be materially and adversely affected.

## RISKS RELATED TO OUR STRATEGY AND GROWTH

### **We are an early-stage financial technology company with a limited operating history and a history of operating losses, and we may not achieve profitability in the future.**

We are an early stage financial technology company with a limited operating history. Since launching the Sezzle Platform in August 2017, our activities have principally involved raising money to develop our software, products and services (including the Sezzle Platform), as well as adding merchants to the Sezzle Platform and expanding our service offerings to an increasing base of consumers. Similar to many early stage companies, we have incurred losses since our inception. We anticipate that our operating expenses will increase in the foreseeable future as we seek to continue to grow our business, attract new consumers, merchants, funding sources, and additional originating bank partners, and further enhance and develop our products and platform. As we expand our offerings to additional markets, our offerings in these markets may be less profitable than the markets in which we currently operate. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing Sezzle Income sufficiently to offset these higher expenses. We expect to incur additional net losses in the future and may not achieve profitability on a quarterly or annual basis.

### **Our business depends on our ability to retain and increase our merchant base, our base of consumers and UMS, and any failure to do so may have a material adverse effect on our business and results of operations.**

We generate Sezzle Income when consumers pay with Sezzle at checkout in e-commerce transactions with our merchants. If we are not able to continue to retain and grow our merchant network, our base of consumers or volume of transactions, which we measure as UMS, we will not be able to sustain our business. Our continued success is dependent on our ability to expand our merchant base and to grow our merchants' revenue, or UMS, on our platform. We derive Sezzle Income primarily from merchant fees earned from our merchant partners in the form of Merchant Discount Rate, which is generally charged as a percentage of the transaction volume on our platform. If we are not able to continue to retain and grow our consumer base, we will not be able to increase transaction volumes.

Our ability to retain and grow our consumer relationships depends on the willingness of consumers to use our platform and products. The attractiveness of our platform to consumers depends upon, among other things, the number and variety of merchants and the mix of products available through our platform, our brand and reputation, consumer experience and satisfaction, consumer trust and perception of our solutions, technological innovation, and the type and quality of services and products offered by us and by our competitors.

We will not be able to continue to attract new consumers or grow our business unless we are able to attract additional merchants and to expand revenue and volume of transactions from existing merchants. The attractiveness of our platform to merchants depends upon, among other things: the size of our consumer base; our brand and reputation; the amount of merchant fees that we charge; the promotional marketing incentives we may offer; our ability to sustain our value proposition to merchants for consumer acquisition by demonstrating higher conversion at checkout and increased AOV; the attractiveness to merchants of our technology and data-driven platform; services and products offered by competitors; our availability and prominence as a payment method on e-commerce platforms such as Shopify, WooCommerce, BigCommerce and Wix.com; and our ability to perform under our merchant agreements.

If we fail to maintain our relationships with existing consumers and merchant partners, or if we do not attract a diverse mix of merchant partners or new consumers to our platform, then our business, results of operations, financial condition, and prospects likely would be materially and adversely affected.

### **If we fail to retain existing merchants or acquire new merchants in a cost-effective manner, our business, financial condition, and results of operations could be adversely affected.**

We believe that growth of our business is dependent on our ability to continue to cost-effectively grow our platform by retaining our existing merchants and attracting new merchants. In particular, our partnerships with larger merchants and merchants with a high degree of brand recognition are a key component of our strategy to provide a wide and attractive selection for consumers. If we fail to retain our existing merchants, especially our most popular and larger merchants, or acquire new larger merchants, the value of our platform would be negatively impacted.



We face intense competitive pressure on the fees we charge our merchants, particularly our larger merchants. In order to stay competitive, we may need to adjust our pricing or offer incentives to our clients to increase payments volume, enter new market segments, adapt to regulatory changes, and expand their use and acceptance of the Sezzle Platform. These include up-front cash payments, fee discounts, rebates, credits, performance-based incentives, marketing, and other support payments that impact our revenues and profitability. Market pressures on pricing, incentives, fee discounts, and rebates could moderate our growth. We expect to continue to incur substantial expenses to acquire additional merchants, particularly larger merchants that we believe will make our platform more attractive to consumers. These merchant partnership cost structures may not be cost-effective for us and we cannot assure you that the revenue we generate from the merchants we acquire will ultimately exceed the cost of adding them to our platform. We have entered into merchant agreements that require us to make marketing, incentive or other payments to the merchant over the terms of the agreement, which are typically one to three years. Certain agreements also contain provisions that may require payments by us and are contingent on us and/or the merchant meeting specified criteria, such as achieving volume targets and implementation benchmarks. If we are not able to implement cost savings and productivity initiatives in other areas of our business or increase our volumes in other ways to offset or absorb the financial impact of these incentives, fee discounts, and rebates, we may be prevented from reaching profitability.

In addition if we are unable to fulfill our obligations under these merchant agreements, including any payments we have agreed to make with merchants, the merchant may terminate such agreement or determine not to renew and remain on our platform, which could have a negative impact on our business, results of operations and financial condition.

**We may not be able to sustain Sezzle Income growth rate, or our growth rate of related key operating metrics, in the future, and failure to effectively manage growth may adversely affect our financial results.**

Although we have experienced a period of strong growth in Sezzle Income, UMS, employee numbers and consumers, there can be no assurances that such growth will continue at our current rate or at all. Many factors may contribute to a decline in Sezzle Income growth rate, including increased competition, slowing demand for our products from existing and new consumers, changes in transaction volumes and mix (particularly with our significant merchant partners), lower sales by our merchants (particularly those with whom we have significant relationships), general economic conditions, a failure by us to continue capitalizing on growth opportunities, changes in the regulatory environment and the maturation of our business, among others. You should not rely on the Sezzle Income or key operating metrics for any prior quarterly or annual period as an indication of our future performance. If Sezzle Income growth rate declines, our results of operations and financial condition could be materially and adversely affected.

In addition, a continuation of this growth in the future could place additional pressures on current management, as well as corporate, operational and finance other resources within our business, and on the infrastructure supporting the Sezzle Platform. Failure to appropriately manage growth could result in failure to retain existing consumers and attract new consumers, as well as contract with new merchants, which could adversely affect our operating results and financial condition.

**If we fail to promote, protect, and maintain our brand in a cost-effective manner, we may lose market share and our results of operations and financial condition may be negatively impacted.**

We believe that developing, protecting, and maintaining awareness of our brand in a cost-effective manner is critical to attracting new and retaining existing merchants and consumers to our platform. As competition intensifies, we believe that positive consumer recognition is an important factor in our financial performance. We cannot guarantee that our brand development strategies will accelerate the recognition of our brand or increase Sezzle Income. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts and incentives and the experience of merchants and consumers. Our brand promotion activities may not result in increased Sezzle Income and, even if they do, any increases may not offset the expenses incurred. Additionally, the successful protection and maintenance of our brand will depend on our ability to obtain, maintain, protect, and enforce trademark and other intellectual property protection for our brand. If we fail to successfully promote, protect, and maintain our brand or if we incur substantial expenses in an unsuccessful attempt to promote, protect, and maintain our brand, we may lose our existing merchants and consumers to our competitors or be unable to attract new merchants and consumers. Any such loss of existing merchants or consumers, or inability to attract new merchants or consumers, would have a material adverse effect on our business and results of operations.

In recent years, there has been a marked increase in the use of social media platforms, including blogs, chat platforms, social media websites, and other forms of internet-based communications that allow individuals access to a broad audience of consumers and other persons. The rising popularity of social media and other consumer-oriented technologies has increased the speed and accessibility of information dissemination and given users the ability to more effectively organize collective actions such as boycotts and other brand-damaging behaviors. The dissemination of information via social media could harm our brand or our business, regardless of the information's accuracy. This could include negative publicity related to our products or services or negative publicity related to actions taken (or not taken) by us or our executives, team members, employees, partner merchants, or other individuals or entities that may be perceived as being associated with us. Such negative publicity may relate to actions taken (or not taken) with respect to social, environmental, and community outreach issues and initiatives, including in connection with our status as a public benefit corporation and our certification as a B Corporation. Our inability or failure to recognize, respond to, and effectively manage the accelerated impact of social media could adversely impact our business. In addition, we use social media and other internet-based communications methods to communicate with our end-users, customers, partners and the public in general. Failure to use social media or other internet-based communication methods effectively could lead to a decline in our reputation. Further, laws and regulations, including associated enforcement priorities, rapidly evolve to govern social media platforms and other internet-based communications. Any failure by us or third parties acting at our direction to abide by applicable laws and regulations in the use of social media or internet-based communications could adversely impact our reputation or financial performance or subject us to fines or other penalties. Other risks associated with the use of social media and internet based-communication include improper disclosure of proprietary information, negative comments about our brand, products, or services, exposure of personally identifiable information, fraud, hoaxes, or malicious dissemination of false information.

Moreover, because our brand is directly associated with the brands of so many other companies by virtue of our business model and the integration of our platform with those of our partner merchants, there is a risk that we could be adversely affected by negative publicity that our partner merchants experience and that is beyond our control. The negative publicity could involve any manner of conduct and relate to any number of subjects, and even the mere perception of our involvement could dilute or tarnish or otherwise adversely affect our reputation, and could contribute to diminished financial performance.

### **There are a number of risks associated with our international operations that could materially and adversely affect our business.**

We primarily operate in the United States and have operations in Canada, India, Brazil, and certain countries in Europe. We are currently evaluating our future plans in international markets and may determine to exit markets outside of North America. Our international markets could be adversely affected by a number of factors in the future, including:

- the ongoing impact of corporate and government response to the COVID-19 pandemic;
- currency controls, new currency adoptions and repatriation issues;
- changes in political and economic conditions and potential instability in certain regions, including in particular the recent civil unrest, terrorism, political turmoil and economic uncertainty in Africa, the Middle East, Eastern Europe and other regions;
- possible fraud or theft losses, and lack of compliance by international representatives in foreign legal jurisdictions where collection and legal enforcement may be difficult or costly;
- reduced or no protection of our intellectual property rights;
- unfavorable tax rules or trade barriers;
- inability to secure, train or monitor international agents;
- conformity of our platform with applicable business customs, including translation into foreign languages and associated expenses;
- potential changes to our established business model;
- the need to support and integrate with local vendors and service providers;
- protection of our platform from cybersecurity threats and data privacy breaches;
- competition with vendors and service providers that have greater experience in the local markets than we do or that have pre-existing relationships with potential consumers, merchants and investors in those markets; and
- difficulties in staffing and managing foreign operations in an environment of diverse culture, laws, and consumers and merchants, and the increased travel, infrastructure, and legal and compliance costs associated with international operations.

In addition, international operations may continue to expose us to numerous regulatory risks. We are subject to regulations relating to our corporate conduct and the conduct of our business, including securities laws, consumer protection laws, trade regulations, advertising regulations, privacy and cybersecurity laws, wage and hour regulations, anti-money laundering (“AML”) laws and anti-corruption legislation. Certain jurisdictions have taken aggressive stances with respect to such matters and have implemented new initiatives and reforms, including more stringent regulations, disclosure and compliance requirements. Any violations of these regulations and requirements would likely have a material and adverse impact on our business and results of operations.

### **We may require additional capital.**

We may require additional funding to support the provision of installments plans to consumers and working capital. There can be no assurance that such goals can be met without further financing and whether such financing, if necessary, can be obtained on favorable terms or at all.

If we require additional capital to grow our business, we may rely on a combination of funding options including equity and our existing and new revolving credit facilities. An inability to raise capital through the issuance of equity securities or secure funding through new credit facilities, or any increase in the cost of such funding, may adversely impact our ability to grow our business. Failure by us to meet financial covenants under the credit agreement governing our existing revolving credit facility, or the occurrence of other specified events, may lead to an event of default. If an event of default were to occur, we may be required to make repayments under the credit facility in advance of the relevant maturity dates and/or termination of the credit facility, which would likely have an adverse impact on our business, results of operations and financial condition.

Our existing revolving credit facility is secured by our consumer notes receivable we choose to pledge and is subject to covenants. Fifty percent of the total available funding facility (\$125,000,000) is committed while the remaining fifty percent is available to us for expanding our funding capacity. Thus, a significant portion of our funding capacity is in part dependent on our accounts receivable, which can be volatile and, at times, at levels low enough to result in our inability to draw down on this part of the credit facility. Any material decrease in our accounts receivable could negatively impact our liquidity, which would have an adverse effect on our business, results of operations, and financial condition. In addition, it is possible that our transaction volume will outpace our ability to finance transactions if we do not have sufficient borrowing capacity under our credit facility, which in turn could result in a material adverse effect on our results of operations and financial condition.

### **We may not realize any or all of our estimated costs savings or benefits from our recently announced workforce reduction plan.**

On March 10, 2022, we announced a reduction of our workforce that, when considered with normal attrition during the beginning of 2022, impacted approximately 20% of our North American workforce. We may not realize all or any of the anticipated costs savings and benefits from the workforce reduction. In addition, any cost savings that we realize may be offset by reductions in revenues or through increases in other expenses. If we are unable to achieve the expected efficiency and cost savings from the workforce reduction, or if we need to consider further reductions in workforce, our business and results of operations may be adversely affected.

## **RISKS RELATED TO OUR FINANCING PROGRAM**

### **Consumers may not view or treat their BNPL product loans as having the same significance as other obligations, and the loans facilitated through our platform are not secured, guaranteed, or insured and involve a high degree of financial risk.**

Consumers may not view the BNPL product loans facilitated through our platform as having the same significance as a loan or other credit obligation arising under more traditional circumstances. If a consumer neglects his or her payment obligations on a BNPL product loan facilitated through our platform or chooses not to repay his or her loan entirely, it will have an adverse effect on our business, results of operations, financial condition, prospects, and cash flows.

Personal loans facilitated through our platform are not secured by any collateral, not guaranteed or insured by any third-party, and not backed by any governmental authority in any way. Therefore, we are limited in our ability to collect on these loans if a consumer is unwilling or unable to repay them. A consumer's ability to repay their loans can be negatively impacted by increases in their payment obligations to other lenders under mortgage, credit card, and other debt obligations resulting from increases in base lending rates or structured increases in payment obligations. If a consumer defaults on a loan, we may be unsuccessful in our efforts to collect the amount of the loan. We may also be required to pay credit card processing costs for transactions that we fail to collect loans on from our consumers. Our originating bank partners could decide to originate fewer BNPL product loans through our platform. An increase in defaults precipitated by these risks and uncertainties could have a material adverse effect on our business, results of operations, financial condition, and prospects.

### **If our merchants fail to fulfill their obligations to consumers or comply with applicable law, we may incur costs.**

Although our merchants are obligated to fulfill their contractual commitments to consumers and to comply with applicable law from time to time, they might not, or a consumer might allege that they did not. This, in turn, can result in claims or defenses against us or any subsequent holder of our installment agreements. One such claim or defense could be pursuant to a term included in our installment agreement, which we refer to as our user agreement, that is pursuant to the Federal Trade Commission's Holder in Due Course Rule. The term provides that the holder of the consumer credit contract, in our case the user agreement, is subject to all claims and defenses which the debtor could assert against the seller of goods or services that were obtained with the proceeds of the consumer credit contract. If merchants fail to fulfill their contractual or legal obligations to consumers, it may also negatively affect our reputation with consumers thereby negatively affecting our business. Federal and state regulatory authorities may also bring claims against us, including unfair and deceptive acts or practices ("UDAP") or unfair, deceptive or abusive acts or practices ("UDAAP") claims, if we fail to provide consumer protections relating to potential merchants actions or disputes.

### **Internet-based loan origination processes may give rise to greater risks than paper-based processes.**

We use the internet to obtain application information and distribute certain legally required notices to applicants for loans, and to obtain electronically signed loan documents in lieu of paper documents with tangible consumer signatures. These processes entail additional risks relative to paper-based loan underwriting processes and procedures, including risks regarding the sufficiency of notice for compliance with consumer protection laws, risks that consumers may challenge the authenticity of loan documents or the validity of electronic signatures and records, and risks that, despite internal controls, unauthorized changes are made to the electronic loan documents.

### **Exposure to consumer bad debts and insolvency of merchants may adversely impact our financial success.**

Our ability to generate profits depends on our ability to put in place and optimize our systems and processes to make predominantly accurate, real-time decisions in connection with the consumer transaction approval process. We do not ordinarily perform credit checks on consumers in connection with the application process, unless consumers join our "Sezzle Up" platform to build their credit and boost their spending power. Consumer non-payment is a major component of our expenses at present, and we are exposed to consumer bad debts as a normal part of our operations because we absorb the costs of all uncollectible notes receivables from our consumers. We calculate our provision for uncollectible accounts on notes receivable on an expected loss basis. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Our ability to collect on loans is dependent on the consumer's continuing financial stability, and consequently, collections can be adversely affected by a number of factors, including job loss, divorce, death, illness, or personal bankruptcy. It is possible that a higher percentage of consumers will seek protection under bankruptcy or debtor relief laws as a result of financial and economic disruptions related to the COVID-19 pandemic than is reflected in our historical experience. Excessive exposure to bad debts as a result of consumers failing to repay outstanding amounts owed to us may materially and adversely impact our results of operations and financial position.

We also have exposure to the potential insolvency of merchants to which we have advanced funds. Exposure occurs in the period of time between the advance of funds to a merchant for a consumer's purchase of goods, and the retail merchant shipping the goods to the consumer (at which point we are entitled to payment from the consumer). While this period of risk is typically only a short period of time, it is still a period that we are exposed to the risk that merchants will be unable to repay the funds we have advanced to them. As the merchants on our platform continue to grow, so does the amount of funds that may be advanced by us. The failure by merchants to repay these funds may result in a material adverse effect to our results of operations and financial position.

**If we fail to comply with the applicable requirements of Visa or other payment processors, those payment processors could seek to fine us, suspend us or terminate our registrations, which could have a material adverse effect on our business, results of operations, financial condition, and prospects.**

We partially rely on card issuers or payment processors, and must pay a fee for this service. From time to time, payment processors such as Visa may increase the interchange fees that they charge for each transaction using one of their cards. The payment processors routinely update and modify their requirements. Changes in the requirements, including changes to risk management and collateral requirements, may impact our ongoing cost of doing business and we may not, in every circumstance, be able to pass through such costs to our merchants or associated participants. Furthermore, if we do not comply with the payment processors' requirements (e.g., their rules, bylaws, and charter documentation), the payment processors could seek to fine us, suspend us or terminate our registrations that allow us to process transactions on their networks. Some payment processors may also choose not to support BNPL solutions and the credit cards they issue therefore cannot be linked to pay for purchases made through BNPL entities, including Sezzle. The termination of our registration due to failure to comply with the applicable requirements of Visa or other payment processors, or any changes in the payment processors' rules that would impair our registration, could require us to stop providing payment services to Visa or other payment processors, which could have a material adverse effect on our business, results of operations, financial condition, and prospects. We are also subject to the Payment Card Industry Data Security Standard ("PCI DSS") with respect to the acceptance of payment cards. PCI DSS sets forth security standards relating to the processing of cardholder data and the systems that process such data, and a failure to adhere to these standards can result in fines, limitations on our ability to process payment cards, and impact to our relationship with our merchant partners and their own ability to comply with PCI DSS.

## **RISKS RELATED TO OUR TECHNOLOGY AND THE SEZZLE PLATFORM**

**Our results depend on integration, support, and prominent presentation of our platform by our merchants.**

We use and rely on integration with third-party systems and platforms, particularly websites and other systems of our merchants. The success of our services, and our ability to attract additional consumers and merchants, depends on the ability of our technology and systems to integrate into, and operate with, these various third-party systems and platforms. In addition, as these systems and platform are regularly updated, it is possible that when such updates occur it could cause our services to operate inefficiently. This will likely require us to change the way we operate our systems and platform, which may take time and expense to remedy.

We also depend on our merchants, which generally accept most major credit cards and other forms of payment, to present our platform as a payment option, such as by prominently featuring our platform on their websites or in their stores and not just as an option at website checkout. We do not have any recourse against merchants when they do not prominently present our platform as a payment option. The failure by our merchants to effectively integrate, support, and present our platform would likely have a material adverse effect on our business, results of operations and financial condition.

**Unanticipated surges or increases in transaction volumes may adversely impact our financial performance.**

Continued increases in transaction volumes may require us to expand and adapt our network infrastructure to avoid interruptions to our systems and technology. Any unanticipated surges or increases in transaction volumes may cause interruptions to our systems and technology, reduce the number of completed transactions, increase expenses, and reduce the level of customer service, and these factors could adversely impact our reputation and, thus, diminish consumer confidence in our systems, which may result in a material adverse effect on our business, results of operations and financial condition.

