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26 February 2021

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Company Announcements Platform

Restatement of FY2019 and FY2018 Consolidated Financial Statements

Sezzle Inc. (ASX:**SZL**) (**Sezzle** or **Company**) // Installment payment platform, Sezzle, provides the following update in relation to the Company's consolidated financial statements for the years ended December 31, 2019 and 2018 (**FY19-18**) which are lodged herewith.

The FY19-18 Consolidated Financial Statements have been restated to reflect the correction of misstatements originally included within the consolidated financial statements issued on February 27, 2020. All impacted amounts within the notes to the consolidated financial statements have also been restated. These restated consolidated financial statements are lodged with the ASX as of February 26, 2021, prior to the lodgment of the preliminary consolidated financial statements as of and for the years ended December 31, 2020 and 2019 (**FY20-19**).

Background of the Restatement:
The Consolidated Financial Statements of Sezzle Inc. and its subsidiaries which comprise the consolidated balance sheets as of the end of FY19-18, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows the for FY19-18, and the related notes to the consolidated financial statements were lodged with the ASX on February 27, 2020. The FY19-18 consolidated financial statements were audited in accordance with accounting standards generally accepted in the United States of America (**GAAP**) and presented in US dollars.

As disclosed in the Company's presentation released to the ASX on July 10, 2020, Sezzle became aware that it is required to register its stock under the U.S. Securities Exchange Act of 1934 (the **Exchange Act**) and will accordingly become subject to the periodic reporting requirements of the Exchange Act. In addition to complying with GAAP, the financial statements of reporting companies under the Exchange Act must be audited in accordance with the standards of the U.S. Public Company Accounting Oversight Board (**"PCAOB"**).

Due to the requirement at the time of the original filing of Sezzle's FY19-18 Consolidated Financial Statements that they be audited in accordance with auditing standards generally accepted in the United States of America (but not the PCAOB standards), the Company was subsequently required to engage its independent auditor to perform certain procedures to ensure the auditor could issue its opinion in accordance with PCAOB standards for the FY19-18 Consolidated Financial Statements, to permit the registration filing to be made under the Exchange Act, which is anticipated to occur in the near future.

During the course of the PCAOB audit of the FY19-18 Consolidated Financial Statements, a number of misstatements were recorded as a result of the different requirements of auditing under GAAP and under the PCAOB standards, which were required to be corrected and resulted in the restatements described as follows:

Impact of Restatement:
The Consolidated Financial Statements as of and for FY19-18 have been restated to reflect the correction of misstatements originally included within the Consolidated Financial Statements issued on February 27, 2020. All impacted amounts within the notes to the Consolidated Financial Statements have also been restated. The impact of the adjustments and their impact on the previously issued Consolidated Financial Statements are included below.

Summary of Restated Items as of and for the Years Ended December 31, 2019 and 2018

The noted items below are referenced within the effects of the restatements of the Company's Consolidated Financial Statements:

(a) The restated adjustment is an increase in accrued paid time off of $7,519, resulting in an increase in current liabilities and selling, general, and administrative expenses in the consolidated balance sheets and consolidated statements of operations as of and for the year ended December 31, 2018. The associated liability was carried forward on the consolidated balance sheets as of December 31, 2019, as the accrued paid time off had not yet been paid as of year-end.

(b) The noted adjustment of $282,000 relates to the reclassification of certain expenses originally classified in selling, general, and administrative expenses within the consolidated statements of operations for the year ended December 31, 2019. These expenses relate to the return of account reactivation fees and reschedule fees to consumers as a result of the State of California's Department of Business Oversight denial of the Company's lending license application. (*Refer ASX announcements of 2, 3, 7 and 17 January, 2020*). Refer to Note 7 for further information. The Company reclassified $259,245 and $22,755 of these costs as a reduction to total income for the years ended December 31, 2019 and 2018, respectively. The adjustment also resulted in an increase to accrued liabilities for $22,755 as of December 31, 2018.

(c) The noted adjustments relate to changes in the fair value of the price per share of the Company's common stock at various dates after the Company's inception but prior to its Initial Public Offering (**IPO**). The originally filed Consolidated Financial Statements relied on valuations of the Company determined through acceptable methodologies for income tax purposes prescribed under Section 409A of the United States Internal Revenue Code. The restated Consolidated Financial Statements rely on pre-IPO valuations of the Company determined in accordance with FASB Accounting Standards Codification (ASC) 820, Fair Value Measurement. The methodology change resulted in higher historical fair values per share compared to the original filing.

(i) The change in fair value resulted in additional equity based compensation expense recorded within selling, general, and administrative expenses and additional paid-in capital of $215,286 and $43,856 for the years ended December 31, 2019 and 2018, respectively.

(ii) The changes in fair value resulted in a ($780,844) reduction to other expenses for future equity obligations for the year ended December 31, 2017. This change is recorded as a reduction to the Company's accumulated deficit as of January 1, 2018 on the consolidated statements of stockholders' equity (deficit). Changes in the fair value of future equity obligations during the year ended December 31, 2018 resulted in additional other expenses for future equity obligations of $265,048 recorded to fair value adjustments on future equity obligations on the consolidated statement of operations. On April 10, 2018, the total value of future equity obligations converted to preferred stock. The total conversion amount, reduced by the net changes in fair value of ($515,796), resulted in a reduction in preferred stock recorded within mezzanine equity on the consolidated balance sheets as of December 31, 2018.

(iii) The change in fair value also reduced the interest expense incurred on the beneficial conversion feature by ($3,727,407) within the consolidated statements of operations for the year ended December 31, 2019, offset against additional paid-in capital. Information relating to this adjustment is as follows:

• The original Section 409A valuation was $0.22 price per share, less than the $0.49 conversion price. The convertible note was out-of-the-money at the time of issuance, therefore, the beneficial conversion feature was contingent on a future event and unmeasurable at the commitment date;
• The original interest expense related to the contingent beneficial conversion feature was $4,197,674, measured on the date of the IPO based on the IPO price per share of $0.84 and the conversion price per share of $0.49;
• The Company's updated valuation performed in accordance with ASC 820 resulted in a $0.51 price per share on the commitment date of March 29, 2019. This value was greater than the $0.49 conversion price per share, creating a measurable, in-the-money initial non-contingent beneficial conversion feature at the commitment date; and
• The change in valuation methodologies resulted in a reduction of interest expense on the beneficial conversion feature when the notes converted to common stock on July 24, 2019. This is a result of the beneficial conversion feature being measured based on the difference between the $0.49 conversion price per share and the $0.51 price per share at the commitment date, rather than the difference between the $0.49 conversion price per share and the $0.84 IPO price per share at the conversion date.

