



 sezzle

The Responsible Way to Pay

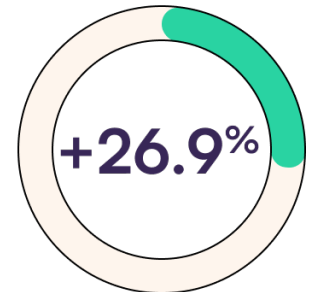
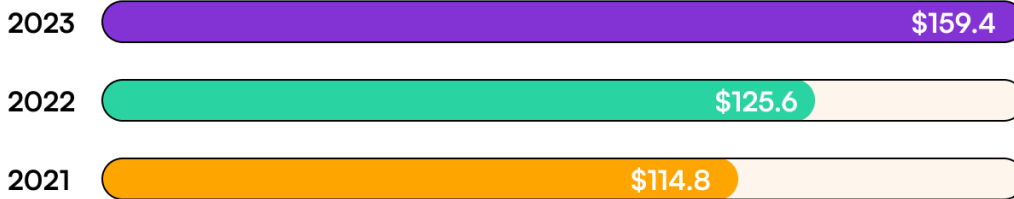
2023 ANNUAL REPORT

Performance Highlights

(all dollar amounts are denominated in USD)

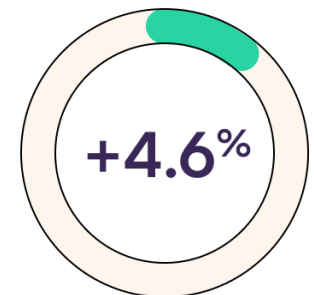
Total Income

IN MILLIONS



Underlying Merchant Sales (UMS)

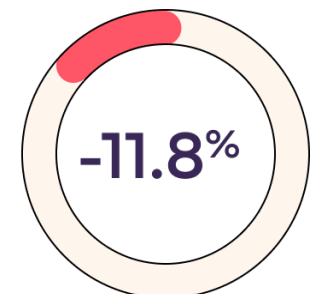
IN MILLIONS



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 U.S. GAAP.

Active Consumers

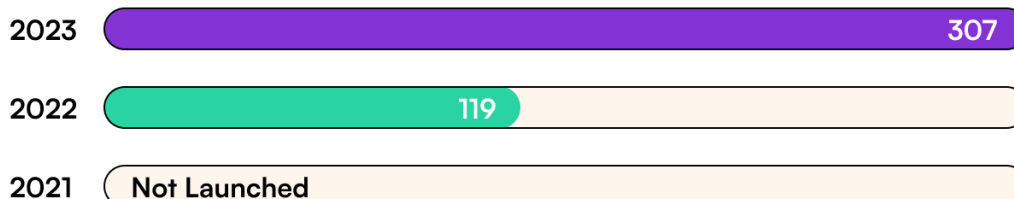
IN THOUSANDS



Active Consumers is defined as unique end users who have placed an order with us within the last twelve months.

Active Subscribers

IN THOUSANDS



Active Subscribers is defined as unique consumers who have an active subscription for either Sezzle Premium or Sezzle Anywhere.

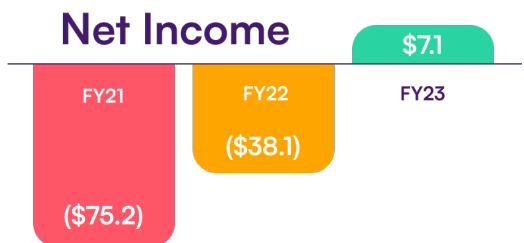
Dear Fellow Shareholders,

2023 was nothing short of extraordinary for Sezzle as a Buy Now, Pay Later (BNPL) company. Reflecting on the past year, I'm inspired by our innovations, achievements, and our dedication to superior execution. Our journey over the last several years has certainly been challenging, but these challenges transformed Sezzle to produce the results you're seeing today.

We began 2023 with a clear goal: to attain full-year GAAP net income. I am thrilled to report that we successfully achieved this goal. In a remarkable show of consistency, we even reported four consecutive quarters of net income. Sezzle is reshaping the BNPL narrative with a sustainable and prosperous business model, as evidenced by our achievement of full-year net income in 2023. We believe Sezzle is leading the way to a new era for the BNPL sector as a model for sustainable growth and profitability.

Delivering on Our Promise of Profitability Through Innovation and Operational Efficiency

Our achievement of full-year profitability not only reflects our commitment to driving value and fostering growth but also our ability to deliver on promises we make to the market. During 2022, we made it our primary focus to attain profitability amidst a challenging economic environment, a goal we successfully attained in the back half of the year. We maintained this momentum in 2023 by successfully executing several key strategic initiatives that catapulted us from a net loss of \$38.1 million in 2022 to a net income of \$7.1 million in 2023. This marks a \$45.2 million year-over-year improvement and a \$82.3 million turnaround from 2021. These results prove our business is on a solid foundation for sustainable growth in the future.



Innovation was crucial to our success. Roughly one year after the launch of Sezzle Premium, our first subscription product, we launched Sezzle Anywhere, which was taken in by our customer base as a highly valued subscription offering. Our Anywhere product emerged as the flagship offering, forming an integral part of our subscription suite alongside Premium. The engagement of our subscriber base is astonishing. Our subscribers leveraged this product 2.2 times more frequently than non-subscribers, with the top 10% of Sezzle Anywhere subscribers making a staggering 37 purchases every 90 days¹. These statistics underscore the significant value our subscription suite brings to our consumers, solidifying our position as a top-of-wallet payment option for many.

Amidst our efforts pioneering new payment capabilities for our consumers, we remained persistent in our commitment to operational efficiency. Through rigorous cost reduction initiatives implemented in 2022 and a continued focus on efficiency throughout 2023, we accomplished our growth goals while significantly cutting our overhead costs. We intend to uphold our commitment to lean operations to balance efficiency with sustainable growth.

Departing the ASX for Our New Home - Nasdaq

The achievement of these milestones coincided with our listing on the Nasdaq Capital Market (Nasdaq) in August and subsequent delisting from the Australian Securities Exchange (ASX). This strategic move aligns our listing location with our primary operational hub in the United States and reduces the financial and operational burdens of a dual list. We are thrilled to embark on this new chapter in our journey as a public company. At this juncture, I would like to express my deepest gratitude to our Australian investors for their support since our ASX listing in 2019. Our time as a public company on the ASX will always be remembered as a key milestone of Sezzle's growth story, and we thank you for being a part of it.

¹ Frequency corresponds to 90-days ending February 5, 2024.

Setting the Stage for the Next Phase of Growth

Our past accomplishments leave me filled with optimism and enthusiasm for the journey that lies ahead. 2022 marked the beginning of an exceptional turnaround journey for our company, while 2023 validated our strategic roadmap. In 2024, we will continue to innovate with a hyperfocus on profitability, with the expectation of increasing our net income by over two-fold to \$20.0 million. And it isn't just about the numbers. We also plan to renew our B Corporation certification in 2024, reaffirming our dedication to improving the lives of all our stakeholders, in line with our commitment as a Public Benefit Corporation.

Yet none of this could have been achieved without the hard work and dedication of our Sezzlers and the trusted support from our Board of Directors. I extend my heartfelt gratitude to each and every one of you for your tireless efforts and commitment to our shared mission of Financially Empowering the Next Generation. Thank you.

As we evolve into a premier, all-encompassing financial services provider for the Next Generation of consumers, our commitment to driving value for our stakeholders and shareholders alike is unwavering. I am confident that with our collective efforts and determination, the best is yet to come.

Thank you for your continued trust and support. Your faith in us fuels our determination to achieve more and propels us towards greater heights.

Charlie Youakim

Executive Chairman and
Chief Executive Officer

charlie.youakim@sezzle.com





**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2023

OR

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

For the transition period from _____ to _____

Commission file number 000-56267



SEZZLE INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

700 Nicollet Mall, Suite 640, Minneapolis, Minnesota

(Address of principal executive offices)

81-0971660

(I.R.S. Employer
Identification No.)

55402

(Zip Code)

Registrant's telephone number, including area code: +1 651 504 5294

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$0.00001 per share	SEZL	The Nasdaq Stock Market LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2023, was \$36,764,617 based on the closing price of A\$21.57 per share of Common Stock as reported on the Australian Securities Exchange.

The total number of shares of common stock, par value \$0.00001 per share, outstanding at February 23, 2024 was 5,633,172.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report on Form 10-K, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement for its 2024 Annual Meeting of Stockholders. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2023.

SEZZLE INC.

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FORWARD-LOOKING STATEMENTS

The information in this Annual Report on Form 10-K (“Form 10-K”) includes “forward-looking statements” under Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements, other than statements of historical fact, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management included in this Form 10-K are forward-looking statements. When used in this Form 10-K, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project” and similar expressions (or the negative versions of such words or expressions) are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading “Risk Factors” included in this Form 10-K. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. There is a risk that such predictions, estimates, projections, and other forward-looking statements will not be achieved. Nevertheless, and despite the fact that management’s expectations and estimates are based on assumptions management believes to be reasonable and data management believes to be reliable, our actual results, performance or achievements are subject to future risks and uncertainties, any of which could materially affect our actual performance. Risks and uncertainties that could affect such performance include, but are not limited to:

- impact of the “buy-now, pay-later” (“BNPL”) industry becoming subject to increased regulatory scrutiny;
- impact of operating in a highly competitive industry;
- impact of macro-economic conditions on consumer spending;
- our ability to increase our merchant network, our base of consumers and underlying merchant sales (“UMS”);
- our ability to effectively manage growth, sustain our growth rate and maintain our market share;
- our ability to maintain adequate access to capital in order to meet the capital requirements of our business;
- impact of exposure to consumer bad debts and insolvency of merchants;
- impact of the integration, support and prominent presentation of our platform by our merchants;
- impact of any data security breaches, cyberattacks, employee or other internal misconduct, malware, phishing or ransomware, physical security breaches, natural disasters, or similar disruptions;
- impact of key vendors or merchants failing to comply with legal or regulatory requirements or to provide various services that are important to our operations;
- impact of the loss of key partners and merchant relationships;
- impact of exchange rate fluctuations in the international markets in which we operate;
- impact of our delisting from the Australian Securities Exchange and trading on the Nasdaq Capital Market as our sole trading exchange;
- our ability to protect our intellectual property rights and third party allegations of the misappropriation of intellectual property rights;
- our ability to retain employees and recruit additional employees;
- impact of the costs of complying with various laws and regulations applicable to the BNPL industry in the United States and Canada; and
- our ability to achieve our public benefit purpose and maintain our B Corporation certification.

We caution you that these forward-looking statements are subject to numerous risks and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks include, but are not limited to, the risks described under “Risk Factors” in this Form 10-K. Should one or more of the risks or uncertainties described in this Form 10-K occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this Form 10-K are expressly qualified in their entirety by these cautionary statements. These cautionary statements should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the cautionary statements in this section, to reflect events or circumstances after the date of this Form 10-K.

SUMMARY OF RISK FACTORS

Our business is subject to numerous risks and uncertainties, including those highlighted in Item 1A “*Risk Factors*,” of this Form 10-K. 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 Our Industry

- The BNPL industry has 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 maintain and increase our merchant network, our base of consumers and UMS.
- Our ability to effectively manage growth.
- We may not be able to sustain our growth rate.
- Our ability to promote and maintain our brand.
- We may be unable to profitably manage our ongoing international operations.
- We may require additional capital.

Risks Related to Our Financing Program

- Loans facilitated through our platform involve a high degree of financial risk.
- Merchants may fail to fulfill their obligations to consumers or comply with applicable law.
- Our internet-based loan origination processes may give rise to greater risks than paper-based processes.
- 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 or delays 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.
- Potential inaccuracies in third-party data we use.
- Changes in market interest rates.
- Exchange rate fluctuations between the United States and Canada.
- Our ability to use net operating losses.
- 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 insurance may not apply or be sufficient.
- Our business is subject to damage or interruption from events beyond our control.
- Our inability to retain employees or recruit additional employees, and risks of employee misconduct.

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.
- Failure to operate without obtaining necessary licenses.
- Violating applicable federal, state and/or local lending or other laws.
- Litigation, regulatory actions, and compliance issues could subject us to increased costs.
- Privacy and data protection laws could result in claims or harm our business.

Risks Related to Our Corporate Structure

- We do not currently intend to pay dividends on our common stock.
- Our \$5 million stock repurchase could affect the price of our stock and increase volatility in the market.
- Our major stockholders own a large percentage of our stock and can exert significant influence over us.
- 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 the United States traded on the Nasdaq Capital Market.
- Our ability to continue to meet Nasdaq’s continued listing requirements.
- 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.
- Some provisions of our charter documents may have anti-takeover effects, and the exclusive forum designation may limit stockholders’ ability to obtain a favorable judicial forum for disputes with us.

Risks Related to Our Existence as a Public Benefit Corporation and a Certified B Corporation

- As a public benefit corporation, we cannot provide any assurance that we will achieve our public benefit purpose.
- As a public benefit corporation, our focus on providing 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.
- A loss of our certification as a B Corporation or a decline in our score.

PART I

ITEM 1. BUSINESS

Unless otherwise noted, references in this Form 10-K to “we,” “us,” “our,” “Company,” or “Sezzle” refer to Sezzle Inc.

Our Company

We are a purpose-driven payments company on a mission to financially empower the next generation. Launched in 2017, we built a digital payments platform that allows merchants to offer their consumers a flexible alternative to traditional credit. As of December 31, 2023, our platform serves approximately 2.6 million Active Consumers. Through our products, we aim to enable consumers to take control over their spending, be more responsible, and gain financial freedom. Our vision is to create a digital ecosystem benefiting all of our stakeholders—including merchants, partners, consumers, employees, communities, and investors—while continuing to drive ethical and sustainable growth.

We launched Sezzle amid a backdrop in which digital shopping began to claim a larger share of the retail sector and younger generations (i.e., Gen Z and Millennials) started to demonstrate a need for credit. Gen Z and Millennial consumers, which we define as individuals currently between ages 18–27 and 28–46, respectively, use credit cards less frequently relative to other generations and, in many cases, lack access to traditional credit. These same consumers are tech-savvy, gravitating towards modern, streamlined commerce solutions whether online or in-person. We believe that our platform addresses the shortcomings in legacy payment offerings consumers face by providing a flexible, secure, omnichannel alternative with the structural benefit of “creditizing” traditional debit products. The technology solutions we have designed specifically align with our mission of financially empowering the next generation.

We believe our stakeholder approach gives us a competitive advantage and positions our company for success. Stakeholders want to be affiliated with a purpose-driven partner and, to that extent, we elected to become a Delaware public benefit corporation in June 2020. Public benefit corporations are for-profit corporations intended to produce a public benefit and operate in a responsible and sustainable manner. Under Delaware law, public benefit corporations must identify in their certificate of incorporation the public benefit or benefits they will promote, and their directors have a duty to manage the affairs of the corporation in a manner that balances the pecuniary interests of the stockholders, the best interests of those materially affected by the corporation’s conduct, and the specific public benefit or public benefits identified in the public benefit corporation’s certificate of incorporation. Being a public benefit corporation offers advantages, including:

- public benefit corporation status is a clear differentiator in an increasingly growing, and sometimes crowded, industry;
- we are more likely to become an employer of choice as the younger workforce increasingly seek employment from companies which align with their ethical values;
- further opportunities to conduct business with brands that also care about sustainability;
- the potential to expand our consumer base due to conscious consumers;
- added credibility to our mission statement and potential to grow capital through impact investing; and
- further opportunities for positive public relations and marketing.

Additionally, on March 22, 2021, we became a certified B Corporation by B Lab, an independent non-profit organization, joining a movement of innovative, socially-conscious brands. In order to be designated as a Certified B Corporation, we were required to undertake a comprehensive and objective assessment of our environmental, social, and governance standards for transparency, accountability and commitment to improved performance. Our actions are part of a movement of innovative brands around the world intent on advancing environmental, social, and economic causes. To maintain our status as a certified B Corporation, we must satisfy re-certification requirements every three years. Our status as a B Corporation aligns with our mission to achieve growth, profitability, and returns for our investors while continuing to do right by our surrounding communities and our full set of stakeholders.

We primarily operate in the United States and Canada, and are currently winding down and exiting operations in India and certain countries in Europe.

Our Products

Sezzle Platform

The Sezzle Platform offers a payments solution for consumers that instantly extends credit at the point-of-sale, allowing consumers to purchase and receive the ordered merchandise at the time of sale while paying in installments over time.

The Sezzle Platform can be integrated into merchants' websites via our direct Application Programming Interface and accessed by our consumers through the Sezzle mobile application or Sezzle website. We are able to rapidly onboard and integrate merchants through an increasingly automated merchant underwriting process, and once integrated, consumers can choose the Sezzle Platform as a payment method at the merchant. The Sezzle Platform is presented alongside other payment options on the merchant's checkout page. Consumers then select Sezzle as their payment option and, if they are a first-time user, create an account with Sezzle in a quick and streamlined process incorporated into the selected merchant's checkout.

The Sezzle Platform reviews the transaction and consumer profile in real-time and, if approved, quickly confirms the transaction for both the consumer and the merchant. Once an initial transaction is approved, consumers are granted a spending limit. Our underwriting platform analyzes above-limit purchase attempts and may provide alternative terms so that the consumer is not denied outright. After a transaction is approved and merchant checkout is completed, the merchant ships the item(s) and receives payment, just as if the consumer had paid in cash or used a traditional credit or debit card. The merchant pays us a merchant processing fee, which is subtracted from the sales price when we pay the merchant.

In addition, we periodically offer promotions and incentives for consumers to earn Sezzle Spend at certain merchants. Sezzle Spend are credits issued to consumers and can be applied to future orders made on the Sezzle Platform.

Pay-in-Four

The Sezzle Platform flagship product, "pay-in-four," allows consumers to pay a fourth of the purchase price up front, and then another fourth of the purchase price every two weeks thereafter over a total of six weeks. Our "pay-in-four" product is completely free to consumers who pay on time and use a bank account to make their installment payments, excluding their first payment. In order to complete their installment payments, consumers receive a notification via email, text message, or the Sezzle iOS or Android app two days prior to the date the installment payment is automatically debited by the Sezzle Platform from the consumer's payment method provided under the consumer's account. The consumer is able to review and manage their Sezzle account via the Sezzle Platform's online dashboard or mobile application. Consumers are also able to reschedule a payment without charge the first time, and may subsequently reschedule a payment up to two additional times for a fee, subject to applicable state laws. Consumers who fail to pay for their purchases on time (or reschedule their payments as permitted above) may incur a late payment fee, which requires the settlement of an outstanding balance (including the late payment fee) before they may use our platform again in the future. We typically do not report delinquent consumer Sezzle accounts to any credit bureaus, unless the consumer has elected to participate in Sezzle Up (as discussed below). As a result, consumer behavior using the "pay-in-four" product has no impact on a consumer's credit score.

Pay-in-Full

Beginning in 2022, we began offering a “pay-in-full” option to consumers. This option allows consumers to pay for the full value of their order up-front through the Sezzle Platform without the extension of credit. We believe this provides value for both new and existing consumers on the Sezzle Platform. This allows new consumers who are denied credit to complete their order through our platform without the need to re-enter any payment information. For existing consumers with payment information already saved, pay-in-full allows an express checkout option in instances where the consumer may not want to enter into a new installment plan.

Pay-in-Two and Other Alternative Installment Options

In 2023, we also began offering a “pay-in-two” option to certain consumers who are not qualified for our “pay-in-four” product. In “pay-in-two,” a consumer pays half of the value of their order up-front and the second half in two weeks.

In addition, we may offer customized installment terms that differ from our traditional four payment, six week terms with select enterprise merchants. An example of these alternative terms is a four payment, three month product. We offer these special products to consumers through selected merchants at our discretion in situations where alternative terms would provide additional value to both the consumer and merchant, while also better aligning with the typical purchase frequency at these select merchants.

Sezzle Virtual Card

The Sezzle Virtual Card, issued to Sezzle by Sutton Bank, member FDIC, pursuant to a license from Visa U.S.A Inc., allows consumers to access the Sezzle Platform in the form of close-end installment loans and shop with merchants (in-store and online) that are not integrated with Sezzle. The 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 solution, consumers can enjoy in-store shopping with the convenience of immediately tapping into the Sezzle Platform with the “tap” of their virtual card at the point-of-sale.

Sezzle Anywhere

In 2023, we launched Sezzle Anywhere—a paid subscription service that allows consumers to use their Sezzle Virtual Card at any merchant online or in-store, subject to certain merchant, product, goods, and service restrictions, for a recurring fee. Consumers enrolled in Sezzle Anywhere also gain access to all the benefits of Sezzle Premium, as well as earning 1% back in Sezzle Spend on pay-in-full transactions.

Sezzle Premium

In 2022, we launched Sezzle Premium—a paid subscription service that allows our consumers to access large, non-integrated “premium merchants” for a recurring fee. Besides being able to use Sezzle online or in-store at these premium merchants, consumers enrolled in Sezzle Premium also gain access to several other benefits, including exclusive deals and discounts, the ability to earn Sezzle Spend back on purchases, and one additional free reschedule per order.