**Data security breaches, cyberattacks, employee or other internal misconduct, malware, phishing or ransomware, physical security breaches, natural disasters, or similar disruptions could occur and would materially adversely impact our business or ability to protect the confidential information in our possession or control.**

Through the ordinary course of business, we collect, store, process, transfer, and use (collectively, "process") a wide range of confidential information, including personally identifiable information, for various purposes, including to follow government regulations and to provide services to our users and merchants. The information we collect may be sensitive in nature and subject to a variety of privacy, data protection, cybersecurity, and other laws and regulations. Due to the sensitivity and nature of the information we process, we and our third-party service providers are the target of, defend against and must regularly respond to cyberattacks, including from malware, phishing or ransomware, physical security breaches, or similar attacks or disruptions. Cyberattacks and similar disruptions may compromise or breach the Sezzle Platform and the protections we use to try to protect confidential information in our possession or control. Breaches of the Sezzle Platform or other Sezzle systems could result in the criminal or unauthorized use of confidential information and could negatively affect our users and merchants and, because the techniques for conducting cyberattacks are constantly evolving and may be supported by significant financial and technological resources (e.g., state-sponsored actors), we may be unable to anticipate these techniques, react in a timely manner, or implement adequate preventative or remedial measures. These risks also reside with third party service providers and partners with whom we conduct business. Our business could be materially and adversely impacted by security breaches of the data and information of merchants' and consumers' data and information, either by unauthorized access, theft, destruction, loss of information or misappropriation or release of confidential data.

These events may cause significant disruption to our business and operations or expose us to reputational damage, loss of consumer confidence, legal claims, civil and criminal liability, constraints on our ability to continue operation, reduced demand for our products and services, termination of our contracts with merchants or third party service providers, and regulatory scrutiny and fines, any of which could materially adversely impact our financial performance and prospects. Any security or data issues experienced by other software companies or third party service providers with whom we conduct business could diminish our customers' trust in providing us access to their personal data generally. Merchants and consumers that lose confidence in our security measures may be less willing to make payments on their loans or participate in the Sezzle Platform.

In addition, our partners include credit bureaus, collection agencies and banking parties, each of whom operate in a highly regulated environment, and many laws and regulations that apply directly to them may apply directly or indirectly to us through our contractual arrangements with these partners. Federal, state and international laws or regulators, as well as our contractual partners, may require notice in event of a security breach that involves personally identifiable information, and these disclosures may result in negative publicity, loss of confidence in our security measures, regulatory or other investigations, the triggering of indemnification and other contractual obligations, and other adverse effects to our partner ecosystem and operations. We may also incur significant costs and loss of operational resources in connection with remediating, investigating, mitigating, or eliminating the causes of security breaches, cyberattacks, or similar disruptions after they have occurred, and particularly given the evolving nature of these risks, our incident response, disaster recovery, and business continuity planning may not sufficiently address all of these eventualities. The retention and coverage limits in our insurance policies may not be sufficient to reimburse the full cost of responding to and remediating the effects of a security breach, cyberattack, or similar disruption, and we may not be able to collect fully, if at all, under these insurance policies or to ensure that the insurer will not deny coverage as to any future claim.

**Real or perceived software errors, failures, bugs, defects, or outages could adversely affect our business, results of operations, financial condition, and prospects.**

Our platform and our internal systems rely on software that is highly technical and complex. In addition, our platform and our internal systems depend on the ability of such software to store, retrieve, process, and manage immense amounts of data. As a result, undetected vulnerabilities, errors, failures, bugs, or defects may be present in such software or occur in the future in such software, including open source software and other software we license in from third parties, especially when updates or new products or services are released.

Any real or perceived vulnerabilities, errors, failures, bugs, or defects in the software may not be found until our consumers use our platform and could result in outages or degraded quality of service on our platform that could adversely impact our business (including through causing us not to meet contractually required service levels), as well as negative publicity, loss of or delay in market acceptance of our products and services, and harm to our brand or weakening of our competitive position. In such an event, we may be required, or may choose, to expend significant additional resources in order to correct the problem. Any real or perceived errors, failures, bugs, or defects in the software we rely on could also subject us to liability claims, impair our ability to attract new consumers, retain existing consumers, or expand their use of our products and services, which would adversely affect our business, results of operations, financial condition, and prospects.

We also rely on online payment gateways, banking and financial institutions for the validation of bank cards, settlement and collection of payments. There is a risk that these systems may fail to perform as expected or be adversely impacted by a number of factors, some of which may be outside our control, including damage, equipment faults, power failure, fire, natural disasters, computer viruses and external malicious interventions such as hacking, cyber-attacks or denial-of-service attacks.

**Any significant disruption in, or errors in, service on our platform or relating to vendors could prevent us from processing transactions on our platform or posting payments.**

We use vendors, such as our cloud computing web services provider, virtual card processing companies, and third-party software providers, in the operation of our platform. The satisfactory performance, reliability, and availability of our technology and our underlying network and infrastructure are critical to our operations and reputation and the ability of our platform to attract new and retain existing merchants and consumers. We rely on these vendors to protect their systems and facilities against damage or service interruptions from natural disasters, power or telecommunications failures, air quality issues, environmental conditions, computer viruses or attempts to harm these systems, criminal acts, and similar events. If our arrangement with a vendor is terminated or if there is a lapse of service or damage to its systems or facilities, we could experience interruptions in our ability to operate our platform. We also may experience increased costs and difficulties in replacing that vendor and replacement services may not be available on commercially reasonable terms, on a timely basis, or at all. Any interruptions or delays in our platform availability, whether as a result of a failure to perform on the part of a vendor, any damage to one of our vendor's systems or facilities, the termination of any of our third-party vendor agreement, software failures, our or our vendor's error, natural disasters, terrorism, other man-made problems, security breaches, whether accidental or willful, or other factors, could harm our relationships with our merchants and consumers and also harm our reputation.

In addition, we source certain information from third parties. In the event that any third-party from which we source information experiences a service disruption, whether as a result of maintenance, natural disasters, terrorism, or security breaches, whether accidental or willful, or other factors, the ability to score and decision loan applications through our platform may be adversely impacted. Additionally, there may be errors contained in the information provided by third parties. This may result in the inability to approve otherwise qualified applicants through our platform, which may adversely impact our business by negatively impacting our reputation and reducing our transaction volume.

To the extent we use or are dependent on any particular third-party data, technology, or software, we may also be harmed if such data, technology, or software becomes non-compliant with existing regulations or industry standards, becomes subject to third-party claims of intellectual property infringement misappropriation, or other violation, or malfunctions or functions in a way we did not anticipate. Any loss of the right to use any of this data, technology, or software could result in delays in the provisioning of our products and services until equivalent or replacement data, technology, or software is either developed by us, or, if available, is identified, obtained, and integrated, and there is no guarantee that we would be successful in developing, identifying, obtaining, or integrating equivalent or similar data, technology, or software, which could result in the loss or limiting of our products, services, or features available in our products or services.

These factors could prevent us from processing transactions or posting payments on our platform, damage our brand and reputation, divert the attention of our employees, reduce Sezzle Income, subject us to liability, and cause consumers or merchants to abandon our platform, any of which could have a material and adverse effect on our business, results of operations, financial condition, and prospects.

**Fraudulent activities may result in us suffering losses, causing a materially adverse impact to our reputation and results of operations.**

We are exposed to risks imposed by fraudulent conduct, including the risks associated with consumers attempting to circumvent our system and repayment capability assessments. There is a risk that we may be unsuccessful in defeating fraud attempts, resulting in a higher than budgeted costs of fraud and consumer non-payment.

We guarantee payment to merchants and accept the responsibility associated with minimizing fraudulent activity and bear all costs associated with such fraudulent activity. Fraudulent activity is likely to result in us suffering losses, which may have a material adverse impact on our reputation and cause us to bear increased costs to rectify and safeguard business operations and our systems against such fraudulent activity. Significant amounts of fraudulent cancellations or chargebacks could adversely affect our business, results of operations or financial condition. High profile or significant increases in fraudulent activity could also lead to regulatory intervention, negative publicity, and the erosion of trust from our consumers and merchants, which could result in a material adverse effect on our business, results of operations and financial condition.

## OTHER RISKS RELATED TO OUR BUSINESS

**Our vendor relationships subject us to a variety of risks, and the failure of third parties to comply with legal or regulatory requirements or to provide various services that are important to our operations could have an adverse effect on our business, results of operations and financial condition.**

We have significant vendors that, among other things, provide us with financial, technology, and other services to support our products and other activities, including, for example, cloud-based data storage and other IT solutions, and payment processing, and we could be adversely impacted to the extent our vendors fail to comply with the legal requirements applicable to the particular products or services being offered. For example, the Consumer Financial Protection Bureau ("CFPB") has issued guidance stating that institutions under its supervision may be held responsible for the actions of the companies with which they contract.

In some cases, we may be reliant on one or a limited number of vendors for critical services. Most of our vendor agreements are terminable by the vendor on little or no notice, and if our current vendors were to terminate their agreements with us or otherwise stop providing services to us on acceptable terms, we may be unable to procure alternatives from other vendors in a timely and efficient manner and on acceptable terms or at all. If any vendor fails to provide the services we require, fails to meet contractual requirements (including compliance with applicable laws and regulations), fails to maintain adequate data privacy controls and electronic security systems, or suffers a cyber-attack or other security breach, we could be subject to regulatory enforcement actions, claims from third parties, including our consumers, suffer operational outages, and suffer economic and reputational harm that could have an adverse effect on our business. Further, we may incur significant costs to resolve any such disruptions in service, which could adversely affect our business.

**The loss of key partners and merchant relationships would adversely affect our business.**

We depend on continued relationships with our current significant merchants and partners that assist in obtaining and maintaining our relationships with merchants. There can be no guarantee that these relationships will continue or, if they do continue, that these relationships will continue to be successful. Our contracts with merchants can be terminated for convenience on relatively short notice by either party, and so we do not have long-term contracted income. There is a risk that we may lose merchants for a variety of reasons, including a failure to meet key contractual or commercial requirements, or merchants shifting to in-house solutions (including providing a service competitive to us), competitor service providers. Similarly, there is a risk that e-commerce platforms with which we partner (such as Shopify, WooCommerce, BigCommerce and Wix.com) may limit or prevent Sezzle from being offered as a payment option at checkout. We also face the risk that our key partners could become competitors of our business after our key partners determine how we have implemented our model to provide our services.

Although no one merchant accounted for more than 10% of Sezzle Income for the year ended December 31, 2021, our business is still in a relatively early stage and merchant income is not as diversified as it might be for a more mature business. The loss of even a small number of our key merchants may have a material adverse effect on our results of operations and financial condition, and may be further exacerbated by an increase in marketing expenses to sign up new merchants to replace those lost, including incentive arrangements spent on lost merchants and new incentive commitments. There is also a risk that key terms with new merchants may be less favorable to us, including terms of pricing, due to unanticipated changes in our market. In addition, the loss of a key merchant may also have a negative impact on our reputation with other merchants and with consumers.



### **We rely on the accuracy of third-party data, and inaccuracies in such data will lead to reduced Sezzle Income.**

We purchase data from third parties that is critical to our assessment of the creditworthiness of consumers before they are either approved or denied funding for their purchase from a merchant. We are reliant on these third parties to ensure that the data they provide is accurate. Inaccurate data could cause us to not approve transactions that otherwise would have been approved, or instead, we may either lose Sezzle Income, or earn Sezzle Income that may lead to a higher incidence of bad debts. Our inability to collect on certain amounts from consumers due to poor creditworthiness or otherwise would likely have a material adverse effect on our results of operations and financial condition.

### **Changes in market interest rates and the replacement of LIBOR could have an adverse effect on our business.**

We offer our merchants an interest bearing program whereby merchants may defer payment from us in exchange for interest. Deferred payments retained in the program bear interest at the LIBOR daily (3 month) rate plus three percent (3.0%) on an annual basis, compounding daily. The weighted average annual percentage yield for the year ended December 31, 2021 was 3.22%. Interest expense associated with the program totaled approximately \$2.3 million and \$1.5 million for the years ended December 31, 2021 and 2020, respectively. In addition, the interest paid on borrowings under our receivable facility were tied to the LIBOR rate during the years ended December 31, 2021 and 2020. The facility carried an interest rate of LIBOR plus 3.375% and LIBOR plus 10.689% (depending on the lender making the borrowings under the facility). Increased interest rates may adversely impact the amounts we may be required to pay under the merchant interest bearing program and our receivables facility, which as a result could negatively impact our results of operations and financial condition.

In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that, after 2021, it will stop compelling banks to submit rates for the calculation of LIBOR. Effective January 1, 2022, we amended our receivables facility agreement to replace references to LIBOR with the U.S. Federal Reserve's Secured Overnight Financing Rate ("SOFR"). We believe the change in the reference rate to SOFR from LIBOR will not have a material impact on our consolidated financial statements. We are still contemplating a mechanism for replacing LIBOR with a new benchmark rate for outstanding debt under our interest bearing program. We cannot reasonably predict the potential effect of the discontinuation or replacement of LIBOR on our interest bearing program, other reforms or the establishment of alternative reference rates on our business. The discontinuation, reform, or replacement of LIBOR on our interest bearing program could result in interest rate increases on the funding arrangement, which could adversely affect our operating results and financial condition.

### **We are exposed to exchange rate fluctuations in the international markets in which we operate.**

There are instances in which our costs and revenues related to international operations are not able to be exactly matched with respect to currency denomination. Currency fluctuations cause the U.S. dollar value of our international results of operations and net assets to vary with exchange rate fluctuations. A decrease in the value of any of these currencies relative to the U.S. dollar could have a negative impact on our business, results of operations and financial condition. We may experience economic loss and a negative impact on earnings or net assets solely as a result of foreign currency exchange rate fluctuations. In the future, we may utilize derivative instruments to manage the risk of fluctuations in foreign currency exchange rates that could potentially impact our future earnings and forecasted cash flows. However, the markets in which we operate could restrict the removal or conversion of the local or foreign currency, resulting in our inability to hedge against some or all of these risks and/or increase our cost of conversion of local currency to U.S. dollar.

### **Our ability to use certain net operating loss carryforwards and certain other tax attributes may be limited.**

Under U.S. federal income tax principles set forth in Sections 382 and 383 of the Internal Revenue Code, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income and taxes may be limited. In general, an "ownership change" occurs if there is a cumulative change in ownership of the relevant corporation by "5% shareholders" (as defined under U.S. income tax laws), which includes Charles Youakim (our Chief Executive Officer), that exceeds 50 percentage points over a rolling three-year period. Similar rules apply under state tax laws. Our ability to utilize a portion of our net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes may be subject to certain limitations under Section 382 of the Code. Such limitations on the ability to use net operating loss carryforwards and other tax assets could adversely impact our business, financial condition, results of operations, and cash flows.

## **Our efforts to protect our intellectual property rights may not be sufficient.**

Our business depends on our ability to commercially exploit our technology and intellectual property rights, including our technological systems and data processing algorithms. We rely on laws relating to trade secrets, copyright, and trademarks to assist in protecting our proprietary rights. However, there is a risk that unauthorized use or copying of our software, data, specialized technology, trademarks or platforms will occur. In addition, there is a risk that the validity, ownership, registration or authorized use of intellectual property rights relevant to our business may be successfully challenged by third parties. This could involve significant expense and potentially the inability to use the intellectual property rights in question. If an alternative cost-effective solution were not available, there may be a material adverse impact on our financial position and performance. Such disputes may also temporarily adversely impact our performance or ability to integrate new systems, which may adversely impact our income and financial position.

There is a risk that we will be unable to register or otherwise protect new intellectual property rights we develop in the future, or which are developed on our behalf by contractors. In addition, competitors may be able to work around any of our intellectual property rights, or independently develop technologies, or competing payment products or services that are not protected by our intellectual property rights. Our competitors may then be able to offer identical or very similar services or services that are otherwise competitive against those we provide, which could adversely affect our business. We also face risks in connection with our international expansion, including in countries that may have less protection for our intellectual property rights than the United States. We currently hold registered trademarks in the United States, the United Kingdom ("UK"), the European Union and India, and we have pending trademark applications in Canada and Brazil. There is a risk that our trademarks and other intellectual property rights may not be adequate to protect our brand or proprietary technology or may conflict with the registered trademarks or other intellectual property rights of other companies, both domestically and abroad, which may require us to rebrand our product and service offerings, obtain costly licenses, defend against third-party claims, or substantially change our product or service offerings. Should such risks manifest, we may be required to expend considerable resources and divert the attention of our management, which could have an adverse effect on our business and results of operations.

Our ability to protect our trademarks and other intellectual property may be adversely affected by the COVID-19 pandemic. As a result of the COVID-19 pandemic, certain domestic and foreign intellectual property offices have amended their filing requirements and other procedures, including, but not limited to, extending deadlines and waiving fees. These accommodations have not been applied uniformly across all intellectual property offices globally, and the effectiveness and duration of existing action is unclear. Further, the ongoing COVID-19 pandemic has created uncertainty with respect to the uninterrupted operation of domestic and foreign intellectual property offices, which, amongst other things, may cause delayed processing of renewal and application filings. Our inability to establish and maintain current and future trademarks or other intellectual property rights may have an adverse effect on the growth and reputation of our business. Further, the constantly evolving nature of the COVID-19 pandemic may change its effect on our brand and our other intellectual property rights over time in ways that cannot be reasonably anticipated or mitigated. This could have an adverse effect on our business, results of operations, and financial condition.

## **We may be sued by third parties for alleged infringement, misappropriation, or other violation of their intellectual property or other proprietary rights.**

Our success depends, in part, on our ability to develop and commercialize our products and services without infringing, misappropriating, or otherwise violating the intellectual property or other proprietary rights of third parties. Third parties have alleged in the past, and there is a risk that third parties may in the future allege or claim, that our solutions or intellectual property infringe, misappropriate, or otherwise violate third-party intellectual property or other proprietary rights, and we may become involved in disputes, including actual or threatened litigation, from time to time concerning these rights. Relatedly, competitors or other third parties may raise claims alleging that service providers or other third parties retained or indemnified by us, infringe on, misappropriate, or otherwise violate such competitors' or other third parties' intellectual property or other proprietary rights. These claims of infringement, misappropriation, or other violation may be extremely broad, and it may not be possible for us to conduct our operations in such a way as to avoid all such alleged violations of such intellectual property or other proprietary rights. We also may be unaware of third-party intellectual property or other proprietary rights that cover or otherwise relate to some or all of our products and services.

Given the complex, rapidly changing, and competitive technological and business environment in which we operate, and the potential risks and uncertainties of intellectual property-related litigation, a claim of infringement, misappropriation, or other violation against us may require us to spend significant amounts of time and other resources to defend against the claim (even if we ultimately prevail), pay significant money damages, lose significant revenues, be prohibited from using the relevant systems, processes, technologies, or other intellectual property (temporarily or permanently), cease offering certain products or services, obtain a license, which may not be available on commercially reasonable terms or at all, or redesign our products or services or functionality therein, which could be costly, time-consuming, or impossible. Moreover, the volume of intellectual property-related claims, and the mere specter of threatened litigation, could distract our management from the day-to-day operations of our business. The direct and indirect costs of addressing these actual and threatened disputes may have an adverse impact on our operations, reputation, and financial performance. Some of the aforementioned risks of infringement, misappropriation, or other violation, in particular with respect to patents, are potentially increased due to the nature of our business, industry, and intellectual property portfolio. In addition, our insurance may not cover potential claims of this type adequately or at all, and we may be required to pay monetary damages, which may be significant and result in a material adverse effect on our results of operations and financial condition.

### **Some aspects of our products and services incorporate open source software, and our use of open source software could negatively affect our business, results of operations, financial condition, and prospects.**

Some of our systems incorporate and are dependent on the use and development of open source software. Open source software is software licensed under an open source license, which may include a requirement that we make available, or grant licenses to, any modifications or derivative works created using the open source software, make our proprietary source code publicly available, or make our products or services available for free or for nominal amounts. If an author or other third party that uses or distributes such open source software were to allege that we had not complied with the legal terms and conditions of one or more of these open source licenses, we could incur significant legal expenses defending against such allegations, could be subject to significant damages, and could be required to comply with these open source licenses in ways that cause substantial competitive harm to our business.

The terms of various open source licenses have not been interpreted by U.S. and international courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our products or services. In such an event, we could be required to re-engineer all or a portion of our technologies, seek licenses from third parties in order to continue offering our products and services, discontinue the use of our platform in the event re-engineering cannot be accomplished, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our technologies and loan products and services. If portions of our proprietary software are determined to be subject to an open source license, we could also be required to, under certain circumstances, publicly release or license, at no cost, our products or services that incorporate the open source software or the affected portions of our source code, which could allow our competitors or other third parties to create similar products and services with lower development effort, time, and costs, and could ultimately result in a loss of transaction volume for us. We cannot ensure that we have not incorporated open source software in our software in a manner that is inconsistent with the terms of the applicable license or our current policies, and we or our third party contractors or suppliers may inadvertently use open source in a manner that we do not intend or that could expose us to claims for breach of contract or intellectual property infringement, misappropriation, or other violation. If we fail to comply, or are alleged to have failed to comply, with the terms and conditions of our open source licenses, we could be required to incur significant legal expenses defending such allegations, be subject to significant damages, be enjoined from the sale of our products and services, and be required to comply with onerous conditions or restrictions on our products and services, any of which could be materially disruptive to our business.