The net effect of the adjustments on the Company's net loss for the years ended December 31, 2019 and 2018, respectively, is as follows:

	2019	2018	Restatement Reference
(Increase) decrease to net loss:			
Total income:			
Sezzle income	$ (56,036)	$ (4,355)	b
Account reactivation fee income	(203,209)	(18,400)	b
Total income	(259,245)	(22,755)	
Selling, general, and administrative expenses:			
Equity based compensation	(215,286)	(43,856)	c(i)
Compliance related expenses	282,000	-	b
Accrued paid time off	-	(7,519)	a
Selling, general, and administrative expenses	66,714	(51,375)	
Fair value adjustments on future equity obligations	-	(265,048)	c(ii)
Interest expense on beneficial conversion feature	3,727,406	-	c(iii)
(Increase) decrease to net loss:	$ 3,534,875	$ (339,178)	

The following is a summary of the effects of the restatement on the Company's December 31, 2019 consolidated balance sheets:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
As of December 31, 2019:				
Total assets	$ 64,543,135	$ -	$ 64,543,135	
Current liabilities	15,611,996	7,519	15,619,515	a
Long-term liabilities	21,609,304	-	21,609,304	
Total liabilities	37,221,300	7,519	37,228,819	
Common stock and additional paid-in capital	51,139,996	(3,984,060)	47,155,936	c(i, ii, iii)
Accumulated deficit	(23,818,161)	3,976,541	(19,841,620)	b, c(i, ii, iii)
Total stockholders' equity (deficit)	27,321,835	(7,519)	27,314,316	
Total liabilities and stockholders' equity (deficit)	$ 64,543,135	$ -	$ 64,543,135	

The following is a summary of the effects of the restatement on the Company's December 31, 2019 consolidated statements of operations:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
For the year ended December 31, 2019:				
Sezzle income	$ 13,375,254	$ (56,036)	$ 13,319,218	b
Account reactivation fee income	2,685,102	(203,209)	2,481,893	b
Total income	16,060,356	(259,245)	15,801,111	
Cost of Income	7,660,276	-	7,660,276	
Gross profit	8,400,080	(259,245)	8,140,835	
Operating Expenses				
Selling, general, and administrative expenses	13,223,605	(66,714)	13,156,891	b, c(i)
Provision for uncollectible accounts	6,235,820	-	6,235,820	
Total operating expenses	19,459,425	(66,714)	19,392,711	
Operating Loss	(11,059,345)	(192,531)	(11,251,876)	
Other Income (Expense)				
Interest expense	(1,459,782)	-	(1,459,782)	
Interest expense on beneficial conversion feature	(4,197,674)	3,727,406	(470,268)	c(iii)
Other income and expense	132,554	-	132,554	
Loss before taxes	(16,584,247)	3,534,875	(13,049,372)	
Income tax expense	11,981	-	11,981	
Net Loss	$(16,596,228)	$ 3,534,875	$ (13,061,353)	
Basic and diluted loss per common share	$ (0.15)	$ 0.03	$ (0.12)	

The following is a summary of the effects of the restatement on the Company's December 31, 2019 and 2018 consolidated statements of stockholders' equity (deficit):

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total	Restatement Reference
Balances, at Dec 31, 2018 (As previously reported)	$ 594	$ 99,857	$ (6,457,994)	$(6,357,543)	
Opening balance adjustments	-	-	780,844	780,844	c(ii)
Restatement adjustments:	-	-	-	-	
Equity based compensation	-	43,856	-	43,856	c(i)
Net loss	-	-	(339,178)	(339,178)	
Balances, at Dec 31, 2018 (As restated)	$ 594	$ 143,713	$ (6,016,328)	$(5,872,021)	
Balances, at Dec 31, 2019 (As previously reported)	$ 1,789	$ 51,138,207	$ (23,818,161)	$27,321,835	
Opening balance adjustments	-	43,856	441,666	485,522	
Restatement adjustments:	-	-	-	-	
Equity based compensation	-	209,276	-	209,276	c(i)
Restricted stock issuances and vesting of awards	-	6,010	-	6,010	c(i)
Conversion of preferred stock to common stock	-	(515,796)	-	(515,796)	c(ii)
Conversion of notes to common stock	-	(3,727,406)	-	(3,727,406)	c(iii)
Net loss	-	-	3,534,875	3,534,875	
Balances, at Dec 31, 2019 (As restated)	$ 1,789	$ 47,154,147	$ (19,841,620)	$27,314,316	

The following is a summary of the effects of the restatement on the Company's December 31, 2019 consolidated statements of cash flows:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
For the year ended December 31, 2019:				
Net loss	$(16,596,228)	$ 3,534,875	$(13,061,353)	b, c
Equity based compensation	951,979	215,286	1,167,265	c(i)
Loss and accrued interest on conversion of convertible notes	4,306,622	(3,727,406)	579,216	c(iii)
Increase in accrued liabilities	1,212,773	(22,755)	1,190,018	b
Other net loss to net cash reconciling items	(9,794,709)	-	(9,794,709)	
Net cash used for operating activities	(19,919,563)	-	(19,919,563)	
Net cash used for investing activities	(532,218)	-	(532,218)	
Net cash provided by financing activities	49,991,545	-	49,991,545	
Net increase in cash, cash equivalents, and restricted cash	29,539,764	-	29,539,764	
Cash, cash, equivalents, and restricted cash, beginning of year	7,084,854	-	7,084,854	
Cash, cash, equivalents, and restricted cash, end of year	$ 36,624,618	$ -	$ 36,624,618	
Noncash investing and financing activities:				
Conversion of notes to common stock	$ 10,098,404	$ (3,727,406)	$ 6,370,998	c(iii)
Conversion of preferred stock to common stock	12,442,367	(515,796)	11,926,571	c(ii)

The following is a summary of the effects of the restatement on the Company's December 31, 2018 consolidated balance sheets:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
As of December 31, 2018:				
Total assets	$ 12,535,334	$ -	$ 12,535,334	
Current liabilities	2,830,620	30,274	2,860,894	a, b
Long-term liabilities	4,383,828	-	4,383,828	
Total liabilities	7,214,448	30,274	7,244,722	
Mezzanine equity	11,678,429	(515,796)	11,162,633	c(ii)
Common stock and additional paid-in capital	100,451	43,856	144,307	c(i)
Accumulated deficit	(6,457,994)	441,666	(6,016,328)	a, b, c(i, ii)
Total stockholders' equity (deficit)	(6,357,543)	485,522	(5,872,021)	
Total liabilities, mezzanine equity, and stockholders' equity (deficit)	$ 12,535,334	$ -	$ 12,535,334	

The following is a summary of the effects of the restatement on the Company's December 31, 2018 consolidated statements of operations:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
For the year ended December 31, 2018:				
Sezzle income	$ 1,415,077	$ (4,355)	$ 1,410,722	b
Account reactivation fee income	216,983	(18,400)	198,583	b
Total income	1,632,060	(22,755)	1,609,305	
Cost of Income	915,266	-	915,266	
Gross profit	716,794	(22,755)	694,039	
Operating Expenses				
Selling, general, and administrative expenses	3,829,013	51,375	3,880,388	a, c(i)
Provision for uncollectible accounts	940,498	-	940,498	
Total operating expenses	4,769,511	51,375	4,820,886	
Operating Loss	(4,052,717)	(74,130)	(4,126,847)	
Other Income (Expense)				
Interest expense	(96,496)	-	(96,496)	
Other income and expense	(36,850)	-	(36,850)	
Fair value adjustment on future equity obligations	(7,490)	(265,048)	(272,538)	c(ii)
Loss before taxes	(4,193,553)	(339,178)	(4,532,731)	
Income tax expense	-	-	-	
Net Loss	$ (4,193,553)	$ (339,178)	$ (4,532,731)	
Basic and diluted loss per common share	$ (0.07)	$ (0.01)	$ (0.08)	

The following is a summary of the effects of the restatement on the Company's December 31, 2018 consolidated statements of cash flows:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
For the year ended December 31, 2018:				
Net loss	$ (4,193,553)	$ (339,178)	$ (4,532,731)	a, b, c(i, ii)
Equity based compensation	30,677	43,856	74,533	c(i)
Fair value adjustment on future equity obligations	7,490	265,048	272,538	c(ii)
Increase in accrued liabilities	421,492	30,274	451,766	a, b
Other net loss to net cash reconciling items	(2,499,439)	-	(2,499,439)	
Net cash used for operating activities	(6,233,333)	-	(6,233,333)	
Net cash used for investing activities	(368,904)	-	(368,904)	
Net cash provided by financing activities	12,835,195	-	12,835,195	
Net increase in cash, cash equivalents, and restricted cash	6,232,958	-	6,232,958	
Cash, cash, equivalents, and restricted cash, beginning of year	851,896	-	851,896	
Cash, cash, equivalents, and restricted cash, end of year	$ 7,084,854	$ -	$ 7,084,854	
Noncash investing and financing activities:				
Issuance of preferred stock from future equity obligations	$ 3,310,043	$ (515,796)	$ 2,794,247	c(ii)

This announcement was approved by the Company's CEO and Executive Chairman, Charlie Youakim, on behalf of the Sezzle Inc. Board.