Sezzle Up

Sezzle Up is an opt-in feature of the Sezzle Platform. Consumers who elect to participate in Sezzle Up allow us to report the consumer’s transactions made with the use of the Sezzle Platform to establish a record of payments. Building a record of timely payments on financial obligations is generally positive for a consumer’s credit record. As these consumers pay their financial obligations to us when due, their spending limits on the Sezzle Platform and overall credit score may increase over time.

To qualify for Sezzle Up, consumers must place at least one order and commit to complete installment payments over the Automated Clearing House (“ACH”) network instead of over a card network. Consumers’ initial down payments are still completed over a card network. Using the ACH network benefits us by typically reducing processing fees and, in turn, lowering our transaction costs.

Long-Term Lending — Access to Third-Party Lenders

Through collaboration with third-party lenders, we enable our consumers at participating merchants access to interest-bearing monthly fixed-rate installment-loan products for larger-ticket items (up to \$15,000), which extend up to 60 months. We earn a fee from our lending collaborators for marketing and referring the potential consumers to them and processing applications using our proprietary underwriting analysis; however, we do not make final credit decisions or originate or hold the loans in our portfolio, which limits our capital needs and credit risk. We believe providing consumers access to long-term borrowing options has the potential to enhance our relationship with both merchants and consumers, while generating an attractive fee stream with no capital requirements or credit risk for us, and complementing our existing short-term, interest-free offering.

Product Innovation

Outside of our existing Sezzle Platform offerings, we continuously strategize on new products and additional features that would complement our platform and add additional value for our stakeholders. As part of our next round of initiatives in product innovation, we are currently in the early stages of selecting and partnering with a bank sponsor to further expand the suite of products we can offer our consumers.

Our Merchants

We offer a unique and user-friendly platform to our merchants. Our easy integration and seamless onboarding allows most merchants to go live on our platform within one day of activation to quickly realize the benefits of partnering with Sezzle. Our merchants benefit from our platform's network effects through increased access to a deep pool of consumers equipped with our flexible payment product who would otherwise not be able to finance a transaction. Additionally, we believe that merchants benefit from associating with an innovative, certified B Corporation payments company which shares their consumers' values across environmental, social, and economic causes. Our merchant segments are small-to-medium-sized businesses ("SMBs") and enterprise merchants that span numerous verticals.

We also provide our merchants with a toolkit to grow their businesses, which we believe is unmatched among digital payments platforms. All of our merchants are provided complimentary placement in our marketplace presented across both the Sezzle website and mobile app. Additionally, our merchants are offered paid placements in the marketplace to assist with user acquisition efforts. We provide select merchants with incentives to grow their sales and introduce Sezzle into new merchant categories through initiatives such as Sezzle Spend and co-branded marketing. To eligible merchants, Sezzle also facilitates access to working capital loans up to \$20 million issued by third-party lenders ("Sezzle Capital"). Loans facilitated by Sezzle through Sezzle Capital are unsecured and repaid based on a percentage of daily sales. To be eligible for a Sezzle Capital loan, merchants must, at minimum, sell a physical product, have at least \$10,000 in average monthly sales, have been in business for at least six months, and be incorporated in a country acceptable to the third-party lender.

The continued expansion of our platform should continue to enhance the benefits for our merchants. Our integration into scaled e-commerce platforms is expected to give more merchants the opportunity to seamlessly offer Sezzle as a payment option at checkout. Other products on the Sezzle Platform, such as long-term lending and alternative installment options, further adds to the value of our platform for merchants. This all occurs without any credit risk being transferred to the merchant.

SMBs

SMBs, which we define as merchants with total annual gross sales of less than \$500 million, have historically comprised the largest segment of our merchant base. Our fast, easy application process makes onboarding simple, and our user-friendly merchant interface streamlines the integration process. Through Sezzle, these merchants are able to offer their consumers an optimized, effortless checkout process that enables them to complete sales. Included in SMB are a diverse, growing array of "direct-to consumer" brands that are online-first and seek to connect with consumers without the use of secondary retailers, which naturally fits within our core offering. As we build out a larger consumer base, we believe we also enhance our value proposition to this segment by driving increased traffic toward brands that may not otherwise gain exposure through traditional retail channels by creating marketing campaigns designed to increase consumer exposure.

Enterprise Merchants

An ongoing major initiative is greater engagement with enterprise merchants, which we define as merchants with over \$500 million in total annual gross sales. The core Sezzle product helps these merchants to facilitate a sale by providing access to credit for a consumer who has limited-to-no credit history. Without our payments platform, the consumer that lacks credit history may otherwise not have completed the purchase, or be rejected after applying for the store’s private label or co-branded credit card. Importantly, we are not competing with a large retailer’s card offering. Instead, we work collaboratively with these retailers to drive sales and over time serve as a lead generator to consumers who are ready to “graduate” to the retailer’s card program.

Merchant and Partner Concentration

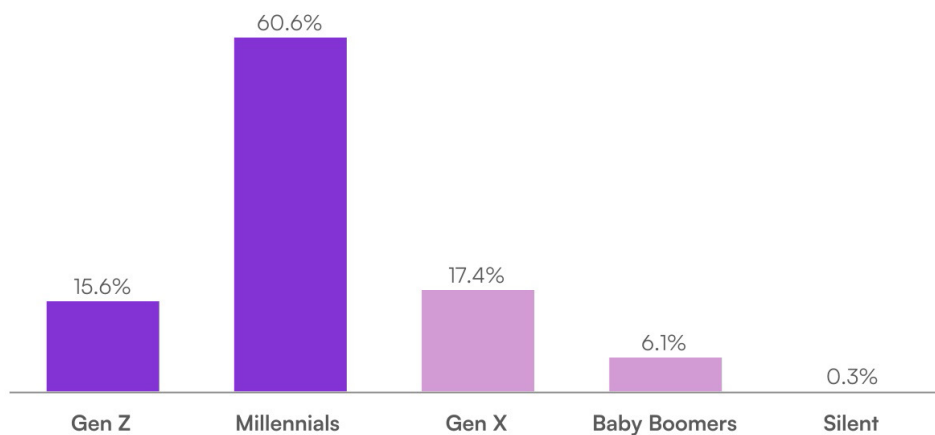
For the year ended December 31, 2023, there were no concentrations of total income that exceeded ten percent. For the year ended December 31, 2022, approximately 14% of total income was earned from one merchant.

The concentration of a significant portion of our business and transaction volume with a limited number of scaled e-commerce platforms exposes us disproportionately to any of those partners choosing to no longer partner with us or choosing to partner with a competitor, and to any events, circumstances, or risks affecting such partners. In addition, a material modification in the financial operations of any significant scaled e-commerce partner could affect the results of our operations, financial condition, and future prospects.

Our Consumers

Sezzle focuses on a young consumer base that is tech-savvy, socially-minded, and expects brands to possess ethical and social principles. As of December 31, 2023, 76.2% of our Active Consumers are comprised of members of the Gen Z (18-27) and Millennial (28-46) generations which are generally early in their credit journey. For many of these consumers, we believe Sezzle has provided a way to improve financial responsibility and develop a sense of financial empowerment—not only through enhanced budgeting and payments capabilities, but also through an opportunity to build beneficial credit records with the Sezzle Up feature.

Sezzle Consumer Generational Breakdown



Source: Internal data based on orders placed during 2023 (Gen Z (18-27), Millennials (28-46), Gen X (47-58), Baby Boomers (59-77), and Silent (78 and greater)).

Gen Z and Millennial consumers use credit cards less frequently relative to other generations, and in many cases lack access to traditional credit. As a result, they tend to have fewer viable options for budgeting, achieving financial flexibility, and building credit history. Consumers in these generations also tend to transact frequently across e-commerce and brick-and-mortar retail, but spend less on average per transaction than older generations. In doing so, these consumers prefer to avoid loans that are not transparent or require payments that are not affordable. Sezzle's core product, the "pay-in-four," provides these younger generations, who are newer to credit and are likely to move up the FICO score spectrum as they grow older and transact more often, with a unique solution to these payment challenges. In addition, consumers benefit from our platform's network effects. As our platform grows and we establish more ways to pay, our consumers enjoy a wider variety of shopping options.

Our Employees

Our success to date would not be possible without our dedicated people, who we believe are our greatest asset. Bringing together a team of highly-skilled engineering, product, marketing and business development professionals is imperative to execute our strategy. We do this by creating an inclusive, team-centric culture in which doing the right thing is celebrated. As of December 31, 2023, we had 278 employees (which includes 251 full-time employees) working at Sezzle. None of our workers are represented by a labor union or covered by a collective bargaining agreement. We consider our relations with our employees to be good.

Workplace Culture

We are committed to fostering a diverse work environment of driven employees who believe in our mission of financially empowering the next generation. A strong workplace culture is paramount to a sustainable and successful company. Our People Operations team works to create and execute sustainable hiring practices that span a diverse array of recruiting pipelines to find the best people for Sezzle. For existing employees, or "Sezzlers", we focus on developing an inclusive and fun culture with many opportunities for career and personal development to reward and retain our talented people. Our Sezzlers exhibit five key values throughout their work:

- **Exhibit Strong Character:** We do what we say we are going to do. We do the right thing. We are good team members. We are secure enough to praise others.
- **Demonstrate Excellent Communication:** We communicate openly and honestly. We maintain accountability. We are open-minded. We are good listeners.
- **Have Fun:** We like working with each other. We have a sense of humor. We keep work issues in perspective.
- **Act Like an Owner:** We are stakeholder obsessed. We surface solutions, not just problems. We seek responsibility. We work hard and smart.
- **Driven to Succeed:** We are passionate. We are tenacious. We are competitive.

Diversity, Equity, and Inclusion

Our Sezzlers are more than just brilliant engineers, passionate data enthusiasts, out-of-the-box thinkers, and determined innovators; they are skilled musicians, yogis, cyclists, chefs, golfers, dog-lovers, and rock-climbers. We believe in surrounding ourselves with not only the best and the brightest individuals, but those that are unique and purpose-driven in all that they do. Our culture is not defined by a certain set of perks designed to give the illusion of the traditional startup culture, but rather, it is the visible example living in every employee that we hire. We celebrate uniqueness and believe that diversity and inclusion leads to a more talented workforce, successful product, and engaged consumer.

Remuneration and Benefits

In addition to competitive base pay, a majority of our Sezzlers have equity in the Company via equity awards under our equity incentive plans. We believe that having our employees own a part of the Company makes everyone more engaged and leads to better overall performance. In addition, employees have the opportunity to receive annual bonuses if certain company, team, and individual goals are met during the year. We also offer comprehensive benefits, which includes medical, dental, vision, life insurance, disability insurance, paid time off, volunteer time off, gym membership discounts, commuter benefits, and company-matching retirement plans.

Our Business Model

Revenue

We have built a sustainable, transparent business model in which our success is aligned with the financial success of our merchants and consumers. The Sezzle Platform is completely free to consumers who pay on time and use a bank account to make their installment payments, excluding their first payment. Our primary source of revenue is from merchant processing fees, which are based on a percentage of UMS plus a fixed fee per transaction. We pay our merchants for the transaction value upfront, net of the merchant processing fees owed to Sezzle, and assume all costs associated with consumer payment processing and credit risk. Merchant and partner-related income comprised 62% and 81% of our total revenues for the years ended December 31, 2023 and 2022, respectively.

Another significant portion of our revenue is derived from subscription revenue. We offer our consumers the ability to subscribe to two paid services: Sezzle Premium and Sezzle Anywhere. Sezzle Premium allows consumers to shop at select large, non-integrated premium merchants, along with other benefits, for a recurring fee. Sezzle Anywhere allows consumers to use their Sezzle Virtual Card at any merchant online or in-store, subject to certain merchant, product, goods, and service restrictions, for a recurring fee. Subscription revenue comprised 19% and 4% of our total revenues for the years ended December 31, 2023 and 2022, respectively.

A smaller portion of our revenue is derived from consumer fees. We do not charge our consumers any interest, finance charges, or initiation fees, and do not seek to profit from our consumers' errors or financial adversity. Any consumer fees that we earn are either from late payment fees charged to a consumer following a failed principal payment, convenience fees when a consumer uses a card for their installment payments (excluding the first payment), or when consumers elect to reschedule a payment. Consumers are not allowed to make any new purchases with us until any past-due principal and fees are paid. If consumers correct a failed payment within 48 hours after the failed payment, we waive their late payment fees. Additionally, consumers are able to reschedule a payment without charge the first time, and can subsequently reschedule a payment up to two additional times for a small fee, subject to applicable state laws. We allow qualifying consumers to have fees waived under our hardship and fee forgiveness program.

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, as we absorb the costs of all core product credit losses from our consumers. Credit losses are a significant component of our operating expenses, and excessive exposure to consumer repayment failure will adversely impact our results of operations. To that end, a team of Sezzle engineers and risk specialists oversee our proprietary systems, identify transactions with an elevated risk of fraud, assess the credit risk of the consumer, assign spending limits, and manage the ultimate lending and 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.

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 consumer repayment capability decisions over time.

Funding

We have created an efficient funding strategy which has allowed us to scale our business and drive rapid growth. Our products are entirely funded through our \$100 million revolving credit facility and merchant account payables, where we pay merchants a fixed interest rate if they elect not to receive transaction proceeds upfront and instead leave their deposits in their merchant account. Due to the short-term nature of our products, we are able to recycle capital quickly and create a multiplier effect on our committed capital. We do not currently require equity to directly fund our lending product.

Our Competition

We operate in a highly competitive and dynamic industry. Our product offerings face competition from a variety of players, including those who enable transactions and commerce via digital payments. The point-of-sale financing market in which we operate includes several types of products, including traditional credit cards that have revolving balances, contactless virtual cards, digital wallets, and other buy now pay later products.

We consider our main competitors to be other BNPL service providers. In the U.S. market, this includes Affirm, Afterpay (a subsidiary of Block), Klarna, PayPal's Pay in 4, Apple's "Apple Pay Later," and Zip (formerly QuadPay). In addition, PayBright by Affirm and Afterpay operate in the Canadian market. We aim to differentiate our business to consumers by providing a product that is more simple, accessible, and consumer friendly than our competitors. This includes offering our product to consumers with little-to-no credit history, allowing consumers to shift their repayment schedule once per order for free, and waiving late payment fees when the consumer corrects a failed payment within 48 hours or qualifies for our hardship program.

We face intense competitive pressure on the fees we charge our merchants, particularly our enterprise merchants. To stay competitive, we may need to adjust our pricing, offer incentives, enter new market segments, adapt to regulatory changes, or expand the use and functionality of our platform—all of which impact our growth and profitability. We have entered into merchant agreements that require us to make marketing, incentive or other payments to the merchant over the term of the agreement. 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 or not renew such agreement.

See *"Risks Related to Our Industry - 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"* for further discussion of competition risks.

Our Intellectual Property

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 in the United States and Canada relating to trade secrets, copyrights, and trademarks to assist in protecting our proprietary rights. Our capacity to leverage our in-house technological systems, robust data infrastructure and statistical models is pivotal for the commercial viability of our enterprise. These critical assets, including our underwriting platform and the intricate data amassed from consumer transactions, underpin our operations.

The development of our proprietary credit risk and fraud detection models epitomizes our commitment to innovation. Spearheaded by our adept data sciences team, these models harness multifarious data points to discern the probability of our consumer's ability to repay us or a consumer's fraudulent activities. Through meticulous analysis of consumer interactions and transactional data, our models furnish invaluable insights. Subsequently, our underwriting platform tailors the amount of appropriate lending for each individual consumer, informed by the aforementioned models and a comprehensive evaluation of internal and external data sources.

Once a consumer places an order with us, we closely monitor the credit quality of their order, and our portfolio in general, to manage and evaluate our related exposure to credit risk. When assessing the credit quality and risk of our portfolio, we monitor a variety of internal risk indicators and consumer attributes that are shown to be predictive of ability and willingness to repay, and combine these factors to establish an internal, proprietary score as a credit quality indicator (the "Prophet Score").

We do not currently have any issued patents but continue to consider the most effective methods of protecting our intellectual property. We currently hold trademarks in the United States, the United Kingdom, the European Union, Brazil, and India and we have pending trademark applications in Canada. However, continued operations within our existing markets and expansion into new markets could risk conflicts with unrelated companies who may own registered trademarks for and/or otherwise use a similar name. See *"Other Risks Related to Our Business – Our efforts to protect our intellectual property rights may not be sufficient."*

Our Regulatory Environment

Overview

Various aspects of our business and services are subject to U.S. federal, state, and local regulation, as well as regulation outside the United States including Canada. Certain of our services also are subject to rules promulgated by various card networks and other authorities, as more fully described below. These descriptions are not exhaustive, and these laws, regulations and rules frequently change and are increasing in number and scope.

BNPL and Consumer Protection Regulation

The BNPL segment of the point-of-sale financing market in which we operate is a developing field. There has recently been an increased focus and scrutiny by regulators in various jurisdictions, including the United States and Canada, with respect to BNPL arrangements. We may become subject to additional legal or regulatory requirements if laws, regulations, or industry standards, or the interpretation of such laws, regulations, or industry standards, change in the future.

United States

In the United States, although we are not a creditor for purposes of the Truth-in-Lending Act ("TILA") and Regulation Z we voluntarily provide relevant and informative disclosure of the terms and conditions of our products to all consumers with whom we conduct business. We are required to comply with Section 5 of the Federal Trade Commission Act ("FTC Act"), which prohibits unfair and deceptive acts or practices ("UDAP") in or affecting commerce, and analogous provisions in each state; the Consumer Financial Protections Act, which prohibits unfair, deceptive or abusive acts or practices ("UDAAP") in connection with consumer financial products and services; the Equal Credit Opportunity Act 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 applicable state law; the Fair Credit Reporting Act ("FCRA"), which promotes the accuracy, fairness, and privacy of information in the files of consumer reporting agencies; the Fair Debt Collection Practices Act (the "FDCPA"), which provides guidelines and limitations concerning the conduct of third-party debt collectors in connection with the collection of consumer debts; and the Telephone Consumer Protection Act (the "TCPA"), which regulates the use of telephone and texting technology to contact customers.

We are also subject to the Holder in Due Course Rule of the Federal Trade Commission ("FTC"), and equivalent state laws, which requires any holder of a consumer credit contract to include a required notice and become subject to all claims and defenses that a borrower could assert against the seller of goods or services; the Electronic Fund Transfer Act, which provides 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, which authorize the creation of legally binding and enforceable agreements utilizing electronic records and signatures; the Military Lending Act and similar state laws, which provide obligations and prohibitions relating to loans made to servicemembers and their dependents; and the Servicemembers Civil Relief Act, which allows active duty military members to suspend or postpone certain civil obligations.

We possess certain state lending licenses, and we continuously evaluate whether others are required, which subject us to supervisory oversight from these state license authorities and periodic examinations. The loans we may originate on our platform pursuant to these state licenses are subject to state licensing and interest rate fee restrictions, as well as numerous state requirements regarding consumer protection, interest rate, disclosure, prohibitions on certain activities, and loan term lengths. Our business may become subject to licensing requirements in states in which we currently do not hold licenses. We continue to monitor state licensing regulations and how they may apply to our business, and may be required in the future to apply for additional state licenses.

Canada

In Canada, we are required to comply with the Canada Anti-Spam Law, which regulates the transmittal of commercial email messages, 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. In addition, we are required to comply with the Canadian 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. The Canadian provincial consumer protection and cost of credit disclosure laws prohibit late fees, impose limits on default charges, prohibit unfair practices, and include consumer contract disclosure and related process requirements, among other compliance requirements. We are also subject to Canadian provincial and territorial e-commerce laws.

We believe that we are appropriately licensed as a lender and/or have designed 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.

Payment Regulations

We are subject to the rules, codes of conduct and standards of Visa, Mastercard and other payment networks and their participants. In order to provide our payment processing services, we must be registered either indirectly or directly as service providers with the payment networks that we use. As such, we are subject to applicable card association and payment network rules, standards and regulations, which impose various requirements and could subject us to a variety of fines or penalties that may be levied by such associations or networks for certain acts or omissions. Card associations and payment networks and their member financial institutions regularly update and generally expand expectations and requirements related to the security of consumer data and environments. Failure to comply with the networks' requirements, or to pay the fees or fines they may impose, could result in the suspension or termination of our registration with the relevant payment networks and therefore require us to limit, suspend or cease providing the relevant payment processing services. We are also subject to the Payment Card Industry Data Security Standard ("PCI DSS") with respect to the acceptance of payment cards, which provides for security standards relating to the processing of cardholder data and the systems that process such data. The failure of our products to comply with PCI DSS requirements may result in the loss of our status as a PCI DSS certified Service Provider and thereby impact our relationship with our merchant partners and their own ability to comply with PCI DSS.

In Canada, we are required to comply with the 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.

Data Privacy and Data Security Laws

We are subject to a number of laws, rules, directives, and regulations relating to the collection, use, retention, security, processing, and transfer of personally identifiable information about our customers, our merchants, and employees in the geographies where we operate. Our business relies on the processing of personal data in several jurisdictions and, in some cases, the movement of data across national borders. As a result, much of the personal data that we process, which may include certain financial information associated with individuals, is subject to one or more privacy and data protection laws in one or more jurisdictions. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between or among us, our subsidiaries, and other parties with which we have commercial relationships.