In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software because open source licensors generally do not provide warranties or other contractual protections regarding infringement, misappropriation, or other violations, the quality of code, or the origin of the software. Many of the risks associated with the use of open source software cannot be eliminated and could adversely affect our business, results of operations, financial condition, and prospects. For instance, open source software is often developed by different groups of programmers outside of our control that collaborate with each other on projects. As a result, open source software may have security vulnerabilities, defects, or errors of which we are not aware. Even if we become aware of any security vulnerabilities, defects, or errors, it may take a significant amount of time for either us or the programmers who developed the open source software to address such vulnerabilities, defects, or errors, which could negatively impact our products and services, including by adversely affecting the market's perception of our products and services, impairing the functionality of our products and services, delaying the launch of new products and services, or resulting in the failure of our products and services, any of which could result in liability to us, our vendors, and our service providers. Further, our adoption of certain policies with respect to the use of open source software may affect our ability to hire and retain employees, including engineers.

**Any loss of licenses or any quality issues with third-party technology that support our business operations or are integrated with our products or services could have an adverse impact on our reputation and business.**

In addition to open source software, we rely on certain technology that we license from third parties, which we may use to support our business operations and incorporate into our products or services. This third-party technology may currently or could, in the future, infringe, misappropriate, or violate the intellectual property rights of third parties, or the licensors of such technology may not have sufficient rights to the technology they license us in all jurisdictions in which we may offer our products or services. We engage third parties to provide a variety of technology to support our business infrastructure. Any failure on the part of our third-party providers or of our business infrastructure to operate effectively, stemming from maintenance problems, upgrading or transitioning to new platforms, a breach in security, or other unanticipated problems could result in interruptions to or delays in to our operations or our products or services. The licensors of third-party technology we use may discontinue their offerings or change the terms under which their technology is licensed. If we are unable to continue to license any of this technology on terms we find acceptable, or if there are quality, security, or other substantive issues with any of this technology, we may face delays in releases of our solutions or we may be required to find alternative vendors or remove functionality from our solutions or internal business infrastructure. In addition, our inability to obtain certain licenses or other rights might require us to engage in litigation regarding these matters. Any of the foregoing could have a material adverse effect on our business, financial condition, and results of operations.

**Misconduct and errors by our employees, vendors, and service providers could harm our business and reputation.**

We are exposed to many types of operational risk, including the risk of misconduct and errors by our employees, vendors, and other service providers. Our business depends on our employees, vendors, and service providers to process a large number of increasingly complex transactions, including transactions that involve significant dollar amounts and loan transactions that involve the use and disclosure of personal and business information. We could be materially and adversely affected if transactions were redirected, misappropriated, or otherwise improperly executed, personal and business information was disclosed to unintended recipients, or an operational breakdown or failure in the processing of other transactions occurred, whether as a result of human error, a purposeful sabotage or a fraudulent manipulation of our operations or systems. If any of our employees, vendors, or service providers take, convert, or misuse funds, documents, or data, or fail to follow protocol when interacting with consumers and merchants, we could be liable for damages and subject to regulatory actions and penalties. We could also be perceived to have facilitated or participated in the illegal misappropriation of funds, documents, or data, or the failure to follow protocol, and therefore be subject to civil or criminal liability. It is not always possible to identify and deter misconduct or errors by employees, vendors, or service providers, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses. Any of these occurrences could result in our diminished ability to operate our business, potential liability to consumers and merchants, inability to attract future consumers and merchants, reputational damage, regulatory intervention, and financial harm, which could negatively impact our business, results of operations, financial condition, and prospects.

**Negative publicity that is accelerated by social media or emergent forms of communication and our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely impact our brand and business.**

There has been a marked increase in the use of social media platforms, including weblogs (blogs), social media websites (such as Facebook, Twitter, LinkedIn and Instagram) and other forms of internet-based communications that allow individuals access to a broad audience of consumers and other interested persons. The rising popularity of social media and other consumer-oriented technologies has increased the speed and accessibility of information dissemination and given users the ability to organize collective actions more effectively, such as boycotts and other brand-damaging events. Many, if not all, social media platforms immediately publish their participants' posts, often without filters or checks on the accuracy of the content posted. Any failure to respond quickly and effectively to negative or potentially damaging social media content (especially if it goes "viral"), regardless of the content's accuracy, could damage our reputation, which in turn could harm our business, prospects, financial condition and results of operations. The harm may be immediate without affording us an opportunity for redress or correction.

Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about our business, exposure of personally identifiable information, out-of-date information, fraud, hoaxes, or malicious dissemination of false information and negative comments relating to actions taken (or not taken) with respect to social, environmental and community outreach issues and initiatives. Furthermore, the use of social media by our customers, employees, vendors, merchant partners or other individuals and entities associated with our brand in a negative or damaging way could increase our costs, lead to litigation or result in negative publicity that could damage our reputation and brand and adversely and negatively impact our financial condition and results of operations. This adverse impact may occur whether or not we are directly related to, or otherwise control, the subject matter of the social media attention. Even the mere perception of our involvement could dilute or tarnish or otherwise adversely affect our reputation and brand and could contribute to diminished financial performance.

### **Our business is subject to the risks of fires, floods, and other natural catastrophic events and to interruption by man-made issues such as strikes.**

Our systems and operations are vulnerable to damage or interruption from fires, floods, power losses, telecommunications failures, strikes, health pandemics, and similar events. A significant natural disaster in locations in which we have offices or facilities could have a material adverse effect on our business, results of operations, financial condition, and prospects, and our insurance coverage may be insufficient to compensate us for losses that may occur. In addition, strikes, wars, terrorism, and other geopolitical unrest could cause disruptions in our business and lead to interruptions, delays, or loss of critical data. We may not have sufficient protection or an effective recovery plan in certain circumstances, and our business interruption insurance may be insufficient or inadequate to recoup losses that we incur from these occurrences.

### **The COVID-19 pandemic has impacted our working environment and diverted personnel resources and any prolonged effects of the COVID-19 pandemic may adversely impact our business and operations.**

We have had to expend, and expect to continue to expend, personnel resources to respond to the COVID-19 pandemic, including to develop and implement internal policies and procedures and track changes in laws. Any prolonged diversion of personnel resources may have an adverse effect on our operations. In addition, as a result of the COVID-19 pandemic, in March 2020, we transitioned our entire staff to a remote working environment and conducting our operations remotely may decrease the cohesiveness of our teams and our ability to maintain our culture, both of which are critical to our success. Additionally, a remote working environment may impede our ability to undertake new business projects, to foster a creative environment, to hire new team members, and to retain existing team members. Such effects may adversely affect the productivity of our team members and overall operations, which could have a material adverse effect on our business, results of operations, financial condition, and prospects.

### **We may not have adequate insurance to cover losses and liabilities.**

We maintain insurance we consider appropriate for our business needs. However, we may not be insured against all risks, either because appropriate coverage is not available or because we consider the applicable premiums to be excessive in relation to the perceived benefits that would accrue. Accordingly, we may not be insured at all or fully insured against all losses and liabilities that could unintentionally arise from our operations. The incurrance of uninsured or partially insured losses or liabilities could have a material adverse effect on our business, results of operations and financial condition.

### **Any inability to retain our employees or recruit additional employees could adversely impact our financial position.**

Our ability to effectively execute our growth strategy depends upon the performance and expertise of our employees. We rely on experienced managerial and highly qualified technical employees to develop and operate our technology and to direct operational employees to manage the operational, sales, compliance and other functions of our business.

There is a risk that we may not be able to attract and retain key employees or be able to find effective replacements in a timely manner. The loss of employees, or any delay in their replacement, could impact our ability to operate our business and achieve our growth strategies, including through the development of new systems and technology. There is a risk that we may not be able to recruit suitably qualified and talented employees in a timeframe that meets our growth objectives. This may result in delays in the integration of new systems, development of technology and general business expansion. There is also a risk that we will be unable to retain existing employees, or recruit new employees, on terms of retention that are as attractive to us as past agreements. Our inability to retain our key employees or recruit additional employees, in particular key employees, would likely have a material adverse effect on our business, results of operation and financial condition.

## RISKS RELATED TO OUR REGULATORY ENVIRONMENT

The BNPL industry is subject to various state and federal laws in the United States and federal, provincial and territorial laws in Canada concerning consumer finance, and the costs to maintain compliance with such laws and regulations may be significant.

We are subject to a range of state and federal laws and regulations concerning consumer finance that change periodically. These laws and regulations include state lending licensing or other state licensing or registration laws, consumer credit disclosure laws such as the Truth in Lending Act ("TILA"), the Fair Credit Reporting Act ("FCRA") and other laws concerning credit reports and credit reporting, the Electronic Fund Transfer Act AML laws, the TCPA and other laws concerning initiating phone calls or text messages, the Electronic Signatures in Global and National Commerce Act, debt collection laws, laws governing short-term consumer loans and general consumer protection laws, such as laws that prohibit UDAP or UDAAP. There is also the potential that we may become subject to additional legal or regulatory requirements if our business operations, strategy or geographic reach expand in the future. These laws and regulations may also change in the future, and they may be applied to us and our products in a manner that we do not currently anticipate. For example, we believe that the virtual card we offer is not a credit card under applicable laws, but the application of those laws could change. While we have developed policies and procedures designed to assist in compliance with laws and regulations applicable to our business, no assurance is given that our compliance policies and procedures will be effective. We may not always have been, and may not always be, in compliance with these laws and regulations and such non-compliance could have a material adverse effect on our business, results of operations and financial condition.

In Canada, we are subject to a range of federal and provincial laws and regulations including, but not limited to, provincial and territorial consumer finance legislation (including prohibition on late fees, limits on default charges, debt collection laws and requirements), consumer lender licensing or registration laws, consumer contract and credit disclosure laws, credit advertising requirements, e-commerce laws and unfair practices regulation, Canadian sanctions laws, federal and provincial-level private sector privacy laws, federal Canadian anti-spam legislation, federal and provincial human rights legislation, Quebec Charter of French language laws and requirements, and regulation under Payments Canada Rule H1- Pre-Authorized Debit Rules in respect of the acceptance of payments from Canadian bank accounts. There is also the potential that we may become subject to additional legal or regulatory requirements if our business operations, strategy or geographic reach expand in the future.

New laws or regulations, or laws and regulations in new markets, could also require us to incur significant expenses and devote significant management attention to ensure compliance. In addition, our failure to comply with these new laws or regulations, or laws and regulations in new markets, may result in litigation or enforcement actions, the penalties for which could include: revocation of licenses, fines and other monetary penalties, civil and criminal liability, substantially reduced payments by borrowers, modification of the original terms of loans, permanent forgiveness of debt, or inability to, directly or indirectly and collect all or a part of the principal of or interest on loans. Further, we may not be able to respond quickly or effectively to regulatory, legislative, and other developments, and these changes may in turn impair our ability to offer our existing or planned features, products, and services and/or increase our cost of doing business.

In the United States, we have certain state lending licenses and other licenses, which subject us to supervisory oversight from these license authorities and periodic examinations. Our business is also generally subject to investigation by regulators and enforcement agencies, regardless of whether we have a license from such authorities. These regulators and enforcement agencies may receive consumer complaints about us. Investigations or enforcement actions may be costly and time consuming. Enforcement actions by such regulators and enforcement agencies could lead to fines, penalties, consumer restitution, the cessation of our business activities in whole or in part, or the assertion of private claims and lawsuits against us. In the United States, these regulators and agencies at the state level include state licensing agencies, financial regulatory agencies, and attorney general offices. At the federal level in the United States, these regulators and agencies include the Federal Trade Commission ("FTC"), the CFPB, and Financial Crimes Enforcement Network ("FinCEN"), any or all of which could subject us to burdensome rules and regulations that could increase costs and use of our resources in order to satisfy our compliance obligations.

In Canada, we are appropriately licensed as a lender and/or have structured our business activities to avoid a licensing requirement in each of the Canadian provinces that require such licenses. In connection with our business activities, we are also generally subject to consumer protection legislation and other laws and, on that basis, our business is also generally subject to regulatory oversight and supervision from federal and/or provincial regulators in respect of those activities, regardless of whether we have a license. These regulators and enforcement agencies generally act on a complaints-basis and may receive consumer complaints about us. Investigations or enforcement actions may be costly and time consuming. Enforcement actions by such regulators and enforcement agencies could lead to fines, penalties, consumer restitution, the cessation of our business activities in whole or in part, or the assertion of private claims and lawsuits against us.

Compliance with these laws and regulations is costly, time-consuming, and limits our operational flexibility. There is also a risk that if we fail to comply with these laws, regulations, and any related industry compliance standards, such failure may result in significantly increased compliance costs, cessation of certain business activities or the ability to conduct business, litigation, regulatory inquiries or investigations, and significant reputational damage.

### **We are subject to various U.S. federal and state and, in Canada, provincial and territorial consumer protection laws.**

We must comply with various regulatory regimes, including those applicable to the protection of consumers in connection with credit transactions. The laws to which we are or may be subject include U.S. federal and state, Canadian provincial and territorial laws and regulations that impose requirements related to financial services, such as loan and consumer contract disclosures and terms, data privacy, credit discrimination, credit reporting, money; and transmission, recordkeeping, debt servicing and collection, and unfair or deceptive business practices.

In addition, in the United States the laws and regulations to which we are subject include:

- TILA and Regulation Z promulgated thereunder, which require certain disclosures to consumers regarding the terms and conditions of their loans and credit transactions, and impose additional requirements for any credit that is accessible by a credit card;
- Section 5 of the Federal Trade Commission Act ("FTCA"), which prohibits UDAP in or affecting commerce, and Section 1031 of the Dodd-Frank Act, which prohibits UDAAP in connection with any consumer financial product or service;
- The Equal Credit Opportunity Act ("ECOA") and Regulation B promulgated thereunder, which prohibit creditors from discriminating against credit applicants on the basis of race, color, sex, age, religion, national origin, marital status, the fact that all or part of the applicant's income derives from any public assistance program, or the fact that the applicant has in good faith exercised any right under the Federal Consumer Credit Protection Act or any applicable state law;
- the FCRA, which promotes the accuracy, fairness, and privacy of information in the files of consumer reporting agencies;
- the Fair Debt Collection Practices Act, which provides guidelines and limitations concerning the conduct of third-party debt collectors in connection with the collection of consumer debts;
- the Telephone Consumer Protection Act, which regulates the use of telephone and texting to communicate with customers;
- the CAN-SPAM Act, which regulates the transmittal of commercial email messages;
- the Federal Trade Commission's Holder in Due Course Rule, and equivalent state laws, which make any holder of a consumer credit contract include the required notice and become subject to all claims and defenses that a borrower could assert against the seller of goods or services;
- the CFPB's Small Dollar Lending Rule, which requires disclosures related to payments and imposes other requirements for certain consumer loans;
- the Electronic Fund Transfer Act and Regulation E promulgated thereunder, which provide disclosure requirements, guidelines, and restrictions on the electronic transfer of funds from consumers' bank accounts;
- the Electronic Signatures in Global and National Commerce Act and similar state laws, particularly the Uniform Electronic Transactions Act, which authorize the creation of legally binding and enforceable agreements utilizing electronic records and signatures, including applicable Canadian provincial and territorial e-commerce laws;
- the Military Lending Act and similar state laws, which provide disclosure requirements, substantive conduct obligations, and prohibitions on certain behavior relating to loans made to covered borrowers, which include both servicemembers and their dependents;
- the Servicemembers Civil Relief Act, which allows active duty military members to suspend or postpone certain civil obligations so that the military member can devote his or her full attention to military duties;
- new requirements pursuant to the CARES Act, including requirements relating to collection and credit reporting, though many of the implementing regulations under the CARES Act have not yet been issued;
- the Gramm-Leach-Bliley Act (the "GLBA"), which includes limitations on use and disclosure of nonpublic personal information about a consumer by a financial institution; and
- state privacy and data security laws including, but not limited to, the California Consumer Privacy Act ("CCPA"), as amended by the California Privacy Rights Act ("CPRA"), the Virginia Consumer Data Protection Act ("CDPA") which include limitations and requirements surrounding the use, disclosure, and other processing of certain personal information, the Colorado Privacy Act ("CoPA") and the Utah Consumer Privacy Act ("UCPA").

In Canada, the laws and regulations to which we are subject include:

- the Canadian Personal Information Protection and Electronic Documents Act and equivalent provincial privacy laws in the provinces of Alberta, British Columbia and Quebec, each of which includes requirements surrounding the use, disclosure, and other processing of certain personal information about Canadian residents;
- the Canadian Anti-Spam Law, which regulates the transmittal of commercial electronic messages;
- Canada federal and provincial human rights legislation which prohibits discriminatory practices to deny, deny access to, or to differentiate adversely in relation to any individual in respect of the provision of services customarily available to the general public on the basis of a certain prohibited grounds of discrimination (including, but not limited to, race, national or ethnic origin, color, religion, age, sex, sexual orientation, gender identity or expression, marital status, family status, genetic characteristics, among others);
- Canadian provincial consumer protection and cost of credit disclosure laws which include prohibition of late fees, limits on default charges, prohibition of unfair practices, as well as consumer contract disclosure and related process requirements, among other requirements;
- Canadian sanctions laws and related regulations which impose economic or financial sanctions that are administered or enforced from time to time by the Canadian government and prohibit the provision of financial services to certain designated persons with whom dealings are generally prohibited;
- Payments Canada Rule H1- Pre-Authorized Debit Rules in respect of the acceptance of payments from Canadian bank accounts; and
- the Quebec Charter of French Language laws which regulates the language of communication in commerce and business and applies to entities carrying on business in Quebec.

While we have developed policies and procedures designed to assist in compliance with these consumer protection laws and regulations, no assurance is given that our compliance policies and procedures will be effective. Failure to comply with these laws and with regulatory requirements applicable to our business could render the loans we make to consumers void or unenforceable and subject us to damages, revocation of licenses, class action lawsuits, administrative enforcement actions, and civil and criminal liability, which may harm our business.

### **Litigation, regulatory actions, and compliance issues could subject us to fines, penalties, judgments, remediation costs, and requirements resulting in increased expenses.**

Our business is subject to increased risks of litigation and regulatory actions as a result of a number of factors and from various sources, including as a result of the highly regulated nature of the financial services industry and the focus of state and federal enforcement agencies on the financial services industry in general and consumer financial services in particular.

In the ordinary course of business, we have been named as a defendant in various legal actions, including arbitrations and other litigation. From time to time, we may also be involved in, or the subject of, reviews, requests for information, investigations, and proceedings (both formal and informal) by state and federal governmental agencies, including banking regulators, the FTC, and the CFPB, regarding our business activities and our qualifications to conduct our business in certain jurisdictions, which could subject us to fines, penalties, obligations to change our business practices, and other requirements resulting in increased expenses and diminished earnings. Our involvement in any such matter also could cause harm to our reputation and divert management attention from the operation of our business, even if the matters are ultimately determined in our favor. Moreover, any settlement, or any consent order or adverse judgment, in connection with any formal or informal proceeding or investigation by a government agency, may prompt litigation or additional investigations or proceedings as other litigants or other government agencies begin independent reviews of the same or similar activities.



In addition, a number of participants in the consumer finance industry have been and are the subject of putative class action lawsuits; state attorney general actions and other state regulatory actions; federal regulatory enforcement actions, including actions relating to alleged UDAAP; violations of state licensing and lending laws, including state interest rate limits; actions alleging discrimination on the basis of race, ethnicity, gender, or other prohibited bases; and allegations of noncompliance with various state and federal laws and regulations relating to originating and servicing consumer finance loans. Recently, some of our competitors in the BNPL space are subject to ongoing class action litigation, including allegations of unfair business and deceptive practices, and we may become subject to similar types of litigation in the future. The current regulatory environment, increased regulatory compliance efforts, and enhanced regulatory enforcement have resulted in significant operational and compliance costs and may prevent us from providing certain products and services. There is no assurance that these regulatory matters or other factors will not, in the future, affect how we conduct our business and, in turn, have an adverse effect on our business. In particular, legal proceedings brought under state consumer protection statutes or under several of the various federal consumer financial services statutes subject to the jurisdiction of the CFPB and FTC may result in a separate fine for each violation of the statute, which, particularly in the case of class action lawsuits, could result in damages in excess of the amounts we earned from the underlying activities.

**Stringent and changing laws and regulations relating to privacy and data protection could result in claims, harm our results of operations, financial condition, and prospects, or otherwise harm our business.**

We are subject to a variety of laws, rules, directives, and regulations, as well as contractual obligations, relating to the processing of personal information, including personally identifiable information. The regulatory framework for privacy and data protection worldwide is rapidly evolving and, as a result, implementation standards and enforcement practices are likely to continue to evolve for the foreseeable future. Legislators and regulators are increasingly adopting or revising privacy and data protection laws, rules, directives, and regulations that could have a significant impact on our current and planned privacy and data protection-related practices; our processing of personal information; our current or planned business activities; and our ability to transfer data internationally. We also use artificial intelligence and machine learning (“AI/ML”), including for fraud detection and credit risk analysis. If the AI/ML models are incorrectly designed, the data we use to train them is incomplete, inadequate, or biased in some way, or we do not have sufficient rights to use the data on which our AI/ML models rely, the performance of our products, services, and business, as well as our reputation, could suffer or we could incur liability through the violation of laws, third-party privacy, or other rights, or contracts to which we are a party. In addition, future privacy and data protection laws, rules, directives, and regulations may complicate or limit efforts to use data in connection with AI/ML.