Contact Information

For more information about this announcement:

Lee Brading, CFA
Investor Relations
+61 391 112 670
InvestorRelations@sezzle.com

Justin Clyne
Company Secretary
+61 407 123 143
jclyne@clynecorporate.com.au

Media Enquiries
Mel Hamilton - M&C Partners
+61 417 750 274
melissa.hamilton@mcpartners.com.au

About Sezzle Inc.

Sezzle is a rapidly growing fintech company on a mission to financially empower the next generation. Sezzle's payment platform increases the purchasing power for more than 2.4 million Active Consumers by offering interest-free installment plans at online stores and select in-store locations. Sezzle's transparent, inclusive, and seamless payment option allows consumers to take control over their spending, be more responsible, and gain access to financial freedom. When consumers apply, approval is instant, and their credit scores are not affected.

The increase in purchasing power for consumers leads to increased sales and basket sizes for the more than 29,200 Active Merchants that offer Sezzle.

For more information visit sezzle.com.

Sezzle's CDIs are issued in reliance on the exemption from registration contained in Regulation S of the US Securities Act of 1933 (Securities Act) for offers of securities which are made outside the US. Accordingly, the CDIs have not been, and will not be, registered under the Securities Act or the laws of any state or other jurisdiction in the US. As a result of relying on the Regulation S exemption, the CDIs are 'restricted securities' under Rule 144 of the Securities Act. This means that you are unable to sell the CDIs into the US or to a US person who is not a QIB for the foreseeable future except in very limited circumstances until after the end of the restricted period, unless the re-sale of the CDIs is registered under the Securities Act or an exemption is available. To enforce the above transfer restrictions, all CDIs issued bear a FOR Financial Product designation on the ASX. This designation restricts any CDIs from being sold on ASX to US persons excluding QIBs. However, you are still able to freely transfer your CDIs on ASX to any person other than a US person who is not a QIB. In addition, hedging transactions with regard to the CDIs may only be conducted in accordance with the Securities Act.

Sezzle Inc. and Subsidiaries
Consolidated Financial Statements

December 31, 2019 and 2018
(restated)

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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, 2019 and 2018, the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years ended December 31, 2019 and 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years ended December 31, 2019 and 2018, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the 2018 and 2019 consolidated financial statements have been restated to correct errors related to measurement of future equity obligations, convertible debt beneficial conversion feature, and other audit related adjustments.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 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 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

Baker Tilly US, LLP

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

Minneapolis, Minnesota

February 25, 2021

Sezzle Inc. and Subsidiaries
Consolidated Balance Sheets
As of December 31, 2019 and 2018

		(As Restated) 2019		(As Restated) 2018
Assets				
Current Assets				
Cash and cash equivalents	$	34,965,069	$	6,519,400
Restricted cash		1,639,549		545,454
Notes receivable, net		25,189,135		4,930,616
Other receivables, net		315,502		32,780
Prepaid expenses and other current assets		882,939		128,167
Total current assets		62,992,194		12,156,417
Non-Current Assets				
Internally developed intangible assets, net		480,098		260,732
Property and equipment, net		134,400		75,676
Right-of-use assets		867,272		-
Restricted cash		20,000		20,000
Other assets		49,171		22,509
Total Assets	$	64,543,135	$	12,535,334
Liabilities, Mezzanine Equity, and Stockholders' Equity (Deficit)				
Current Liabilities				
Merchant accounts payable	$	13,284,544	$	2,276,880
Lease liability		389,257		-
Accrued liabilities		1,677,780		487,762
Other payables		267,934		96,252
Total current liabilities		15,619,515		2,860,894
Long Term Liabilities				
Long term debt		250,000		250,000
Lease liability		500,131		-
Line of credit, net of unamortized debt issuance costs of $590,827 and $66,172, respectively		20,859,173		4,133,828
Total Liabilities		37,228,819		7,244,722
Commitments and Contingencies				
Mezzanine Equity				
Preferred stock, 6% noncumulative, $0.00001 par value; 200,000,000 shares authorized; 0 and 69,536,840 shares issued and outstanding, respectively.		-		11,162,633
Stockholders' Equity (Deficit)				
Common stock, $0.00001 par value; 300,000,000 shares authorized; 178,931,312 and 59,416,666 shares issued and outstanding, respectively		1,789		594
Additional paid-in capital		47,154,147		143,713
Accumulated deficit		(19,841,620)		(6,016,328)
Total Stockholders' Equity (Deficit)		27,314,316		(5,872,021)
Total Liabilities, Mezzanine Equity, and Stockholders' Equity (Deficit)	$	64,543,135	$	12,535,334

The accompanying notes are an integral part of these consolidated financial statements.

Sezzle Inc. and Subsidiaries
Consolidated Statements of Operations
For the years ended December 31, 2019 and 2018

		(As Restated) 2019		(As Restated) 2018
Income				
Sezzle income	$	13,319,218	$	1,410,722
Account reactivation fee income		2,481,893		198,583
Total income		15,801,111		1,609,305
Cost of Income		7,660,276		915,266
Gross profit		8,140,835		694,039
Operating Expenses				
Selling, general, and administrative expenses		13,156,891		3,880,388
Provision for uncollectible accounts		6,235,820		940,498
Total operating expenses		19,392,711		4,820,886
Operating Loss		(11,251,876)		(4,126,847)
Other Income (Expense)				
Interest expense		(1,459,782)		(96,496)
Interest expense on beneficial conversion feature		(470,268)		-
Other income and expense		132,554		(36,850)
Fair value adjustment on future equity obligations		-		(272,538)
Loss before taxes		(13,049,372)		(4,532,731)
Income tax expense		11,981		-
Net Loss	$	(13,061,353)	$	(4,532,731)
Earnings per share:				
Basic and diluted loss per common share	$	(0.12)	$	(0.08)
Basic and diluted weighted average shares outstanding		111,576,824		59,416,666

The accompanying notes are an integral part of these consolidated financial statements.

Sezzle Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity (Deficit)
For the years ended December 31, 2019 and 2018

	Common Stock		Additional	Stock	Accumulated	Total
	Shares	Amount	Paid-in Capital	Subscriptions	Deficit	
Balance at January 1, 2018 (As Restated)	59,416,666	$ 594	$ 69,180	$ (57,708)	$ (1,483,597)	$ (1,471,531)
Equity based compensation	-	-	74,533	-	-	74,533
Collection of stock subscription	-	-	-	57,708	-	57,708
Net loss	-	-	-	-	(4,532,731)	(4,532,731)
Balance at December 31, 2018 (As Restated)	59,416,666	594	143,713	-	(6,016,328)	(5,872,021)
Equity based compensation	-	-	1,034,578	-	-	1,034,578
Stock option exercises	882,914	8	37,099	-	-	37,107
Restricted stock issuances and vesting of awards	407,000	4	132,683	-	-	132,687
Preferred stock dividend	-	-	-	-	(763,939)	(763,939)
Conversion of preferred stock to common stock	70,446,291	705	11,925,866	-	-	11,926,571
Proceeds of initial public offering, net of issuance costs	35,714,286	357	27,509,331	-	-	27,509,688
Conversion of notes to common stock	12,064,155	121	6,370,877	-	-	6,370,998
Net loss	-	-	-	-	(13,061,353)	(13,061,353)
Balance at December 31, 2019 (As Restated)	178,931,312	$ 1,789	$ 47,154,147	$ -	$ (19,841,620)	$ 27,314,316

The accompanying notes are an integral part of these consolidated financial statements.