Regulatory scrutiny of privacy, data protection, cybersecurity practices, and the processing of personal data is increasing around the world. Regulatory authorities are continuously considering numerous legislative and regulatory proposals and interpretive guidelines that may contain additional privacy and data protection obligations. Many jurisdictions in which we operate have adopted, or are in the process of adopting, or amending data privacy legislation or regulation aimed at creating and enhancing individual privacy rights. In addition, the interpretation and application of these privacy and data protection laws in the U.S., Canada, and elsewhere are subject to change and may subject us to increased regulatory scrutiny and business costs.

In the United States, we are subject to the Gramm-Leach-Bliley Act (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 requirements, the GLBA imposes certain limitations on the ability to share consumers’ nonpublic personal information with nonaffiliated third parties and 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. Privacy requirements, including notice and opt out requirements, under the GLBA and the FCRA are enforced by the FTC and by the Consumer Financial Protection Bureau (“CFPB”) through UDAAP claims, and are a standard component of CFPB examinations. State entities also may initiate actions for alleged violations of privacy or security compliance under state UDAAP claims, financial privacy, security and other laws. Regulators and enforcement agencies may receive consumer complaints about us. In the United States, these regulators and agencies include the Financial Crimes Enforcement Network (“FinCEN”), 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.

Most states 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. We continue to monitor state data privacy legislation and how they may apply to our business. In addition, most industrialized countries have or are in the process of adopting similar privacy or data security laws enforced through data protection authorities.

Other Applicable Regulations

We are subject to regulations relating to our corporate conduct and the conduct of our business, including securities laws, trade regulations, anti-money laundering (“AML”) laws, and Know-Your-Customer (“KYC”) laws as well as anti-corruption legislation. The United States and certain foreign jurisdictions have taken aggressive stances with respect to such matters and have implemented new initiatives and reforms. AML laws and related KYC requirements generally require certain companies to conduct necessary due diligence to prevent and protect against money laundering. AML enforcement activity could result in criminal and civil proceedings brought against companies and individuals, which could have a material adverse effect on our business.

We are required to comply with the U.S. Foreign Corrupt Practices Act, the Foreign Public Officials Act (Canada), and similar anti-bribery laws in other jurisdictions, which prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business. Recent years have seen a substantial increase in anti-bribery law enforcement activity with more frequent and aggressive investigations and enforcement proceedings by both the Department of Justice and the SEC, increased enforcement activity by non-U.S. regulators and increases in criminal and civil proceedings brought against companies and individuals.

We are also subject to certain economic and trade sanctions programs including Canadian sanctions laws and the sanctions programs administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”), which prohibit or restrict transactions or dealings with specified countries, individuals, and entities.

Our Sustainability

At our core, we are a stakeholder-centric company. Incorporated as a public benefit corporation (“PBC”) under Delaware law and certified as a B Corporation by B Lab, we pride ourselves in our environmental, social, and governance (“ESG”) initiatives and strive to achieve our mission to financially empower the next generation. To assess and prioritize which ESG topics are most important to our business and stakeholders, we conducted a materiality assessment in 2023, applying a double materiality methodology which considers the impact of certain topics on both our business and our stakeholders. This assessment was intended to help us focus our time and effort on ESG topics that have the biggest impacts, risks, and opportunities. As a result of this risk assessment, we identified twelve topics that we believe are important to us and our stakeholders. We grouped these topics into four pillars which represent the keys to our sustainability and success: justice, integrity, stewardship, and advancement. To support our assessment, we referenced third-party sustainability standards in determining our overall approach to sustainability, including the IFRS’ Sustainability Accounting Standards Board (SASB) standards and B Lab’s Impact Assessment framework.

Justice

We view justice as the pursuit of equity and fairness. We have identified three topics related to justice that we believe are highly important to our business and stakeholders:

- **Financial Accessibility:** Financial empowerment and equitable access to credit underpins our entire business operations. We primarily lend to underserved consumers using a proprietary underwriting system that considers both traditional and non-traditional sources in making our credit limit decisions. Further, we help our consumers build their payment record through our optional Sezzle Up feature.
- **Diversity and Inclusion:** Diversity, equity, and inclusion is an essential aspect of our operations across many of our stakeholder groups, including employees, merchants, and consumers. Maintaining a diverse and inclusive company allows us to work with stakeholders from a broad range of backgrounds. Refer to the “Our Employees” section above for information about diversity and inclusion as it relates to employees. We also have initiatives aiming to celebrate diversity in our merchant base, such as highlighting Black-owned businesses in our merchant store directory.
- **Employee Security and Wellness:** Our employees are our greatest asset at Sezzle; therefore, we aim to provide competitive compensation, benefits, and perks. We regularly send out employee satisfaction surveys to allow us to gain insight into specific topics and monitor employee security and happiness. Refer to the “Our Employees” section above for more information.

Integrity

In our view, integrity is showing consistent, uncompromising honesty. We accomplish this at Sezzle through good governance, listening to our stakeholders, and setting an ethically strong tone at the top. The three significant topics related to integrity at Sezzle are:

- **Governance and Controls:** We have a strong system of corporate governance and controls. Our board of directors is majority independent, with each Board Committee comprised entirely of independent members. Information relating to our corporate governance structure is incorporated by reference from our Proxy Statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2023. Our Code of Business Conduct and Ethics (for all of our employees, including our Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer); information concerning our Board Committees; Committee Charters; and Securities Trading Policy are also available on our website. In addition, we have an anti-corruption program that includes a code of conduct applicable to all employees and partners and an anonymous, confidential ethics hotline. Additional documents related to our governance policies are available in the investor relations section of our website.
- **Integrated Decision-Making:** Management and the Board of Directors evaluate if we are meeting our overall mission and maintaining our stakeholders’ interests as a factor in our decision-making process. We also report key sustainability performance indicators to the Board of Directors to keep them informed about our sustainability efforts.
- **Workplace Culture:** We strive to foster an ethical, fun, and transparent culture at Sezzle that embodies our values. This includes initiatives such as monthly town halls and quarterly inter-department surveys. Refer to the “Our Employees” section above for more information about our workplace culture.

Stewardship

In our view, stewardship is the responsible and intentional management of our stakeholders' resources and information—including managing the credit we extend, stakeholder data, and natural resources. The three significant topics related to stewardship at Sezzle are:

- **Responsible Lending:** The Sezzle Platform extends credit to traditionally underserved individuals; therefore, we value careful monitoring and management of the credit we offer. Failure to manage the impact of our product or our marketing could cause our consumers to enter into cycles of debt or experience other adverse product outcomes. Additionally, our marketing team follows an ethical framework so as not to engage in predatory advertising.
- **Data Security and Management:** Through the ordinary course of business, we collect, store, process, transfer, and use a wide range of confidential information, including personally identifiable information, for various purposes. Therefore, it's important to us that we are transparent with our stakeholders about how we handle and protect their sensitive data. We have a publicly available data and privacy policy on our website that provides clear and concise information about how we use consumer data. Further, we do not sell any data to third parties. For more information about data security and management, refer to Item 1C of this Form 10-K, "Cybersecurity."
- **Environment and Climate Change:** Despite being a remote-first company, the environment and climate change are still important to us. We measure our greenhouse gas emissions and are taking steps to set targets related to our emissions and implement programs that help reduce our negative impact on the environment in order to meet the science-aligned goal to limit global temperatures from rising above 1.5°C.

Advancement

In our view, advancement is continuously identifying and improving our products to maximize stakeholder impact. The three significant topics related to advancement at Sezzle are:

- **Product Innovation:** Our product aims to innovate credit for traditionally underrepresented consumers. We seek to identify new product opportunities that align with our stakeholders' interests, utilize stakeholder feedback in our decision-making process, and advocate for community social and environmental initiatives related to our products' impact.
- **Community Reinvestment:** We recognize that our community helped contribute to our successes. To that extent, we value giving back to our community through economic, social, and environmental reinvestment and philanthropy. We engage in initiatives and opportunities that create lasting benefits for our communities, such as offering a full-ride scholarship to a student pursuing a college degree in computer science, partnering with charities including Movember and Bolder Options, and offering employees paid time off to volunteer in their communities.
- **Employee Development:** We devote resources to our employees' personal and professional development. We offer our employees tools and resources to keep their technical, soft, and life skills relevant in today's environment, including leadership training and a budget for professional development. In addition, we also provide regular feedback to all employees, help them grow and prosper in their professional roles, and offer sabbaticals to all employees every five years of tenure.

B Corporation Update

Upon our initial B Corporation certification in 2021, we had a score of 80.7. We are currently preparing for our B Corporation recertification, which will take place in 2024. We anticipate retaining our B Corporation certification and improving from our score at initial certification.

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 are committed to pursuing opportunities for positive change in the community and the planet. We want to create an accessible, equitable, and sustainable product suite for consumers, many of which do not have access to traditional credit. Our management team and Board of Directors strongly believe that our commitment to providing alternative means for consumers to purchase items they need without incurring high-interest finance charges benefits our consumers. We believe that our product suite advances our mission of financial empowerment, benefits the community, and serves a public good. The Sezzle Platform uses non-traditional data for underwriting and extending credit to consumers, allowing consumers with little-to-no credit history to use our product and access credit. Further, our core product is completely free for consumers who pay within 48 hours of their due date and make their installment payments using a bank account, excluding their first payment. This allows consumers to purchase larger-basket items they may need without incurring high-interest finance charges.

We also have a free, opt-in feature called "Sezzle Up," where we report payment records of transactions made through the Sezzle Platform to credit bureaus. This allows consumers who use Sezzle Up to build a record of timely payments on financial obligations over time, which in turn may help them gain access to more traditional credit products.

During 2023, we continued to expand initiatives related to achieving our mission and providing a public benefit. We developed a robust approach to sustainability, which we outlined in the above section, and identified twelve key areas to assess, measure, and evaluate. Management and the Board of Directors evaluate if we are meeting our overall mission and ensure that all of our stakeholders' interests remain a factor in our decision-making process. We also integrate key sustainability performance indicators in our reporting to management and the Board of Directors to keep them informed about our sustainability efforts as it pertains to our identified topics and our B Corporation certification.

We believe that our recent initiatives and the continued success of creating a responsible and financially accessible product suite supports the conclusion that we are successful in promoting our stated public benefits.

Available Information

Our website address is www.sezzle.com. Information found on, or accessible through, our website is not a part of, and is not incorporated into, this Form 10-K. Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available, free of charge, on our website as soon as reasonably practicable after we file such material electronically with, or furnish it to, the Securities and Exchange Commission (the "SEC"). The SEC also maintains a website that contains our SEC filings. The address of the site is www.sec.gov.

ITEM 1A. RISK FACTORS

Risks Related to Our Industry

The BNPL industry has 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.

Regulators in various jurisdictions are showing increasing attention and scrutiny of BNPL arrangements, including in those jurisdictions in which we operate. We may become subject to additional legal or regulatory requirements if laws, regulations, or industry standards, or their interpretations, change in the future. 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 current 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 institutions increasingly seek to innovate their offered services. 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. This would likely reduce the attractiveness of our platform to other consumers and merchants, and materially and adversely affect our business, results of operations, financial condition, and prospects.

Macroeconomic conditions may adversely impact the ability and willingness of our shoppers to interact with the merchants on our platform, and for our shoppers to fulfill their obligations to us, each of which may adversely impact our business, results of operations and financial condition.

Our business depends primarily on individual consumers transacting with our merchants through our Sezzle Platform, and the ability of those individual consumers to fully repay to us the resulting loans. These events can be affected by changes in general economic conditions. For example, the retail sector is affected by economic conditions such as unemployment, consumer confidence, actual or anticipated 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 or unwilling to repay loans, which would result in an increase of loans that will not be paid on time or at all.

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.

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 or be able to maintain 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 accumulated substantial net losses. Our operating expenses may 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 total income sufficiently to offset these higher expenses. We may not be able to maintain profitability on a quarterly or annual basis, and could incur additional losses in the future.

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.

We generate total 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,” or underlying merchant sales, 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 total income primarily from merchant fees earned from our merchant partners in the form of a merchant processing fee, 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 product features 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 UMS 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 average order value (“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; and our ability to perform under our merchant agreements.

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 UMS 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 merchants to increase payments volume, enter new market segments, adapt to regulatory changes, and expand their use and acceptance of the Sezzle Platform. These incentives 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 impair our operations or growth. We may 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 these 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, our business will be adversely impacted.

In addition, if we are unable to fulfill our obligations under these merchant agreements, including any payments owed to 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 our total 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 historically experienced periods of strong growth in total 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 our total 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 our total income or key operating metrics for any prior quarterly or annual period as an indication of our future performance. If our total 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 resources within our business, and on the infrastructure supporting the Sezzle Platform. Failure to appropriately manage growth could result in failure to retain and attract consumers and 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 total 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 with the Sezzle Platform. Our brand promotion activities may not result in increased total income and, even if they do, any increases may not offset the expenses incurred in such promotional activities. 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.

The use of social media by us and our consumers accelerates and amplifies our reputational risks in ways we may not be able to directly control or effectively manage, including by giving users the ability to more effectively organize collective actions such as boycotts, coordinated complaint campaigns and other brand-damaging behaviors. 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 and, in some cases, lead to litigation. 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.

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.

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 which 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 Canada, and are currently winding down and exiting operations in India, Brazil, and certain countries in Europe. The primary risks to our remaining international operations (including during the wind downs) will be affected by a number of factors, including:

- currency controls, new currency adoptions and repatriation issues;
- 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.

Given the limited ongoing scope of our international operations, the impacts and risks to our business arising from the Russian military activities in Ukraine were not material in 2022 or 2023, and are not anticipated to be material in the future.

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, and the terms of such capital may not be available on terms satisfactory to us, or at all.

Our business model involves paying merchants for goods upon a consumer’s purchase (less merchant processing fees) before we have received the full payment of the goods from a consumer utilizing the Sezzle Platform. As a result, we require significant cash to support the provision of installments plans to consumers and working capital. Historically, we have relied upon the availability of credit from our lenders to support our business model as we have experienced growth, and believe that we will have a continuing need to do so for the foreseeable future. Our current lending facility matures on October 14, 2024. There can be no assurance that such financing will be extended on favorable terms or at all, or will be sufficient to finance our future capital needs.

If we require additional capital to grow our business, we may rely on a combination of funding options including equity and our credit facilities. An inability to raise sufficient capital through the issuance of equity securities or secure funding through 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 our credit agreements, 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 our credit facility in advance of the relevant maturity dates and/or termination of the credit facility, which would limit our ability to utilize credit issuable under such facility and likely have an adverse impact on our business, results of operations and financial condition.

Our existing \$100,000,000 revolving credit facility is secured by our consumer notes receivable we choose to pledge and is subject to certain operating covenants. 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 a portion of our 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.

Risks Related to Our Financing Program

Loans facilitated through our platform involve a high degree of financial risk because they are not secured, guaranteed, or insured, and consumers may not view or treat them with the same significance as other loan obligations.

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 expend additional time and expense yet be unsuccessful in our efforts to collect the amount of the loan. We may also be required to pay credit card processing costs for loan transactions in which we fail to collect 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 do so, or a consumer might allege that they did not do so. 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 made 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 rule 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, and negatively affect 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 compared 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.

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 wherein consumers opt-in to send their Sezzle Platform transaction records to credit agencies. Consumer non-payment is a major component of our expenses, and we are exposed to consumer bad debts as a normal part of our operations because we absorb the costs of all uncollectible notes receivable from our consumers. 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. 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 for 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 number and transaction volume of merchants on our platform continues 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; therefore, the credit cards they issue 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 of the Sezzle Platform 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 Sezzle Platform to integrate into, and operate with, these various third-party systems and platforms. In addition, as these systems and platforms 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. Unless we have negotiated a specific contractual requirement, 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 may 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, or other disruptions to our technology system or a compromise of our data security could occur and would materially adversely impact our business and 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 consumers 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 may be the targets 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 disrupt our platform, result in the failure of our systems to operate as expected, 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 our systems and the data and information of merchants’ and consumers’ data and information.

These events may cause significant disruption to our business and operations, cause our systems to fail to operate as expected, 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 related to the Sezzle Platform 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, 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, security breaches, or for any other reason, whether accidental or willful, the ability to score and evaluate 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 or may result in the approval of unqualified 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 laws, 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 total 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 higher than budgeted costs of fraud and consumer non-payment.

We pay merchants for goods and services purchased by consumers up front, 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. 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 are 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 generally 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, merchants shifting to in-house solutions (including providing a service competitive to us), or competitor service providers. Similarly, there is a risk that e-commerce platforms with which we partner may limit or prevent Sezzle from being offered as a payment option at checkout. Such actions would magnify the risks to our business as compared to similar actions taken by individual merchants unaffiliated with such platforms. 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.

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 total 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, reducing our potential to earn income. Alternatively, we may approve transactions that otherwise would have been denied, causing us to either lose total income, or earn total 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 could have an adverse effect on our business.

The interest paid on borrowings under our credit facility is tied to the U.S. Federal Reserve's Secured Overnight Financing Rate ("SOFR"). The facility carries an interest rate of Adjusted SOFR (defined as SOFR plus 0.262%) plus 11.5%. Increased SOFR rates will increase the amount of interest we are required to pay under our credit facility, which would negatively impact our results of operations 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), Paul Paradis (our President), and Paul Purcell (a non-executive director of the Company), 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 will also face risks in connection with any further or resumed activities related to international expansion, including in countries that may have less protection for our intellectual property rights than the United States. We have registered trademarks in the United States, the United Kingdom ("UK"), the European Union, India and Brazil, and we have pending trademark applications in Canada. 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.

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. Similarly, 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 technologies 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 technologies 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 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.

Our business is subject to risks beyond our control, including fires, floods, pandemics, 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 employees, offices or other 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.

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 and deductibles to be excessive in relation to the perceived benefits that would accrue. Accordingly, we may not be fully insured or insured at all against losses and liabilities that could unintentionally arise from our operations. The incurrence 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.

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 or inability to replace such employees 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. 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.

In addition, since March 2020 we have transitioned to a primarily remote-first working environment, with only a modest in-office presence of hybrid workers. There is a risk that continuing such an arrangement in the future 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-first 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.

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, 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 but are not limited to 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 Equal Credit Opportunity Act (“ECOA”) which addresses anti-discrimination, the Electronic Fund Transfer Act (“EFTA”) which governs electronic money movement, a variety of anti-money laundering and anti-terrorism financing rules, the Telephone Consumer Protection Act (“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 unfair, deceptive, misleading or abusive acts or practices. 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 the Sezzle Platform in a manner that we do not currently anticipate. 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 in the U.S. or Canada, or laws and regulations in new markets, that apply to us or our business could also require us to incur significant expenses and devote significant management attention to ensure compliance. In addition, our failure to comply with these laws or regulations may result in litigation or enforcement actions, the penalties for which could include: revocation of our 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, collect all or a part of the principal 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 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, FinCEN, and OFAC, 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 currently licensed as a lender where required. 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.

If loans made by us under our state lending licenses are found to violate applicable state lending and other laws, or if we were found to be operating without having obtained necessary licenses or approvals, 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. We have obtained lending licenses or made applicable notice filings in certain states, and may in the future pursue obtaining additional licenses or making additional notice filings. 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. 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.

The application of certain consumer financial licensing laws to our platform and the related activities it performs is unclear. In addition, licensing requirements may evolve over time. If we were found to be in violation of applicable 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.

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

In the ordinary course of business, we have been, are, or may be 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 a material adverse effect on our business. In particular, legal proceedings brought under state consumer protection statutes or under 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 legal and regulatory environment relating to privacy and data protection laws continues to develop and evolve in ways we cannot predict, including with respect to technologies such as cloud computing, artificial intelligence, and machine learning. Any failure or alleged failure by us to comply with our privacy policies as communicated to customers or with privacy and data protection laws could result in proceedings or actions against us by data protection authorities, other government agencies, or others, which could subject us to significant fines, penalties, judgments, and negative publicity, require us to change our business practices, increase the costs and complexity of compliance, result in reputational harm, and materially harm our business. Compliance with inconsistent privacy and data protection laws may also restrict or limit our ability to provide products and services to our customers, or alternatively increase our costs in ways that could materially and adversely affect our financial position.

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.

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.

Furthermore, many jurisdictions in which we operate (and have operated in the past) globally have enacted, or are in the process of enacting, data privacy legislation or regulations aimed at creating and enhancing individual privacy rights. Numerous U.S. states have enacted or are in the process of enacting state level data privacy laws and regulations governing the collection, use, and retention of their residents’ personal information, including the California Consumer Privacy Act, California Privacy Rights Act, Virginia Consumer Data Protection Act, Colorado Privacy Act, Utah Consumer Privacy Act, and Connecticut Data Privacy Act. Internationally, we are currently or have in the past been subject to the Canadian Personal Information Protection and Electronic Documents Act in Canada, and the General Data Protection Regulation in the EU. The continued proliferation of privacy laws in the jurisdictions in which we operate is likely to result in a disparate array of privacy rules with unaligned or conflicting provisions, accountability requirements, individual rights, and national or local enforcement powers, which could lead to increased regulatory scrutiny and business costs, or unintended consumer confusion. It may also increase our 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.

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.

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.

Risks Related to Our Corporate Structure

We do not currently intend to pay dividends on our common stock; holders will benefit from an investment in our common stock only if it appreciates in value and by the intended anti-dilution actions of our share repurchase program.