Compliance with current or future privacy and data protection laws (including those regarding security breach notification) affecting personal information to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services (such as products or services that involve us sharing personal information with third parties or storing personal information), which could materially and adversely affect our financial position and could reduce income from certain business initiatives.

We publicly post policies and documentation regarding our practices concerning the processing of personal information. This publication of our privacy policy and other documentation that provide information about our privacy and security practices is required by applicable law and can subject us to proceedings and actions brought by data protection authorities, government entities, or others (including, potentially, in class action proceedings brought by individuals) if our policies are alleged to be deceptive, unfair, or misrepresentative of our actual practices. Although we endeavor to comply with our published policies and documentation consistent with applicable law, we may at times fail to do so or be alleged to have failed to do so.

We are subject to the GLBA and implementing regulations and guidance thereunder, in addition to applicable privacy and data protection laws in the other jurisdictions in which we carry on business activities or process personal information. Among other things, the GLBA (i) imposes certain limitations on the ability to share consumers’ nonpublic personal information with nonaffiliated third parties; and (ii) requires certain disclosures to consumers about information collection, sharing, and security practices and their right to “opt out” of the institution’s disclosure of their nonpublic personal information to nonaffiliated third parties (with certain exceptions). Privacy requirements, including notice and opt out requirements, under the GLBA and the FCRA are enforced by the FTC and by the CFPB through UDAAP laws and regulations, and are a standard component of CFPB examinations. State entities also may initiate actions for alleged violations of privacy or security requirements under state UDAAP, financial privacy, security and other laws.

Furthermore, an increasing number of state, federal, and international jurisdictions have enacted, or are considering enacting, privacy laws, such as the CCPA, the Canadian Personal Information Protection and Electronic Documents Act, and the General Data Protection Regulation ("GDPR"), which regulates the collection and use of personal information of data subjects in the European Union and the European Economic Area ("EEA"). The CCPA gives residents of California expanded rights to access and delete their personal information, opt out of certain types of personal information sharing, and receive detailed information about how their personal information is used. The CCPA also provides for civil penalties for violations and private rights of action for data breaches affecting personal information. Meanwhile, the GDPR provides data subjects with greater control over the processing of their personal information (such as the "right to be forgotten") and has specific requirements relating to cross-border transfers of personal information to certain jurisdictions outside the EEA, including to the United States, with fines for noncompliance of up to the greater of 20 million euros or up to 4% of the annual global revenue of the noncompliant company. From January 1, 2021, we may also have to comply in respect of certain of our activities with the UK GDPR, which, together with the amended UK Data Protection Act 2018, retains the GDPR in UK national law. Enforcement of the GDPR is designed to be harmonized across the EU, and the UK's data protection regulator, the Information Commissioner's Office, has indicated that it will continue to enforce the DPA and the UK GDPR in line with the GDPR. However, the UK government recently announced its intention to adopt a more flexible approach to the regulation of data, and as a result there remains a risk of future divergence between the EU and UK data protection regimes. In addition, on November 3, 2020, California voters approved a new privacy law, the CPRA, which significantly modifies the CCPA, including by expanding consumers' rights with respect to certain personal information and creating a new state agency to oversee implementation and enforcement efforts. Many of the CPRA's provisions will become effective on January 1, 2023. Additionally, on March 2, 2021, the Virginia CDPA was signed into law. The CDPA becomes effective beginning January 1, 2023, and contains similar provisions to the CCPA and CPRA. Other states have recently or may soon pass similar laws and promulgate related regulations, including the Colorado Privacy Act (CoPA) (signed into law in July 2021 with rulemaking currently in progress) and the Utah Consumer Privacy Act (UCPA) (signed into law March 24, 2022). Most states also have in place data security laws requiring companies to maintain certain safeguards with respect to the processing of personal information, and all states require companies to notify individuals or government regulators in the event of a data breach impacting such information. In addition, most industrialized countries have or are in the process of adopting similar data protection laws enforced through data protection authorities. The CCPA, CPRA, CDPA, CoPA, UCPA, GDPR, UK GDPR, and any other applicable state, federal, and international privacy laws, may increase our compliance costs and potential liability and may inhibit our operations to the extent that such requirements do not allow international transfers of personal information or otherwise restrict our processing of personal information or the availability of personal information to us. For example, the Court of Justice of the European Union in July 2020 issued a ruling on the validity of the European Commission's standard contractual clauses ("SCCs"), which unexpectedly increased the compliance obligations on parties using the SCCs to transfer or receive personal data from the EU and the UK. Certain regulators in the EU have recently begun to enforce non-compliance with such requirements in the context of website analytics, but it unclear whether, and if so when and how, regulators and courts will do so outside of that context.

Our failure, or the failure of any third party with whom we conduct business, to comply with privacy and data protection laws could result in potentially significant regulatory investigations and government actions, litigation, fines, or sanctions, consumer, funding source, bank partner, or merchant actions, and damage to our reputation and brand, all of which could have a material adverse effect on our business. Complying with privacy and data protection laws and regulations may cause us to incur substantial operational costs or require us to change our business or privacy and security practices. We may not be successful in our efforts to achieve compliance either due to internal or external factors, such as resource allocation limitations or a lack of cooperation from third parties. We have in the past, and may in the future, receive complaints or notifications from third parties, including individuals, alleging that we have violated applicable privacy and data protection laws and regulations.

Non-compliance could result in proceedings against us by governmental entities, consumers, data subjects, or others. We may also experience difficulty retaining or obtaining new consumers in these jurisdictions due to the legal requirements, compliance cost, potential risk exposure, and uncertainty for these entities, and we may experience significantly increased liability with respect to these consumers pursuant to the terms set forth in our agreements with them.

As we continue to expand our operations internationally and develop new products and features, we may become subject to additional foreign privacy and data protection laws and regulations both in the United States and internationally, which may in some cases be more stringent than the requirements to which we are currently subject or which may inhibit international transfers of data. For example, as we continue to establish our presence in Brazil, we will need to comply with the Brazilian General Data Protection Law. Because the interpretation and application of many privacy and data protection laws are uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our products and services. If so, in addition to the possibility of fines, lawsuits, regulatory investigations, and other claims and penalties, we could be required to change our business activities and practices or modify our products or services, any of which could have an adverse effect on our business. Any claims regarding our inability to adequately address privacy and data protection concerns, even if unfounded, or to comply with applicable privacy and data protection laws, regulations, contractual requirements, and policies, could result in additional cost and liability to us, damage our reputation, and adversely affect our business. Privacy and data protection concerns, whether valid or not, may inhibit market adoption of our products and services, particularly in certain industries and jurisdictions. If we are not able to quickly adjust to changing laws, regulations, and standards related to the internet, our business may be harmed.

**If we were found to be operating without having obtained necessary licenses, it could adversely affect our business, results of operations, financial condition, and prospects.**

Certain states have adopted laws regulating and requiring licensing, registration, notice filing, or other approval by parties that engage in certain activity regarding consumer finance transactions. Furthermore, certain states and localities have also adopted laws requiring licensing, registration, notice filing, or other approval for consumer debt collection or servicing, and/or purchasing or selling consumer loans. The application of some consumer financial licensing laws to our platform and the related activities it performs is unclear. In addition, state licensing requirements may evolve over time. If we were found to be in violation of applicable state licensing requirements by a court or a state, federal, or local enforcement agency, or agree to resolve such concerns by voluntary agreement, we could be subject to or agree to pay fines, damages, injunctive relief (including required modification or discontinuation of our business in certain areas), criminal penalties, and other penalties or consequences, and the loans facilitated through our platform could be rendered void or unenforceable in whole or in part, any of which could have an adverse effect on the enforceability or collectability of the loans facilitated through our platform. In January 2020, we agreed to a consent order with the California Department of Business Oversight (now the California Department of Financial Protection and Innovation) for activities in the state that the Department viewed as requiring a lending license. Pursuant to the consent order, we agreed to pay \$282,000 in customer restitution, pay a penalty of \$28,200, and obtain a license in order to operate in the state (which we have since obtained). The fine and resources expended to secure state licenses, including the California license, could negatively impact our primary focus of managing our business and operations.

**If loans made by us under our state lending licenses are found to violate applicable state lending and other laws, it could adversely affect our business, results of operations, financial condition, and prospects.**

We have obtained lending licenses in certain states such as California, North Dakota, South Dakota, Idaho, Montana and Missouri. The loans we may originate on our platform pursuant to these state licenses are subject to state licensing and interest rate restrictions, as well as numerous state requirements regarding consumer protection, interest rate, disclosure, prohibitions on certain activities, and loan term lengths. If the loans we originate pursuant to our state licenses were deemed subject to and in violation of certain state consumer finance or other laws, we could be subject to fines, damages, injunctive relief (including required modification or discontinuation of our business in certain areas), and other penalties or consequences, and the loans could be rendered void or unenforceable in whole or in part, any of which could have an adverse effect on our business, results of operations, financial condition, and prospects. We cannot assure you that we will be successful in obtaining state licenses in other states or that we have not yet been required to apply for.

## **RISKS RELATED TO SHARES OF OUR COMMON STOCK**

**Our existing major stockholders own a large percentage of our stock and can exert significant influence over us.**

Our existing major stockholders, particularly Charles Youakim and to a lesser extent, Paul Paradis, together hold approximately 48.1% of all shares of our common stock outstanding as of February 28, 2022 (including shares represented by CHESS Depository Interests, CDIs), and can exert significant influence over us, including in relation to the election of directors, the appointment of new management and the potential outcome of matters submitted to the vote of stockholders. As a result, other stockholders will have minimal control and influence over any matters submitted to our stockholders. There is a risk that the interests of these existing major stockholders may be different from those of other stockholders.

**We are an “emerging growth company,” and the reduced U.S. public company reporting requirements applicable to emerging growth companies may make shares of our common stock less attractive to investors.**

We qualify as an “emerging growth company,” as defined in the JOBS Act. For so long as we remain an emerging growth company, we are permitted and plan to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These provisions include, but are not limited to: being permitted to have only two years of audited financial statements and only two years of related management’s discussion and analysis of financial condition and results of operations disclosure; an exemption from compliance with the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act; not being required to comply with any requirement that may be adopted by the PCAOB regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements; reduced disclosure obligations regarding executive compensation arrangements in our periodic reports, registration statements and proxy statements; and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved by stockholders. In addition, the JOBS Act permits emerging growth companies to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We intend to take advantage of the exemptions discussed above. As a result, the information we provide will be different than the information that is available with respect to other public companies. In our Form 10-K, we have not included all of the executive compensation-related information that would be required if we were not an emerging growth company. We cannot predict whether investors will find shares of our common stock less attractive if we rely on these exemptions. If some investors find shares of our common stock less attractive as a result, there may be a less active trading market for shares of our common stock, and the market price of shares of our common stock may be more volatile.

We will remain an emerging growth company until the earliest of (i) the last day of our fiscal year following the fifth anniversary of the date of our first sale of shares of our common stock pursuant to an effective registration statement under the Securities Act, (ii) the first fiscal year after our annual gross revenues exceed \$1.07 billion, (iii) the date on which we have, during the immediately preceding three-year period, issued more than \$1.00 billion in non-convertible debt securities or (iv) the end of any fiscal year in which the market value of shares of our common stock held by non-affiliates exceeds \$700 million as of the end of the second quarter of that fiscal year.

**Our failure to timely file the registration statement on Form 10 could result in an SEC enforcement proceeding, which could materially and adversely affect our financial condition and results of operations.**

As of December 31, 2019, we may have exceeded \$10 million in total assets and 2,000 holders of record of our securities. Therefore, we were required to file a registration statement on Form 10 pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), by April 29, 2020. However, we failed to file the registration statement on Form 10 on a timely basis. While we commenced preparation of the registration statement on Form 10 in June 2020, the filing of such registration statement was further delayed primarily as a result of delays in our ability to complete the audit of our financial statements in compliance with the auditing standards of the PCAOB. We completed our initial Form 10 filing on April 13, 2021. We subsequently filed amendments to our Form 10 on June 10, 2021 and October 25, 2021. Our failure to timely file the registration statement on Form 10 could subject us to a regulatory enforcement proceeding by the SEC, which could result in distractions of our management’s time and attention as well as monetary penalties. There can be no assurance that a regulatory enforcement proceeding, if commenced, would not have a material adverse effect on our financial condition or results of operations.

**We will incur significant costs and are subject to additional regulations and requirements as a public company in both Australia and the United States, including compliance with the reporting requirements of the Exchange Act, the requirements of the Sarbanes-Oxley Act and the listing standards of ASX. In addition, key members of our management team have limited experience managing a public company.**

As a U.S. public company, we will incur significant legal, accounting and other expenses that are not incurred by companies listed solely on the ASX, including costs associated with U.S. public company reporting requirements. Compliance with these requirements will place a strain on our management, systems and resources. The Exchange Act requires us to file annual, quarterly and current reports with respect to our business and financial condition within specified time periods and to prepare a proxy statement with respect to our annual meeting of stockholders. We also have incurred and will continue to incur costs associated with the Sarbanes-Oxley Act and rules implemented by the SEC and the ASX. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures, and internal controls over financial reporting. The ASX requires that we comply with various corporate governance requirements. The expenses generally incurred by U.S. public companies for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations also could make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on our board committees or as our executive officers. Advocacy efforts by stockholders and third parties may also prompt even more changes in governance and reporting requirements. Furthermore, if we are unable to satisfy our obligations as a listed company, we could be subject to delisting of our common stock on the ASX, as well as fines, sanctions and other regulatory action and civil litigation.

Many members of our management team have limited experience managing a publicly traded company, interacting with public company investors and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage our transition to being a public company in the United States, being subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors, as well as the interaction of such oversight and reporting obligations with those applicable under ASX listing and regulatory requirements. These new obligations and constituents may require us to employ additional specialized staff and seek advice from third party service providers. They will also require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, results of operations and financial condition.

**If we discover a material weakness in our internal control over financial reporting that we are unable to remedy or otherwise fail to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to report our financial results on a timely and accurate basis may be adversely affected.**

We are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of internal controls over financial reporting. As an emerging growth company, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) until the later of (i) the year following our first annual report required to be filed with the SEC or (ii) the date we are no longer an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating.

To comply with the requirements of being a U.S. public company, we have undertaken various actions, and will need to take additional actions, such as implementing numerous internal controls and procedures and hiring additional accounting or internal audit staff or consultants. Testing and maintaining internal control can divert our management's attention from other matters that are important to the operation of our business. Additionally, when evaluating our internal control over financial reporting, we may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Section 404.

During the quarters ended June 30, 2021 and September 30, 2021, management identified certain deficiencies in the design and implementation of our disclosure controls and procedures. The deficiencies primarily relate to inadequate design of information technology general and application controls that prevent the information system from providing complete and accurate information consistent with financial reporting objectives and current needs. These deficiencies meant that it was possible that our business process controls that depend on data and information from the affected information technology systems could have been adversely affected. Because of the deficiencies in our reporting system, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective in the quarters ended as of June 30, 2021 and September 30, 2021.

To comply with Section 404 on an ongoing basis, we expect to incur substantial cost, expend significant management time on compliance-related issues and hire and retain accounting, financial, and internal audit staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, if we or our independent registered public accounting firm identify continued deficiencies in our disclosure controls and procedures, or deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting once we are no longer an emerging growth company, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected. We could also become subject to investigations by the SEC, the Australian Securities and Investments Commission, the ASX, and other regulatory authorities, which could require additional financial and management resources. In addition, if we fail to remedy any material weakness, our financial statements could be inaccurate and we could face restricted access to capital markets.

### **If we are not able to maintain sufficient cash funds, we may cease trading on the ASX.**

If we are not able to maintain sufficient funds to fund our activities or if ASX considers that our financial position is not adequate to warrant the continued quotation of our CDIs on ASX, ASX may suspend our CDIs from quotation. This would limit our liquidity and, in particular, could harm the ability of CDI holders to liquidate their position in our company. In addition, the value of our company could decline if we are not able to maintain our listing on ASX.

### **If the Zip transaction is not consummated, some provisions of our charter documents may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders, and may prevent attempts by our stockholders to replace or remove our current management.**

Provisions in our Fourth Amended and Restated Certificate of Incorporation (the "Amended Charter") and our Third Amended and Restated Bylaws ("Amended Bylaws") could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions include:

- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders;
- our stockholders will only be able to take action at a meeting of stockholders and not by written consent;
- only our chairman of the board of directors, our chief executive officer, our president, or a majority of the board of directors are authorized to call a special meeting of stockholders;
- no provision in our Amended Charter or Amended Bylaws provides for cumulative voting, which limits the ability of minority stockholders to elect director candidates;
- our Amended Charter authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued, without the approval of the holders of our capital stock; and
- certain litigation against us can only be brought in Delaware.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take corporate actions other than those you desire.

**Our Amended Charter designates the Court of Chancery of the State of Delaware as the exclusive forum for substantially all disputes between us and our stockholders and the federal district courts as the exclusive forum for Securities Act claims, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.**

Our Amended Charter provides that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or our stockholders by any of our directors, officers, employees or stockholders, (iii) any action asserting a claim against us arising under the Delaware General Corporation Law ("DGCL"), our Amended Charter or our Amended Bylaws, (iv) any action to interpret, apply, enforce, or determine the validity of our Amended Charter or our Amended Bylaws, (v) any action governed by the internal affairs doctrine; provided that, the exclusive forum provision will not apply to suits brought to enforce any liability or duty created by the Exchange Act, or to any claim for which the federal courts have exclusive jurisdiction. Our Amended Charter also provides that, unless we consent in writing to the selection of an alternative forum, the U.S. federal district courts shall be the exclusive forum for the resolution of any claims arising under the Securities Act. Under the Securities Act, federal and state courts have concurrent jurisdiction over all suits brought to enforce any duty or liability created by the Securities Act, and investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. Accordingly, there is uncertainty as to whether a court would enforce such a forum selection provision as written in connection with claims arising under the Securities Act. By becoming a stockholder in our company, you will be deemed to have notice of and have consented to the provisions of our Amended Charter related to choice of forum. The choice of forum provisions in our Amended Charter may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or may make such lawsuits more costly for stockholders. Additionally, the enforceability of choice of forum provisions in other companies' governing documents has been challenged in legal proceedings, and it is possible that, in connection with any applicable action brought against us, a court could find the choice of forum provisions contained in our Amended Charter to be inapplicable or unenforceable in such action. If so, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, results of operations, and financial condition.

## **RISKS RELATED TO OUR EXISTENCE AS A PUBLIC BENEFIT CORPORATION AND A CERTIFIED B CORPORATION**

**We operate as a Delaware public benefit corporation. As a public benefit corporation, we cannot provide any assurance that we will achieve our public benefit purpose.**

As a public benefit corporation, we are required to produce a public benefit or benefits and to operate in a responsible and sustainable manner, balancing our stockholders' pecuniary interests, the best interests of those materially affected by our conduct, and the public benefit or benefits identified by our Amended Charter. There is no assurance that we will achieve our public benefit purpose or that the expected positive impact from being a public benefit corporation will be realized, which could have a material adverse effect on our reputation, which in turn may have a material adverse effect on our business, results of operations and financial condition.

As a public benefit corporation, we are required to publicly disclose a report at least biennially on our overall public benefit performance and on our assessment of our success in achieving our specific public benefit purpose. As we changed our Company charter to become a public benefit corporation in June 2020, the information under "Biennial Public Benefit Corporation Statement" in this Annual Report includes our first such report. If we are not timely or are unable to provide such reports, or if these reports are not viewed favorably by our investors, parties doing business with us or regulators or others reviewing our credentials, our reputation and status as a public benefit corporation may be harmed.

**As a public benefit corporation, our focus on a specific public benefit purpose and producing a positive effect for society may negatively impact our financial condition.**

Unlike traditional corporations, which have a fiduciary duty to focus exclusively on maximizing stockholder value, our directors have a fiduciary duty to consider not only the stockholders' interests, but also our specific public benefit and the interests of other stakeholders affected by our actions. Therefore, we may take actions that we believe will be in the best interests of those stakeholders materially affected by our specific benefit purpose, even if those actions do not maximize our financial results, and we may be restricted from pursuing certain growth opportunities to the extent not consistent with our public benefit corporation (or B Corporation) status. While we intend for this public benefit designation and obligation to provide an overall net benefit to us and our customers, it could instead cause us to make decisions and take actions without seeking to maximize the income generated from our business, and hence available for distribution to our stockholders. Our pursuit of longer-term or non-pecuniary benefits may not materialize within the timeframe we expect, or at all, yet may have an immediate negative effect on any amounts available for distribution to our stockholders. Accordingly, being a public benefit corporation and complying with our related obligations could have a material adverse effect on our business, results of operations and financial condition. To the extent the market ties our stock price to the results of our business, operations and financial results, such material adverse effects would likely cause our stock price to decline.