Sezzle Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	(As Restated) 2019	(As Restated) 2018
Operating Activities:		
Net loss	$ (13,061,353)	$ (4,532,731)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	245,496	96,845
Provision for uncollectible accounts	6,235,820	940,498
Provision for other uncollectible receivables	1,188,201	102,540
Equity based compensation and restricted stock vested	1,167,265	74,533
Amortization of debt issuance costs	72,379	4,727
Fair value adjustment on future equity obligations	-	272,538
Impairment losses on long-lived assets	15,623	19,827
Loss and accrued interest on conversion of convertible notes	579,216	-
Changes in operating assets and liabilities:		
Notes receivable	(26,494,339)	(5,658,137)
Other receivables	(1,470,923)	(133,100)
Prepaid expenses and other assets	(788,428)	(121,195)
Merchant accounts payable	11,007,664	2,168,981
Other payables	171,682	79,575
Operating leases	22,116	-
Accrued liabilities	1,190,018	451,766
Net cash used for operating activities	(19,919,563)	(6,233,333)
Investing Activities:		
Purchase of property and equipment	(125,885)	(101,529)
Internally developed intangible asset additions	(406,333)	(267,375)
Net cash used for investing activities	(532,218)	(368,904)
Financing Activities:		
Proceeds from issuance of long term debt	5,812,500	250,000
Costs incurred for convertible note issuance	(25,000)	-
Proceeds from line of credit	24,200,000	4,600,000
Payments to line of credit	(6,950,000)	(400,000)
Proceeds from employee stock option exercises	37,107	-
Payments of debt issuance costs	(592,750)	(70,899)
Proceeds from initial public offering	30,286,785	-
Costs incurred for initial public offering	(2,777,097)	-
Proceeds of future equity obligations	-	30,000
Proceeds from issuance of preferred stock, net of costs	-	8,368,386
Collection of stock subscription	-	57,708
Net cash provided by financing activities	49,991,545	12,835,195
Net increase (decrease) in cash, cash equivalents, and restricted cash	29,539,764	6,232,958
Cash, cash equivalents, and restricted cash:		
Beginning of Year	7,084,854	851,896
End of Year	$ 36,624,618	$ 7,084,854
Noncash investing and financing activities:		
Conversion of notes to common stock	$ 6,370,998	$ -
Conversion of preferred stock to common stock	11,926,571	-
Issuance of preferred stock dividend	763,939	-
Non-cash lease liabilities arising from obtaining right-of-use assets	872,210	-
Issuance of preferred stock from future equity obligations	-	2,794,247
Supplementary disclosures:		
Cash paid for interest	1,153,730	34,634

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

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

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

The Company's core product allows consumers to make online purchases and split the payment for the purchase over four equal, interest-free payments over six weeks. The consumer makes the first payment at the time of checkout and makes the subsequent payments every two weeks after that. The purchase price, less processing fees, is paid to retail merchant clients by Sezzle in advance of the collection of the purchase price installments by Sezzle from the consumer.

The Company is headquartered in Minneapolis, Minnesota.

Basis of Presentation

The consolidated financial statements are prepared and presented under accounting principles generally accepted in the United States of America (U.S. GAAP). All amounts listed are reported in US dollars. It is the Company's policy to consolidate the accounts of subsidiaries for which it has a controlling financial interest. The accompanying consolidated financial statements include all the accounts and activity of Sezzle Inc., Sezzle Funding SPE, LLC, Sezzle Canada Corp., Sezzle Holdings I, Inc., and Sezzle Holdings II, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Concentrations of Credit Risk

Cash and cash equivalents

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

Foreign currency risk

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

Notes receivable

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

Cash and Cash Equivalents

The Company had cash and cash equivalents of $34,965,069 and $6,519,400 as of December 31, 2019 and 2018, respectively. The Company considers all money market funds and other highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Company accepts debit and credit cards from consumers as a method to settle its receivables, and these transactions are generally transmitted through third parties. The payments due from third parties for debit and credit card transactions are generally settled within three days. The Company considers all bank, debit and credit card transactions initiated before year end to be cash and cash equivalents.

Restricted Cash

The Company is required to maintain cash balances in a bank account in accordance with the lending agreement executed on November 29, 2019 between Sezzle Funding SPE, LLC, Sezzle Inc, and their third-party line of credit providers Bastion Consumer Funding II, LLC, Atalaya Asset Income Fund IV LP, and Hudson Cove Credit Opportunity Master Fund, LP ("the Syndicate"). The bank account is the property of Sezzle Funding SPE, LLC, but access to consumer payments is controlled by the Syndicate. On a regular basis, cash received from consumers is deposited to the bank account and subsequently made available to Sezzle through daily settlement reporting with the Syndicate.

Cash deposits to the bank account represent cash received from consumers not yet made available to Sezzle, as well as a minimum balance consisting of the sum of $20,000, accrued interest on the drawn credit facility, and accrued management fees charged by the Syndicate. The Company is also required to maintain minimum balances in a deposit account with a third-party service provider to fund notes receivable. The amount on deposit within the current restricted bank accounts totaled $1,639,549 and $545,454 as of December 31, 2019 and 2018, respectively.

Additionally, as of December 31, 2019, and 2018, the Company was required to maintain a $20,000 cash balance held in a reserve account to cover Automated Clearing House (ACH) transactions. The cash balance within this account is classified as non-current restricted cash on the consolidated balance sheets.

Receivables and Credit Policy

Notes receivable represent amounts from uncollateralized consumer receivables generated from the purchase of online merchandise. The original terms of the notes for the Company's core product are to be paid back in equal installments every two weeks over a six-week period. The Company does not charge interest on the notes to consumers. Sezzle defers direct note origination costs over the average life of the notes receivable using the effective interest rate method. These net deferred fees and costs are recorded within notes receivable, net on the consolidated balance sheets. The Company evaluates the collectability of the balances based on historical experience and the specific circumstances of individual notes, with an allowance for uncollectible accounts being provided as necessary. All notes receivable from consumers, as well as related fees, outstanding greater than 90 days past due are charged off as uncollectible. It is the Company's practice to continue collection efforts after the charge-off date. Refer to Note 5 for further information about receivable balances, allowances, and charge-off amounts.

Debt Issuance Costs

Costs incurred in connection with originating debt have been capitalized and are classified in the consolidated balance sheets as a reduction of the line of credit balance to which those costs relate. Debt issuance costs are amortized over the life of the underlying debt obligation utilizing the straight-line method, which approximates the effective interest method. Amortization of debt issuance costs is included within interest expense in the consolidated statements of operations. For the years ended December 31, 2019 and 2018, amortization of debt issuance costs totaled $72,379 and $4,727, respectively. Total cumulative cash payments to date for debt issuance costs were $663,649 and $70,899 for the years ended December 31, 2019 and 2018, respectively.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is provided using either the straight-line or double-declining balance method, based on the useful lives of the assets:

	Years	**Method**
Computers	3	Double-declining balance
Office equipment	5	Double-declining balance
Furniture fixtures	7	Straight-line

Refer to Note 3 for further information.

Internally Developed Intangible Assets

The Company capitalizes costs incurred for web development and software developed for internal use. The costs capitalized primarily relate to direct labor costs for employees and contractors working directly on the development and implementation of the software. Projects are deemed 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 $500, and there are no plans to market, sell or lease the project.

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

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

Refer to Note 4 for further information.

Research and Development Costs

Research expenditures that relate to the development of new processes, including internally developed software, are expensed as incurred. Such costs were approximately $517,000 and $394,000 for the years ended December 31, 2019 and 2018, respectively. Research expenditures are recorded within selling, general, and administrative expenses within the consolidated statements of operations.