We have never declared nor paid dividends on our common stock and do not expect to pay cash dividends on our common stock in the foreseeable future. We currently anticipate that we will retain future earnings to support operations and to finance the development of our business. As a result, the success of an investment in our common stock will depend entirely upon future appreciation in its value. There is no guarantee that our common stock will maintain its value or appreciate in value.

We cannot guarantee that our recently announced stock buyback program will be fully consummated or that such program will enhance the long-term value of our share price.

On December 22, 2023, we announced that our Board of Directors had approved a stock repurchase program to repurchase up to \$5 million of our common stock in the open market. The repurchase program commenced on January 17, 2024, and will terminate on December 31, 2024. The stock repurchase program does not obligate us to acquire any particular amount of common stock, and it may be extended, suspended or discontinued at any time at the Company's discretion. The stock repurchase program could affect the price of our stock and increase volatility in the market. We cannot guarantee that this program will be fully consummated or that such program will enhance the long-term value of our share price.

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

Our existing major stockholders, particularly Charles Youakim, Paul Purcell, and Paul Paradis, together hold approximately 47.6% of all shares of our common stock outstanding as of February 23, 2024, 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 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, obtaining stockholder approval of any golden parachute payments not previously approved by stockholders, and providing pay versus performance disclosures. 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 this 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. Once we are no longer eligible for emerging growth company status, we will be subject to increased costs related to expanded disclosure requirements.

We will incur significant costs and are subject to additional regulations and requirements as a public company in 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 Nasdaq Capital Market (“Nasdaq”).

As a U.S. public company, we will incur significant legal, accounting and other expenses that are not incurred by private companies, including costs associated with U.S. public company reporting requirements under the Exchange Act. 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 Nasdaq. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures, and internal controls over financial reporting. Nasdaq 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 Nasdaq, as well as fines, sanctions and other regulatory action and civil litigation.

We can provide no assurance that our securities will continue to meet Nasdaq listing requirements. If we fail to comply with the continuing listing standards of the Nasdaq, our securities could be delisted.

Our common stock is listed for trading on the Nasdaq Capital Market tier of The Nasdaq Stock Market LLC (“Nasdaq”). Nasdaq requires its listed companies to abide by certain rules to maintain its listing, including corporate governance rules. Although we intend to satisfy such rules, there is no assurance that we will be able to do so. In the event our common stock is delisted from The Nasdaq Capital Market and we are also unable to maintain listing on another alternate exchange, trading in our common stock could thereafter be conducted in FINRA’s OTC Bulletin Board or in the over-the-counter markets in the so-called pink sheets. In such event, the liquidity of our common stock would likely be impaired, not only in the number of shares which could be bought and sold, but also through delays in the timing of the transactions, and there would likely be a reduction in our coverage by security analysts and the news media, thereby resulting in lower prices for our common stock than might otherwise prevail.

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. Accordingly, our independent registered public accounting firm is not formally attesting to the effectiveness of our internal control over financial reporting, or conducting the evaluations necessary to make such attestation.

We have undertaken various actions to implement numerous internal controls and procedures, and have hired additional accounting, internal audit staff, and consultants. Testing and maintaining internal controls 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.

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 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 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.

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, 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. 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 providing 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 stockholder 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. 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 1C. CYBERSECURITY

Risk Management and Strategy

We have integrated cybersecurity risk management into our overall risk management framework and include cybersecurity in our risk management processes and procedures and in our decision-making about and evaluation of such processes and procedures.

As part of our cybersecurity risk management, we regularly assess risks from cybersecurity and technology vulnerabilities and monitor our information systems for potential threats. We use a widely-adopted risk quantification model to identify, measure and prioritize cybersecurity and technology risks and develop related security controls and safeguards. In light of the industry in which we operate and our processing of sensitive information, we engage external auditors to annually assess our internal controls governing our services and data, to conduct a payment card industry data security standard review of our security controls protecting payment information, and to perform third-party penetration testing of our payment information and related systems. In addition, we engage third-party service providers to monitor our information storage and systems and to conduct evaluations of our security controls, including independent audits. The results of these independent audits are reported to our management who then report to the Audit and Risk Committee.

Broad oversight of our overall risk assessment, where we assess key risks including security and technology risks and cybersecurity threats, is maintained by our full Board. Our Board delegates to the Audit and Risk Committee oversight of our programs, policies, and procedures related to cybersecurity, information asset security, network security, and data privacy and protection. The Audit and Risk Committee reports on such matters to the full Board as needed. The Audit and Risk Committee also receives regular reports about our cybersecurity program from the Response Team described below.

We have implemented incident response and breach management processes which have overarching and interconnected stages, including (i) preparation for a cybersecurity incident, (ii) detection and analysis of an incident, (iii) containment, eradication, and recovery, and (iv) post-incident analysis. An internal committee of senior management (the “Response Team”) is responsible for overseeing our incident response and breach management processes. The Response Team is tasked with reporting to the Audit and Risk Committee incidents and other cybersecurity matters deemed important or to have a business impact, even if immaterial to the Company as a whole. The Response Team, as necessary and appropriate, is briefed by our information security and engineering teams with respect to risk assessments, mitigation strategies, areas of emerging risks, incidents and industry trends, and other areas of importance.

Cybersecurity Governance

Our cybersecurity risk management and strategy processes are overseen by the Response Team, including our Chief Operating Officer (“COO”). The individuals on the Response Team and our COO have prior work experience in various roles involving information technology, including security, auditing, compliance, systems and programming. These individuals are informed by our information security and engineering teams about, and monitor, the prevention, mitigation, detection and remediation of cybersecurity incidents through their management of, and participation in, the cybersecurity risk management and strategy processes described above, including the operation of our incident response and breach management processes. The Response Team and COO report to the Audit and Risk Committee on any appropriate items. The Board retains broad oversight of all risk management of the Company.

Third Party Risk Management

Because we are aware of the risks associated with third-party service providers, we have implemented controls designed to identify and mitigate cybersecurity threats associated with our use of third-party service providers. Such third-party service providers are subject to security risk assessments at the time of onboarding, contract renewal, and upon detection of any heightened risk profile. We use a variety of inputs in such risk assessments, including information supplied by providers and certifications by third parties. In addition, we require our providers to meet appropriate security requirements, controls and responsibilities and we investigate security incidents that impact our third-party providers, as appropriate.

Risks from Cybersecurity Threats

As of the date of this report, we are not aware of any material risks from cybersecurity threats that have materially affected or are reasonably likely to materially affect the Company, including our business strategy, results of operations, or financial condition. However, we cannot provide assurance that we will not experience any such event in the future. For more information about the cybersecurity risks we face in connection with our business, see the risk factor entitled “Data security breaches, cyberattacks, employee or other internal misconduct, malware, phishing or ransomware, physical security breaches, or other disruptions to our technology systems or a compromise of our data security could occur and would materially adversely impact our business and ability to protect the confidential information in our possession or control” in Item 1A of this Form 10-K, “*Risk Factors.*”

ITEM 2. PROPERTIES

Our corporate headquarters is currently located in Minneapolis, Minnesota where we lease approximately 11,498 square feet of office space pursuant to a lease agreement that expires in June 2029. We also lease a small amount of co-working space for our remote workforce to support our operations in North America and the winding down of our operations outside of North America. We believe that these premises are suitable and adequate for our needs now and for the foreseeable future. If required, we believe that suitable additional or alternative space would be available in the future on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

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 income (loss), or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Shares of Common Stock

Our common stock is listed on the Nasdaq Capital Market under the symbol "SEZL."

Holders of Record

As of February 23, 2024, there were 7,921 stockholders of record of our common stock, and the closing price of our shares of common stock was \$42.68 per share as reported on the Nasdaq Capital Market. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividend Policy

We have never proposed, declared, or issued dividends on our shares of 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 dividends in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this item is incorporated by reference from the section entitled "Equity Compensation Plan Information" included in [Part III, Item 12](#) of this Form 10-K.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Throughout the three months ended December 31, 2023, we withheld shares of common stock from employees to cover minimum statutory withholding tax obligations owed for vested restricted stock issued under our equity incentive plans. The table below presents information with respect to such common stock purchases made by us during the three months ended December 31, 2023, as follows:

Issuer Purchases of Equity Securities				
Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs
October 1, 2023 through October 31, 2023	1,455	\$ 10.46	—	\$ —
November 1, 2023 through November 30, 2023	340	11.26	—	—
December 1, 2023 through December 31, 2023	950	14.70	—	—
Total	2,745	\$ 12.03	—	\$ —

(1) All 2,745 shares were surrendered to satisfy minimum statutory tax obligations under our equity incentive plans.

Recent Sales of Unregistered Securities

None.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K (“Form 10-K”). This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. You should review the “Forward-Looking Statements”, “Factors Affecting Results from Operations”, and “Risk Factors” sections of this Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements described in the following discussion and analysis.

Overview

We are a purpose-driven payments company on a mission to financially empower the next generation. Launched in 2017, we built a digital payments platform that allows merchants to offer their consumers a flexible alternative to traditional credit. As of December 31, 2023, our platform has supported the business growth of 28 thousand Active Merchants while serving 2.6 million Active Consumers. Through our products we aim to enable consumers to take control of their spending, be more responsible, and gain access to financial freedom. Our vision is to create a digital ecosystem benefiting all of our stakeholders—merchants, 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. Our “pay-in-four” product enables consumers to acquire merchandise upfront and spread payments over four equal, interest-free installments over six weeks. Consumers pay the first installment at the point of sale and make the remaining installments every two weeks thereafter. 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 53 times per year based on the transaction activity during the rolling twelve months ended December 31, 2023, although historical transaction activity is not an indication of future results.

Our core product offering is completely free for consumers who pay on time and use a bank account to make their installment payments, excluding their first payment. We make most of our revenue by charging our merchants fees in the form of a merchant processing fee and through two paid versions of the core Sezzle experience: Sezzle Premium and Sezzle Anywhere. Sezzle Premium is a paid subscription service for consumers to access large, non-integrated premium merchants, along with other benefits, for a recurring fee. Sezzle Anywhere is a paid subscription service that allows consumers to use their Sezzle Virtual Card at any merchant online or in-store, subject to certain merchant, product, goods, and service restrictions, for a recurring fee. Additionally, we have expanded our product suite to provide consumers with access to a long-term installment lending option through partnerships with third parties.

We primarily operate in the United States and Canada, and are currently winding down and exiting operations in India and certain countries in Europe.

Terminated Merger with Wholly-Owned Subsidiary of Zip

On July 11, 2022, Sezzle entered into a Termination Agreement (the “Termination Agreement”) with Zip Co Limited (“Zip”) to terminate the Agreement and Plan of Merger, dated February 28, 2022 (the “Merger Agreement”), by and among the Company, Zip, and Miyagi Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Zip (“Merger Sub”). Pursuant to the Termination Agreement, among other things, Sezzle received \$11 million from Zip for reimbursement of merger-related costs on July 12, 2022, the Merger Agreement and other Transaction Agreements (including the Parent Support Agreements and the Company Support Agreements, each as defined in the Merger Agreement) were terminated by mutual consent of Sezzle and Zip. As part of the Termination Agreement, Sezzle and Zip also released each other from certain claims related to or arising out of the Merger Agreement and related transactions.

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.

Sustainable Business Model

Our ability to profitably scale our business long-term is reliant on creating a transparent and sustainable ecosystem of products and services that add value for all of our stakeholders, including our merchants and consumers. Our core product offering is completely free for consumers who pay on time and use a bank account to make their installment payments, excluding their first payment. We earn fees from our merchants predominately based on a percentage of the UMS value plus a fixed fee per transaction, collectively called a “merchant processing fee.” We generally pay our merchants the full 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 and partner-related income comprised approximately 62% and 81% of our total income for the years ended December 31, 2023 and 2022, respectively. In the current year, we diversified our revenue streams, which primarily included the introduction of Sezzle Anywhere and the expansion of Sezzle Premium, our paid subscription products, to consumers.

Our merchants have access to a toolkit we provide that can assist in the growth of their businesses. This toolkit includes marketing placements, co-branded marketing, exclusive promotions for consumers using Sezzle, and Sezzle Capital which facilitates access to small business loans issued by third-party lenders.

Acquisition and Retention of Consumers and Merchants

Our ability to profitably scale our business is reliant on the acquisition and retention of both consumers and merchants on the Sezzle Platform. Changes in our merchant and consumer bases have had, and will continue to have, an impact on our results of operations. It is costly for us to acquire (and in some cases retain) merchants and consumers. As such, high turnover in our merchant and consumer bases could result in higher than anticipated overhead costs.

We rely heavily on our merchant base to offer our product to new consumers at the point of sale. As of December 31, 2023, we had approximately 28 thousand Active Merchants (defined as directly integrated merchants who have had at least one order on the Sezzle Platform in the last twelve months) on our platform. 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. Onboarding and retaining merchants, as well as growing merchant utilization of the Sezzle Platform, requires investment in sales, co-marketing, and competitively priced merchant fee rates and incentives. In order to stay competitive, we have and may continue to adjust our pricing or offer incentives to larger merchants in order to increase UMS. These pricing structures with merchants may include up-front cash payments, fee discounts, rebates, credits, performance-based incentives, marketing, and other support payments that impact our revenues and profitability, and therefore, could incur substantial costs to acquire and retain 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 implementation benchmarks.

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. We continue to prioritize our focus on merchant profitability, which has resulted in a slowdown in the growth of our merchant base.

The success of our business is also dependent on a consumer base that actively uses our products. As of December 31, 2023, we had approximately 2.6 million Active Consumers on the platform. We aim to provide offerings to our consumers that keep them engaged within our ecosystem, such as Sezzle Up, our tap-to-pay Sezzle Virtual Card, and our paid subscription services Sezzle Premium and Sezzle Anywhere.

There is a risk that we may lose consumers for a variety of reasons, including consumers shifting to competitors or other payment options, changes in the general macroeconomic climate, or changes in our underwriting. We continue to prioritize our focus on profitability, which has resulted in a slowdown in the growth of our consumer base as we have tightened our underwriting.

Product Innovation

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 2022, we phased-in the introduction of Sezzle Premium, a paid subscription service for consumers to access large, non-integrated premium merchants for a monthly or annual fee. In 2023, we began piloting Sezzle Anywhere, a paid subscription service that allows consumers to use their Sezzle Virtual Card at any merchant online or in-store, subject to certain merchant, product, goods, and service restrictions, for a recurring fee. 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 the continued growth of our business.

Credit Risk Management

A critical component of our business model is the ability to effectively manage the repayment risk inherent in allowing consumers to pay over time, as we absorb the costs of all core product credit losses from our consumers. The provision for credit losses is a significant component of our operating expenses, and excessive exposure to consumer repayment failure may impact our results of operations. To that end, a team of Sezzle engineers and risk specialists oversee our proprietary systems, identify transactions with an elevated risk of fraud, assess the credit risk of the consumer, 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.

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 consumer repayment capability decisions over time. Optimizing repayment capacity decisions of our current and future consumer base may reduce our provision for credit losses and related charge-offs by providing optimal limitations on spending power to qualified consumers. During 2022 we began using a third-party collection agency in addition to our internal collections process, which further helps us lower our loss rates and manage credit risk.

Maintaining our Capital-Efficient Strategy

Maintaining our funding strategy and our efficient use of capital is important to our ability to grow our business. We have created a funding strategy that we believe allows us to scale our business and drive rapid growth. Due to the short-term nature of our products, we are able to recycle capital quickly and create a multiplier effect on our committed capital. We primarily rely on revolving credit facilities to fund our receivables over time, and do not currently require equity to directly fund product growth.

General Economic Conditions and Regulatory Climate

Our business depends on consumers transacting with merchants, which is affected by changes in general economic conditions. For example, the retail sector is affected by macroeconomic conditions such as unemployment, interest rates, consumer confidence, economic recessions, public health crises, 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 may be less likely to purchase products by utilizing our services. This could also cause our credit losses to increase due to consumers' failure to repay the loans originated on the Sezzle Platform. Our industry is further 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.

Seasonality

We experience seasonality as a result of spending patterns of our consumers. Total 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.

Key Operating Metrics

Underlying Merchant Sales

	For the years ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Underlying Merchant Sales ("UMS")	\$ 1,824,307	\$ 1,743,386	\$ 80,921	4.6 %

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 U.S. 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, including our Sezzle Premium and Sezzle Anywhere products, which is an indicator of the success of our merchants and the strength of the Sezzle Platform.

For the years ended December 31, 2023 and 2022, UMS totaled \$1.8 billion and \$1.7 billion, respectively, which was an increase of 4.6%. The increase in the current year was driven by the launch of our Sezzle Anywhere subscription product. This was offset by our continued focus on profitability during the current year, which resulted in generally lower UMS from the general tightening of credit underwriting.

Active Consumers and Active Subscribers

	As of December 31,		Change	
	2023	2022	#	%
	(in thousands, except percentages)			
Active Consumers	2,601	2,950	(349)	(11.8) %
Active Subscribers	307	119	188	157.2 %

Active Consumers is defined as unique consumers who have placed an order with us within the last twelve months. As of December 31, 2023, we had 2.6 million Active Consumers, a decrease of 11.8% when compared to our 2.9 million Active Consumers as of December 31, 2022. The decrease in Active Consumers was driven by our general tightening of credit underwriting, which resulted in higher churn in our Active Consumers.

Active Subscribers is defined as unique consumers who have an active subscription for either Sezzle Premium or Sezzle Anywhere. As of December 31, 2023, we had 0.3 million Active Subscribers, an increase of 157.2% when compared to our 0.1 million Active Subscribers as of December 31, 2022. The increase in Active Subscribers was driven by the launch of our Sezzle Anywhere subscription product.

Components of Results of Operations

Total Income

Our total income is classified into three categories: transaction income, subscription revenue, and income from other services.

Transaction Income

Transaction income is comprised of all income earned from merchants, consumers, and other third parties that relate to placing and processing orders on the Sezzle Platform. This includes merchant processing fees, partner income, and consumer fees:

We earn income from fees paid by merchants in exchange for our payment processing services. These merchant processing fees are applied to the underlying sales of consumers passing through our platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction. For orders that result in a financing receivable, merchant processing fees are recognized over the underlying order's duration using the effective interest method. For orders that do not result in a financing receivable, merchant processing fees are recognized at the time the sale is completed.

We also earn income from partners on consumer transactions. This income includes interchange fees through our virtual card solution and promotional incentives with third parties. Virtual card interchange income is recognized over the underlying order's duration using the effective interest method and promotional incentives are recognized as they are earned during the promotional period.

Transaction income also includes income from consumers when they choose to make an installment payment, excluding the first installment, using a card pursuant to state law. These fees are recognized at the time a payment is processed.

Subscription Revenue

We offer our consumers the ability to subscribe to two paid services: Sezzle Premium and Sezzle Anywhere. Sezzle Premium allows consumers to shop at select large, non-integrated premium merchants, along with other benefits, for a recurring fee. Sezzle Anywhere allows consumers to use their Sezzle Virtual Card at any merchant online or in-store, subject to certain merchant, product, goods, and service restrictions, for a recurring fee. Subscription fees are recognized straight-line over the subscription period.

Income from Other Services

Income from other services includes all other incomes earned from merchants, consumers, and other third parties not included in transaction income or subscription revenue. This includes late payment fees, gateway fees, and marketing revenue earned from affiliates. Late payment fees are assessed to consumers who fail to make a timely payment and 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. Late payment fees are recognized at the time the fee is charged to the consumer to the extent the fee is reasonably collectible.

Personnel

Personnel primarily comprises all wages and salaries paid to employees, contractor payments, employer-paid payroll taxes and employee benefits, and equity 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 consumer 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 transaction 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 expenses are primarily comprised of professional fees, implementation incentives with merchants, insurance, and travel. Professional fees include legal, compliance, audit, tax, and consulting services to support the growth of our company.

Provision for Credit Losses

We maintain an allowance for credit losses at a level necessary to absorb expected credit losses on principal receivables from consumers. The allowance for credit losses is determined based on our current estimate of expected credit losses over the remaining contractual term and incorporates evaluations of known and inherent risks in our portfolio, historical credit losses, consumer payment trends, estimates of recoveries, current economic conditions, and reasonable and supportable forecasts. We regularly assess the adequacy of our allowance for credit losses and adjust the allowance as necessary to reflect changes in the credit risk of our notes receivable. Any adjustment to the allowance for credit losses is recognized through the provision for credit losses. In 2022, we maintained an allowance for credit losses at a level necessary to absorb estimable probable losses on principal and reschedule fee receivables from consumers.

Reimbursement of Merger-Related Costs

We received a one-time payment from Zip Co Limited for reimbursement of fees we incurred in connection with the now-terminated proposed merger with Zip.

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 line of credit is based on SOFR. Effective August 1, 2022, interest paid to merchants under the Merchant Interest Program is based on a fixed interest rate. Prior to August 1, 2022, interest paid under the Merchant Interest Program was paid based on 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 Loss

Other comprehensive loss is comprised of foreign currency translation adjustments.

Results of Operations

Total Income

	For the years ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Transaction income	\$ 109,739	\$ 102,599	\$ 7,140	7.0 %
Subscription revenue	29,713	5,280	24,433	462.8 %
Income from other services	19,905	17,691	2,214	12.5 %
Total income	\$ 159,357	\$ 125,570	\$ 33,787	26.9 %

Transaction income for the years ended December 31, 2023 and 2022 totaled \$109.7 million and \$102.6 million, respectively, which was an increase of 7.0%. Within transaction income, merchant processing fees totaled \$75.2 million and \$92.1 million for the years ended December 31, 2023 and 2022, respectively. Despite the decrease in merchant processing fees, transaction income grew year-over-year overall due to increases in both partner income and consumer fees.