As a public benefit corporation, we may be less attractive as a takeover target than a traditional company because our directors have a fiduciary duty to consider not only the stockholders' financial interests, but also our specific public benefit and the interests of other stakeholders affected by our actions and, therefore, our stockholders' ability to realize a return on their investments through an acquisition may be limited. Additionally, public benefit corporations may also not be attractive targets for activists or hedge fund investors because new directors would still have to consider and give appropriate weight to the public benefit along with shareholder value, and stockholders committed to the public benefit can enforce this through derivative suits. Further, by requiring that board of directors of public benefit corporations consider additional constituencies other than maximizing shareholder value, Delaware public benefit corporation law could potentially make it easier for a board to reject a hostile bid, even where the takeover would provide the greatest short-term financial yield to investors.

**Our directors have a fiduciary duty to consider not only our stockholders' interests, but also our specific public benefit and the interests of other stakeholders affected by our actions. If a conflict between such interests arises, there is no guarantee such a conflict would be resolved in favor of our stockholders.**

While directors of traditional corporations are required to make decisions they believe to be in the best interests of their stockholders, directors of a public benefit corporation have a fiduciary duty to consider not only the stockholders' interests, but also the company's specific public benefit and the interests of other stakeholders affected by the company's actions. Under Delaware law, directors are shielded from liability for breach of these obligations if they make informed and disinterested decisions that serve a rational purpose. Thus, unlike traditional corporations which must focus exclusively on stockholder value, our directors are not merely permitted, but obligated, to consider our specific public benefit and the interests of other stakeholders. In the event of a conflict between the interests of our stockholders and the interests of our specific public benefit or our other stakeholders, our directors must only make informed and disinterested decisions that serve a rational purpose; thus, there is no guarantee such a conflict would be resolved in favor of our stockholders, which could have a material adverse effect on our business, results of operations and financial condition, which in turn could cause our stock price to decline.

**As a Delaware public benefit corporation, we may be subject to increased derivative litigation concerning our duty to balance stockholder and public benefit interest, the occurrence of which may have an adverse impact on our financial condition and results of operations.**

Stockholders of a Delaware public benefit corporation (if they, individually or collectively, own at least two percent of the company's outstanding shares) are entitled to file a derivative lawsuit claiming the directors failed to balance stockholder and public benefit interests. This potential liability does not exist for traditional corporations. Therefore, we may be subject to the possibility of increased derivative litigation, which would require the attention our management, and, as a result, may adversely impact our management's ability to effectively execute our strategy. Additionally, any such derivative litigation may be costly, which may have an adverse impact on our financial condition and results of operations.



**If we lose our certification as a B Corporation or our publicly reported B Corporation score declines, our reputation could be harmed and our business could be adversely affected.**

Our business model and brand could be harmed if we were to lose our certification as a B Corporation or if state or federal regulators impede or otherwise delay or restrict our ability to make charitable contributions. Certified B Corporation status is a certification by a third-party, B Lab, which requires us to consider the impact of our decisions on our workers, customers, suppliers, community and the environment. We believe that certified B Corporation status has allowed us to build credibility and trust among our customers. Whether due to our choice or our failure to meet B Lab's certification requirements or our failure to satisfy the re-certification requirements when applying for renewal every three years, any change in our status could create a perception that we are more focused on financial performance and no longer as committed to the values shared by certified B Corporations. Further, once certified, we must publish our assessment score on our website. Our reputation could be harmed if our publicly reported B Corporation score declines and there is a perception that we are no longer committed to the certified B Corporation standards. Similarly, our reputation could be harmed if we take actions that are perceived to be misaligned with B Lab's values.

Following the closing of the transaction described in the Zip Merger Agreement, we will have a window of approximately 90 days to commit to recertify as a Certified B Corporation and within one year of the closing of the transaction we must recertify as a Certified B Corporation. If we are not able to successfully meet the conditions or timeline required for this transfer, we may lose our certified B Corporation status. Alternatively, there can be no guarantee that the purchaser under the Zip Merger Agreement would be able to obtain its own B Corporation certification. In either of these scenarios, our current or prospective merchants or customers may decide to reduce or completely forego their business with us, which may have an adverse impact on our financial condition and results of operations.



# Consolidated Financial Statements







REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of Sezzle Inc. and Subsidiaries:

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Sezzle Inc. and Subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the years ended December 31, 2021 and 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years ended December 31, 2021 and 2020, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Baker Tilly US, LLP*

We have served as the Company's auditor since 2019.

Minneapolis, Minnesota  
March 30, 2022

Baker Tilly US, LLP, trading as Baker Tilly, is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

## CONSOLIDATED BALANCE SHEETS

	As of	
	December 31, 2021	December 31, 2020
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 76,983,728	\$ 84,285,383
Restricted cash, current	1,886,440	4,798,520
Notes receivable, net	133,986,583	80,807,300
Other receivables, net	5,084,099	1,403,306
Prepaid expenses and other current assets	3,350,053	1,705,919
<b>Total current assets</b>	<b>221,290,903</b>	<b>173,000,428</b>
<b>Non-Current Assets</b>		
Internally developed intangible assets, net	910,584	537,046
Property and equipment, net	662,472	375,186
Operating right-of-use assets	285,865	145,576
Restricted cash, non-current	20,000	20,000
Other assets	233,752	32,537
<b>Total Assets</b>	<b>\$ 223,403,576</b>	<b>\$ 174,110,773</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Merchant accounts payable	\$ 96,516,668	\$ 60,933,272
Operating lease liabilities	171,959	142,743
Accrued liabilities	7,996,772	6,680,870
Other payables	2,874,046	615,839
<b>Total current liabilities</b>	<b>107,559,445</b>	<b>68,372,724</b>
<b>Long Term Liabilities</b>		
Long term debt	250,000	1,470,332
Lease liabilities	90,962	—
Line of credit, net of unamortized debt issuance costs of \$1,088,869 and \$173,773, respectively	77,711,131	39,826,227
Other non-current liabilities	—	4,483,073
<b>Total Liabilities</b>	<b>185,611,538</b>	<b>114,152,356</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Common stock, \$0.00001 par value; 750,000,000 and 300,000,000 shares authorized, respectively; 204,891,057 and 197,078,709 shares issued, respectively; 204,230,939 and 196,926,674 shares outstanding, respectively	2,044	1,970
Additional paid-in capital	168,338,673	112,640,974
Stock subscriptions: 20,729 and 64,000 shares subscribed, respectively	(18,545)	(69,440)
Treasury stock, at cost: 660,118 and 152,035 shares, respectively	(3,691,322)	(875,232)
Accumulated other comprehensive income	563,911	494,505
Accumulated deficit	(127,402,723)	(52,234,360)
<b>Total Stockholders' Equity</b>	<b>37,792,038</b>	<b>59,958,417</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 223,403,576</b>	<b>\$ 174,110,773</b>

See the accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the years ended	
	December 31, 2021	December 31, 2020
<b>Income</b>		
Sezzle income	\$ 98,200,184	\$ 49,659,042
Account reactivation fee income	16,616,451	9,129,231
Total income	114,816,635	58,788,273
<b>Operating Expenses</b>		
Personnel	56,831,368	30,689,462
Transaction expense	43,476,143	22,489,626
Third-party technology and data	5,549,844	2,464,113
Marketing, advertising, and tradeshow	9,251,854	4,274,929
General and administrative	15,768,583	7,214,535
Provision for uncollectible accounts	52,621,682	19,587,918
Total operating expenses	183,499,474	86,720,583
<b>Operating Loss</b>	<b>(68,682,839)</b>	<b>(27,932,310)</b>
<b>Other Expenses</b>		
Net interest expense	(5,269,284)	(4,303,175)
Other expense, net	(65,145)	(126,291)
Loss on extinguishment of line of credit	(1,092,679)	—
Loss before taxes	(75,109,947)	(32,361,776)
Income tax expense	58,416	30,964
<b>Net Loss</b>	<b>(75,168,363)</b>	<b>(32,392,740)</b>
<b>Other Comprehensive Income</b>		
Foreign currency translation adjustment	69,406	494,505
<b>Total Comprehensive Loss</b>	<b>\$ (75,098,957)</b>	<b>\$ (31,898,235)</b>
<b>Net Losses per Share:</b>		
Basic and diluted loss per common share	\$ (0.38)	\$ (0.17)
Basic and diluted weighted average shares outstanding	200,344,028	186,842,646

See the accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount						
<b>Balance at January 1, 2020</b>	<b>178,931,312</b>	<b>\$ 1,789</b>	<b>\$ 47,154,147</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (19,841,620)</b>	<b>\$ 27,314,316</b>
Equity based compensation	—	—	6,528,356	—	—	—	—	6,528,356
Stock option exercises	1,492,060	14	427,717	—	—	—	—	427,731
Restricted stock issuances and vesting of awards	464,736	5	482,483	—	—	—	—	482,488
Stock subscriptions receivable related to stock option exercises	244,416	3	77,912	(77,915)	—	—	—	—
Stock subscriptions collected related to stock option exercises	—	—	—	8,475	—	—	—	8,475
Repurchase of common stock	(152,035)	—	—	—	(875,232)	—	—	(875,232)
Retirement of common stock	(343,750)	(3)	(2,231)	—	—	—	—	(2,234)
Proceeds from issuance of common stock, net of issuance costs	16,289,935	162	57,972,590	—	—	—	—	57,972,752
Foreign currency translation adjustment	—	—	—	—	—	494,505	—	494,505
Net loss	—	—	—	—	—	—	(32,392,740)	(32,392,740)
<b>Balance at December 31, 2020</b>	<b>196,926,674</b>	<b>\$ 1,970</b>	<b>\$ 112,640,974</b>	<b>\$ (69,440)</b>	<b>\$ (875,232)</b>	<b>\$ 494,505</b>	<b>\$ (52,234,360)</b>	<b>\$ 59,958,417</b>

	Common Stock		Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount						
<b>Balance at January 1, 2021</b>	<b>196,926,674</b>	<b>\$ 1,970</b>	<b>\$ 112,640,974</b>	<b>\$ (69,440)</b>	<b>\$ (875,232)</b>	<b>\$ 494,505</b>	<b>\$ (52,234,360)</b>	<b>\$ 59,958,417</b>
Equity based compensation	—	—	9,013,029	—	—	—	—	9,013,029
Stock option exercises	1,486,341	15	765,771	—	—	—	—	765,786
Restricted stock issuances and vesting of awards	1,569,681	16	5,148,709	—	—	—	—	5,148,725
Issuance of restricted stock units for settlement of accrued expenses	—	—	1,996,779	—	—	—	—	1,996,779
Conversion of liability-classified incentive awards to stockholder's equity	—	—	8,580,123	—	—	—	—	8,580,123
Stock subscriptions receivable related to stock option exercises	197,056	2	196,102	(196,104)	—	—	—	—
Stock subscriptions collected related to stock option exercises	—	—	—	246,999	—	—	—	246,999
Repurchase of common stock	(508,083)	(5)	—	—	(2,816,090)	—	—	(2,816,095)
Proceeds from issuance of common stock, net of issuance costs	4,559,270	46	29,997,186	—	—	—	—	29,997,232
Foreign currency translation adjustment	—	—	—	—	—	69,406	—	69,406
Net loss	—	—	—	—	—	—	(75,168,363)	(75,168,363)
<b>Balance at December 31, 2021</b>	<b>204,230,939</b>	<b>\$ 2,044</b>	<b>\$ 168,338,673</b>	<b>\$ (18,545)</b>	<b>\$ (3,691,322)</b>	<b>\$ 563,911</b>	<b>\$ (127,402,723)</b>	<b>\$ 37,792,038</b>

See the accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended	
	December 31, 2021	December 31, 2020
<b>Operating Activities:</b>		
Net loss	\$ (75,168,363)	\$ (32,392,740)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	749,111	428,374
Provision for uncollectible accounts	52,621,682	19,587,918
Provision for other uncollectible receivables	7,349,852	2,723,853
Equity based compensation and restricted stock vested	14,161,754	7,010,844
Amortization of debt issuance costs	689,930	417,054
Impairment losses on long-lived assets	5,475	7,850
Loss on extinguishment of line of credit	1,092,679	—
Changes in operating assets and liabilities:		
Notes receivable	(105,950,424)	(74,983,119)
Other receivables	(11,031,826)	(3,810,392)
Prepaid expenses and other assets	(1,855,206)	(795,884)
Merchant accounts payable	35,696,079	47,467,731
Other payables	2,111,082	84,962
Accrued liabilities	7,416,249	9,469,738
Operating leases	(20,124)	(25,050)
<b>Net Cash Used for Operating Activities</b>	<b>(72,132,050)</b>	<b>(24,808,861)</b>
<b>Investing Activities:</b>		
Purchase of property and equipment	(686,032)	(410,896)
Internally developed intangible asset additions	(733,995)	(322,015)
<b>Net Cash Used for Investing Activities</b>	<b>(1,420,027)</b>	<b>(732,911)</b>
<b>Financing Activities:</b>		
Proceeds from issuance of long term debt	—	1,220,332
Payments on long term debt	(1,220,332)	—
Proceeds from line of credit	174,666,667	85,650,000
Payments to line of credit	(135,866,667)	(67,100,000)
Payments of debt issuance costs	(1,697,705)	—
Payment of debt extinguishment costs	(1,000,000)	—
Proceeds from stock option exercises	765,786	427,731
Stock subscriptions collected related to stock option exercises	246,999	8,475
Repurchase of common stock	(2,652,014)	(611,215)
Retirement of common stock	—	(2,234)
Proceeds from issuance of common stock	30,000,000	60,457,256
Costs incurred from issuance of common stock	(2,768)	(2,484,504)
<b>Net Cash Provided from Financing Activities</b>	<b>63,239,966</b>	<b>77,565,841</b>
Effect of exchange rate changes on cash	98,376	455,216
Net (decrease) increase in cash, cash equivalents, and restricted cash	(10,312,111)	52,024,069
Cash, cash equivalents, and restricted cash, beginning of year	89,103,903	36,624,618
<b>Cash, cash equivalents, and restricted cash, end of period</b>	<b>\$ 78,890,168</b>	<b>\$ 89,103,903</b>
<b>Noncash investing and financing activities:</b>		
Lease liabilities arising from obtaining right-of-use assets	\$ 328,341	\$ —
Issuance of restricted stock units for settlement of accrued expenses	1,996,779	—
Conversion of liability-classified incentive awards to stockholder's equity	8,580,123	—
Withholding of restricted stock units to cover employee tax withholding	164,081	264,017
<b>Supplementary disclosures:</b>		
Interest paid	\$ 4,819,604	\$ 3,770,838
Income taxes paid	56,017	8,326

See the accompanying Notes to Consolidated Financial Statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Principal Business Activity and Significant Accounting Policies

#### *Principal Business Activity*

Sezzle Inc. (the “Company” or “Sezzle”) is a technology-enabled payments company based in the United States with operations in the United States, Canada, India, Europe, and startup operations in Brazil. The Company is a Delaware Public Benefit Corporation formed on January 4, 2016. The Company offers its payment solution at online stores and a select number of brick-and-mortar retail locations, connecting consumers with merchants via a proprietary payments solution that instantly extends credit at point-of-sale, allowing consumers to purchase and receive the items that they need now while paying over time in interest-free installments.

Merchants turn to Sezzle to increase sales by tapping into Sezzle’s existing user base, increase conversion rates, increase spend per transaction, increase purchase frequency, and reduce return rates, all without bearing any credit risk. Sezzle is a high-growth, networked platform that benefits from a symbiotic and mutually beneficial relationship between merchants and consumers.

The Company’s core product allows consumers to make online purchases and split the payment for the purchase over four equal, interest-free payments over six weeks. The consumer makes the first payment at the time of checkout and makes the subsequent payments every two weeks thereafter. For the Company’s core direct integration solution, the purchase price, less merchant fees, is paid to merchants by Sezzle in advance of collecting the purchase price installments from the consumer. For the Sezzle Virtual Card solution, the full purchase price is paid to merchants at the time of sale, and Sezzle separately invoices the merchant for merchant fees due to the Company.

The Company is headquartered in Minneapolis, Minnesota.

#### *Basis of Presentation and Principles of Consolidation*

The consolidated financial statements are prepared and presented under accounting principles generally accepted in the United States of America (U.S. GAAP). All amounts are reported in U.S. dollars, unless otherwise noted. The Company consolidates the accounts of subsidiaries for which it has a controlling financial interest. The accompanying consolidated financial statements include all the accounts and activity of Sezzle Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

#### *Liquidity and Financial Condition*

The Company meets its liquidity requirements primarily through proceeds from its line of credit, of which it is subject to various covenants. During the year ended December 31, 2021, the Company incurred net losses from its operations, which if continued at the same level in future periods would result in the breach of one or more of such line of credit covenants. The Company’s line of credit is a significant component of its working capital management.

On February 25, 2022 the Company amended its existing line of credit covenants as disclosed in the subsequent event footnote of the consolidated financial statements. Additionally, on March 10, 2022 the Company undertook a workforce reduction to provide the Company with additional annualized cost savings of approximately \$10 million. The Company will undertake further cost cutting measures if the actions taken during the first quarter of 2022 do not fully mitigate the risk of breaching one or more of its line of credit covenants.

Management believes that the implementation of these plans will allow the Company to continue as a going concern through at least March 31, 2023.

There are no assurances that the Company’s implementation of these efforts will be successful, or that the degree of success will be sufficient to meet its current operating costs and requirements under its line of credit covenants. If the Company is unable to increase its profitability and liquidity, it may not be able to fund its ongoing operations.

The accompanying consolidated financial statements assume that the Company will continue as a going concern and have been prepared on the basis of the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The accompanying consolidated financial statements do not include any adjustments to the recoverability and classifications of recorded assets and liabilities as a result of uncertainties.

## *Concentrations of Credit Risk*

### Cash and Cash Equivalents

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains its cash in depository accounts that, at times, may exceed limits established by the Federal Deposit Insurance Corporation ("FDIC") and equivalent foreign institutions. As of the date of this report, the Company has experienced no losses on such accounts.

### Foreign Currency Risk

The Company holds funds and settles payments that are denominated in currencies other than U.S. dollars. Changes in foreign currency exchange rates expose the Company to fluctuations on its consolidated balance sheets and statements of operations and comprehensive loss. Currency risk is managed through limits set on total foreign deposits on hand that the Company routinely monitors.

### Notes Receivable

The Company is exposed to the risk of credit losses as a result of extending credit to consumers. Changes in economic conditions may result in higher credit losses. The Company has a policy for establishing credit lines for individual consumers that helps mitigate credit risk. The allowance for uncollectible accounts is adequate for covering any potential losses on outstanding notes receivable.

## *Cash and Cash Equivalents*

The Company considers all money market funds and other highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Company accepts Automated Clearing House ("ACH"), Electronic Funds Transfer ("EFT"), debit card, and credit card payment methods from consumers as a method to settle its receivables, and these transactions are generally transmitted through third parties. The payments due from the third parties for debit card, credit card, ACH, and EFT transactions are generally settled within three days of initiation. The Company considers all bank, debit, and credit card transactions initiated before the end of the period to be cash and cash equivalents. The Company had cash and cash equivalents of \$76,983,728 and \$84,285,383 as of December 31, 2021 and 2020, respectively.

## *Restricted Cash*

The Company is required to maintain cash balances in a bank account in accordance with the lending agreement executed on February 10, 2021 between Sezzle Funding SPE II, LLC, Sezzle Inc, and their third party line of credit providers Goldman Sachs Bank USA, Bastion Consumer Funding II, LLC, and Bastion Funding IV LLC. The bank account is the property of Sezzle Funding SPE II, LLC, but access to consumer payments is controlled by the line of credit providers. On a regular basis, cash received from consumers is deposited to the bank account and subsequently made available to Sezzle through periodic settlement reporting with the line of credit providers. Cash deposits to the bank account represent cash received from consumers not yet made available to Sezzle, as well as a minimum balance consisting of the sum of accrued interest on the drawn credit facility, accrued management fees charged by the line of credit providers, and 1% of the highest funded facility amount during the previous two collection periods. From time to time, Sezzle may withdraw cash received from the bank account provided it meets certain requirements. The Company is also required to maintain a minimum balance of \$25,000 in a deposit account with a third-party service provider in order to fund merchants using the Company's virtual card solution. The Company had funds on deposit with foreign banking institutions as part of their respective local licensing processes that were restricted until the processes were completed. The amount on deposit within the current restricted bank accounts totaled \$1,886,440 and \$4,798,520 as of December 31, 2021 and 2020, respectively.

The Company is required to maintain a \$20,000 cash balance held in a reserve account to cover ACH transactions. The cash balance within this account is classified as non-current restricted cash on the consolidated balance sheets.

### *Receivables and Credit Policy*

Notes receivable represent amounts from uncollateralized consumer receivables generated from the purchase of merchandise. The original terms of the notes for the Company's core product are to be paid back in four equal installments every two weeks over a six-week period, with the first installment being paid at the time of purchase. The Company does not charge interest on the notes to consumers. Sezzle income is recognized over the average life of the notes receivable using the effective interest rate method. These net deferred costs are recorded within notes receivable, net on the consolidated balance sheets. Notes receivable are recorded at net realizable value and are recorded as current assets. The Company evaluates the collectability of the balances based on historical performance, current economic conditions, and specific circumstances of individual notes, with an allowance for uncollectible accounts being provided as necessary.