Impairment of Long- Lived Assets

The Company reviews the carrying value of long-lived assets, including property, equipment and internally developed intangible assets, for impairment whenever events and circumstances indicate that the carrying value of the assets 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 property is used, and the effects of obsolescence, demand, competition, and other economic factors. Management has determined that $15,623 and $19,827 of impairment losses were incurred for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the Company had not renewed or extended the initial determined life for any of its recognized internally developed intangible assets.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of receivables, property and equipment, accrued liabilities, and equity based compensation for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. A full valuation allowance is recorded against the Company’s deferred tax assets as of December 31, 2019 and 2018.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2019 and 2018, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Advertising Costs

Advertising costs are expensed as incurred and consist of traditional marketing, digital marketing, sponsorships, and promotional product expenses. Such costs were $368,235 and $179,394 for the years ended December 31, 2019 and 2018, respectively.

Equity-Based Compensation

The Company maintains stock compensation plans which provides the offering of incentive and non-statutory stock options and restricted stock to employees, directors, and advisors of the Company.

Equity-based compensation expense reflects the fair value of awards measured at the grant date and recognized over the relevant vesting period. The Company estimates the fair value of each stock option on the measurement date using the Black-Scholes option valuation model which incorporates assumptions as to stock price volatility, the expected life of the options, risk-free interest rate and dividend yield. The Company issues new shares upon the exercise of stock options. Refer to Note 18 for further information around the Company's equity-based compensation plans.

Estimates

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

Fair Value

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

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

The Company measures the value of its money market securities on a regular basis. The fair value of its money market securities, totaling $7,282,946 and $1,800,559 as of December 31, 2019 and 2018, respectively, are based on Level 1 inputs and are included within cash and cash equivalents on the consolidated balance sheets.

Cost of income and Selling, General and Administrative Expenses

The primary costs classified in each major expense category are:

Cost of income:
- Payment processing costs
- Consumer communication expenses
- Merchant affiliate program fees
- International payment processing costs
- Partner revenue share fees

Selling, general, and administrative expenses:
- All compensation related costs for employees and contractors
- Third party service provider costs
- Depreciation and amortization
- Advertising costs
- Rent expense
- Legal and regulatory compliance costs

Segments

The Company's operations consist primarily of lending to consumers located in the United States who purchase goods from its affiliated merchants. During the year ended December 31, 2019, the Company began operations in Canada. While a distinct geographic location, the operations in Canada are still in an early growth stage. Additionally, as of December 31, 2019, management has not found any significant difference in the economic performance of each operating segment. Therefore, management has concluded that the Company has one reportable segment on a consolidated basis.

Foreign Currency Exchange Losses

Sezzle works with international merchants, creating exposure to gains and losses from foreign currency exchanges. Sezzle's income and cash can be affected by movements in the Canadian dollar. Sezzle has transactional currency exposures arising from merchant fees and pay-outs to Canadian merchant partners. Gains (losses) from foreign exchange rate fluctuations affecting Sezzle's net loss totaled $20,729 and ($38,859) for the years ended December 31, 2019 and 2018, respectively, and are recorded within other income and expenses on the consolidated statements of operations. The Company did not hold foreign currency prior to October 2018.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, "Leases," which requires all lessees to recognize a liability and a corresponding right-of-use asset for all long-term leases. The Company has adopted the new standard as of January 1, 2019 using the modified retrospective approach. Upon adopting this standard, the Company established a right of use asset of $345,607, lease liability of $355,567, and reduced its deferred rent liability by $9,960. The Company elected to apply the package of three practical expedients which most notably allowed the Company to carry forward the classifications of its existing leases. Refer to Note 6 for further discussion around lease implementation.

In June 2018, the FASB issued ASU No. 2018-07, "Improvements to Nonemployee Share-Based Payment Accounting" to include share-based payment transactions for acquiring goods and services from nonemployees. The Company adopted the new accounting pronouncement as of January 1, 2019. Implementation of the accounting standard did not result in adjustments to previously reported financial figures.

During August 2018, the FASB issued ASU No. 2018-13, "Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, Fair Value Measurement. The amendments are based on the concepts in the FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, which the Board finalized on August 28, 2018. ASU No. 2018-13 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not believe that the adoption of ASU No. 2018-13 will have a material effect on its consolidated statements of operations, consolidated balance sheets, and statement of cash flows.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" which requires reporting entities estimate credit losses expected to occur over the life of the asset. Expected losses will be recorded in current period earnings and recorded through an allowance for credit losses on the consolidated balance sheet. During November 2018, April 2019, May 2019, and November 2019, The FASB also issued ASU No. 2018-19, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses", ASU No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses"; ASU No. 2019-05 "Targeted Transition Relief"; and ASU No. 2019-10, "Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates" and ASU No. 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses." ASU No. 2018-19 clarifies the effective date for non-public entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASUs Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, ASU No. 2019-10 defers the effective date of and ASU No. 2019-11 amends ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company plans to adopt the standard beginning January 1, 2023 and is currently evaluating the impact of the standard on its consolidated statements of operations, consolidated balance sheets, and statements of cash flows.

NOTE 2 RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as of and for the years ended December 31, 2019 and 2018, have been restated to reflect the correction of misstatements originally included within the consolidated financial statements issued on February 27, 2020. All impacted amounts within the notes to the consolidated financial statements have also been restated. The impact of the adjustments on the previously issued financial statements are included below.

Summary of Restated Items as of and for the Years Ended December 31, 2019 and 2018

The noted items below are referenced within the effects of the restatements of the Company's consolidated financial statements:

(a) The restated adjustment is an increase in accrued paid time off of $7,519, resulting in an increase in current liabilities and selling, general, and administrative expenses in the consolidated balance sheets and consolidated statements of operations as of and for the year ended December 31, 2018. The associated liability was carried forward on the consolidated balance sheets as of December 31, 2019, as the accrued paid time off had not yet been paid as of year end.

(b) The noted adjustment of $282,000 relates to the reclassification of certain expenses originally classified in selling, general, and administrative expenses within the consolidated statements of operations for the year ended December 31, 2019. These expenses relate to the return of account reactivation fees and reschedule fees to consumers as a result of the State of California's Department of Business Oversight denial of the Company's lending license application. Refer to Note 7 for further information. The Company reclassified $259,245 and $22,755 of these costs as a reduction to total income for the years ended December 31, 2019 and 2018, respectively. The adjustment also resulted in an increase to accrued liabilities for $22,755 as of December 31, 2018.

(c) The noted adjustments relate to changes in the fair value of the price per share of the Company's common stock at various dates after the Company's inception but prior to its Initial Public Offering (IPO). The originally filed consolidated financial statements relied on valuations of the Company determined through acceptable methodologies for income tax purposes prescribed under Section 409A of the United States Internal Revenue Code. The restated consolidated financial statements rely on pre-IPO valuations of the Company determined in accordance with FASB Accounting Standards Codification (ASC) 820, Fair Value Measurement. The methodology change resulted in higher historical fair values per share compared to the original filing.

(i) The change in fair value resulted in additional equity based compensation expense recorded within selling, general, and administrative expenses and additional paid-in capital of $215,286 and $43,856 for the years ended December 31, 2019 and 2018, respectively.

(ii) The changes in fair value resulted in a ($780,844) reduction to other expenses for future equity obligations for the year ended December 31, 2017. This change is recorded as a reduction to the Company's accumulated deficit as of January 1, 2018 on the consolidated statements of stockholders' equity (deficit). Changes in the fair value of future equity obligations during the year ended December 31, 2018 resulted in additional other expenses for future equity obligations of $265,048 recorded to fair value adjustments on future equity obligations on the consolidated statement of operations. On April 10, 2018, the total value of future equity obligations converted to preferred stock. The total conversion amount, reduced by the net changes in fair value of ($515,796), resulted in a reduction in preferred stock recorded within mezzanine equity on the consolidated balance sheets as of December 31, 2018.