Subscription revenue totaled \$29.7 million and \$5.3 million for the years ended December 31, 2023 and 2022, respectively. The increase was primarily from the launch of our Sezzle Anywhere subscription product and overall growth in our Active Subscribers.

Income from other services totaled \$19.9 million and \$17.7 million for the years ended December 31, 2023 and 2022, respectively. The increase was driven by increases in gateway fees, offset against decreases in late payment fees. Consumer late payment fees totaled \$9.7 million and \$12.6 million for the years ended December 31, 2023 and 2022, respectively. The decrease in late payment fees was driven by the utilization of our Prophet Score machine learning model, resulting in more efficient credit risk management strategies and fewer delinquencies on consumer orders. Gateway fees and other operational income comprised the rest of income from other services.

Personnel

	For the years ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Personnel	\$ 46,374	\$ 51,217	\$ (4,843)	(9.5) %

Personnel costs were \$46.4 million and \$51.2 million for the years ended December 31, 2023 and 2022, respectively. Recorded within personnel, equity based compensation totaled \$6.9 million and \$10.3 million for the years ended December 31, 2023 and 2022, respectively, which was a 32.8% decrease. The remaining decrease in personnel costs was driven by reduced headcount during the year ended December 31, 2023 when compared to the year ended December 31, 2022.

Transaction Expense

	For the years ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Payment processing costs	\$ 31,862	\$ 32,719	\$ (857)	(2.6) %
Affiliate and partner fees	5,148	4,630	518	11.2 %
Other transaction expense	2,198	3,428	(1,230)	(35.9) %
Transaction expense	\$ 39,208	\$ 40,777	\$ (1,569)	(3.8) %

Transaction expense totaled \$39.2 million and \$40.8 million for the years ended December 31, 2023 and 2022, respectively.

Payment processing costs were \$31.9 million and \$32.7 million for the years ended December 31, 2023 and 2022, respectively. Despite higher UMS in the current year, payment processing costs decreased year-over-year as result of a higher percentage of payments using lower-cost ACH instead of card payments.

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 partner platforms with which we have contractual agreements. Such costs were \$5.1 million and \$4.6 million for the years ended December 31, 2023 and 2022, respectively. The increase in costs was driven by higher UMS in the current year on certain partner platforms.

Other costs included in transaction expense were \$2.2 million and \$3.4 million for the years ended December 31, 2023 and 2022, respectively. Such costs are comprised of consumer communication costs and consumer and merchant support-related costs. The decrease in costs was a result of fewer consumer and merchant support-related costs during the current periods.

Third-Party Technology and Data

	For the years ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Third-party technology and data	\$ 7,816	\$ 8,190	\$ (374)	(4.6) %

Third-party technology and data costs totaled \$7.8 million and \$8.2 million for the years ended December 31, 2023 and 2022, respectively. These expenses primarily include cloud-based infrastructure, fraud prevention, obtaining underwriting data that resulted in failed loan applications, and consumer engagement. The decrease in expense was a result of our cost-reduction initiative to eliminate or downsize non-critical technology platforms where feasible.

Marketing, Advertising, and Tradeshow

	For the years ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Marketing, advertising, and tradeshow	\$ 11,984	\$ 18,972	\$ (6,988)	(36.8) %

Marketing, advertising, and tradeshow costs were \$12.0 million and \$19.0 million for the years ended December 31, 2023 and 2022, respectively. The decrease in costs were driven by a reduction in contractual obligations to co-market the Sezzle brand with our enterprise merchants and partners.

General and Administrative

	For the years ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
General and administrative	\$ 8,588	\$ 16,412	\$ (7,824)	(47.7) %

General and administrative expenses are primarily comprised of professional fees, implementation incentives with merchants, insurance, and travel. Professional fees include legal, compliance, audit, tax, and consulting services to support our operations and initiatives. General and administrative costs were \$8.6 million and \$16.4 million for the years ended December 31, 2023 and 2022, respectively. The decrease in costs was a result of lower professional fees in the current period. During the year ended December 31, 2022, we incurred \$6.6 million of professional fees in connection with our proposed, and ultimately terminated, merger with Zip Co.

Provision for Credit Losses

	For the years ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Provision for credit losses	\$ 23,187	\$ 29,437	\$ (6,250)	(21.2) %

The total provision for credit losses was \$23.2 million and \$29.4 million for the years ended December 31, 2023 and 2022, respectively. As a percentage of total income, the provision for credit losses was 14.6% and 23.4% for the years ended December 31, 2023 and 2022, respectively. The decrease in credit losses was primarily driven by the utilization of our proprietary Prophet Score machine learning model, resulting in more efficient credit risk management strategies undertaken during the year ended December 31, 2023.

Additionally, effective January 1, 2023, we adopted accounting guidance which replaces the incurred loss impairment methodology with an expected credit loss methodology and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates, including an estimate for forecasted recoveries. Refer to [Note 3. Notes Receivable and Allowance for Credit Losses](#) in the accompanying Notes to the Consolidated Financial Statements for more information.

Reimbursement of Merger-Related Costs

On July 11, 2022, we entered into an agreement to terminate our proposed merger with Zip. As part of the termination agreement, we received \$11 million for reimbursement of internal and external merger-related costs. Refer to [Note 14. Reimbursement of Merger-Related Costs](#) on the accompanying Notes to the Consolidated Financial Statements for more information.

Net Interest Expense

	For the years ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Net interest expense	\$ 15,968	\$ 8,601	\$ 7,367	85.7 %

Net interest expense was \$16.0 million and \$8.6 million for the years ended December 31, 2023 and 2022, respectively. The increase in expense was driven by the terms of our current line of credit agreement entered into on October 14, 2022, which carries an interest rate of Adjusted SOFR plus 11.5% and required a minimum outstanding balance of \$75,000,000 prior to March 31, 2023, and \$80,000,000 on and after March 31, 2023.

Income Taxes

Income tax expense for the years ended December 31, 2023 and 2022 was \$611,487 and \$69,447, respectively. Our effective income tax rate for the years ended December 31, 2023 and 2022 was 7.9% and 0.2%, respectively. The increase in income tax expense for the year ended December 31, 2023 was driven by the Company's profitability, along with the limitation of allowable net operating losses to be applied to taxable income in the current year. Further, 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, 2023. 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 remaining net deferred tax assets as of December 31, 2023 and December 31, 2022.

Other Comprehensive Loss

We had (\$3,025) and (\$1,207,885) of foreign currency translation adjustments recorded within other comprehensive loss for the years ended December 31, 2023 and 2022, 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

For the years ended December 31, 2023 and 2022, we incurred a net income (loss) of \$7.1 million and (\$38.1) million, respectively. We have historically financed our operating and capital needs primarily through private sales of equity, our capital raises on the Australian Securities Exchange (ASX), and our revolving line of credit. As of December 31, 2023, 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, 2023, we had cash, cash equivalents, and restricted cash of \$70.7 million, compared to \$69.5 million as of December 31, 2022. 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, 2023 and 2022, we had working capital of \$21.8 million and \$70.9 million, respectively. The year over year decrease in working capital was driven by the current liability classification of our line of credit, which has a maturity date of October 14, 2024. We anticipate refinancing our line of credit agreement prior to the maturity date. Additionally, as of December 31, 2023 and 2022 we had an unused borrowing capacity on our line of credit of \$3.5 million and \$0.5 million, respectively.

We believe that 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.

Factors Affecting Liquidity and Capital Resources

While we believe that our business will be able to generate enough cash flow from operations and that future borrowings will be available to us in an amount sufficient to enable us to fund our liquidity needs, we cannot provide any assurance. Our ability to meet these needs is dependent on current economic conditions and other factors, many of which are beyond our control. Material factors that could affect our liquidity and capital resources are consumer delinquencies and defaults, declines in consumer purchases, an inability to access fundraising, macroeconomic conditions, and instability of financial institutions. If our capital is insufficient to satisfy our liquidity requirements, we will need to seek additional equity or debt financing. In an increasing interest rate environment, our ability to raise equity or incur debt could be limited, our borrowing costs could increase, we could be subject to restrictions, or we could be required to pledge additional collateral as security. If we are unable to raise additional capital or generate the necessary cash flows, our results of operations and financial condition could be materially and adversely impacted.

Cash Flows

The following table summarizes our cash flows:

	For the years ended December 31,	
	2023	2022
Net Cash (Used for) Provided from Operating Activities	\$ (25,690,433)	\$ 8,511,848
Net Cash Used for Investing Activities	(1,365,592)	(1,008,077)
Net Cash Provided From (Used for) Financing Activities	28,215,188	(15,687,894)
Net increase (decrease) in cash, cash equivalents, and restricted cash	\$ 1,159,163	\$ (8,184,123)

Operating Activities

Our largest source of operating cash inflow is receipts from consumers, and our largest source of operating cash outflow is payments to merchants. Other primary uses of cash from operating activities are for personnel, payment processing costs, and interest payments.

During the year ended December 31, 2023, net cash used for operating activities totaled \$25.7 million which was primarily related to cash outflows of \$68.4 million due to changes in our operating assets and liabilities, offset against our \$7.1 million net income adjusted for \$35.6 million of non-cash charges such as credit losses, equity and incentive-based compensation, and depreciation and amortization. Our cash outflow from changes in our operating assets and liabilities was driven by a \$59.4 million increase in our notes receivable, which was related to higher transaction volume and timing of consumer repayment in the current year and resulted in decreased cash receipts from consumers during the year ended December 31, 2023. Additionally, we had a \$9.1 million decrease in our merchant accounts payable as a result of the timing of payments to merchants, which resulted in increased cash payments to merchants during the year ended December 31, 2023. Offset against these, we had a \$1.4 million increase in accrued liabilities related to the timing of payments to vendors and personnel, which resulted in decreased cash payments during the year ended December 31, 2023 to vendors and personnel. During the year ended December 31, 2023, cash payments for personnel-related expenses totaled \$37.2 million, cash payments for processing costs totaled \$28.3 million, and cash interest payments totaled \$16.4 million.

During the year ended December 31, 2022, net cash provided from operating activities totaled \$8.5 million, which was primarily related to \$38.1 million of net loss adjusted for \$51.7 million of non-cash charges such as credit losses, equity and incentive-based compensation, and depreciation and amortization, offset against cash outflows of \$5.1 million due to changes in our operating assets and liabilities. The change in operating assets and liabilities was driven by a \$12.9 million decrease in our merchants accounts payable as a result of the timing of payments to merchants, which resulted in increased cash payments to merchants during the year ended December 31, 2022. We also had a \$6.7 million increase in other receivables as a result of the timing of payments from merchants, which resulted in decreased cash received from merchants. These were offset against a \$10.6 million decrease in our notes receivable, which was related to lower transaction volume and timing of consumer repayment resulting in increased cash receipts from consumers; and a \$2.5 million increase in our accrued liabilities related to the timing of payments to vendors and personnel, which resulted in decreased cash outflows. During the year ended December 31, 2022, cash payments for personnel-related expenses totaled \$39.4 million, cash payments for processing costs totaled \$33.2 million, and cash interest payments totaled \$7.8 million.

The change in net cash from operating activities year-over-year was primarily related to changes in our notes receivable, which were driven by higher volume and increased consumer lending during the year ended December 31, 2023 around year-end, and the timing of consumer repayments.

Investing Activities

Net cash used for investing activities during the year ended December 31, 2023 was \$1.4 million, compared to \$1.0 million during the year ended December 31, 2022. Cash outflows for investing activities were used for purchasing computer equipment and payments of salaries to employees who create capitalized internal-use software.

Financing Activities

Net cash provided from (used for) financing activities during the years ended December 31, 2023 and 2022 was \$28.2 million and (\$15.7) million, respectively.

Financing cash inflows during the year ended December 31, 2023 were primarily from net proceeds from our line of credit totaling \$30.0 million. Cash outflows during the year ended December 31, 2023 were comprised of repurchases of shares of common stock from employees to cover minimum statutory tax obligations totaling \$1.7 million, and payments of debt issuance costs totaling \$0.1 million.

Financing cash inflows during the year ended December 31, 2022 were comprised of proceeds from stock option exercises totaling \$0.4 million. Cash outflows during the year ended December 31, 2022 were comprised of net payments to our line of credit totaling \$13.8 million, payments of debt issuance and extinguishment costs totaling \$1.9 million, and the repurchase of shares of common stock from employees to cover minimum statutory tax obligations totaling \$0.4 million.

Line of Credit

Refer to [Note 7. Line of Credit](#) on the accompanying Notes to the Consolidated Financial Statements for discussion about our line of credit.

Merchant Contract Obligations

Refer to [Note 10. Commitments and Contingencies](#) on the accompanying Notes to the Consolidated Financial Statements for discussion about our merchant contract obligations.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. These principles require us to make certain estimates and judgments that affect the amounts reported in our consolidated financial statements. We base our estimates on historical experience and on various other assumptions that management believes to be reasonable. Our actual results may differ materially from our estimates because of certain accounting policies requiring significant judgment. To the extent that there are material differences between our estimates and actual results, our future consolidated financial statements will be affected.

We evaluate our significant estimates on an ongoing basis, including, but not limited to, estimates related to our allowance for credit losses, equity-based compensation, and income taxes. We believe these estimates have the greatest risk of affecting our consolidated financial statements; therefore, we consider these to be our critical accounting policies and estimates.

Receivables and Credit Policy

Our notes receivable represents amounts due from consumers for outstanding principal and reschedule fees on installment payment plans made on our platform. Consumers installment payment plans are interest-free, and typically consist of four installments, with the first payment made at the time of purchase and subsequent payments coming due every two weeks thereafter. Our notes receivable are generally due within 42 days.

We classify all of our notes receivable as held for investment, as we have the intent and ability to hold these investments for the foreseeable future or until maturity or payoff. Since our portfolio is comprised of one product segment, point-of-sale unsecured installment loans, we evaluate our notes receivable as a single, homogenous portfolio and make merchant-specific or other adjustments as necessary. Our notes receivable are reported at amortized cost, which includes unpaid principal and reschedule fee balances, adjusted for unearned transaction income, direct loan origination costs, and charge-offs. The amortized cost basis is adjusted for the allowance for credit losses within notes receivable, net.

Our notes receivable are considered past due when the principal has not been received within one calendar day of when they are due in accordance with the agreed upon contractual terms. Any amounts delinquent after 90 days are charged off with an offsetting reversal to the allowance for credit losses through the provision for credit losses on our consolidated statements of operations and comprehensive income (loss). Charged-off principal payments recovered after 90 days are recognized as a reduction to the allowance for credit losses in the period the receivable is recovered.

We maintain an allowance for credit losses at a level necessary to absorb expected credit losses on principal and reschedule fee receivables from consumers. The allowance for credit losses is determined based on our current estimate of expected credit losses over the remaining contractual term and incorporates evaluations of known and inherent risks in our portfolio, historical credit losses, consumer payment trends, estimates of recoveries, current economic conditions, and reasonable and supportable forecasts. In 2022, we maintained an allowance for credit losses at a level necessary to absorb estimable probable losses on principal and reschedule fee receivables from consumers. We regularly assess the adequacy of our allowance for credit losses and adjust the allowance as necessary to reflect changes in the credit risk of our notes receivable. Any adjustment to the allowance for credit losses is recognized in net income (loss) through the provision for credit losses on our consolidated statements of operations and comprehensive income (loss). While we believe our allowance for credit losses is appropriate based on the information available, actual losses could differ from the estimate.

Equity Based Compensation

We maintain stock compensation plans that offer incentives in the form of 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. We estimate the fair value of stock options without a market condition on the measurement date using the Black-Scholes valuation model. The fair value of stock options 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 our stock option grants, significant judgment is required for determining the expected volatility of our shares of common stock and is based on the historical volatility of both its shares of common stock and its defined peer group. The fair value of restricted stock awards and restricted stock units that vest based on service conditions is based on the fair market value of our shares of 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. We issue new shares of common stock upon the exercise of stock options and vesting of restricted stock units.

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, 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 our deferred tax assets.

We evaluate our 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 we have not recorded any liabilities for uncertain tax positions.

Recent Accounting Pronouncements

Refer to [Note 1. Principal Business Activity and Significant Accounting Policies](#) on the accompanying Notes to the Consolidated Financial Statements for discussion about recent accounting pronouncements.

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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks during our ordinary course of business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices, interest rates, and foreign currency exchange rates. Our primary risk exposure is the result of fluctuations in interest rates and foreign currency exchange rates. Management establishes policies and programs around our investing and funding activities in order to mitigate market risks. We continuously monitor risk exposures.

Interest Rate Risk

We are exposed to interest rate risk primarily from our revolving line of credit. As of December 31, 2023 and 2022, we had a revolving line of credit facility of \$100 million available to us. We are obligated to pay interest on borrowing under this line of credit as well as other customary fees, including an unused commitment fee. Borrowings under our line of credit bear interest at a floating rate based on the U.S. Federal Reserve's Secured Overnight Financing Rate ("SOFR"); therefore, we are exposed to risks related to fluctuations in SOFR to the extent of our outstanding borrowings. As of December 31, 2023 and 2022, we had \$95 million and \$65 million, respectively, outstanding under our line of credit. For the year ended December 31, 2023, a 100 basis point hypothetical adverse change in SOFR during the year would have resulted in an additional \$0.7 million of interest expense recorded within net interest expense on our consolidated statements of operations and comprehensive income (loss), based on actual borrowings on our line of credit during the year.

Interest rates may also adversely impact our consumers' spending levels and ability to repay outstanding amounts owed to us. Higher interest rates could lead to larger payment obligations for consumers under other lenders, such as mortgages and credit cards, which may reduce our consumers' ability to remain current on their installment plans with us. This may lead to increased delinquencies, charge-offs, and credit losses on our notes receivable, which would have an adverse effect on our net income (loss).

Foreign Currency Risk

During the ordinary course of business, we enter into transactions denominated in foreign currencies, primarily the Canadian dollar, which exposes us to foreign current exchange rate risk. We have experienced and will continue to experience fluctuations in our net income (loss) as a result of transaction gains or losses related to revaluing monetary assets and liabilities that are denominated in currencies other than the functional currency of the entities in which they are recorded. We considered historical trends in foreign currency exchange rates and concluded it was reasonably possible that a 10% change in exchange rates could occur in the near term. If a hypothetical 10% foreign currency exchange rate change was applied to total monetary assets and liabilities denominated in currencies other than the functional currency of the entities in which they were recorded at the balance sheet date, it would not have a material impact on our financial results. At this time, we have not entered into derivatives or other financial instrument transactions in an attempt to hedge our foreign currency exchange risk due to its immaterial nature. In the future, we may enter into such transactions should our exposure become more substantial.

We are also subject to foreign currency exchange risk related to translation, as a number of our subsidiaries have functional currencies other than the U.S. Dollar. Translation from these foreign currencies to the U.S. Dollar is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate for the period. Resulting translation adjustments are reported as a component of accumulated other comprehensive loss on the consolidated balance sheets. A hypothetical adverse 10% change in all of our subsidiaries' functional currencies against the U.S. Dollar compared to the exchange rate during the years ended December 31, 2023 and 2022 would have resulted in an additional foreign currency translation adjustment of approximately \$1.8 million and \$1.9 million, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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, 2023 and 2022, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity and cash flows for the years ended December 31, 2023 and 2022, and the related notes (collectively referred to as the "consolidated 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, 2023 and 2022, and the results of its operations and its cash flows for the years ended December 31, 2023 and 2022, 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.

/s/ Baker Tilly US, LLP

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

Minneapolis, Minnesota
February 29, 2024

Consolidated Balance Sheets

	As of December 31,	
	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 67,624,212	\$ 68,279,539
Restricted cash, current	2,993,011	1,223,119
Notes receivable	142,885,682	103,581,855
Allowance for credit losses	(12,253,041)	(10,223,451)
Notes receivable, net	130,632,641	93,358,404
Other receivables, net	1,571,728	2,532,710
Prepaid expenses and other current assets	6,223,274	4,737,688
Total current assets	209,044,866	170,131,460
Non-Current Assets		
Internally developed intangible assets, net	1,898,470	1,322,836
Operating right-of-use assets	994,476	86,715
Restricted cash, non-current	82,000	20,000
Other assets	625,471	1,015,527
Total Assets	\$ 212,645,283	\$ 172,576,538
Liabilities and Stockholders' Equity		
Current Liabilities		
Merchant accounts payable	\$ 74,135,491	\$ 83,020,739
Operating lease liabilities	57,316	79,312
Accrued liabilities	10,790,308	10,448,872
Other payables	5,261,436	4,129,371
Deferred revenue	2,643,230	1,516,228
Line of credit, net of unamortized debt issuance costs of \$619,094	94,380,906	—
Total current liabilities	187,268,687	99,194,522
Long Term Liabilities		
Long term debt	250,000	250,000
Operating lease liabilities	981,692	—
Line of credit, net of unamortized debt issuance costs of \$1,222,525	—	63,777,475
Warrant liabilities	967,257	511,295
Other non-current liabilities	1,083,323	—
Total Liabilities	190,550,959	163,733,292
Commitments and Contingencies (see Note 10)		
Stockholders' Equity*		
Common stock, \$0.00001 par value; 750,000,000 shares authorized; 5,826,206 and 5,507,108 shares issued, respectively; 5,697,517 and 5,478,470 shares outstanding, respectively	2,085	2,083
Additional paid-in capital	186,015,079	179,054,368
Treasury stock, at cost: 128,689 and 28,638 shares, respectively	(5,755,961)	(4,072,752)
Accumulated other comprehensive loss	(646,999)	(643,974)
Accumulated deficit	(157,519,880)	(165,496,479)
Total Stockholders' Equity	22,094,324	8,843,246
Total Liabilities and Stockholders' Equity	\$ 212,645,283	\$ 172,576,538

* Effective May 11, 2023, we performed a 1-for-38 reverse stock split. Share amounts (excluding shares authorized and par value) have been retroactively restated.