Other receivables represents the net realizable value of consumer account reactivation fees receivable, merchant accounts receivable, and merchant processing fees receivable. Consumer account reactivation fees receivable, less an allowance for uncollectible accounts, represents the amount of account reactivation fees the Company reasonably expects to receive from consumers. Receivables from merchants represent amounts merchants owe Sezzle relating to transactions placed by consumers on their sites.

All notes receivable from consumers, as well as related fees, outstanding greater than 90 days past due are charged off as uncollectible. It is the Company's practice to continue collection efforts after the charge-off date. Refer to Note 4 and Note 5 for further information about receivable balances, allowances, and charge-off amounts.

### *Sezzle Income*

Sezzle income as disclosed within the consolidated statements of operations and comprehensive loss is comprised of merchant fees and rescheduled payment fees, less note origination costs.

Sezzle earns its income primarily from fees paid by merchants in exchange for Sezzle's payment processing services. These fees are applied to the underlying sales to consumers passing through the Company's platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction. Consumer installment payment plans typically consist of four installments, with the first payment made at the time of purchase and subsequent payments coming due every two weeks thereafter. Consumers are allowed to reschedule their initial installment one time without incurring a reschedule fee and the principal of a rescheduled payment is not considered to be delinquent. If consumers reschedule a payment more than once in the same order cycle they are subject to a reschedule fee. Note origination costs are comprised of costs paid to third-parties to obtain data for underwriting consumers which result in a successful transaction. Such costs which result in a declined order are recorded within third-party technology and data on the consolidated statements of operations and comprehensive loss.

Sezzle income is initially recorded as a reduction to notes receivable, net, within the consolidated balance sheets. Sezzle income is then recognized over the average duration of the note using the effective interest rate method. Total Sezzle income to be recognized over the duration of existing notes receivable outstanding was \$5,240,919 and \$3,458,222 as of December 31, 2021 and 2020, respectively. Total Sezzle income recognized was \$98,200,184 and \$49,659,042 for the years ended December 31, 2021 and 2020, respectively. Sezzle income in the fourth quarter has historically been strongest for the Company, in line with consumer spending habits during the holiday shopping season.

### *Account Reactivation Fee Income*

Sezzle also earns income from consumers in the form of account reactivation fees. These fees are assessed to consumers who fail to make a timely payment. Sezzle allows, at a minimum and subject to state jurisdiction regulation, a 48-hour waiver period where fees are dismissed if the installment is paid by the consumer. Account reactivation fees are recognized at the time the fee is charged to the consumer, less an allowance for uncollectible amounts. Account reactivation fee income recognized totaled \$16,616,451 and \$9,129,231 for the years ended December 31, 2021 and 2020, respectively.

### *Debt Issuance Costs*

Costs incurred in connection with originating debt are capitalized and are classified in the consolidated balance sheets as a reduction of the financial statement line item for which those costs relate. Debt issuance costs are amortized over the life of the underlying debt obligation utilizing the straight-line method, which approximates the effective interest method. Amortization of debt issuance costs is included within net interest expense on the consolidated statements of operations and comprehensive loss.

### *Property and Equipment*

Property and equipment are recorded at cost, less accumulated depreciation. The Company capitalizes all property and equipment exceeding \$1,000. Depreciation is provided using either the straight-line or double-declining balance method, based on the useful lives of the assets:

	<b>Years</b>	<b>Method</b>
Computers and computer equipment	3	Double-declining balance
Office equipment	5	Double-declining balance
Furniture and fixtures	7	Straight-line

Maintenance and repairs are expensed as incurred. See Note 2 for further information.

### *Internally Developed Intangible Assets*

The Company capitalizes costs incurred for web development and software developed for internal use. The costs capitalized primarily relate to direct labor costs for employees and contractors working directly on software development and implementation. Projects are eligible for capitalization once it is determined that the project is being designed or modified to meet internal business needs; the project is ready for its intended use; the total estimated costs to be capitalized exceed \$1,000; and there are no plans to market, sell, or lease the project.

Amortization is provided using the straight-line method, based on the useful lives of the intangible assets as follows:

	<b>Years</b>	<b>Method</b>
Internal use software	3	Straight-line
Website development costs	3	Straight-line

See Note 3 for further information.

### *Research and Development Costs*

Research expenditures that relate to the development of new processes, including internally developed software, are expensed as incurred. Such costs were approximately \$1,462,000 and \$490,000 for the years ended December 31, 2021 and 2020, respectively. Research expenditures are recorded within personnel on the consolidated statements of operations and comprehensive loss.

### *Impairment of Long-Lived Assets*

The Company reviews the carrying value of long-lived assets, which includes property, equipment, and internally developed intangible assets, for impairment whenever events and circumstances indicate that the assets' carrying value may not be recoverable from the future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects; the manner in which the asset is used; and the effects of obsolescence, demand, competition, and other economic factors. Impairments for the years ended December 31, 2021 and 2020 were \$5,475 and \$7,850, respectively. Impairment costs are recorded in general and administrative within operating expenses in the consolidated statements of operations and comprehensive loss.

As of December 31, 2021 and 2020, the Company had not renewed or extended the initial determined life for any of its recognized internally developed intangible assets.

### *Income Taxes*

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of receivables, property and equipment, equity based compensation, and accrued liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. A full valuation allowance is recorded against the Company's deferred tax assets.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. To date the Company has not recorded any liabilities for uncertain tax positions. Refer to Note 8 for further information.

### *Advertising Costs*

Advertising costs are expensed as incurred and consist of traditional marketing, digital marketing, sponsorships, and promotional product expenses. Such costs were \$8,569,276 and \$3,883,936 for the years ended December 31, 2021 and 2020, respectively.

### *Equity Based Compensation*

The Company maintains stock compensation plans that offer incentives in the form of non-statutory stock options and restricted stock to employees, directors, and advisors of the Company. Equity based compensation expense reflects the fair value of awards measured at the grant date and recognized over the relevant vesting period. The Company estimates the fair value of stock options without a market condition on the measurement date using the Black-Scholes option valuation model. The fair value of stock options and restricted stock units with a market condition is estimated, at the date of grant, using the Monte Carlo Simulation model. The Black-Scholes and Monte Carlo Simulation models incorporate assumptions about stock price volatility, the expected life of the options, risk-free interest rate, and dividend yield. For valuing the Company's stock option grants, significant judgment is required for determining the expected volatility of the Company's common stock and is based on the historical volatility of both its common stock and its defined peer group. The fair value of restricted stock awards and restricted stock units is based on the fair market value of the Company's common stock on the date of grant. The expense associated with equity based compensation is recognized over the requisite service period using the straight-line method. The Company issues new shares of common stock upon the exercise of stock options and vesting of restricted stock units. Refer to Note 13 and Note 15 for further information around the Company's equity based compensation plans.

### *Estimates*

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The Company's estimates and judgments are based on historical experience and various other assumptions that it believes are reasonable under the circumstances. The amount of assets and liabilities reported on the Company's consolidated balance sheets and the amounts of income and expenses reported for each of the periods presented are affected by estimates and assumptions, which are used for, but not limited to, determining the allowance for uncollectible accounts recorded against outstanding receivables, the useful life of property and equipment and internally developed intangible assets, determining impairment of property and equipment and internally developed intangible assets, valuation of equity based compensation, leases, and income taxes.

## *Fair Value*

Fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The accounting guidance includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 — Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 — Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3 — Unobservable inputs for the asset or liability, which include management's own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

The Company measures the value of its money market securities on a regular basis. The fair value of its money market securities, totaling \$6,408,389 and \$9,996,155 as of December 31, 2021 and 2020, respectively, are based on Level 1 inputs and are included within cash and cash equivalents on the consolidated balance sheets.

## *Segments*

We conduct our operations through a single operating segment and, therefore, one reportable segment. There are no significant concentrations by state or geographical location, nor are there any significant individual customer concentrations by balance.

## *Foreign Currency Exchange Gains (Losses)*

Sezzle works with international merchants, creating exposure to gains and losses from foreign currency exchanges. Sezzle's income and cash can be affected by movements in the Canadian Dollar, Euro, Indian Rupee, and Brazilian Real. Losses from foreign exchange rate fluctuations that affect Sezzle's net loss totaled (\$69,228) and (\$125,292) for the years ended December 31, 2021 and 2020, respectively. Foreign currency exchange gains and losses are recorded within other income and expenses, net, on the consolidated statements of operations and comprehensive loss.

The financial statements of the Company's non-U.S. subsidiaries are translated into U.S. dollars in accordance with ASC 830, "Foreign Currency Matters". Under ASC 830, if the assets and liabilities of the Company are recorded in certain non-U.S. functional currencies other than the U.S. dollar, they are translated at current rates of exchange. Revenue and expense items are translated at the average monthly exchange rates. The resulting translation adjustments are recorded directly into accumulated other comprehensive income. Foreign currency translation adjustment income totaled \$69,406 and \$494,505 for the years ended December 31, 2021 and 2020, respectively.

## Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-13, "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" which requires reporting entities estimate credit losses expected to occur over the life of the asset. Expected losses will be recorded in current period earnings and recorded through an allowance for credit losses on the consolidated balance sheet. During November 2018, April 2019, May 2019, October 2019, November 2019 and March 2020, the FASB also issued ASU No. 2018-19, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses"; ASU No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses"; ASU No. 2019-05 "Targeted Transition Relief"; ASU No. 2019-10 "Financial Instruments—Credit Losses (Topic 326): Effective Dates"; ASU No. 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses"; and ASU No. 2020-03 "Codification Improvements to Financial Instruments". ASU No. 2018-19 clarifies the effective date for nonpublic entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASU Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, ASU No. 2019-10 delayed the effective date for applying this standard and ASU Nos. 2019-11 and 2020-03 amend ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2021. Companies that meet the criteria of a smaller reporting company can elect to defer adoption of ASU No. 2016-13 (as amended) to annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. As a smaller reporting company, Sezzle plans to adopt this standard beginning January 1, 2023 and is currently evaluating the impact of the standard on its consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" which requires franchise taxes calculated based on income are included in income tax expense. To the extent that the franchise taxes not based on income exceed the franchise taxes based on income, the excess is recorded outside of income tax expense. ASU No. 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 for public entities. Sezzle adopted this standard beginning January 1, 2021 with no impact to the consolidated financial statements for the year ended December 31, 2021.

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" which provides optional expedients and exceptions if certain criteria are met when accounting for contracts or other transactions that reference LIBOR. Application of the guidance is optional until December 31, 2022 and varies based on the practical expedients elected. Effective January 1, 2022, the Company amended its line of credit agreement to replace references to LIBOR with the U.S. Federal Reserve's Secured Overnight Financing Rate (SOFR). The Company believes the change in the reference rate to SOFR from LIBOR will not have a material impact on the Company's financial statements, and as such the Company does not anticipate needing to elect any expedients related to Reference Rate Reform.

In August 2020, the FASB issued ASU No. 2020-06, "Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" which simplifies the accounting for convertible debt by eliminating the beneficial conversion feature and cash conversion feature models from the guidance and instead requires entities to record convertible debt at amortized cost. Application of the guidance is optional starting in fiscal years beginning after December 15, 2020 and required for public entities after December 15, 2021. The Company is not expecting this standard to have any potential future impacts on the Company's consolidated financial statements, as its previously issued convertible debt had been settled prior to the earliest presented period in its consolidated financial statements.

In November 2021, the FASB issued ASU No. 2021-10, "Government Assistance (Topic 832)—Disclosures by Business Entities about Government Assistance" which requires annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. ASU No. 2021-10 is effective for annual periods beginning after December 15, 2021 for all entities. The Company is not expecting this standard to have any potential future impacts on the Company's consolidated financial statements, as its Paycheck Protection Program loan was accounted for as debt rather than a government grant or contribution.

## Note 2. Property and Equipment

As of December 31, 2021 and 2020, property and equipment, net, consists of the following:

	2021	2020
Computer and office equipment	\$ 1,314,656	\$ 636,950
Furniture and fixtures	28,967	28,393
Property and equipment, gross	1,343,623	665,343
Less accumulated depreciation	(681,151)	(290,157)
<b>Property and equipment, net</b>	<b>\$ 662,472</b>	<b>\$ 375,186</b>

Depreciation expense relating to property and equipment was \$394,068 and \$170,949 for the years ended December 31, 2021 and 2020, respectively, and is recorded within general and administrative on the consolidated statements of operations and comprehensive loss.

## Note 3. Internally Developed Intangible Assets

As of December 31, 2021 and 2020, internally developed intangible assets, net, consists of the following:

	2021	2020
Internal use software and website development costs	\$ 1,397,169	\$ 825,018
Works in process	260,468	109,155
Internally developed intangible assets, gross	1,657,637	934,173
Less accumulated amortization	(747,053)	(397,127)
<b>Internally developed intangible assets, net</b>	<b>\$ 910,584</b>	<b>\$ 537,046</b>

Amortization expense relating to internally developed intangible assets was \$355,043 and \$257,425 for the years ended December 31, 2021 and 2020, respectively, and is recorded within general and administrative on the consolidated statements of operations and comprehensive loss.

## Note 4. Notes Receivable

Sezzle's notes receivable comprise outstanding consumer principal and reschedule fees that Sezzle reasonably expects to collect from its consumers. As of December 31, 2021 and 2020, Sezzle's notes receivable, related allowance for uncollectible accounts, and deferred net origination fees are recorded within the consolidated balance sheets as follows:

	2021	2020
Notes receivable, gross	\$ 162,341,675	\$ 95,398,668
Less allowance for uncollectible accounts:		
Balance at beginning of year	(11,133,146)	(3,461,837)
Provision	(52,621,682)	(19,587,918)
Charge-offs, net of recoveries totaling \$6,153,728 and \$648,799, respectively	40,640,655	11,916,609
Total allowance for uncollectible accounts	(23,114,173)	(11,133,146)
Notes receivable, net of allowance	139,227,502	84,265,522
Deferred Sezzle income	(5,240,919)	(3,458,222)
<b>Notes receivable, net</b>	<b>\$ 133,986,583</b>	<b>\$ 80,807,300</b>



Sezzle maintains an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal and reschedule fee receivables from consumers. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. Principal payments recovered after the 90 day charge-off period are recognized as a reduction to the allowance for uncollectible accounts in the period the receivable is recovered. Sezzle has not changed the methodology for estimating its allowance for uncollectible accounts during the year ended December 31, 2021.

Sezzle uses its judgment to evaluate the allowance for uncollectible accounts based on current economic conditions and historical performance of consumer payments. The historical vintages are grouped into semi-monthly populations for purposes of the allowance assessment. The balances of historical cumulative charge-offs by vintage support the calculation for estimating the allowance for uncollectible accounts for vintages outstanding less than 90 days.

Sezzle estimates the allowance for uncollectible accounts by segmenting consumer accounts receivable by the number of days balances are delinquent. Balances that are at least one day past the initial due date are considered delinquent. Balances that are not delinquent are considered current. Consumer notes receivable are charged-off following the passage of 90 days without receiving a qualifying payment, upon notice of bankruptcy, or death. Consumers are allowed to reschedule a payment one time without incurring a reschedule fee and the principal of a rescheduled payment is not considered to be delinquent. If consumers reschedule a payment more than once in the same order cycle they are subject to a reschedule fee.

Deferred Sezzle income is comprised of unrecognized merchant fees and consumer reschedule fees net of direct note origination costs, which are recognized over the duration of the note with the consumer and are recorded as an offset to Sezzle income on the consolidated statements of operations and comprehensive loss. Sezzle's notes receivable had a weighted average days outstanding of 34 days, consistent with the prior year's duration.

The following table summarizes Sezzle's gross notes receivable and related allowance for uncollectible accounts as of December 31, 2021 and 2020:

	2021			2020		
	Gross Receivables	Less Allowance	Net Receivables	Gross Receivables	Less Allowance	Net Receivables
Current	\$ 139,024,393	\$ (7,989,217)	\$ 131,035,176	\$ 79,673,073	\$ (2,692,254)	\$ 76,980,819
Days past due:						
1-28	12,263,154	(5,126,611)	7,136,543	9,574,902	(3,616,327)	5,958,575
29-56	5,266,164	(4,267,236)	998,928	3,576,255	(2,646,627)	929,628
57-90	5,787,964	(5,731,109)	56,855	2,574,438	(2,177,938)	396,500
<b>Total</b>	<b>\$ 162,341,675</b>	<b>\$ (23,114,173)</b>	<b>\$ 139,227,502</b>	<b>\$ 95,398,668</b>	<b>\$ (11,133,146)</b>	<b>\$ 84,265,522</b>

## Note 5. Other Receivables

As of December 31, 2021 and 2020, the balance of other receivables, net, on the consolidated balance sheets is comprised of the following:

	2021	2020
Account reactivation fees receivable, net	\$ 1,325,443	\$ 804,060
Receivables from merchants, net	3,758,656	599,246
<b>Other receivables, net</b>	<b>\$ 5,084,099</b>	<b>\$ 1,403,306</b>

Account reactivation fees are applied to principal installments that are delinquent for more than 48 hours (or longer depending on the regulations within a specific state jurisdiction) after the scheduled installment payment date. Any account reactivation fees associated with a delinquent payment are considered to be the same number of days delinquent as the principal payment. Account reactivation fees receivable, net, is comprised of outstanding account reactivation fees that Sezzle reasonably expects to collect from its consumers.

As of December 31, 2021 and 2020, Sezzle's account reactivation fees receivable and related allowance for uncollectible accounts are recorded within the consolidated balance sheets as follows:

	2021	2020
Account reactivation fees receivable, gross	\$ 3,016,514	\$ 1,875,648
Less allowance for uncollectible accounts:		
Balance at start of period	(1,071,588)	(483,518)
Provision	(6,128,851)	(2,347,733)
Charge-offs, net of recoveries totaling \$1,273,319 and \$71,110, respectively	5,509,368	1,759,663
Total allowance for uncollectible accounts	(1,691,071)	(1,071,588)
<b>Account reactivation fees receivable, net</b>	<b>\$ 1,325,443</b>	<b>\$ 804,060</b>

Sezzle maintains the allowance at a level necessary to absorb estimated probable losses on consumer account reactivation fee receivables. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. Payments recovered after the 90 day charge-off period are recognized as a reduction to the allowance for uncollectible accounts in the period the receivable is recovered. Sezzle has not changed the methodology for estimating its allowance for uncollectible accounts during the year ended December 31, 2021.

Receivables from merchants primarily represent merchant fees receivable for orders settled with the Sezzle Virtual Card solution. Such receivables totaled \$3,738,765 and \$596,156 as of December 31, 2021 and 2020, respectively. Virtual card transactions are settled with the merchant for the full purchase price at the point of sale and Sezzle separately invoices the merchant for the merchant fees due to Sezzle.

Additionally, the Company had other uncollectible receivables, net, which totaled \$19,891 and \$3,090 as of December 31, 2021 and 2020, respectively. During the years ended December 31, 2021 and 2020, the Company recorded direct write-downs of \$1,221,001 and \$376,120, respectively, related to these other uncollectible receivables from merchants which are included in transaction expense on the consolidated statements of operations and comprehensive loss. Such write-downs are also included in the provision for uncollectible other receivables on the consolidated statements of cash flows.

## Note 6. Leases

Sezzle is currently entered into operating leases for its corporate office spaces in the United States, Canada, India, Lithuania, and Brazil. Total lease expense incurred for the years ended December 31, 2021 and 2020 was \$472,876 and \$513,248, respectively. Lease expense is recognized within general and administrative on the consolidated statements of operations and comprehensive loss. Cash payments for leases totaled \$466,315 and \$558,631 for the years ended December 31, 2021 and 2020.

Right-of-use assets and lease liabilities are recognized as of the commencement date based on the present value of the remaining lease payments over the lease term which includes renewal periods that the Company is reasonably certain to exercise. Right-of-use assets and lease liabilities are recorded within current assets and liabilities, respectively, on the consolidated balance sheets.

During the year ended December 31, 2021, Sezzle renewed a portion of its operating leases in the United States and Canada, which it had previously determined it was unlikely to renew. Additionally, Sezzle entered into new operating lease agreements in Lithuania and Brazil. As a result, Sezzle recorded an increase in its operating right-of-use assets and its corresponding lease liabilities of \$328,341.

The expected maturity of the Company's operating leases as of December 31, 2021 is as follows:

2022	\$	205,637
2023		91,133
2024		12,753
Interest		(46,602)
Present value of lease liabilities	\$	262,921

The weighted average remaining term of the Company's operating leases is 1.5 years and its weighted average discount rate for all operating leases is 5.25%. As of December 31, 2021, Sezzle has not entered into any lease agreements that contain residual value guarantees or financial covenants.

## Note 7. Commitments and Contingencies

### *Merchant Contract Obligations*

The Company has entered into several agreements with third-parties in which Sezzle will reimburse these third-parties for mutually agreed upon co-branded marketing and advertising costs. As of December 31, 2021 and 2020, the Company had outstanding agreements that stipulate Sezzle will commit to spend up to approximately \$35.1 million and \$0.7 million, respectively, in marketing and advertising spend in future periods. These agreements generally have contractual terms ranging from one to three years.