(iii) The change in fair value also reduced the interest expense incurred on the beneficial conversion feature by ($3,727,407) within the consolidated statements of operations for the year ended December 31, 2019, offset against additional paid-in capital. Information relating to this adjustment is as follows:

- The original Section 409A valuation was $0.22 price per share, less than the $0.49 conversion price. The convertible note was out-of-the-money at the time of issuance, therefore, the beneficial conversion feature was contingent on a future event and unmeasurable at the commitment date;
- The original interest expense related to the contingent beneficial conversion feature was $4,197,674, measured on the date of the IPO based on the IPO price per share of $0.84 and the conversion price per share of $0.49;
- The Company's updated valuation performed in accordance with ASC 820 resulted in a $0.51 price per share on the commitment date of March 29, 2019. This value was greater than the $0.49 conversion price per share, creating a measurable, in-the-money initial non-contingent beneficial conversion feature at the commitment date; and
- The change in valuation methodologies resulted in a reduction of interest expense on the beneficial conversion feature when the notes converted to common stock on July 24, 2019. This is a result of the beneficial conversion feature being measured based on the difference between the $0.49 conversion price per share and the $0.51 price per share at the commitment date, rather than the difference between the $0.49 conversion price per share and the $0.84 IPO price per share at the conversion date.

The net effect of the adjustments on the Company's net loss for the years ended December 31, 2019 and 2018, respectively, is as follows:

	2019	2018	Restatement Reference
(Increase) decrease to net loss:			
Total income:			
Sezzle income	$ (56,036)	$ (4,355)	b
Account reactivation fee income	(203,209)	(18,400)	b
Total income	(259,245)	(22,755)	
Selling, general, and administrative expenses:			
Equity based compensation	(215,286)	(43,856)	c(i)
Compliance related expenses	282,000	-	b
Accrued paid time off	-	(7,519)	a
Selling, general, and administrative expenses	66,714	(51,375)	
Fair value adjustments on future equity obligations	-	(265,048)	c(ii)
Interest expense on beneficial conversion feature	3,727,406	-	c(iii)
(Increase) decrease to net loss:	$ 3,534,875	$ (339,178)	

The following is a summary of the effects of the restatement on the Company's December 31, 2019 consolidated balance sheets:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
As of December 31, 2019:				
Total assets	$ 64,543,135	$ -	$ 64,543,135	
Current liabilities	15,611,996	7,519	15,619,515	a
Long-term liabilities	21,609,304	-	21,609,304	
Total liabilities	37,221,300	7,519	37,228,819	
Common stock and additional paid-in capital	51,139,996	(3,984,060)	47,155,936	c
Accumulated deficit	(23,818,161)	3,976,541	(19,841,620)	b, c(i, ii, iii)
Total stockholders' equity (deficit)	27,321,835	(7,519)	27,314,316	
Total liabilities and stockholders' equity (deficit)	$ 64,543,135	$ -	$ 64,543,135	

The following is a summary of the effects of the restatement on the Company's December 31, 2019 consolidated statements of operations:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
For the year ended December 31, 2019:				
Sezzle income	$ 13,375,254	$ (56,036)	$ 13,319,218	b
Account reactivation fee income	2,685,102	(203,209)	2,481,893	b
Total income	16,060,356	(259,245)	15,801,111	
Cost of Income	7,660,276	-	7,660,276	
Gross profit	8,400,080	(259,245)	8,140,835	
Operating Expenses				
Selling, general, and administrative expenses	13,223,605	(66,714)	13,156,891	b, c(i)
Provision for uncollectible accounts	6,235,820	-	6,235,820	
Total operating expenses	19,459,425	(66,714)	19,392,711	
Operating Loss	(11,059,345)	(192,531)	(11,251,876)	
Other Income (Expense)				
Interest expense	(1,459,782)	-	(1,459,782)	
Interest expense on beneficial conversion feature	(4,197,674)	3,727,406	(470,268)	c(iii)
Other income and expense	132,554	-	132,554	
Loss before taxes	(16,584,247)	3,534,875	(13,049,372)	
Income tax expense	11,981	-	11,981	
Net Loss	$(16,596,228)	$ 3,534,875	$ (13,061,353)	
Basic and diluted loss per common share	$ (0.15)	$ 0.03	$ (0.12)	

The following is a summary of the effects of the restatement on the Company's December 31, 2019 and 2018 consolidated statements of stockholders' equity (deficit):

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total	Restatement Reference
Balances, at Dec 31, 2018 (As previously reported)	$ 594	$ 99,857	$ (6,457,994)	$(6,357,543)	
Opening balance adjustments	-	-	780,844	780,844	c(ii)
Restatement adjustments:	-	-	-	-	
Equity based compensation	-	43,856	-	43,856	c(i)
Net loss	-	-	(339,178)	(339,178)	
Balances, at Dec 31, 2018 (As restated)	$ 594	$ 143,713	$ (6,016,328)	$(5,872,021)	
Balances, at Dec 31, 2019 (As previously reported)	$ 1,789	$ 51,138,207	$ (23,818,161)	$27,321,835	
Opening balance adjustments	-	43,856	441,666	485,522	
Restatement adjustments:	-	-	-	-	
Equity based compensation	-	209,276	-	209,276	c(i)
Restricted stock issuances and vesting of awards	-	6,010	-	6,010	c(i)
Conversion of preferred stock to common stock	-	(515,796)	-	(515,796)	c(ii)
Conversion of notes to common stock	-	(3,727,406)	-	(3,727,406)	c(iii)
Net loss	-	-	3,534,875	3,534,875	
Balances, at Dec 31, 2019 (As restated)	$ 1,789	$ 47,154,147	$ (19,841,620)	$27,314,316	

The following is a summary of the effects of the restatement on the Company's December 31, 2019 consolidated statements of cash flows:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
For the year ended December 31, 2019:				
Net loss	$(16,596,228)	$ 3,534,875	$(13,061,353)	b, c
Equity based compensation	951,979	215,286	1,167,265	c(i)
Loss and accrued interest on conversion of convertible notes	4,306,622	(3,727,406)	579,216	c(iii)
Increase in accrued liabilities	1,212,773	(22,755)	1,190,018	b
Other net loss to net cash reconciling items	(9,794,709)	-	(9,794,709)	
Net cash used for operating activities	(19,919,563)	-	(19,919,563)	
Net cash used for investing activities	(532,218)	-	(532,218)	
Net cash provided by financing activities	49,991,545	-	49,991,545	
Net increase in cash, cash equivalents, and restricted cash	29,539,764	-	29,539,764	
Cash, cash, equivalents, and restricted cash, beginning of year	7,084,854	-	7,084,854	
Cash, cash, equivalents, and restricted cash, end of year	$ 36,624,618	$ -	$ 36,624,618	
Noncash investing and financing activities:				
Conversion of notes to common stock	$ 10,098,404	$ (3,727,406)	$ 6,370,998	c(iii)
Conversion of preferred stock to common stock	12,442,367	(515,796)	11,926,571	c(ii)

The following is a summary of the effects of the restatement on the Company's December 31, 2018 consolidated balance sheets:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
As of December 31, 2018:				
Total assets	$ 12,535,334	$ -	$ 12,535,334	
Current liabilities	2,830,620	30,274	2,860,894	a, b
Long-term liabilities	4,383,828	-	4,383,828	
Total liabilities	7,214,448	30,274	7,244,722	
Mezzanine equity	11,678,429	(515,796)	11,162,633	c(ii)
Common stock and additional paid-in capital	100,451	43,856	144,307	c(i)
Accumulated deficit	(6,457,994)	441,666	(6,016,328)	a, b, c(i, ii)
Total stockholders' equity (deficit)	(6,357,543)	485,522	(5,872,021)	
Total liabilities, mezzanine equity, and stockholders' equity (deficit)	$ 12,535,334	$ -	$ 12,535,334	