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Operations and Comprehensive Income (Loss)

	For the years ended December 31,	
	2023	2022
Total income	\$ 159,356,772	\$ 125,570,441
Operating Expenses		
Personnel	46,373,915	51,217,083
Transaction expense	39,207,768	40,776,825
Third-party technology and data	7,815,915	8,190,022
Marketing, advertising, and tradeshow	11,984,019	18,972,025
General and administrative	8,587,781	16,411,912
Provision for credit losses	23,186,973	29,437,179
Reimbursement of merger-related costs	—	(11,000,000)
Total operating expenses	137,156,371	154,005,046
Operating Income (Loss)	22,200,401	(28,434,605)
Other Income (Expense)		
Net interest expense	(15,968,380)	(8,600,716)
Other income (expense), net	1,933,450	(225,606)
Loss on extinguishment of line of credit	—	(813,806)
Fair value adjustment on warrants	(455,962)	50,424
Income (Loss) before taxes	7,709,509	(38,024,309)
Income tax expense	611,487	69,447
Net Income (Loss)	7,098,022	(38,093,756)
Other Comprehensive Loss		
Foreign currency translation adjustment	(3,025)	(1,207,885)
Total Comprehensive Income (Loss)	\$ 7,094,997	\$ (39,301,641)
Net income (loss) per share*:		
Basic	\$ 1.27	\$ (7.00)
Diluted	\$ 1.25	\$ (7.00)
Weighted-average shares outstanding*:		
Basic	5,606,087	5,443,605
Diluted	5,678,527	5,443,605

* Effective May 11, 2023, we performed a 1-for-38 reverse stock split. Share and per-share amounts have been retroactively restated.

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares*	Amount						
Balance at January 1, 2022	5,374,499	\$ 2,044	\$168,338,673	\$ (18,545)	\$ (3,691,322)	\$ 563,911	\$(127,402,723)	\$ 37,792,038
Equity based compensation	—	—	7,674,265	—	—	—	—	7,674,265
Stock option exercises	44,362	17	100,353	—	—	—	—	100,370
Restricted stock issuances and vesting of awards	35,513	13	2,635,257	—	—	—	—	2,635,270
Stock subscriptions receivable related to stock option exercises	35,362	13	305,820	(305,833)	—	—	—	—
Stock subscriptions collected related to stock option exercises	—	—	—	324,378	—	—	—	324,378
Repurchase of common stock	(11,266)	(4)	—	—	(381,430)	—	—	(381,434)
Foreign currency translation adjustment	—	—	—	—	—	(1,207,885)	—	(1,207,885)
Net loss	—	—	—	—	—	—	(38,093,756)	(38,093,756)
Balance at December 31, 2022	5,478,470	\$ 2,083	\$179,054,368	\$ —	\$ (4,072,752)	\$ (643,974)	\$(165,496,479)	\$ 8,843,246

	Common Stock		Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares*	Amount						
Balance at January 1, 2023	5,478,470	\$ 2,083	\$179,054,368	\$ —	\$ (4,072,752)	\$ (643,974)	\$(165,496,479)	\$ 8,843,246
Adoption of Accounting Standards Update No. 2016-13	—	—	—	—	—	—	878,577	878,577
Issuance of additional shares related to reverse stock split	6,245	—	—	—	—	—	—	—
Equity based compensation	—	—	3,313,659	—	—	—	—	3,313,659
Stock option exercises	16,343	—	26,996	—	—	—	—	26,996
Restricted stock issuances and vesting of awards	296,510	3	3,620,056	—	—	—	—	3,620,059
Repurchase of common stock	(100,051)	(1)	—	—	(1,683,209)	—	—	(1,683,210)
Foreign currency translation adjustment	—	—	—	—	—	(3,025)	—	(3,025)
Net income	—	—	—	—	—	—	7,098,022	7,098,022
Balance at December 31, 2023	5,697,517	\$ 2,085	\$186,015,079	\$ —	\$ (5,755,961)	\$ (646,999)	\$(157,519,880)	\$ 22,094,324

* Effective May 11, 2023, we performed a 1-for-38 reverse stock split. Share amounts have been retroactively restated.

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	For the years ended December 31,	
	2023	2022
Operating Activities:		
Net income (loss)	\$ 7,098,022	\$ (38,093,756)
Adjustments to reconcile net income (loss) to net cash (used for) provided from operating activities:		
Depreciation and amortization	855,803	847,126
Provision for credit losses	23,186,973	29,437,179
Provision for other credit losses	3,351,966	9,257,284
Equity based compensation and restricted stock vested	6,933,718	10,309,535
Amortization of debt issuance costs	732,029	983,745
Impairment losses on long-lived assets	42,247	39,512
Fair value adjustment on warrants	455,962	(50,424)
Loss on extinguishment of line of credit	—	813,806
Loss on sale of fixed assets	25,621	79,683
Changes in operating assets and liabilities:		
Notes receivable	(59,364,299)	10,590,769
Other receivables	(2,390,165)	(6,710,739)
Prepaid expenses and other assets	(1,219,639)	(1,353,026)
Merchant accounts payable	(9,115,285)	(12,928,944)
Other payables	1,120,852	1,281,500
Accrued liabilities	1,416,863	2,476,822
Deferred revenue	1,126,966	1,516,228
Operating leases	51,933	15,548
Net Cash (Used for) Provided from Operating Activities	(25,690,433)	8,511,848
Investing Activities:		
Purchase of property and equipment	(81,609)	(52,236)
Internally developed intangible asset additions	(1,283,983)	(955,841)
Net Cash Used for Investing Activities	(1,365,592)	(1,008,077)
Financing Activities:		
Proceeds from line of credit	54,849,000	71,155,556
Payments to line of credit	(24,849,000)	(84,955,556)
Payments of debt issuance costs	(128,598)	(1,330,901)
Payment of debt extinguishment costs	—	(600,307)
Proceeds from stock option exercises	26,996	100,370
Stock subscriptions collected related to stock option exercises	—	324,378
Repurchase of common stock	(1,683,210)	(381,434)
Net Cash Provided From (Used for) Financing Activities	28,215,188	(15,687,894)
Effect of exchange rate changes on cash	17,402	(1,183,387)
Net increase (decrease) in cash, cash equivalents, and restricted cash	1,159,163	(8,184,123)
Cash, cash equivalents, and restricted cash, beginning of period	69,522,658	78,890,168
Cash, cash equivalents, and restricted cash, end of period	\$ 70,699,223	\$ 69,522,658
Noncash investing and financing activities:		
Lease liabilities arising from obtaining right-of-use assets	\$ 1,059,263	\$ 8,005
Issuance of warrants	—	561,719
Supplementary disclosures:		
Interest paid	\$ 16,362,536	\$ 7,790,430
Income taxes paid	452,426	65,395

See the accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Note 1. Principal Business Activity and Significant Accounting Policies

Principal Business Activity

Sezzle Inc. (“Sezzle”, the “Company”, “we”, “us”, or “our”) is a technology-enabled payments company based in the United States with operations in the United States and Canada. We are a Delaware Public Benefit Corporation formed on January 4, 2016. We offer our payment solution in-store and at online retail stores, connecting consumers with merchants via a proprietary payments solution that instantly extends credit at the 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 us to increase sales by tapping into our existing user base, increase conversion rates, increase spend per transaction, increase purchase frequency, and reduce return rates, all without bearing any credit risk. We are a high-growth, networked platform that benefits from a symbiotic and mutually beneficial relationship between merchants and consumers.

Our 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 our core direct integration solution, the purchase price, less merchant fees, is paid to merchants by us in advance of collecting the purchase price installments from the consumer. For our virtual card solution, the full purchase price is paid to merchants at the time of sale, and we separately invoice the merchant for merchant fees due to us to the extent applicable.

We are headquartered in Minneapolis, Minnesota.

Concentrations of Credit Risk

Our cash, cash equivalents, restricted cash, and notes receivable are potentially subject to concentrations of credit risk. Cash, cash equivalents, and restricted cash are placed in depository accounts with financial institutions that management believes are reputable and high-quality. We have balances with financial institutions that exceed the Federal Deposit Insurance Corporation (“FDIC”) and foreign equivalents’ insurance limits. As of the date of this report, we have not experienced losses on such accounts.

Our notes receivables are derived from extending credit to consumers, which exposes us to the risk of credit losses. Changes in economic conditions may result in higher credit losses. We establish credit lines for consumers individually that helps mitigate credit risk. The allowance for credit losses is adequate for covering any potential losses on outstanding notes receivable. Refer to Note 3 for more information. No consumer accounted for more than 10% of net notes receivable as of December 31, 2023 and 2022.

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. We consolidate the accounts of subsidiaries for which we have 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.

Cash and Cash Equivalents

We consider all money market funds and other highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. We accept Automated Clearing House (“ACH”), Electronic Funds Transfer (“EFT”), debit card, and credit card payment methods from consumers to settle receivables, and these transactions are generally transmitted through third parties. The payments due from the third parties are generally settled within three days of initiation.

Restricted Cash

We are required to maintain cash balances in a bank account in accordance with certain lending agreements. The bank account is our property, but access to consumer payments is controlled by our line of credit providers. On a regular basis, cash received from consumers is deposited into the bank account and subsequently made available to us through periodic settlement reporting with our line of credit providers. Cash deposits to the bank account represent cash received from pledged receivables, including consumer payments and affiliate partner payments. The minimum balance consists of accrued interest on the drawn credit facility, accrued interest on the unused portion of the credit facility, and accrued management fees charged by our line of credit providers. We are permitted to withdraw cash from the bank account provided we meet certain requirements of the line of credit. We are also required to maintain minimum balances in deposit accounts to fund merchants using our virtual card solution and to cover consumer card chargebacks. These accounts are classified as current restricted cash on the consolidated balance sheets.

We are required to maintain a cash balance held in a reserve account to cover ACH transactions. We are also required to have a minimum balance in our operating cash account during the duration of our headquarters' operating lease pursuant to our lease agreement. The cash balances within these accounts are classified as non-current restricted cash on the consolidated balance sheets.

Notes Receivables and Allowance for Credit Losses

Our notes receivable represents amounts due from consumers for outstanding principal and reschedule fees on installment payment plans made on our platform. Consumers installment payment plans are interest-free, and typically consist of four installments, with the first payment made at the time of purchase and subsequent payments coming due every two weeks thereafter. Our notes receivable are generally due within 42 days.

We classify all of our notes receivable as held for investment, as we have the intent and ability to hold these investments for the foreseeable future or until maturity or payoff. Since our portfolio is comprised of one product segment, point-of-sale unsecured installment loans, we evaluate our notes receivable as a single, homogenous portfolio and make merchant-specific or other adjustments as necessary. Our notes receivable are reported at amortized cost, which includes unpaid principal and reschedule fee balances, adjusted for unearned transaction income, direct loan origination costs, and charge-offs. The amortized cost basis is adjusted for the allowance for credit losses within notes receivable, net.

Our notes receivable are considered past due when the principal has not been received within one calendar day of when they are due in accordance with the agreed upon contractual terms. Any amounts delinquent after 90 days are charged off with an offsetting reversal to the allowance for credit losses through the provision for credit losses on our consolidated statements of operations and comprehensive income (loss). Charged-off principal payments recovered after 90 days are recognized as a reduction to the allowance for credit losses in the period the receivable is recovered.

We maintain an allowance for credit losses at a level necessary to absorb expected credit losses on principal and reschedule fee receivables from consumers. The allowance for credit losses is determined based on our current estimate of expected credit losses over the remaining contractual term and incorporates evaluations of known and inherent risks in our portfolio, historical credit losses, consumer payment trends, estimates of recoveries, current economic conditions, and reasonable and supportable forecasts. In 2022, we maintained an allowance for credit losses at a level necessary to absorb estimable probable losses on principal and reschedule fee receivables from consumers. We regularly assess the adequacy of our allowance for credit losses and adjust the allowance as necessary to reflect changes in the credit risk of our notes receivable. Any adjustment to the allowance for credit losses is recognized in net income (loss) through the provision for credit losses on our consolidated statements of operations and comprehensive income (loss). While we believe our allowance for credit losses is appropriate based on the information available, actual losses could differ from the estimate. See Note 3 for more information about our notes receivable.

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. In the event of an extinguishment of debt, the remaining unamortized debt issuance costs related to the extinguished debt are immediately expensed. Amortization of debt issuance costs is included within net interest expense on the consolidated statements of operations and comprehensive income (loss).

Internally Developed Intangible Assets

We capitalize 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:

	Years	Method
Internal use software	3	Straight-line
Website development costs	3	Straight-line

Amortization expense is recorded within general and administrative on the consolidated statements of operations and comprehensive income (loss). See Note 6 for further information.

We review the carrying value of 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, 2023 and 2022 were not material. Impairment costs are recorded in general and administrative within operating expenses in the consolidated statements of operations and comprehensive income (loss).

As of December 31, 2023 and 2022, we have not renewed or extended the initial determined life for any of our 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, nondeductible interest, 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 our deferred tax assets.

We evaluate our 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. As of December 31, 2023 and 2022, we have not recorded any liabilities for uncertain tax positions.

Advertising Costs

Advertising costs are expensed as incurred and consist of traditional marketing, digital marketing, sponsorships, promotional product expenses, and contractual obligations to co-market the Sezzle brand. Such costs were \$11,636,719 and \$18,476,899 for the years ended December 31, 2023 and 2022, respectively, and were recorded within marketing, advertising, and tradeshow on the consolidated statements of operations and comprehensive income (loss).

Equity Based Compensation

We maintain stock compensation plans that offer incentives in the form of 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. We estimate the fair value of stock options without a market condition on the measurement date using the Black-Scholes valuation model. The fair value of stock options 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 our stock option grants, significant judgment is required for determining the expected volatility of our shares of common stock and is based on the historical volatility of both its shares of common stock and its defined peer group. The fair value of restricted stock awards and restricted stock units that vest based on service conditions is based on the fair market value of our shares of 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. We issue new shares of common stock upon the exercise of stock options and vesting of restricted stock units and recognize award forfeitures as they occur. Refer to Note 12 for further information about our 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. Our estimates and judgments are based on historical experience and various other assumptions that we believe are reasonable under the circumstances. The amount of assets and liabilities reported on our 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 credit losses recorded against outstanding receivables, the valuation of equity based compensation, 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.

We measure the value of our money market securities based on Level 1 inputs. The warrant liabilities were valued using a Black-Scholes valuation model, which is calculated using Level 3 inputs. The primary unobservable input used in determining the fair value of the warrant liabilities is the expected volatility of our common stock. Refer to [Note 8. Warrant Obligations](#) for the changes in fair value of the warrant liabilities and quantitative information regarding the Level 3 fair value measurement of the warrant liabilities.

Our assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2023 and 2022 are as follows:

	December 31, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3	Fair Value
Assets:								
Cash and cash equivalents:								
Money market securities	\$ 14,432	\$ —	\$ —	\$ 14,432	\$ 333,158	\$ —	\$ —	\$ 333,158
Liabilities:								
Warrant liabilities	\$ —	\$ —	\$ 967,257	\$ 967,257	\$ —	\$ —	\$ 511,295	\$ 511,295

The fair value and its classification within the fair value hierarchy for financial assets and liabilities not reported at fair value within the consolidated balance sheets as of December 31, 2023 and 2022 are as follows:

	December 31, 2023					Balance at Fair Value
	Carrying Amount	Level 1	Level 2	Level 3		
Assets:						
Cash and cash equivalents ⁽¹⁾	\$ 67,609,780	\$ 67,609,780	\$ —	\$ —	\$ 67,609,780	
Restricted cash	3,075,011	3,075,011	—	—	3,075,011	
Notes receivable, net	130,632,641	—	—	130,632,641	130,632,641	
Total assets	\$ 201,317,432	\$ 70,684,791	\$ —	\$ 130,632,641	\$ 201,317,432	
Liabilities:						
Long term debt	\$ 250,000	\$ —	\$ 250,000	\$ —	\$ 250,000	
Line of credit, net	94,380,906	—	94,380,906	—	94,380,906	
Total liabilities	\$ 94,630,906	\$ —	\$ 94,630,906	\$ —	\$ 94,630,906	

	December 31, 2022					Balance at Fair Value
	Carrying Amount	Level 1	Level 2	Level 3		
Assets:						
Cash and cash equivalents ⁽¹⁾	\$ 67,946,381	\$ 67,946,381	\$ —	\$ —	\$ 67,946,381	
Restricted cash ⁽²⁾	1,243,119	1,243,119	—	—	1,243,119	
Notes receivable, net	93,358,404	—	—	93,358,404	93,358,404	
Total assets	\$ 162,547,904	\$ 69,189,500	\$ —	\$ 93,358,404	\$ 162,547,904	
Liabilities:						
Long term debt	\$ 250,000	\$ —	\$ 250,000	\$ —	\$ 250,000	
Line of credit, net	63,777,475	—	63,777,475	—	63,777,475	
Total liabilities	\$ 64,027,475	\$ —	\$ 64,027,475	\$ —	\$ 64,027,475	

(1) Excludes \$14,432 and \$333,158 as of December 31, 2023 and 2022, respectively, relating to money market securities that are reported at fair value.

(2) Includes both restricted cash, current and restricted cash, non-current as disclosed 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

We work with international merchants, creating exposure to gains and losses from foreign currency exchanges. Our income and cash can be affected by movements in the Canadian Dollar, Euro, Indian Rupee, and Brazilian Real. Gains (losses) from foreign exchange rate fluctuations that affected our net income (loss) totaled \$207,647 and (\$118,831) for the years ended December 31, 2023 and 2022, respectively. Foreign currency exchange gains and losses are recorded within other income (expense), net, on the consolidated statements of operations and comprehensive income (loss).

The financial statements of our non-U.S. subsidiaries are translated into U.S. dollars in accordance with ASC 830, "Foreign Currency Matters". Under ASC 830, if our assets and liabilities 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 average monthly exchange rates. The resulting translation adjustments are recorded directly into accumulated other comprehensive loss. Foreign currency translation adjustment loss totaled (\$3,025) and (\$1,207,885) for the years ended December 31, 2023 and 2022, respectively.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation format. These reclassifications had no effect on our net income (loss) or total comprehensive income (loss).

Reverse Stock Split

Our Board of Directors approved a reverse stock split of our issued shares of common stock at a ratio of 1-for-38 (the “Reverse Stock Split”). The Reverse Stock Split became effective on May 11, 2023. All share and per share amounts for all periods presented in these consolidated financial statements and their accompanying notes have been adjusted, on a retrospective basis, to reflect the Reverse Stock Split, unless otherwise stated. The number of authorized shares and the par value of the shares remained unaffected.

Recent Accounting Pronouncements

Recently Adopted Accounting Guidance

Standard	Description	Date of Adoption	Effect on Consolidated Financial Statements
ASU No. 2016-13, Financial Instruments— Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	This ASU replaces the incurred loss impairment methodology with an expected credit loss methodology and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The standard also requires expanded disclosures related to credit losses and credit quality indicators.	January 1, 2023	<p>We adopted this ASU on a modified retrospective basis. The adoption of this ASU resulted in a decrease in our allowance for credit losses and an increase in retained earnings of approximately \$0.9 million. The decrease in our allowance for credit losses was related to the inclusion of future recoveries in our estimate. The adoption of this ASU had no material impact on our allowance for credit losses related to late payment fees receivable. There was no impact on our net deferred tax asset given the full valuation allowance recorded.</p> <p>We have updated the presentation of our consolidated balance sheets and consolidated statements of operations and comprehensive income (loss) to conform with the requirements of this ASU. Additionally, we have updated our disclosures in Note 3 of the accompanying notes to the consolidated financial statements to meet the disclosure requirements of this ASU, including information on credit quality indicators and gross charge-offs.</p>
ASU No. 2022-02, Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosures	This ASU requires an entity to disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.	January 1, 2023	The impact of adopting this amendment is included within the impact of adoption of ASU No. 2016-13.

Recently Issued Accounting Guidance, Not Yet Adopted Within Our Consolidated Financial Statements

Standard	Description	Date of Planned Adoption	Effect on Consolidated Financial Statements
ASU 2023-07, Segment Reporting Improvements to Reportable Segment Disclosures	This ASU requires disclosure of incremental segment information on an annual basis (and interim basis beginning January 1, 2025) for all public entities, including entities with one reportable segment. Such incremental disclosures include information about significant segment expenses, how chief operating decision makers measure a segment's profit or loss, and qualitative information about how a chief operating decision maker assesses segment performance.	January 1, 2024	We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements. We will disclose information about significant segment expenses, how management assesses our single segment's performance, and other required disclosures in our 2024 annual consolidated financial statements.
ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures	This ASU requires enhanced disclosures on the income tax rate reconciliation, income taxes paid, and other income tax-related disclosures. Such disclosures include disclose of specific categories in the rate reconciliation, qualitative information about significant components of income tax, and disaggregation of income taxes paid by federal, state, and local jurisdiction.	January 1, 2025	We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements. We will include the enhanced disclosure requirements in our 2025 annual consolidated financial statements.