Expenses incurred relating to these agreements totaled \$6,496,361 and \$3,220,959 for the years ended December 31, 2021 and 2020, respectively. These expenses are included within marketing, advertising, and tradeshow on the consolidated statements of operations and comprehensive loss. Sezzle had approximately \$83,000 and \$211,000 recorded as a prepaid expense related to these agreements in the consolidated balance sheets as of December 31, 2021 and 2020, respectively.

Certain agreements also contain provisions that may require payments by the Company and are contingent on Sezzle and/or the third party meeting specified criteria, such as achieving volume targets and implementation benchmarks. As of December 31, 2021, the Company had outstanding agreements that stipulate Sezzle may spend approximately \$6.7 million in future periods if such criteria are met.

## Note 8. Income Taxes

The components of loss before taxes for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
United States	\$ (63,143,175)	\$ (29,879,368)
International	(11,966,772)	(2,482,408)
<b>Total</b>	<b>\$ (75,109,947)</b>	<b>\$ (32,361,776)</b>

The income tax expense components for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Current tax expense		
Federal	\$ —	\$ —
Foreign	—	—
State	58,416	30,964
Deferred tax expense		
Federal	—	—
Foreign	—	—
State	—	—
<b>Income tax expense</b>	<b>\$ 58,416</b>	<b>\$ 30,964</b>

The components of the net deferred tax assets and liabilities as of December 31, 2021 and December 31, 2020 are as follows:

	2021	2020
Deferred tax assets:		
Net operating loss carryforwards	\$ 17,865,584	\$ 5,849,989
Allowance for uncollectible accounts	6,171,512	2,822,803
Equity based compensation	3,273,873	773,546
Lease liability	50,408	31,855
Startup costs	10,517	10,857
Accruals	328,154	1,722,143
Nondeductible interest	945,153	—
Other	290,029	144,194
Total net deferred tax assets	28,935,230	11,355,387
Valuation allowance	(28,842,025)	(11,227,262)
Deferred tax liabilities:		
Depreciation and amortization	(36,457)	(93,439)
Equity based compensation	(356)	(1,664)
Right-of-use asset	(56,392)	(33,022)
Total net deferred tax liabilities	(93,205)	(128,125)
<b>Net deferred tax asset (liability)</b>	<b>\$ —</b>	<b>\$ —</b>

A reconciliation of the Company's provision for income taxes at the federal statutory rate to the reported income tax provision for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Computed "expected" tax benefit	(21.0) %	(21.0) %
State income tax benefit, net of federal tax effect	(2.6)	(1.7)
Nondeductible equity based compensation	1.2	0.1
Other permanent differences	0.3	—
Change in valuation allowance	23.5	23.4
Foreign rate differentials and other	(1.3)	(0.7)
Income tax expense	0.1 %	0.1 %

As of December 31, 2021, the Company had federal, state, and foreign net operating loss carryforwards of approximately \$60,228,000, \$28,834,000, and \$13,589,000, respectively. The federal net operating loss carryforwards that originated after 2017 have an indefinite life and may be used to offset 80% of a future year's taxable income. The federal net operating loss carryforwards that originated prior to 2018 have expiration dates between 2036 and 2037. The state net operating losses will carryforward for between 15 years and indefinitely and begin to expire in 2031.

The Company's ability to utilize a portion of its net operating loss carryforwards to offset future taxable income is subject to certain limitations under Section 382 of the Internal Revenue Code due to changes in the equity ownership of the Company. An ownership change under Section 382 has not been determined at this time.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2021. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth.

On the basis of this evaluation, as of December 31, 2021, a valuation allowance of \$28,842,025 has been recorded since the deferred tax asset is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth. The change in valuation allowance was approximately \$17,615,000 and \$7,567,000 for the years ended December 31, 2021 and 2020, respectively.

The Company files income tax returns in the U.S. federal jurisdiction, Brazil, Canada, Germany, India, Lithuania, the Netherlands and various U.S. states. The Company does not believe an uncertain tax position exists as of December 31, 2021. Based on the Company's assessment of many factors, including past experience and complex judgements about future events, the Company does not currently anticipate significant changes in its uncertain tax positions over the next 12 months. In connection with the adoption of the referenced provisions, the Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. As of December 31, 2021, the Company had no accrued interest and penalties.

The Company's federal and state tax returns are open for review going back to the 2018 tax year.

The Tax Cuts and Jobs Act, signed into U.S. legislation on December 22, 2017, introduced a new Global Intangible Low-Taxed Income ("GILTI") provision. Under U.S. GAAP, the Company is allowed to make an accounting policy choice of either 1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period cost when incurred, or 2) factoring such amounts into the Company's measurement of its deferred taxes. GILTI depends not only on the Company's current structure and estimated future income, but also on intent and ability to modify the structure or business. The Company has chosen to treat GILTI as a current-period cost when incurred.

In November 2018, the U.S. Treasury issued proposed regulations for the new section 163(j), which generally limits business interest deductions to 30% of adjusted taxable income ("ATI"). Any disallowed business interest can be carried forward on an indefinite basis. For the year ended December 31, 2021, the Company has disallowed business interest carryforwards of \$3,874,493.

Management's intention is to reinvest foreign earnings into the Company's foreign operations. To date, Sezzle's various foreign subsidiaries do not have any earnings.

## Note 9. Stockholders' Equity

### *Repurchase and Retirement of Common Stock*

On June 3, 2020, the Company repurchased 343,750 common shares from an existing stockholder. The purchase was made at the original cost basis, totaling \$2,234, and is recorded as a reduction in common stock and additional paid-in capital within the consolidated statements of stockholders' equity as of December 31, 2020. The repurchased shares were retired upon purchase by the Company.

Sezzle retains a portion of vested restricted stock units to cover withholding taxes for employees. As of December 31, 2020, Sezzle had withheld 152,035 shares at a value totaling \$875,232. As of December 31, 2021, Sezzle had withheld 660,118 shares at a value totaling \$3,691,322. Sezzle recognizes these amounts as treasury stock, at cost, within the consolidated balance sheets as a reduction to stockholders' equity.

### *Issuance of Common Stock*

On July 15, 2020, Sezzle raised \$55,316,546 of proceeds via an institutional placement. On August 10, 2020, the Company raised an additional \$5,140,710 of proceeds via a Securities Purchase Plan offered to existing investors. The total costs of the capital raise were \$2,484,504, resulting in overall net proceeds of \$57,972,752. In exchange for the capital raise, Sezzle issued 16,289,935 Chess Depository Interests ("CDIs") at a price of \$3.82 per CDI (A\$5.30). The issued CDIs are equivalent to common shares on a 1:1 basis.

On July 14, 2021, Sezzle agreed to issue Discover Financial Services LLC \$30,000,000 of the Company's common stock at a price of \$6.58 per share (A\$8.83), which was completed on July 19, 2021. The Company incurred issuance costs of \$2,768 in connection to this sale. The proceeds from the sale offset such issuance costs within stockholders' equity on the consolidated balance sheets.

## Note 10. Employee Benefit Plan

During the years ended December 31, 2021 and 2020, the Company sponsored a defined contribution 401(k) plan for eligible U.S. employees. Participants in the plan can elect to defer a portion of their eligible compensation, on a pre- or post-tax basis, subject to annual statutory contribution limits. Additionally, in 2021 the Company began sponsoring a defined contribution Registered Retirement Savings Plan ("RRSP") for eligible Canadian employees. Participants in the RRSP can elect to defer a portion of their eligible compensation on a pre-tax basis, subject to annual statutory contribution limits. Assets under both plans are held separately from those of the Company in funds under the control of a third-party trustee.

Effective July 1, 2021, the Company began matching up to six percent of employee contributions under both plans. During the year ended December 31, 2021, the Company incurred expenses of \$588,612 related to matching contributions. The Company made no contributions to the plan during the year ended December 31, 2020.

## Note 11. Line of Credit

For the years ended December 31, 2021 and 2020, interest expense relating to the utilization of its lines of credit was \$1,745,528 and \$2,238,740, respectively. Interest expense relating to unused daily amounts was \$560,687 and \$229,523 for the years ended December 31, 2021 and 2020, respectively. Amortization expense recorded for debt issuance costs related to its lines of credit totaled \$689,930 and \$417,054 for the years ended December 31, 2021 and 2020, respectively.

### *2019 Line of Credit Agreement*

On November 29, 2019, Sezzle Funding SPE, LLC and Sezzle Inc. entered into a Loan and Security Agreement (the "Loan Agreement") with Bastion Consumer Funding II, LLC, Atalaya Asset Income Fund IV LP, and Hudson Cove Credit Opportunity Master Fund, LP (the "Syndicate") for a credit facility of \$100,000,000 with a maturity date of May 29, 2022. The Loan Agreement bore interest at a floating per annum rate equal to the 3-month LIBOR + 7.75% (minimum 9.50%). The interest rate was 9.50% as of December 31, 2020. Beginning May 27, 2020, any daily unused amounts incurred a facility fee due to the Syndicate from Sezzle at a rate of .50% per annum. The Company had an outstanding revolving line of credit balance of \$40,000,000 as of December 31, 2020, recorded within line of credit, net as a non-current liability on the consolidated balance sheets.

Under the Loan Agreement, interest on borrowings was due monthly and all borrowings were due at maturity. Borrowings subsequent to May 1, 2019 were based on 90% of eligible notes receivable from both the United States and Canada, defined as past due balances outstanding less than 30 days originating from the United States. The Company's obligations under the Loan Agreement were secured by its consumer notes receivable. The collateral did not include the Company's intellectual property, but the Company had agreed not to encumber its intellectual property without the consent of the Syndicate. As of December 31, 2020, Sezzle had pledged \$70,989,536 of its notes receivable to Sezzle Funding SPE, LLC. Sezzle had an unused borrowing capacity of \$23,890,582 as of December 31, 2020.

The Company was required to maintain a drawdown from the credit facility of at least \$20,000,000 beginning November 29, 2019 and of at least \$40,000,000 beginning November 29, 2020. In February 2021, the Company paid a \$1,000,000 fee to terminate this Loan Agreement and repaid the amounts outstanding under the credit facility with proceeds from the Company's new line of credit, which is defined below. Total cumulative cash payments for debt issuance costs related to this Loan Agreement were \$663,649.

### *2021 Line of Credit Agreement*

On February 10, 2021, Sezzle Funding SPE II, LLC, a wholly owned indirect subsidiary of Sezzle, (the "Borrower") entered into a senior secured asset-based revolving credit facility, with a borrowing capacity of up to \$250,000,000 (the "line of credit"), which is governed by a credit agreement entered into by the Borrower, Goldman Sachs Bank USA (the "Class A senior lender"), and Bastion Consumer Funding II LLC and Bastion Funding IV LLC (the "Class B mezzanine lenders"). The line of credit has a maturity date of June 12, 2023 (a 28-month term from the agreement date).

Fifty percent of the total available funding facility (\$125,000,000) is committed (the "Committed Facility"), while the remaining fifty percent (\$125,000,000) is available to the Company for expanding its funding capacity (the "Incremental Facility"). Each of the Committed Facility and Incremental Facility is split between the Class A senior lender and Class B mezzanine lenders (in the amounts of \$97.2 million and \$27.8 million for each facility, respectively), and the amounts available to be borrowed from the Class A senior lender and Class B mezzanine lenders are subject to separate borrowing bases. Loans under the Incremental Facility are available at the sole discretion of each Class A and Class B lender. The Company had an outstanding line of credit balance of \$78,800,000 as of December 31, 2021, recorded within line of credit, net, as a non-current liability on the consolidated balance sheets.

The agreement is secured by the Company's consumer notes receivable it chooses to pledge. Borrowings are generally based on 90% of eligible notes receivable pledged, or 85% if the weighted average FICO scores of the pledged receivables fall below 580. Eligible notes receivable are defined as notes receivable from consumers in the United States or Canada that are less than 15 days past due. As of December 31, 2021, Sezzle had pledged \$149,203,705 of its notes receivable and had an unused borrowing capacity of \$29,771,561.

The obligations of the Borrower under the line of credit are guaranteed by Sezzle Funding SPE II Parent, LLC, a wholly owned subsidiary of Sezzle, ("SPE II Parent"), which is the sole member and owner of 100% of the equity interests of the Borrower, pursuant to the Pledge and Guaranty Agreement dated as of February 10, 2021 (the "Parent Guaranty"), entered into by SPE II Parent in favor of Goldman Sachs Bank USA, as administrative agent, on behalf of the secured parties under the line of credit. The line of credit is further supported by a limited guaranty and indemnity of certain losses, expenses, and claims of the lenders and other secured parties, provided by the Company, as the direct owner of 100% of the legal and beneficial equity interests in SPE II Parent, pursuant to the Limited Guaranty and Indemnity Agreement entered into as of February 10, 2021 (the "Limited Guaranty") by the Company for the benefit of Goldman Sachs Bank USA, as administrative agent on behalf of the secured parties under the line of credit.

The line of credit carries an interest rate of 3-month LIBOR+3.375% and 3-month LIBOR+10.689% (the LIBOR floor rate is set at 0.25%) for funds borrowed from the Class A senior lender and Class B mezzanine lenders, respectively. As of December 31, 2021, the weighted average interest rate was 5.25%. Interest on borrowings is due on collection dates as specified in the loan agreement, typically fortnightly.

Additionally, any unused daily amounts incurred a facility fee at a rate of 0.50% per annum until May 11, 2021. Beginning May 11, 2021, the facility fee rate became variable, dependent on the percentage of the line of credit utilized. If less than one-third of the facility is used, the rate is 0.65% per annum; if between one-third and two-thirds of the facility is used, the rate is 0.50% per annum; and if more than two-thirds of the facility is used, the rate is 0.35% per annum. In the event of a prepayment due to a broadly marketed and distributed securitization transaction with a party external to the agreement, an exit fee of 0.75% of such prepaid balance will be due to the lender upon such transaction. Total cumulative cash payments for debt issuance costs related to the new line of credit were \$1,697,705, all of which were paid during the year ended December 31, 2021.

The agreement governing the line of credit includes certain restrictive covenants and, among other things and subject to certain exceptions and qualifications, limits the Borrower's ability to: (i) incur or guarantee additional indebtedness, (ii) make investments or other restricted payments, (iii) acquire assets or form or acquire subsidiaries; (iv) create liens, (v) sell assets, (vi) pay dividends or make other distributions or repurchase or redeem capital stock, (vii) engage in certain transactions with affiliates, (viii) enter into agreements that restrict the creation or incurrence of liens other than the line of credit and related documents; (ix) engage in liquidations, mergers or consolidations; and (x) make any material amendment, modification or supplement to its credit guidelines or servicing guide. SPE II Parent is subject to similar restrictive covenants contained in the Parent Guaranty.

The Limited Guaranty includes financial maintenance covenants pertaining to the tangible net worth, liquidity and leverage of the Company and its subsidiaries on a consolidated basis (the "Consolidated Group"). The Consolidated Group is required to maintain at all times a minimum tangible net worth of (i) if the aggregate outstanding principal balance of advances under the line of credit is less than or equal to \$125.0 million, \$15.0 million or (ii) if the aggregate outstanding principal balance of advances under the line of credit is greater than \$125.0 million, \$30.0 million. With respect to liquidity, the Consolidated Group must maintain unrestricted cash at all times in an amount at least equal to the greater of (i) \$7.5 million and (ii) 7.5% of the amount funded under the line of credit. The Consolidated Group is also required to maintain a maximum leverage ratio, tested as of the last day of each fiscal quarter, of (i) on or prior to March 31, 2022, 8.00 to 1.00 and (ii) after March 31, 2022, 12.00 to 1.00. All three financial covenants are subject to tightening should the Company become party to a comparable guaranty containing similar financial covenants set at more restrictive levels. A failure by the Company to satisfy the financial covenants under the Limited Guaranty constitutes an event of default under the line of credit.

The credit agreement governing the line of credit also contains certain customary representations and warranties, affirmative covenants and events of default (including, among others, an event of default upon a change of control). An immediate event of default is also deemed to have occurred if ratios pertaining to defaulted collateral receivables of a particular vintage or past due collateral receivables within a certain collection period exceed pre-determined levels.



## Note 12. Long Term Debt

### *Minnesota Department of Employment and Economic Development Loan*

On July 26, 2018, the Minnesota Department of Employment and Economic Development ("DEED") funded a \$250,000 seven-year interest-free loan to Sezzle under the State Small Business Credit Initiative Act of 2010 (the "Act"). The Act was created for additional funds to be allocated and dispersed by states that have created programs to increase the amount of capital made available by private lenders to small businesses. The loan proceeds are used for business purposes, primarily start-up costs and working capital needs. The loan may be prepaid in whole or in part at any time without penalty. If more than fifty percent of the ownership interest in Sezzle is transferred during the term of the loan, the loan will be required to be paid in full, along with a penalty in the amount of thirty percent of the original loan amount. The loan matures and is due to be paid back to DEED in June 2025.

### *Paycheck Protection Program Loan*

On April 14, 2020, the Company received loan proceeds in the amount of \$1,220,332 under the U.S. Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). The PPP, established as part of the CARES Act, provides loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. PPP loans are uncollateralized and guaranteed by the SBA, and are forgivable after a "covered period" (eight or twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1% with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, ten months after the end of the covered period. PPP loan terms provide for customary events of default including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, the PPP loan terms do not include prepayment penalties.

On June 24, 2021, the Company repaid the loan in full, comprising \$1,220,332 in principal and \$14,779 in accrued interest. The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted or the loan has been repaid in full. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

## Note 13. Equity Based Compensation

The Company issues incentive and non-qualified stock options, restricted stock units, and restricted stock awards to employees and non-employees with vesting requirements varying from six months to four years. The Company utilizes the Black-Scholes model for valuing stock option issuances and the grant date fair value for valuing restricted stock issuances.

Equity based compensation expense, including vesting of restricted stock units, totaled \$14,161,754 and \$7,010,844 for the years ended December 31, 2021 and 2020, respectively. Equity based compensation expense is recorded within personnel on the consolidated statements of operations and comprehensive loss.

### *2016 Employee Stock Option Plan*

The Company adopted the 2016 Employee Stock Option Plan on January 16, 2016. The number of options authorized for issuance under the plan is 10,000,000. The Company had 5,659,017 and 6,844,170 options issued and outstanding under the plan as of December 31, 2021 and 2020, respectively. Additionally, the Company had 38,888 and 155,556 of restricted stock awards issued and outstanding as of December 31, 2021 and 2020, respectively. During the years ended December 31, 2021 and 2020, 889,320 and 1,344,145 options were exercised into 888,815 and 1,344,145 shares of common stock, respectively. Differences between options exercised and common stock issued are due to shares withheld to cover exercise costs.

### *2019 Equity Incentive Plan*

The Company adopted the 2019 Equity Incentive Plan on June 25, 2019. The number of options authorized for issuance under the plan is 26,000,000. The Company had 15,102,771 and 17,671,374 options issued and outstanding as of December 31, 2021 and 2020, respectively; and 1,467,292 and 2,680,259 restricted stock units issued and outstanding as of December 31, 2021 and 2020, respectively. During the years ended December 31, 2021 and 2020, 835,684 and 392,331 options were exercised into 792,582 and 392,331 shares of common stock, respectively. Differences between options exercised and common stock issued are due to shares withheld to cover exercise costs.

## 2021 Equity Incentive Plan

The Company adopted the 2021 Equity Incentive Plan on June 15, 2021. The number of options authorized for issuance under the plan is 25,000,000. As of December 31, 2021, the Company had 433,980 options issued and outstanding, and 4,316,959 restricted stock units issued and outstanding. During the year ended December 31, 2021, no options were exercised into shares of common stock for this equity incentive plan.