The following is a summary of the effects of the restatement on the Company's December 31, 2018 consolidated statements of operations:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
For the year ended December 31, 2018:				
Sezzle income	$ 1,415,077	$ (4,355)	$ 1,410,722	b
Account reactivation fee income	216,983	(18,400)	198,583	b
Total income	1,632,060	(22,755)	1,609,305	
Cost of Income	915,266	-	915,266	
Gross profit	716,794	(22,755)	694,039	
Operating Expenses				
Selling, general, and administrative expenses	3,829,013	51,375	3,880,388	a, c(i)
Provision for uncollectible accounts	940,498	-	940,498	
Total operating expenses	4,769,511	51,375	4,820,886	
Operating Loss	(4,052,717)	(74,130)	(4,126,847)	
Other Income (Expense)				
Interest expense	(96,496)	-	(96,496)	
Other income and expense	(36,850)	-	(36,850)	
Fair value adjustment on future equity obligations	(7,490)	(265,048)	(272,538)	c(ii)
Loss before taxes	(4,193,553)	(339,178)	(4,532,731)	
Income tax expense	-	-	-	
Net Loss	$ (4,193,553)	$ (339,178)	$ (4,532,731)	
Basic and diluted loss per common share	$ (0.07)	$ (0.01)	$ (0.08)	

The following is a summary of the effects of the restatement on the Company's December 31, 2018 consolidated statements of cash flows:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
For the year ended December 31, 2018:				
Net loss	$ (4,193,553)	$ (339,178)	$ (4,532,731)	a, b, c(i, ii)
Equity based compensation	30,677	43,856	74,533	c(i)
Fair value adjustment on future equity obligations	7,490	265,048	272,538	c(ii)
Increase in accrued liabilities	421,492	30,274	451,766	a, b
Other net loss to net cash reconciling items	(2,499,439)	-	(2,499,439)	
Net cash used for operating activities	(6,233,333)	-	(6,233,333)	
Net cash used for investing activities	(368,904)	-	(368,904)	
Net cash provided by financing activities	12,835,195	-	12,835,195	
Net increase in cash, cash equivalents, and restricted cash	6,232,958	-	6,232,958	
Cash, cash, equivalents, and restricted cash, beginning of year	851,896	-	851,896	
Cash, cash, equivalents, and restricted cash, end of year	$ 7,084,854	$ -	$ 7,084,854	
Noncash investing and financing activities:				
Issuance of preferred stock from future equity obligations	$ 3,310,043	$ (515,796)	$ 2,794,247	c(ii)

NOTE 3 PROPERTY AND EQUIPMENT

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

	2019	2018
Computer and office equipment	$ 225,186	$ 114,978
Furniture and fixtures	28,394	5,727
Property and equipment, gross	253,580	120,705
Less: accumulated depreciation	(119,180)	(45,029)
Property and equipment, net	$ 134,400	$ 75,676

Depreciation expense relating to property and equipment was $74,151 and $36,086 for the years ended December 31, 2019 and 2018, respectively.

NOTE 4 INTERNALLY DEVELOPED INTANGIBLE ASSETS

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

	2019	2018
Internal use software and website development costs	$ 682,848	$ 286,564
Work in process	13,672	46,370
Internally developed intangible assets, gross	696,520	332,934
Less: accumulated amortization	(216,422)	(72,202)
Internally developed intangible assets, net	$ 480,098	$ 260,732

Amortization of internally developed intangible assets was $171,345 and $60,759 for the years ended December 31, 2019 and 2018, respectively.

NOTE 5 NOTES RECEIVABLE

As of December 31, Sezzle's notes receivable, related allowance for uncollectible accounts, and deferred net origination fees are recorded within the consolidated balance sheets as follows:

	2019	2018
Notes receivable, gross	$ 29,700,598	$ 5,719,723
Less: allowance for uncollectible accounts, balance at start of period	(645,332)	(45,783)
Provision	(6,235,820)	(940,498)
Charge-offs, net of recoveries	3,419,315	340,949
Total allowance for uncollectible accounts	(3,461,837)	(645,332)
Notes receivable, net of allowance	26,238,761	5,074,391
Deferred net origination fees on notes receivable	(1,049,626)	(143,775)
Balance at end of year	$ 25,189,135	$ 4,930,616

Sezzle maintains an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal receivables from consumers. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Included in charge-offs, net of recoveries, are recoveries totaling $170,231 and $41,396 for the years ended December 31, 2019 and 2018, respectively.

Sezzle uses its judgement to evaluate the allowance for uncollectible accounts based on existing economic conditions and historical performance of consumer principal payments. The historical vintages are grouped into fortnightly populations for purposes of the allowance assessment, in line with the standard payment plan of a consumer. The balances of historical cumulative charge-offs by vintage support the calculation for estimating the allowance for uncollectible accounts for vintages outstanding less than 90 days. Deferred net origination fees, comprised of Sezzle income less direct note origination costs, are recognized over the duration of the note with the consumer and are recorded within Sezzle income on the consolidated statements of operations.

Sezzle estimates the allowance for uncollectible accounts by segmenting consumer accounts receivable by the number of days balances are delinquent. Balances that are at least one day past the initial due date are considered delinquent. Balances that are not delinquent are considered current. Consumer notes receivable are charged-off following the passage of 90 days without receiving a qualifying payment, upon notice of bankruptcy, or death. Consumers are allowed to reschedule a payment one time without incurring a reschedule fee. The principal of a rescheduled payment is not considered to be delinquent. If consumers reschedule a payment more than once in the same order cycle, they are subject to a reschedule fee. Alternatively, account reactivation fees are applied to any missed payments for which a consumer did not reschedule or pay within 48 hours of the original payment date. Any account reactivation fees associated with a delinquent payment are considered to be the same number of days delinquent as the principal payment.

The following table summarizes Sezzle's gross notes receivable and related allowance for uncollectible accounts as of December 31, 2019 and December 31, 2018:

	2019			2018		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Current	$ 25,695,723	$ (1,014,888)	$ 24,680,835	$ 4,975,024	$ (101,054)	$ 4,873,970
Days past due						
1-28	2,251,591	(923,396)	1,328,195	400,755	(215,592)	185,163
29-56	919,177	(719,910)	199,267	200,491	(188,339)	12,152
57-90	834,107	(803,643)	30,464	143,453	(140,347)	3,106
Total	$ 29,700,598	$ (3,461,837)	$ 26,238,761	$ 5,719,723	$ (645,332)	$ 5,074,391

Principal payments received after the 90-day charge-off period are recognized as recoveries in the allowance for uncollectible accounts in the period the payment is received.

NOTE 6 LEASES

During the year of 2019, the Company entered into four new operating leases for corporate office space, three of which are located within the United States and one in Canada. Total lease expense incurred for the year ended December 31, 2019 and 2018 was $348,246 and $76,252, respectively, and is recorded within selling, general and administrative expenses on the consolidated statements of operations. Additionally, total cash paid for rent for the years ended December 31, 2019 and 2018 was $350,722 and $73,433, respectively.

Right-of-use assets and lease liabilities are recognized as of the commencement date based on the present value of the remaining lease payments over the lease term which include renewal periods the Company is reasonably certain to exercise.