Note 2. Total Income

Total income was \$159,356,772 and \$125,570,441 for the years ended December 31, 2023 and 2022, respectively. Total income in the fourth quarter has historically been strongest for us, in line with consumer spending habits during the holiday shopping season. Our total income is classified into three categories: transaction income, subscription revenue, and income from other services.

Transaction Income

Transaction income is comprised of all income earned from merchants, consumers, and other third parties that relate to processing orders and payments on the Sezzle Platform. This primarily includes merchant processing fees, partner income, and consumer fees.

We earn income from fees paid by merchants in exchange for our payment processing services. These merchant processing fees are applied to the underlying sales of consumers passing through our platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction. For orders that result in a financing receivable, merchant processing fees are recognized over the underlying order's duration using the effective interest method. For orders that do not result in a financing receivable, merchant processing fees are recognized at the time the sale is completed. Merchant processing fees totaled \$75,249,247 and \$92,101,949 for the years ended December 31, 2023 and 2022, respectively.

We also earn income from partners on consumer transactions. This income includes interchange fees earned through our virtual card solution and promotional incentives with third parties. Virtual card interchange income is recognized over the underlying order's duration using the effective interest method and promotional incentives are recognized as they are earned during the promotional period. Partner income totaled \$15,336,902 and \$7,662,960 for the years ended December 31, 2023 and 2022, respectively.

Transaction income also includes income from consumers when they choose to make an installment payment, excluding the first installment, using a card pursuant to state law. These fees are recognized at the time a payment is processed and totaled \$19,152,908 and \$2,834,287 for the years ended December 31, 2023 and 2022, respectively.

Subscription Revenue

We offer our consumers the ability to subscribe to two paid services: Sezzle Premium and Sezzle Anywhere. Sezzle Premium allows consumers to shop at select large, non-integrated premium merchants, along with other benefits, for a recurring fee. Sezzle Anywhere allows consumers to use their Sezzle Virtual Card at any merchant online or in-store, subject to certain merchant, product, goods, and service restrictions, for a recurring fee. Subscription fees are recognized straight-line over the subscription period.

Income from Other Services

Income from other services includes all other incomes earned from merchants, consumers, and other third parties not included in transaction income or subscription revenue. This includes late payment fees, gateway fees, and marketing revenue earned from affiliates. Late payment fees are assessed to consumers who fail to make a timely payment and 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. Late payment fees are recognized at the time the fee is charged to the consumer to the extent the fee is reasonably collectible. Late payment fees totaled \$9,742,652 and \$12,559,835 for the years ended December 31, 2023 and 2022, respectively.

Disaggregation of Total Income

Our total income by category and Accounting Standards Codification (“ASC”) recognition criteria for the years ended December 31, 2023 and 2022 is as follows:

	2023			2022		
	Topic 310	Topic 606	Total	Topic 310	Topic 606	Total
Transaction income	\$ 87,099,569	\$ 22,639,488	\$ 109,739,057	\$ 98,379,056	\$ 4,220,138	\$ 102,599,194
Subscription revenue	—	29,713,062	29,713,062	—	5,279,864	5,279,864
Income from other services	11,631,041	8,273,612	19,904,653	15,232,341	2,459,042	17,691,383
Total income	\$ 98,730,610	\$ 60,626,162	\$ 159,356,772	\$ 113,611,397	\$ 11,959,044	\$ 125,570,441

Transaction income that falls under the scope of ASC Topic 310, Receivables, relates to transactions that result in a note receivable being recognized. Such income is initially recorded as a reduction to notes receivable, net, within the consolidated balance sheets. The income is then recognized over the average duration of the note using the effective interest rate method. Total income to be recognized over the duration of existing notes receivable outstanding was \$3,340,150 and \$4,068,332 as of December 31, 2023 and 2022, respectively.

Transaction income that falls under the scope of ASC Topic 606, Revenue from Contracts with Customers, relates to transactions that do not result in a note receivable being recognized. Such revenue comprises a single performance obligation which is satisfied at the time the transaction occurs, at which point we recognize revenue.

Subscription revenue entirely falls under the scope of ASC Topic 606. Such revenue comprises a single performance obligation which is satisfied evenly over the underlying subscription period. Revenue is recognized ratably over the duration of the performance obligation. All performance obligations are fully satisfied within one year or less of receiving payment. Payment received for performance obligations not yet satisfied are recorded as deferred revenue on the consolidated balance sheets until such performance obligations are satisfied. Subscription revenue to be recognized over the remaining duration of outstanding performance obligations was \$2,643,230 and \$1,516,228 as of December 31, 2023 and 2022, respectively. All deferred revenue as of December 31, 2022 was recognized during the year ended December 31, 2023.

Income from other services that falls under the scope of ASC Topic 310 primarily relates to late payment fees. Such fees are recognized at the time the fee is charged to the consumer to the extent they are reasonably collectible. Income from other services that fall under the scope of ASC 606 comprises a single performance obligation which is satisfied immediately and not deferred.

Concentrations of Total Income

For the year ended December 31, 2023, there were no concentrations of total income that exceeded ten percent. For the year ended December 31, 2022, approximately 14% of total income was earned from one merchant.

Note 3. Notes Receivable and Allowance for Credit Losses

As of December 31, 2023 and 2022, our notes receivable at amortized cost was comprised of the following:

	2023	2022
Notes receivable, gross	\$ 146,225,832	\$ 107,650,187
Deferred transaction income	(3,340,150)	(4,068,332)
Notes receivable, amortized cost	\$ 142,885,682	\$ 103,581,855

Deferred transaction 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 transaction income on the consolidated statements of operations and comprehensive income (loss). Our notes receivable had a weighted average days outstanding of 34 days, consistent with the prior year's duration.

We closely monitor credit quality for our notes receivable to manage and evaluate our related exposure to credit risk. When assessing the credit quality and risk of our portfolio, we monitor a variety of internal risk indicators and consumer attributes that are shown to be predictive of ability and willingness to repay, and combine these factors to establish an internal, proprietary score as a credit quality indicator (the "Prophet Score"). We evaluate the credit risk of our portfolio by grouping Prophet Scores into three buckets that range from A to C, with receivables having an "A" rating representing the highest credit quality and lowest likelihood of loss. Our risk and fraud team closely monitors the distribution of Prophet Scores for signs of changes in credit risk exposure and portfolio performance. The risk and fraud team also regularly evaluates the integrity of the Prophet Score machine learning model and updates it as necessary, but at least annually. We last updated the Prophet Score model in October 2023.

The amortized cost basis of our notes receivable by Prophet Score and year of origination as of December 31, 2023 is as follows:

	2023		
	Amortized cost basis by year of origination		
	2023	2022	Total
A	\$ 47,752,196	\$ —	\$ 47,752,196
B	58,815,920	257	58,816,177
C	35,832,476	2,708	35,835,184
No score	482,125	—	482,125
Total amortized cost	\$ 142,882,717	\$ 2,965	\$ 142,885,682

The amortized cost basis of our notes receivable by delinquency status as of December 31, 2023 is as follows:

	2023
Current	\$ 129,681,699
1–28 days past due	6,808,467
29–56 days past due	3,015,612
57–90 days past due	3,379,904
Total amortized cost	\$ 142,885,682

The following table summarizes our gross notes receivable and related allowance for uncollectible accounts as of December 31, 2022 prior to the adoption of ASU 2016-13:

	2022		
	Gross Receivables	Less Allowance	Net Receivables
Current	\$ 96,923,113	\$ (3,348,558)	\$ 93,574,555
Days past due:			
1–28	5,516,812	(2,146,103)	3,370,709
29–56	2,513,755	(2,063,131)	450,624
57–90	2,696,507	(2,665,659)	30,848
Total	\$ 107,650,187	\$ (10,223,451)	\$ 97,426,736

We maintain an allowance for credit losses at a level necessary to absorb expected credit losses on principal and reschedule fee receivables from consumers. The allowance for credit losses is determined based on our current estimate of expected credit losses over the remaining contractual term and incorporates evaluations of known and inherent risks in our portfolio, historical credit losses, consumer payment trends, estimates of recoveries, current economic conditions, and reasonable and supportable forecasts. We regularly assess the adequacy of our allowance for credit losses and adjust the allowance as necessary to reflect changes in the credit risk of our notes receivable. Any adjustment to the allowance for credit losses is recognized in net income (loss) through the provision for credit losses on our consolidated statements of operations and comprehensive income (loss). While we believe our allowance for credit losses is appropriate based on the information available, actual losses could differ from the estimate. Effective January 1, 2023, we adopted accounting guidance which replaces the incurred loss impairment methodology with an expected credit loss methodology and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. Upon adoption, we decreased our allowance for credit losses and increased retained earnings through a cumulative-effect adjustment.

In estimating the allowance for credit losses, we utilize a roll rate analysis of delinquent and current notes receivable. Roll rate analysis is a technique used to estimate the likelihood that a loan progresses through various stages of delinquency and eventually charges off. We segment our notes receivable into delinquency statuses and semi-monthly vintages for the purpose of evaluating historical performance and determining the future likelihood of default.

The activity in the allowance for credit losses, including the provision for credit losses, charge-offs, and recoveries for the year ended December 31, 2023 and 2022 is as follows:

	For the years ended December 31,	
	2023	2022
Balance at beginning of period	\$ 10,223,451	\$ 23,114,173
Adoption of Accounting Standards Update No. 2016-13	(878,577)	—
Provision for credit losses	23,186,973	29,437,179
Charge-offs	(24,006,322)	(47,367,942)
Recoveries of charged-off receivables	3,727,516	5,040,041
Balance at end of period	\$ 12,253,041	\$ 10,223,451

Net charge-offs by year of origination for the year ended December 31, 2023 is as follows:

	2023	2022	2021	2020	2019	Total
Current period gross charge-offs	\$(15,425,979)	\$ (8,561,426)	\$ (18,060)	\$ (650)	\$ (207)	\$(24,006,322)
Current period recoveries	604,292	1,964,853	853,901	231,876	72,594	3,727,516
Current period net charge-offs	\$(14,821,687)	\$ (6,596,573)	\$ 835,841	\$ 231,226	\$ 72,387	\$(20,278,806)

Note 4. Other Receivables

As of December 31, 2023 and 2022, the balance of other receivables, net, on the consolidated balance sheets was comprised of the following:

	2023	2022
Late payment fees receivable, net	\$ 548,649	\$ 209,734
Receivables from merchants, net	1,023,079	2,322,976
Other receivables, net	\$ 1,571,728	\$ 2,532,710

Late payment fees are applied to principal installments that are delinquent for more than 48 hours, subject to regulations within specific state jurisdictions, after the scheduled installment payment date. Any late payment fees associated with a delinquent payment are considered to be the same number of days delinquent as the principal payment. Late payment fees receivable, net, is comprised of outstanding late payment fees that we reasonably expect to collect from our consumers. As of December 31, 2023 and 2022, gross late payment fees receivable totaled \$1,821,002 and \$1,190,447, respectively.

We maintain an allowance for credit losses at a level necessary to absorb expected credit losses on late payment fees receivable from our consumers. In 2022, we maintained an allowance for credit losses at a level necessary to absorb estimable probable losses on late payment fees receivable from consumers. Any amounts delinquent after 90 days are charged off with an offsetting reversal to the allowance for credit losses. Any adjustment to the allowance for credit losses is recognized in net income (loss) through an offset to total income on our consolidated statements of operations and comprehensive income (loss). Payments recovered after 90 days are recognized as a reduction to the allowance for credit losses in the period the receivable is recovered.

The activity in the allowance for credit losses related to late payment fees, including the provision for other credit losses, charge-offs, and recoveries for the year ended December 31, 2023 and 2022 is as follows:

	For the years ended December 31,	
	2023	2022
Balance at beginning of period	\$ 980,713	\$ 1,691,071
Provision for other credit losses	3,351,966	7,588,253
Charge-offs	(3,668,673)	(9,551,048)
Recoveries of charged-off receivables	608,347	1,252,437
Balance at end of period	\$ 1,272,353	\$ 980,713

Receivables from merchants primarily represent merchant fees receivable for orders settled with our virtual card solution. Virtual card transactions are settled with the merchant for the full purchase price at the point of sale and we separately invoice the merchant for the merchant fees due to us. Expected losses on merchant fees receivable are minimal, therefore, there is no allowance for credit losses recorded.

Note 5. Merchant Accounts Payable

Merchant accounts payable represents amounts owed to merchants related to orders placed on the Sezzle Platform.

We offer our merchants an interest-bearing program in which merchants may defer payment from us in exchange for interest. Within merchant accounts payable, \$53,616,718 and \$66,469,982 were recorded within the merchant interest program balance as of December 31, 2023 and 2022, respectively.

Effective March 20, 2023, all deferred payments retained in the program bear interest at a fixed rate of 5.20% on an annual basis, compounding daily. Between August 1, 2022 and March 19, 2023 deferred payments retained in the program bore interest at a fixed rate of 3.80% on an annual basis, compounding daily. Between March 1, 2022 and July 31, 2022 deferred payments retained in the program bore interest at the Secured Overnight Financing Rate ("SOFR") plus 3.00% on an annual basis, compounding daily, and prior to March 1, 2022 the LIBOR daily (3 month) rate plus 3.00% on an annual basis, compounding daily. The average annual percentage yield and related interest expense was 4.31% and \$2,587,908, and 3.56% and \$2,484,997 for the years ended December 31, 2023 and 2022, 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 processed within seven to ten days. We reserve 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 6. Internally Developed Intangible Assets

As of December 31, 2023 and 2022, internally developed intangible assets, net, consisted of the following:

	2023	2022
Internally developed intangible assets, gross	3,742,236	2,550,420
Less accumulated amortization	(1,843,766)	(1,227,584)
Internally developed intangible assets, net	\$ 1,898,470	\$ 1,322,836

Amortization expense relating to internally developed intangible assets was \$666,104 and \$503,907 for the years ended December 31, 2023 and 2022, respectively, and is recorded within general and administrative on the consolidated statements of operations and comprehensive income (loss).

Note 7. Line of Credit

We fund our consumer receivables through the use of a secured line of credit. We had an outstanding principal balance on our line of credit totaling \$95,000,000 and \$65,000,000 as of December 31, 2023 and 2022, respectively. Our revolving credit facilities are secured by a pool of pledged, eligible notes receivable. As of December 31, 2023 and 2022, we had pledged \$131,379,797 and \$89,797,068 of eligible gross notes receivable, respectively. We had an unused borrowing capacity of \$3,534,848 and \$477,606 as of December 31, 2023 and 2022, respectively.

Expenses related to our lines of credit for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Interest expense on utilization	\$ 13,424,888	\$ 5,114,727
Interest expense on unused daily amounts	106,870	268,787
Amortization of debt issuance costs	732,029	983,745
Loss on extinguishment of line of credit	—	813,806

For the years ended December 31, 2023 and 2022, our lines of credit carried an average interest rate of 16.78% and 7.11%, respectively.

2021 Credit Agreement

On February 10, 2021, we entered into a secured revolving credit facility (the “2021 Credit Agreement”) with Goldman Sachs Bank USA (the “Class A lender”), and Bastion Consumer Funding II LLC and Bastion Funding IV LLC (the “Class B lenders”). The 2021 Credit Agreement originally had a borrowing capacity of up to \$250,000,000 and a maturity date of June 12, 2023. Our borrowing base under the 2021 Credit Agreement was originally 90% of pledged, eligible notes receivable, or 85% if the weighted average FICO scores of the pledged receivables fell below 580. Eligible notes receivable were defined as notes receivable from consumers in the United States or Canada that are less than 15 days past due. Effective July 31, 2022, we amended the 2021 Credit Agreement, which reduced the borrowing capacity to \$64,287,184 and lowered the borrowing base rate to 70%.

Our 2021 Credit Agreement referenced “Adjusted SOFR,” which is defined as the U.S. Federal Reserve Secured Overnight Financing Rate (“SOFR”) plus a spread adjustment of 0.262%. From January 1, 2022 to July 30, 2022, the 2021 Credit Agreement carried an interest rate of Adjusted SOFR plus 3.375% and Adjusted SOFR plus 10.689% with an Adjusted SOFR floor rate of 0.25% for funds borrowed from the Class A lender and Class B lenders, respectively. Effective July 31, 2022, the interest rate increased to Adjusted SOFR plus 4.375% and Adjusted SOFR plus 11.689% for funds borrowed from the Class A lender and Class B lenders, respectively. Interest on borrowings was due on collection dates as specified in the loan agreement, typically every two weeks.

Additionally, during 2022 any unused daily amounts incurred a variable facility fee dependent on the percentage of the facility utilized. If less than one-third of the facility was used, the rate was 0.65% per annum; if between one-third and two-thirds of the facility was used, the rate was 0.50% per annum; and if more than two-thirds of the facility was used, the rate was 0.35% per annum.

The 2021 Credit Agreement contained customary representations, warranties, affirmative and negative covenants, financial covenants, events of default (including upon change of control or upon collateral loss rates exceeding pre-determined levels), and indemnification provisions in favor of the lenders. The negative covenants included restrictions regarding incurrence or guarantee of additional indebtedness, incurrence of liens, making investments or other restricted payments, acquiring assets or subsidiaries, selling assets, paying dividends or distributions, repurchasing or redeeming capital stock, transacting with affiliates, and engaging in liquidations or mergers, in each case subject to certain exceptions and qualifications. The financial covenants required us to meet financial tests related to tangible net worth, liquidity, and leverage.

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 was due to the lender upon such transaction. On October 14, 2022, we amended the 2021 Credit Agreement, effectively terminating the agreement, and incurred a loss of \$813,806 related to the extinguishment.

2022 Credit Agreement

On October 14, 2022, we entered into a secured revolving credit facility (the “2022 Credit Agreement”) with Bastion Funding IV, LLC and other certain lenders. The 2022 Credit Agreement has a borrowing capacity of up to \$100,000,000 and a maturity date of October 14, 2024. The borrowing base is 75% of pledged, eligible notes receivable. The 2022 Credit Agreement carries an interest rate of Adjusted SOFR plus 11.5%, with an Adjusted SOFR floor rate of 1.0%. Interest on borrowings is due on collection dates as specified in the loan agreement, typically every two weeks. We incur an unused facility fee of 0.50% per annum on the difference between the maximum borrowing capacity and the amount outstanding. We were also required to maintain a minimum outstanding balance of \$50,000,000 prior to January 31, 2023, and \$75,000,000 between January 31, 2023 and March 30, 2023. Beginning on March 31, 2023, we are required to maintain a minimum outstanding balance of \$80,000,000.

The 2022 Credit Agreement contains customary representations, warranties, affirmative and negative covenants, financial covenants, events of default (including upon change of control or upon collateral loss rates exceeding pre-determined levels), and indemnification provisions in favor of the lenders. The negative covenants include restrictions regarding incurrence or guarantee of additional indebtedness, incurrence of liens, making investments or other restricted payments, acquiring assets or subsidiaries, selling assets, paying dividends or distributions, repurchasing or redeeming capital stock, transacting with affiliates, engaging in liquidations or mergers, and making changes to our credit guidelines or servicing guide, in each case subject to certain exceptions and qualifications. The financial covenants require us to meet financial tests related to tangible net worth, liquidity, and leverage. We were in compliance with all of our covenants as of December 31, 2023 and 2022.

Note 8. Warrant Obligations

On October 14, 2022, in connection with entering into the 2022 Credit Agreement, we issued our lenders warrants to purchase up to 54,610 shares of our common stock as consideration for the revolving credit facility. These warrants are exercisable until October 14, 2029 at an exercise price of A\$18.62 per share.

In connection with the warrant issuance, we recognized a line of credit commitment asset of \$561,719 upon execution of the warrant agreement, valued utilizing the Black-Scholes valuation model. This asset is amortized over the two year term of the credit agreement. As of December 31, 2023 and 2022, the carrying value of this asset was \$221,307 and \$501,783, respectively, and recorded within other assets on the consolidated balance sheets.

The warrants are denominated in Australian dollars and therefore are not considered indexed to the Company's stock given our functional currency is the U.S. dollar. Therefore, we recognize the warrants as a liability on the consolidated balance sheets and revalue the warrants to their fair value as of each reporting date. We valued the warrants as of December 31, 2023 and 2022 using the Black-Scholes valuation model with the following inputs:

	2023	2022
Risk-free interest rate	3.94 %	3.88 %
Expected volatility	107 %	115 %
Expected life (in years)	5.8	6.8
Weighted average estimated fair value of options granted	\$ 17.71	\$ 9.36

As of December 31, 2023 and 2022, the weighted average exercise price for the warrants was \$12.69 and \$12.67, respectively, and their fair market value was \$967,257 and \$511,295, respectively. None of the warrants have been exercised or cancelled.

For the years ended December 31, 2023 and 2022, we recognized a fair value remeasurement (loss) gain of (\$455,962) and \$50,424, respectively, within other income (expense) on the consolidated statements of operations and comprehensive income (loss).