The following tables summarize the options issued, outstanding, and exercisable under the Company's equity based compensation plans as of December 31, 2021 and 2020:

	For the year ended December 31, 2021			
	Number of Options	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life
Outstanding, beginning of year	24,515,544	\$ 1.34	\$ 84,731,639	8.65
Granted	1,922,480	6.29	—	—
Exercised	(1,683,397)	0.71	8,329,397	—
Canceled	(3,558,859)	2.37	—	—
Outstanding, end of year	21,195,768	1.74	23,079,520	7.76
Exercisable, end of year	11,137,578	1.02	16,036,993	7.05
Expected to vest, end of year	10,058,190	\$ 2.55	\$ 7,042,527	8.55

	For the year ended December 31, 2020			
	Number of Options	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life
Outstanding, beginning of year	17,052,503	\$ 0.62	\$ 14,895,996	9.18
Granted	10,105,163	0.83	—	—
Exercised	(1,736,476)	0.31	5,917,834	—
Canceled	(905,646)	0.10	—	—
Outstanding, end of year	24,515,544	1.34	84,731,639	8.65
Exercisable, end of year	7,064,077	0.52	29,883,424	8.04
Expected to vest, end of year	17,451,467	\$ 1.68	\$ 54,848,215	8.90

The following table represents the assumptions used for estimating the fair values of stock options granted to employees, contractors, and non-employees of the Company under the Black-Scholes method. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date:

	2021	2020
Risk-free interest rate	0.65%–1.07%	0.37%–0.56%
Expected volatility	87.39%–90.89%	91.30%–93.83%
Expected life (in years)	6.00	6.00
Weighted average estimated fair value of options granted	\$ 4.95	\$ 2.23

The following table represents the assumptions used for estimating the fair values of stock options granted to executives under the Long Term Incentive Plan (LTIP) of the Company under the Monte Carlo Simulation valuation model. Refer to Note 15 for further information around the Company's LTIP plan. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date:

	2021	2020
Risk-free interest rate	1.62 %	0.68 %
Expected volatility	87.40 %	93.00 %
Expected life (in years)	5.81	6.10
Weighted average estimated fair value of options granted	\$ 3.06	\$ 0.64

Restricted stock award and restricted stock unit transactions during the years ended December 31, 2021 and 2020 are summarized as follows:

	For the year ended December 31, 2021		For the year ended December 31, 2020	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested shares, beginning of year	2,833,743	\$ 3.37	772,222	\$ 1.12
Granted	4,733,804	4.64	2,659,094	3.48
Vested	(1,686,349)	4.19	(581,402)	1.02
Forfeited or surrendered	(58,059)	6.25	(16,171)	1.35
Unvested shares, end of year	5,823,139	\$ 4.22	2,833,743	\$ 3.37

During the year ended December 31, 2021, employees and non-employees received restricted stock units totaling 4,733,804. Vesting of restricted stock units and restricted stock awards totaled 1,569,681 and 116,668, respectively. The shares underlying the restricted stock units granted in 2021 were assigned a weighted average fair value of \$4.64 per share, for a total value of \$21,964,851. The restricted stock issuances are scheduled to vest over a range of one to four years.

During the year ended December 31, 2020, employees and non-employees received restricted stock units totaling 2,659,094. Vesting of restricted stock units and restricted stock awards totaled 464,736 and 116,666, respectively. The shares underlying the restricted stock units granted in 2020 were assigned a weighted average fair value of \$3.48 per share, for a total value of \$9,250,511. The restricted stock issuances are scheduled to vest over a range of one to four years.

As of December 31, 2021, the total compensation cost related to non-vested awards not yet recognized is \$27,266,222 and is expected to be recognized over the weighted average remaining recognition period of approximately 2.7 years.

As of December 31, 2020, the total compensation cost related to non-vested awards not yet recognized is \$23,912,268 and is expected to be recognized over the weighted average remaining recognition period of approximately 3.1 years.

### Sezzle Payments Employee Share Option Plan

Sezzle Payments Private Limited, an Indian subsidiary of Sezzle, adopted the Sezzle Payments Employee Share Option Plan on February 25, 2021. Options under this plan are issued to employees of the subsidiary and are exercisable into common shares of the subsidiary. As of December 31, 2021, 530,305 options were issued and outstanding under the plan. During the year ended December 31, 2021, no options vested nor were exercised into shares of common stock. Equity based compensation expense associated with the plan totaled \$378,551 and is recognized within personnel on the consolidated statements of operations and comprehensive loss, offset against additional paid-in capital of Sezzle. When an option is exercised under this plan the newly issued shares will be reported as non-controlling interest at an amount equal to the proportional share of the subsidiary's equity with a corresponding offset to additional paid-in capital on the consolidated balance sheets.

The following table summarizes the options issued, outstanding, and exercisable under the Sezzle Payments Employee Share Option Plan as of December 31, 2021:

	Number of Options	For the year ended December 31, 2021			
		Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life	
Outstanding, beginning of year	—	\$ —	\$ —	—	—
Granted	530,305	0.23	—	—	—
Exercised	—	—	—	—	—
Canceled	—	—	—	—	—
Outstanding, end of year	530,305	0.23	723,750	9.97	9.97
Exercisable, end of year	—	—	—	—	—
Expected to vest, end of year	530,305	\$ 0.23	\$ 723,750	9.97	9.97

The following table represents the assumptions used for estimating the fair values of stock options granted under the Sezzle Payments Employee Share Option Plan using the Black-Scholes method. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date:

	2021
Risk-free interest rate	1.07 %
Expected volatility	96.90 %–97.35 %
Expected life (in years)	6.00
Weighted average estimated fair value of options granted	\$ 1.47

As of December 31, 2021, the total compensation cost related to non-vested awards not yet recognized is \$404,095 and is expected to be recognized over the weighted average remaining recognition period of approximately 1.7 years.

## Note 14. Merchant Accounts Payable

During the years ended December 31, 2021 and 2020, Sezzle offered its merchants an interest bearing program in which merchants could defer payment from the Company in exchange for interest. Merchant accounts payable in total were \$96,516,668 and \$60,933,272 as of December 31, 2021 and 2020, respectively, as disclosed in the consolidated balance sheets. Of these amounts, \$78,097,910 and \$53,528,501 were recorded within the merchant interest program balance as of December 31, 2021 and 2020, respectively.

Deferred payments retained in the program bear interest at the LIBOR daily (3 month) rate plus three percent (3.0%) on an annual basis, compounding daily. The weighted average annual percentage yield was 3.22% and 5.43% for the years ended December 31, 2021 and 2020, respectively. Interest expense associated with the program totaled \$2,314,770 and \$1,475,554 for the years ended December 31, 2021 and 2020, respectively.

Deferred payments are due on demand, up to \$250,000 during any seven day period, at the request of the merchant. Any request larger than \$250,000 is honored after 7 days. Sezzle reserves the right to impose additional limits on the program and make changes to the program without notice or limits. These limits and changes to the program can include but are not limited to: maximum balances, withdrawal amount limits, and withdrawal frequency.

## Note 15. Short and Long-Term Incentive Plans

In May 2020, the Company adopted a short-term incentive compensation plan for its employees and executives. The program is based on achievements where individuals will be compensated for Company-wide and individual and/or team performance for the fiscal year. Measurement of compensable amounts is determined at the end of the year and payouts to individuals are generally made in the form of restricted stock units in the following year. As of December 31, 2020, the Company had accrued an estimate of \$2,133,806 for this program, which was recorded in accrued liabilities on the consolidated balance sheets. During 2021, the Company determined the final compensation amounts for the 2020 plan and issued restricted stock units valued at \$1,996,779 as compensation to eligible employees, recorded as a reclassification from accrued liabilities to stockholder's equity. The Company did not have an accrual for the short-term incentive program as of December 31, 2021.

The Company also adopted an LTIP program for its executive team in May 2020. The LTIP comprises grants of market priced stock options under the 2019 Equity Incentive Plan, with vesting subject to required levels of Comparative Total Shareholder Return (TSR) tested over three years, and subject to continued employment for a three-year period ending January 1, 2023. Both the market and service vesting conditions must be met in order for the grantee to vest at the end of the three year measurement period. Each of the eligible executive and designated senior officers of the Company was awarded a long term incentive stock option grant to purchase shares of common stock on May 22, 2020. The stock options have an exercise price of A\$2.10 per share, based on the closing sale price of CHES Depository Interests (CDIs) on the Australian Securities Exchange (ASX) on May 21, 2020, the trading day prior to the date of grant. The amount of each award is equal to 300% of the individual's salary in effect as of May 22, 2020 (100% for each of the three years in the performance period and pro-rated for start date). The Company's stock price performance will be measured based on its volume weighted average price relative to other companies included within the S&P/ASX All Technology Index. The number of long term incentive stock option grants were calculated based on a fair value of \$0.64 per option, determined under the Monte Carlo Simulation valuation method.

During 2021, an executive became eligible for the LTIP program and was issued an option award on March 12, 2021. The total fair value of the award is equal to 200% of the individual's salary in effect on the date of grant. The awards have an exercise price of A\$8.00 and a fair value of \$3.06 per award. This award is subject to the same market and service vesting conditions as the grants issued in 2020, though is measured over a two-year period ending January 1, 2023.

The compensable amounts under the LTIP to executive board members were subject to shareholder approval. Due to the pending approval as of December 31, 2020, the Company remeasured the fair value of the awards issued to executive board members utilizing the Monte Carlo Simulation valuation method and accrued \$4,483,073 within other non-current liabilities in the consolidated balance sheets, and offset by an expense recognized in personnel on the consolidated statements of operations and comprehensive loss. The Company remeasured the fair value of the awards on March 31, 2021 and on June 10, 2021, when the Company received shareholder approval to grant the LTIP awards to executive board members in the form of performance-based restricted stock units. Upon the approval date the Company reclassified the awards from other long-term liabilities to stockholder's equity. The total fair value reclassified from liability to stockholder's equity for the LTIP awards was \$8,580,123. Total expense recognized related to compensation under the LTIP program was \$6,680,130 and \$5,939,644 for the years ended December 31, 2021 and 2020, respectively.

## Note 16. Net Loss Per Share

The computation for basic net loss per share is established by dividing net losses for the period by the weighted average shares outstanding during the reporting period, including repurchases carried as treasury stock. Diluted net loss per share is computed in a similar manner, with the weighted average shares outstanding increasing from the assumed exercise of employee stock options (including options classified as liabilities) and assumed vesting of restricted stock units (if dilutive). Given the Company is in a loss position, the impact of including assumed exercises of stock options and vesting of restricted stock units would have an anti-dilutive impact on the calculation of diluted net loss per share and, accordingly, diluted and basic net loss per share were equal for the years ended December 31, 2021 and 2020.

## Note 17. Subsequent Events

The Company has evaluated subsequent events through the date of the audit report and determined that there have been no events, other than those disclosed below, that have occurred that would require adjustment to the disclosures in the consolidated financial statements.

### *Proposed Merger with Wholly-Owned Subsidiary of Zip*

On February 28, 2022, the Company entered into the Zip Merger Agreement, pursuant to which, upon the terms and subject to the conditions thereof, the Merger Sub will be merged with and into the Company, with the Company surviving the merger as a wholly-owned subsidiary of Zip. Subject to the terms and conditions of the Zip Merger Agreement, each share of the Company's common stock (including each share of the Company's common stock in respect of which a Company CDI (as defined in the Zip Merger Agreement) has been issued) issued and outstanding immediately prior to the Effective Time (other than shares of the Company's common stock that are held by the Company (or any of its subsidiaries), Zip (or any of its subsidiaries or Merger Sub) shall be cancelled and converted into the right to receive, at the election of the Company's stockholders (subject to the immediately following sentence), (a) a number of Zip ordinary shares equal to the "Exchange Ratio" or (b) a number of Zip ADRs representing a number of Zip ordinary shares equal to the Exchange Ratio. Any person who is an Australian Stockholder (as defined in the Zip Merger Agreement) will only be entitled to consideration in the form of Zip ordinary shares.

The Zip Merger Agreement includes customary representations, warranties and covenants of the Company, Zip and Merger Sub. Subject to the terms of the Zip Merger Agreement and certain exceptions, the Company and Zip have agreed to operate their respective businesses in the ordinary course consistent with past practice and use commercially reasonable efforts to maintain their respective business organizations and advantageous business relationships until the closing of the transaction. Concurrently with the execution and delivery of the Zip Merger Agreement, certain significant stockholders of both the Company (Charles Youakim and Paul Paradis) and Zip (Larry Diamond and Peter Groy) entered into support agreements pursuant to which, among other things, they agreed to vote all of their stock or ordinary shares, as applicable, in favor of the transaction.

### *Recent Amendment to Credit Agreement and Guaranty*

On February 25, 2022, the Company entered into Amendment No. 3 (the "Credit Agreement Amendment") to that certain Revolving Credit and Security Agreement, dated as of February 10, 2021, as amended as of April 29, 2021, as further amended as of October 15, 2021, by and among Sezzle Funding SPE II, LLC (the "Borrower"), Goldman Sachs Bank USA (the "Administrative Agent") and the other lenders party thereto from time to time (the "Existing Credit Agreement").

The Credit Agreement Amendment amends, among other things, certain definitions and events of default under the Existing Credit Agreement to clarify the terms of applicable cure periods involving replacement of the Servicer or Backup Servicer (each as defined therein).

On February 25, 2022, the Company also entered into Amendment No. 1 (the "Limited Guaranty Amendment") to that certain Limited Guaranty and Indemnity Agreement, dated as of February 10, 2021, by and among the Company (as "Limited Guarantor" thereunder) and the Administrative Agent (the "Existing Limited Guaranty").

The Limited Guaranty Amendment amends the Existing Limited Guaranty to adjust and provide alternatives for certain Limited Guarantor financial covenant measurement thresholds and requires certain Limited Guarantor compliance reporting obligations during a defined modification period. The length of the modification period is dependent in part upon the ongoing status of the Merger Agreement and progress toward closing of the merger.



# Directors' Declaration

For the year ended December 31, 2021

The Directors declare that in the Directors' opinion:

- (a) The attached financial statements and notes give a true and fair view of the consolidated entity's financial position as of December 31, 2021 and performance for the financial year ended on that date;
- (b) There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable;
- (c) The attached financial statements and notes comply with accounting principles generally accepted in the United States of America (U.S. GAAP) as issued by the Financial Accounting Standards Board as described in the notes to the financial statements;
- (d) The attached financial statements and notes also comply with mandatory professional reporting requirements, including the Corporations Act 2001, the Accounting Standards, and the Corporations Regulations 2001 to the extent that the Company is required to comply with such provisions; and
- (e) The remuneration disclosures set out in the Directors' Report comply with Corporations Regulations 2001 and other mandatory professional reporting requirements to the extent that the Company is required to comply with such provisions.
- (f) The Directors have been given a declaration by the Chief Executive Officer and Chief Financial Officer equivalent to section 295(a) of the Corporations Act 2001.

On behalf of the Board,



Charlie Youakim,  
Executive Chairman and CEO

31 March 2022



# Additional ASX Information

Additional information required pursuant to ASX Listing Rule 4.10 and not disclosed elsewhere in this report is set out below. The information is effective as at March 16, 2022.

## Corporate Governance:

The Company's Corporate Governance Statement (CGS) for the year ended 31 December 2021 was approved by the Board of Directors on 29 March, 2022 and is effective as at that date. A copy of the Company's 2021 CGS will be lodged with the ASX at the same time as this Annual Report and can also be found on the Company's website at <https://sezzle.com/investors>.

## Substantial Shareholders:

As a company incorporated in Delaware and listed solely on the ASX, neither Chapter 6 of the *Corporations Act 2001 (Cth)* (**Corporations Act**) or the corresponding provisions of the Securities Exchange Act of 1934 dealing with notification of substantial holding apply to shareholders in Sezzle. However, as disclosed to the ASX on July 29, 2019, the Company has agreed with ASX to release to the market certain information about a person (other than Sezzle itself) becoming a substantial holder in the Company within the meaning of section 671B of the Corporations Act, varying its substantial holding by 1% or more or ceasing to be a substantial holder.

Having regard to the qualifications and limitations as disclosed to the ASX, the table below sets out the information known to Sezzle as at March 16, 2022 concerning substantial holdings in Sezzle's CDIs.

Name of substantial Holder within the meaning of section 671B of the Corporations Act	Record Holder (if different)	Number of CDI's in which the substantial holder holds a relevant interest	% of total CDI's on issue
Charlie Youakim	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <GSCO CUSTOMERS A/C> - 74,936,393 Cerro Gordo LLC - 6,000,000 Mr Charles G Youakim <C Youakim 2020 G/R/A #1 A/C> - 1,855,854 Mr Charles G Youakim <C Youakim 2020 G/R/A #2 A/C> > - 5,567,562	88,359,809	44.49%
Paul Paradis	Paul Paradis - 6,800,000 Paradis Family LLC - 3,200,000	10,000,000	5.04%
Zip Co Limited <sup>1</sup>	Zip Co Limited	98,359,809	49.54%

## Number of Holders of Each Class of Equity Securities:

Category	Numbers of Holders
CHESS Depositary Interests (quoted on ASX)	14,065
Unlisted Options (not quoted on ASX)	213
Restricted Stock Units (not quoted on ASX)	134
Common Stock (not quoted on ASX)	211

<sup>1</sup>Refer 'Notice of Initial Substantial Holder' filed by Zip Co Limited with the ASX on 1 March, 2022. As disclosed therein, Zip Co has a 'relevant interest' in the above securities by virtue of a 'Support Agreement' entered into between Zip Co Limited and each of Charlie Youakim and Paul Paradis.

### Voting Rights:

Shareholder and CDI Holder voting rights are summarised within section 9 'Additional Information' (page 123) of the Company's Replacement Prospectus dated 8 July 2019 and section 9.4 (b) on page 125, a copy of which was lodged with the ASX on 29 July, 2019.

### Distribution Schedule of CDI Holders:

Range	Total Holders	CDI's	% of CDIs
1 - 1,000	8,375	3,136,639	1.58
1,001 - 5,000	3,915	9,631,847	4.85
5,001 - 10,000	952	7,089,977	3.57
10,001 - 100,000	762	18,615,947	9.37
100,001 Over	61	160,120,209	80.63
Total	14,065	198,594,619	100.00

### Unmarketable Parcels:

There were 5,015 holders of less than a marketable parcel of CDIs, comprising a total of 824,398 CDIs (0.42% of CDIs on issue), being a parcel of less than 378 CDIs based on a closing price of AUD\$1.325 per CDI on 15 March, 2022.

### Top 20 CDI Holders:

Range	Numbers of CDI's Held	% of CDIs
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <GSCO CUSTOMERS A/C>	74,950,405	37.74
CONTINENTAL INVESTMENT PARTNERS LLC	9,389,407	4.73
PAUL PARADIS	6,800,000	3.42
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,243,106	3.14
CITICORP NOMINEES PTY LIMITED	6,160,470	3.10
CERRO GORDO LLC	6,000,000	3.02
MR CHARLES G YOUAKIM <C YOUAKIM 2020 G/R/A #2 A/C>	5,567,562	2.80
NATIONAL NOMINEES LIMITED	5,005,919	2.52
KILLIAN BRACKLEY	4,568,563	2.30
MR LEE BRADING	3,460,146	1.74
PARADIS FAMILY LLC	3,200,000	1.61
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	2,774,126	1.40
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	2,399,472	1.21
MR CHARLES G YOUAKIM <C YOUAKIM 2020 G/R/A #1 A/C>	1,855,854	0.93
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	1,319,099	0.66
MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	1,256,847	0.63
MRS CARMELA PEROFF	1,088,280	0.55
MR CHRIS HARDING	1,023,085	0.52
JOSEPH M DONOVAN	993,265	0.50
BNP PARIBAS NOMS PTY LTD <DRP>	943,792	0.48
Total Top 20	144,999,398	73.01
Total Balance of Holders	53,595,221	26.99
Total CDIs	198,594,619	100.00

### Escrowed Securities:

There are no securities subject to ASX or voluntary escrow.

### Unquoted Securities:

Category	Number of Units	Number of Holders
Options	20,214,569	213
Restricted Stock Units	3,352,538	134
Common Stock	6,073,586	211

### Buy-back:

There is no current on-market buy back.

The Company is listed on the Australian Securities Exchange under the code 'SZL'.

There are no issues of securities approved for the purposes of item 7 of section 611 of the Corporations Act which have not yet been completed.

No securities were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.

# Corporate Directory

## DIRECTORS

**Charlie Youakim**  
Executive Chairman and Chief Executive Office – USA

**Paul Paradis**  
Executive Director and President – USA

**Paul Purcell**  
Independent Non-Executive Director – USA

**Kathleen Pierce-Gilmore**  
Independent Non-Executive Director – USA

**Paul Lahiff**  
Independent Non-Executive Director – Australia

**Mike Cutter**  
Independent Non-Executive Director – Australia

## COMPANY SECRETARY

**Justin Clyne**  
Australia (Company Secretary – ASX Compliance)

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

### UNITED STATES

#### REGISTERED OFFICE:

A Registered Agent Inc.  
Suite 8A, 8 The Green  
City of Dover, Kent County  
Delaware 19901, USA

#### PRINCIPAL PLACE OF BUSINESS:

251 N 1st Ave N, Suite 200  
Minneapolis, MN 55401, USA  
Tel: + 1 651 504 5402

### AUSTRALIA

#### REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS:

Suite 6.02, Level 6  
28 O'Connell Street  
Sydney NSW 2000  
Tel: + 61 2 9048 8856

## AUDITORS

Baker Tilly US, LLP  
225 South 6th Street, Suite 2300  
Minneapolis, MN 55402

Tel: + 1 612 876 4500  
[www.bakertilly.com](http://www.bakertilly.com)

## SHARE REGISTRY

### COMPUTER SHARE INVESTOR SERVICES PTY LIMITED

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford VIC 3067  
Australia

Tel: + 61 3 9415 5000  
[www.computershare.com/au](http://www.computershare.com/au)

## SOLICITORS

### SQUIRE PATTON BOGGS

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Level 21, 300 Murray Street  
Perth WA 6000

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## EMAIL

[investors@sezzle.com](mailto:investors@sezzle.com)

## WEBSITE

[www.sezzle.com](http://www.sezzle.com)

## ASX CODE

SZL





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