Note 9. Income Taxes

The components of income (loss) before taxes for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
United States	\$ 6,949,525	\$ (32,493,098)
International	759,984	(5,531,211)
Total	\$ 7,709,509	\$ (38,024,309)

The components of income tax expense for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Current tax expense		
Federal	\$ 421,237	\$ —
Foreign	—	—
State	190,250	69,447
Deferred tax expense		
Federal	—	—
Foreign	—	—
State	—	—
Income tax expense	\$ 611,487	\$ 69,447

The components of the net deferred tax assets and liabilities as of December 31, 2023 and 2022 are as follows:

	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	\$ 21,713,610	\$ 25,459,247
Allowance for credit losses	3,141,395	3,389,435
Equity based compensation	802,100	1,322,642
Research and experimental expenditures	412,699	216,391
Lease liability	285,415	17,575
Startup costs	8,339	9,514
Accruals	922,553	458,609
Nondeductible interest	5,691,795	3,816,974
Other	60,819	365,743
Total net deferred tax assets	33,038,725	35,056,130
Valuation allowance	(32,450,807)	(34,868,210)
Deferred tax liabilities:		
Depreciation and amortization	(291,252)	(168,505)
Right-of-use asset	(296,666)	(19,415)
Total net deferred tax liabilities	(587,918)	(187,920)
Net deferred tax asset (liability)	\$ —	\$ —

A reconciliation of our provision for income taxes at the federal statutory rate to the reported income tax provision for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Computed "expected" tax benefit	21.0 %	(21.0) %
State income tax benefit, net of federal tax effect	5.8	(2.6)
Nondeductible equity based compensation	10.2	9.7
Other permanent differences	1.7	(0.5)
Change in valuation allowance	(30.9)	15.9
Foreign rate differentials and other	0.1	(1.3)
Income tax expense	7.9 %	0.2 %

As of December 31, 2023, we had federal, state, and foreign net operating loss carryforwards of approximately \$70,548,000, \$41,328,000, and \$18,357,000, 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 5 years and indefinitely and begin to expire in 2027.

Our ability to utilize a portion of our 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 our equity ownership. We do not believe an ownership change under Section 382 has occurred.

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, 2023. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

On the basis of this evaluation, as of December 31, 2023, a valuation allowance of \$32,450,807 has been recorded to recognize only the portion of the deferred tax asset that 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 (\$2,417,403) and \$6,026,185 for the years ended December 31, 2023 and 2022, respectively.

We file income tax returns in the U.S. federal jurisdiction, Brazil, Canada, Germany, India, Lithuania, the Netherlands, and various U.S. states. We do not believe a material uncertain tax position exists as of December 31, 2023. Based on our assessment of many factors, including past experience and complex judgements about future events, we do not currently anticipate significant changes in our uncertain tax positions over the next 12 months. In connection with the adoption of the referenced provisions, we recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense. As of December 31, 2023, we had no accrued interest and penalties. Our federal and state tax returns are open for review going back to the 2020 tax year.

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

Note 10. Commitments and Contingencies

Merchant Contract Obligations

We have entered into several agreements with third parties in which we will reimburse these third parties for mutually agreed upon co-branded marketing and advertising costs. As of December 31, 2023 and 2022, we had outstanding agreements that stipulate we will commit to spend up to approximately \$0.2 million and \$19.4 million, respectively, in marketing and advertising spend in future periods. These agreements have remaining contractual terms of less than one year.

Expenses incurred relating to these agreements totaled \$10,583,307 and \$17,023,522 for the years ended December 31, 2023 and 2022, respectively. These expenses are included within marketing, advertising, and tradeshow on the consolidated statements of operations and comprehensive income (loss).

Certain agreements also contain provisions that may require payments by us and are contingent on us and/or the third party meeting specified criteria, such as achieving implementation benchmarks. As of December 31, 2022, we had outstanding agreements that stipulate we may spend approximately \$6.1 million in future periods if such criteria are met. We had no material outstanding agreements related to such costs as of December 31, 2023.

Note 11. Stockholders' Equity

Repurchase of Common Stock

We retain a portion of vested restricted stock units to cover withholding taxes for employees. As of December 31, 2023, we had withheld 128,689 shares at a value totaling \$5,755,961. As of December 31, 2022, we had withheld 28,638 shares at a value totaling \$4,072,752. We recognize these amounts as treasury stock, at cost, within the consolidated balance sheets as a reduction to stockholders' equity.

Note 12. Equity Based Compensation

We issue 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. We utilize the Black-Scholes valuation 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 \$6,933,718 and \$10,309,535 for the years ended December 31, 2023 and 2022, respectively. Equity based compensation expense is recorded within personnel on the consolidated statements of operations and comprehensive income (loss).

2016 Employee Stock Option Plan

We adopted the 2016 Employee Stock Option Plan on January 16, 2016. The number of awards authorized for issuance under the plan was 263,158. We had 61,292 and 77,529 options issued and outstanding under the plan as of December 31, 2023 and 2022, respectively. We had no restricted stock awards issued and outstanding as of December 31, 2023 and 2022. During the years ended December 31, 2023 and 2022, 16,768 and 69,968 options were exercised into 16,343 and 69,304 shares of common stock, respectively. The differences between options exercised and common stock issued are due to shares withheld to cover exercise costs.

2019 Equity Incentive Plan

We adopted the 2019 Equity Incentive Plan on June 25, 2019. The number of awards authorized for issuance under the plan was 684,211. We had 186,739 and 212,958 options issued and outstanding as of December 31, 2023 and 2022, respectively. We had no restricted stock units issued and outstanding as of December 31, 2023, and 5,280 restricted stock units issued and outstanding as of December 31, 2022. During the year ended December 31, 2023, no options were exercised. During the year ended December 31, 2022, 12,041 options were exercised into 10,420 shares of common stock. The differences between options exercised and common stock issued are due to shares withheld to cover exercise costs.

2021 Equity Incentive Plan

We adopted the 2021 Equity Incentive Plan on June 15, 2021. The number of awards originally authorized for issuance under the plan is 1,092,013. As of December 31, 2023 and 2022, we had 5,675 and 6,163 options issued and outstanding, respectively. We had 353,971 and 337,660 restricted stock units issued and outstanding as of December 31, 2023 and 2022, respectively. During the years ended December 31, 2023 and 2022, no options issued under this plan were exercised into shares of common stock.

The following tables summarize the options issued, outstanding, and exercisable under our equity based compensation plans as of December 31, 2023 and 2022:

	For the year ended December 31, 2023			
	Number of Options*	Weighted Average Exercise Price*	Intrinsic Value	Weighted Average Remaining Life
Outstanding, beginning of year	296,650	\$ 59.28	\$ 686,035	6.14
Granted	—	—	—	—
Exercised	(16,343)	1.90	203,269	—
Canceled	(26,601)	72.85	—	—
Outstanding, end of year	253,706	62.01	1,146,614	5.85
Exercisable, end of year	232,041	56.42	1,139,545	5.72
Expected to vest, end of year	21,665	\$ 121.85	\$ 7,069	7.30

	For the year ended December 31, 2022			
	Number of Options*	Weighted Average Exercise Price*	Intrinsic Value	Weighted Average Remaining Life
Outstanding, beginning of year	557,785	\$ 66.12	\$ 23,079,520	7.76
Granted	10,405	27.74	—	—
Exercised	(79,724)	6.08	2,383,405	—
Canceled	(191,816)	98.42	—	—
Outstanding, end of year	296,650	59.28	686,035	6.14
Exercisable, end of year	254,118	49.40	685,914	5.89
Expected to vest, end of year	42,532	\$ 117.80	\$ 121	7.61

* Effective May 11, 2023, we performed a 1-for-38 reverse stock split. Share amounts have been retroactively restated.

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

	2023	2022
Risk-free interest rate	0.00%–0.00%	3.46%–3.91%
Expected volatility	0.00%–0.00%	115.75%–116.01%
Expected life (in years)	0.00	6.00
Weighted average estimated fair value of options granted	\$ —	\$ 27.74

Restricted stock award and restricted stock unit transactions during the years ended December 31, 2023 and 2022 are summarized as follows:

	<u>For the year ended December 31, 2023</u>		<u>For the year ended December 31, 2022</u>	
	Number of Shares*	Weighted Average Grant Date Fair Value*	Number of Shares*	Weighted Average Grant Date Fair Value*
Unvested shares, beginning of year	342,940	\$ 30.02	153,242	\$ 160.36
Granted	356,679	18.00	400,363	22.42
Vested	(293,878)	25.09	(36,537)	144.78
Forfeited or surrendered	(49,138)	35.35	(174,128)	104.12
Unvested shares, end of year	356,603	\$ 21.32	342,940	\$ 30.02

* Effective May 11, 2023, we performed a 1-for-38 reverse stock split. Share amounts have been retroactively restated.

During the year ended December 31, 2023, employees and non-employees received restricted stock units totaling 354,047 and restricted stock awards totaling 2,632. Vesting of restricted stock units totaled 293,878. The shares underlying the restricted stock units granted in 2023 were assigned a weighted average fair value of \$18.00 per share, for a total value of \$6,420,222. The restricted stock issuances are scheduled to vest over a range of one to four years.

During the year ended December 31, 2022, employees and non-employees received restricted stock units totaling 400,363. Vesting of restricted stock units and restricted stock awards totaled 35,513 and 1,024, respectively. The shares underlying the restricted stock units granted in 2022 were assigned a weighted average fair value of \$22.42 per share, for a total value of \$8,976,136. The restricted stock issuances are scheduled to vest over a range of one to four years.

As of December 31, 2023, the total compensation cost related to non-vested awards not yet recognized is \$7,508,560 and is expected to be recognized over the weighted average remaining recognition period of approximately 2.5 years.

As of December 31, 2022, the total compensation cost related to non-vested awards not yet recognized is \$9,984,655 and is expected to be recognized over the weighted average remaining recognition period of approximately 2.0 years.

Note 13. Employee Benefit Plan

During the years ended December 31, 2023 and 2022, we 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. During the years ended December 31, 2023 and 2022, we also sponsored 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 ours in funds under the control of a third-party trustee.

We match employee contributions on a dollar-for-dollar basis up to six percent of their annual salary under both plans. During the years ended December 31, 2023 and 2022, we incurred expenses of \$1,347,195 and \$1,455,004, respectively, related to matching contributions.

Note 14. Reimbursement of Merger-Related Costs

On July 11, 2022, we entered into a Termination Agreement (the “Termination Agreement”) with Zip Co Limited (“Zip”) to terminate the Agreement and Plan of Merger, dated February 28, 2022 (the “Merger Agreement”), by and among us, Zip, and Miyagi Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Zip (“Merger Sub”). Pursuant to the Termination Agreement, among other things, on July 12, 2022, we received \$11,000,000 from Zip for reimbursement of internal and external merger-related costs, the Merger Agreement and other Transaction Agreements (including the Parent Support Agreements and the Company Support Agreements, each as defined in the Merger Agreement) were terminated by mutual consent of us and Zip. As part of the Termination Agreement, we and Zip also released each other from certain claims related to or arising out of the Merger Agreement and related transactions, none of which impacted the consolidated financial statements.

Note 15. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted-average number of shares outstanding during the period, including repurchases carried as treasury stock. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares outstanding adjusted for the dilutive effect of all potential shares of stock, including the exercise of employee stock options and assumed vesting of restricted stock units (if dilutive). In periods where we reported a net loss, the diluted net loss per share is the same as basic net loss per share because the impact of including assumed exercises of stock options and vesting of restricted stock units would have an anti-dilutive impact. Diluted net income (loss) per share was computed using the treasury stock method for warrants, stock options, and restricted stock units.

The following table presents the calculation of basic and diluted net income (loss) per share:

	For the years ended December 31,	
	2023	2022
Numerator:		
Net income (loss)	\$ 7,098,022	\$ (38,093,756)
Denominator*:		
Basic shares:		
Weighted-average shares outstanding	5,606,087	5,443,605
Diluted shares:		
Stock options	66,841	—
Warrants	5,599	—
Weighted-average shares outstanding	5,678,527	5,443,605
Net income (loss) per share:		
Basic	\$ 1.27	\$ (7.00)
Diluted	\$ 1.25	\$ (7.00)

* Effective May 11, 2023, we performed a 1-for-38 reverse stock split. Share amounts have been retroactively restated.

Because their effect would have been anti-dilutive, 301,465 shares were excluded from the denominator of diluted net income per share for the year ended December 31, 2023.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2023, Sezzle conducted an evaluation, under supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (Exchange Act).

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at a reasonable assurance level. Disclosure controls and procedures are defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as controls and other procedures that are designed to ensure that information required to be disclosed by us in reports filed with the SEC under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. All internal control systems, no matter how well designed, have inherent limitations. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our internal controls over financial reporting as of December 31, 2023. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control — Integrated Framework (2013)." Based on this assessment, management believes that, as of December 31, 2023, our internal control over financial reporting was effective based on those criteria.

Changes in Internal Control Over Financial Reporting

During the year ended December 31, 2023, no changes in our internal control over financial reporting materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Independent Registered Accountant's Internal Control Attestation

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to applicable law.

ITEM 9B. OTHER INFORMATION

Lease Agreement

On June 9, 2023, the Company entered into an office lease agreement with 601 Minnesota MT LLC, a Delaware limited liability company, to provide for the Company's corporate headquarters in Minneapolis, Minnesota, as further described in the "Properties" section of this Form 10-K.

The foregoing description of the office lease agreement is qualified in all respects by reference to the full text of the form of the office lease agreement, which is attached as Exhibit 10.5 here and incorporated by reference herein.

Indemnification Agreements

On February 26, 2024 the Company entered into amended and restated indemnification agreements with each member of the board of directors and certain officers, including Executive Chairman and Chief Executive Officer, Charlie Youakim, and Executive Director and President, Paul Paradis. On February 26, 2024, the Company also entered into an indemnification agreement with Karen Webster, appointed to the Company's board of directors on February 5, 2024. Each agreement provides that, subject to certain exceptions and limitations set forth therein, the Company will indemnify and advance certain expenses to the indemnified party to the fullest extent, and only to the extent, permitted by applicable law in effect as of the date of the agreement and to such greater extent as applicable law may thereafter from time to time permit.

The foregoing description of the indemnification agreements is qualified in all respects by reference to the full text of the form of the indemnification agreement, which is attached as Exhibit 10.6 here and incorporated by reference herein.

Rule 10b5-1(c) and/or non-Rule 10b5-1 Trading Arrangements

During the quarter ended December 31, 2023, none of the officers (as defined in Exchange Act Rule 16a-1(f)) or directors of the Company adopted or terminated a "Rule 10b5-1 trading arrangement," (as defined in Item 408(a) of Regulation S-K) intended to satisfy the affirmative defense conditions of Exchange Act Rule 10b5-1(c) or any non-Rule 10b5-1 trading arrangement, except as follows:

On November 20, 2023, Paul Paradis, the Company's Executive Director and President, adopted a Rule 10b5-1 trading arrangement (the "Paradis Plan") that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). The Paradis Plan provides for the potential sale of up to 131,580 shares of the Company's common stock, from February 23, 2024 until termination of the Paradis Plan on November 27, 2024, or earlier if all transactions under the Paradis Plan are completed.

However, our directors and executive officers may adopt 10b5-1 Plans or non-Rule 10b5-1 trading arrangements in the future.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference from our Proxy Statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2023.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from our Proxy Statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2023.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference from our Proxy Statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2023.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference from our Proxy Statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2023.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference from our Proxy Statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2023.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report on Form 10-K:

Financial Statements

Our consolidated financial statements are found in the "[Index to Consolidated Financial Statements](#)" under [Part II, Item 8](#) of this Annual Report.

Financial Statement Schedules

All schedules have been omitted because the required information is not present or not present in amounts sufficient to require submission of the schedules, or because the information required is included in [Part II, Item 8](#) of this Annual Report.

Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File Number	File Date	
3.1	Fourth Amended and Restated Certificate of Incorporation	10-12G/A	000-56267	10/25/2021	
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation	8-K	000-56267	5/15/2023	
3.3	Third Amended and Restated Bylaws	10-12G/A	000-56267	10/25/2021	
4.1	Description of Capital Stock				X
10.1	Revolving Credit and Security Agreement dated as of October 14, 2022 among Sezzle Funding SPE II, LLC, lenders party thereto and Bastion Funding IV, LLC	8-K	000-56267	8/14/2022	
10.2	Pledge and Guaranty Agreement dated as of October 14, 2022, by and between Sezzle Funding SPE II Parent, LLC, and Bastion Funding IV, LLC, in its capacity as administrative agent	8-K	000-56267	8/14/2022	
10.3	Limited Guaranty and Indemnity Agreement dated as of October 14, 2022 by Sezzle Inc. for the benefit of Bastion Funding IV, LLC, in its capacity as administrative agent	8-K	000-56267	8/14/2022	
10.4	Form of Warrant Agreement	8-K	000-56267	8/14/2022	
10.5	Office Lease by and between 601 Minnesota MT LLC and Sezzle Inc., dated June 9, 2023.				X
10.6	Form of Indemnification Agreement				X
10.7	Form of Director Agreement	10-12G/A	000-56267	10/25/2021	
10.8	Employment Agreement between Sezzle Inc. and Charles Youakim, dated June 20, 2019 #	10-12G/A	000-56267	10/25/2021	
10.9	Employment Agreement between Sezzle Inc. and Paul Paradis, dated June 20, 2019 #	10-12G/A	000-56267	10/25/2021	
10.10	Employment Agreement between Sezzle Inc. and Karen Hartje, dated June 20, 2019 #	10-12G/A	000-56267	10/25/2021	
10.11	2016 Employee Stock Option Plan #	10-12G/A	000-56267	10/25/2021	
10.12	Sezzle 2019 Equity Incentive Plan #	10-12G	000-56267	4/13/2021	
10.13	Sezzle 2021 Equity Incentive Plan #	10-12G/A	000-56267	10/25/2021	
10.14	Form of Notice of Option Award #	10-12G	000-56267	4/13/2021	
10.15	Form of Notice of RSU Award #	10-12G	000-56267	4/13/2021	
10.16	Agreement for B Corporation Certification dated as of March 22, 2021 by and between Sezzle Inc. and B Lab Company	10-12G/A	000-56267	10/25/2021	
10.17	Form of Proprietary Information, Inventions, Non-Competition and Non-Solicitation Agreement	10-12G/A	000-56267	10/25/2021	
10.18	Common Stock Purchase Agreement, dated December 22, 2017, by and between Sezzle, Inc. and Paul Paradis	10-12G/A	000-56267	10/25/2021	
10.19	Common Stock Purchase Agreement, dated October 13, 2016, by and between Sezzle, Inc. and Paul Paradis	10-12G/A	000-56267	10/25/2021	
10.20	Common Stock Purchase Agreement, dated May 25, 2016, by and between Sezzle, Inc. and Paul Paradis	10-12G/A	000-56267	10/25/2021	
19.1	Securities Trading Policy				X

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File Number	File Date	
21.1	Subsidiaries of Registrant				X
23.1	Consent of Baker Tilly US, LLP, independent registered public accountants				X
24.1	Powers of Attorney (see signature page hereto)				X
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of the Chief Executive Officer as Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of the Chief Financial Officer as Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
97.1	Clawback Policy - Executive Officers				X
101.INS	XBRL Instance Document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

Indicates a management contract or compensation plan, contract, or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

SEZZLE INC.

Dated: February 29, 2024

By: /s/ Charles Youakim
 Charles Youakim
 Chief Executive Officer and Chairman
 (Principal Executive Officer)

Dated: February 29, 2024

By: /s/ Karen Hartje
 Karen Hartje
 Chief Financial Officer
 (Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Each of the undersigned hereby appoints Charles Youakim and Karen Hartje, and each of them (with full power to act alone), as attorneys and agents for the undersigned, with full power of substitution, for and in the name, place and stead of the undersigned, to sign and file with the Securities and Exchange Commission under the Securities Act of 1934, any and all amendments and exhibits to this annual report on Form 10-K and any and all applications, instruments, and other documents to be filed with the Securities and Exchange Commission pertaining to this annual report on Form 10-K or any amendments thereto, with full power and authority to do and perform any and all acts and things whatsoever requisite and necessary or desirable.

Signature	Title	Date
<u>/s/ Charles Youakim</u> Charles Youakim	Chief Executive Officer and Chairman (Principal Executive Officer)	February 29, 2024
<u>/s/ Karen Hartje</u> Karen Hartje	Chief Financial Officer (Principal Financial Officer)	February 29, 2024
<u>/s/ Justin Krause</u> Justin Krause	SVP of Finance and Financial Controller (Principal Accounting Officer)	February 29, 2024
<u>/s/ Paul Paradis</u> Paul Paradis	President and Executive Director	February 29, 2024
<u>/s/ Paul Lahiff</u> Paul Lahiff	Non-Executive Director	February 29, 2024
<u>/s/ Paul Purcell</u> Paul Purcell	Non-Executive Director	February 29, 2024
<u>/s/ Michael Cutter</u> Michael Cutter	Non-Executive Director	February 29, 2024
<u>/s/ Karen Webster</u> Karen Webster	Non-Executive Director	February 29, 2024



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2023 ANNUAL REPORT