As of December 31, 2019, the Company's operating leases are recorded on the consolidated balance sheets as follows:

			2019
Operating leases	Classification		
Assets	Right-of-use-asset	$	867,272
Total leased assets		$	867,272
Liabilities			
Current	Lease liability	$	389,257
Non current	Lease liability		500,131
Total leased liabilities		$	889,388

The expected maturity of the Company's operating leases are as follows:

Maturity of lease liabilities		
2020	$	423,039
2021		376,457
2022		141,525
Less: interest		(51,633)
Present value of lease liabilities	$	889,388

The weighted average remaining term of the Company's operating leases is 2.4 years. The weighted average discount rate of the operating leases is 4.75%. As of December 31, 2019, Sezzle has not entered into any lease agreements that contain residual value guarantees or financial covenants. Sezzle has several immaterial lease agreements in which it has the right to terminate the contract by providing written notice in advance.

NOTE 7 COMMITMENTS AND CONTINGENCIES

Marketing and Advertising

In September 2018, the Company entered into an agreement with a third party whereby Sezzle will reimburse the third-party for co-branded marketing and advertising costs. The agreement stipulates the Company will spend up to $250,000 over the four years following the date of the agreement.

The Company entered into similar agreements with third parties in 2019, committing up to $1,085,000 in marketing and advertising spend. The Company spent $530,000 of this amount during 2019, of which approximately $495,000 is recorded as a prepaid expense on the consolidated balance sheet as of December 31, 2019. Absent a termination of the noted agreements, the Company is committed to spend an additional $500,000 on an annual basis in future years.

Costs relating to these agreements totaled $34,760 and $50,000 for the years ended December 31, 2019 and 2018, respectively, and are included within selling, general, and administrative expenses within the consolidated statements of operations.

California Lending License

During the year ended December 31, 2019, the Company was instructed to return account reactivation fees and reschedule fees to consumers as a result of the State of California's Department of Business Oversight's denial of the Company's lending license application. Additionally, the Company was assessed a fine of 10% of the fees charged to consumers. As of December 31, 2019 and 2018, the Company has accrued a liability of $313,000 and $22,755, respectively, relating to this. The Company settled the fine in January 2020 and returned the fees to consumers in February 2020.

NOTE 8 INCOME TAXES

The income tax expense (benefit) components for the years ended December 31, 2019 and December 31, 2018 are as follows:

	2019	2018
Current tax expense/(benefit):		
Federal	$ -	$ -
Foreign	-	-
State	11,981	-
Deferred tax expense/(benefit):		
Federal	-	-
Foreign	-	-
State	-	-
	$ 11,981	$ -

A reconciliation of the Company's provision for income taxes at the federal statutory rate to the reported income tax provision for the years ended December 31, 2019 and 2018 is as follows:

	(As restated) 2019 %	(As restated) 2018 %
Computed expected tax benefit	(21.0)	(21.0)
State income tax benefit, net of federal tax effect	-	(0.1)
Fair value adjustment on future equity obligations	-	1.3
Nondeductible equity-based compensation	1.6	0.2
Nondeductible interest expense on beneficial conversion feature	0.8	-
Other permanent differences	0.7	0.3
Change in valuation allowance	19.1	19.3
Rate differentials and other	(1.1)	-
Income tax expense	0.1	-

Components of the net deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

	(As restated) 2019	(As restated) 2018
Deferred tax assets:		
Net operating loss carryforwards	$ 2,686,878	$ 963,799
Allowance for uncollectible accounts	861,239	149,255
Deferred Sezzle income	-	30,320
Equity-based compensation	42,384	5,336
Depreciation and amortization	7,482	2,866
Lease liability	196,359	-
Startup costs	11,488	11,913
Accruals	45,421	1,586
Other	539	-
Total net deferred tax assets	3,851,790	1,165,075
Valuation allowance	(3,660,314)	(1,165,075)
Deferred tax liabilities:		
Right-of-use asset	(191,476)	-
Net deferred tax asset/(liability)	$ -	$ -

The total amount of gross federal net operating loss carryforwards are $11,898,000 and $4,419,000 as of December 31, 2019 and 2018, respectively. The total amount of gross state net operating loss carryforwards are $1,735,000 and $462,000 as of December 31, 2019 and 2018, respectively. The federal net operating loss carryforwards that originated after 2017 will 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 before 2018 have expiration dates between 2036 and 2037. The state net operating losses will carryforward for 15-20 years and will expire beginning in 2031.

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

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2020. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth.

On the basis of this evaluation, as of December 31, 2019, the Company established a valuation allowance of $3,660,314 against its deferred tax assets to reduce the total to an amount management believes is appropriate. Realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income. The change in valuation allowance was approximately $2,495,000 and $877,000 for the years ended December 31, 2019 and 2018, respectively.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation. This legislation makes significant change in U.S. tax law, including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The legislation reduced the U.S. corporate tax rate from the current rate of 35% to 21%.

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

In November 2018, the U.S. Treasury issued proposed regulations for the new section 163(j), which generally limits business interest deductions to 30% of adjusted taxable income ("ATI"). Any disallowed business interest can be carried forward on an indefinite basis. For the year ended December 31, 2019, the Company was not subject to the business interest limitation.

Sezzle Canada Corp. does not have any earnings and no deferred tax liability has been booked related to unremitted earnings of the foreign subsidiary.

NOTE 9 MERCHANT CONCENTRATION

There are no material concentrations for the years ended December 31, 2019 and 2018.

NOTE 10 INCOME

Sezzle Income

Sezzle receives its income predominantly from fees paid by retail merchant clients in exchange for Sezzle's payment processing services. These fees are applied to the underlying sales to consumers passing through the Company's platform and are based on a percentage of the consumer order value plus a fixed fee per transaction. Consumer installment payment plans typically consist of four installments, with the first payment made at the time of purchase and subsequent payments coming due every two weeks after that. Additionally, consumers may reschedule their initial installment plan by delaying payment for up to two weeks, for which Sezzle earns a rescheduled payment fee. The total of merchant fees and rescheduled payment fees, less note origination costs, are collectively referred to as Sezzle income within the consolidated statements of operations.

Sezzle income is initially recorded as a reduction to notes receivable, net within the consolidated balance sheets. Sezzle income is then recognized over the average duration of the consumer note using the effective interest rate method. The total Sezzle income to be recognized over the duration of existing notes receivable outstanding was $1,049,626 and $143,775 as of December 31, 2019 and 2018, respectively. Total Sezzle income recognized was $13,319,218 and $1,410,722 for the years ended December 31, 2019 and 2018, respectively.

Account Reactivation Fee Income

Account reactivation fee income (formerly referred to as End-customer other income) is income from consumers in the form of account reactivation fees assessed to consumers who fail to make a timely payment. Sezzle allows a 48-hour waiver period where fees are dismissed if the installment is paid by the consumer. Account reactivation fees are recognized at the time the fee is charged to the consumer, less an allowance for uncollectible amounts. Account reactivation fee income recognized totaled $2,481,893 and $198,583 for the years ended December 31, 2019 and 2018, respectively.

NOTE 11 STOCKHOLDERS' EQUITY (DEFICIT)

Stock Subscriptions

As of January 1, 2018, stock subscriptions represented a receivable for consideration that has not been paid to the Company based on the subscription price agreed to between the stockholder and the Company related to the purchase of common stock. The Company issued a stock subscription receivable of $57,708 to employees for 19,416,666 shares of common stock at prices ranging from $0.0005 and $0.0065. Stock subscriptions are included within stockholders' equity (deficit). The total amount of stock subscriptions receivable was fully paid by the end of 2018.

Preferred Stock Dividend

On June 23, 2019, the Company issued a preferred stock dividend to preferred stockholders. Refer to Note 12 for further information.

Conversion of Preferred Stock to Common Stock

On July 24, 2019, the Company restructured its share capital in anticipation of listing on the Australian Securities Exchange (ASX). Each of the Series A preferred stock was converted into common stock. The Company issued 70,446,291 common shares upon conversion of 70,446,291 of Series A preferred stock, converted on a 1:1 basis in accordance with the terms of the preferred stock agreements. Historical preferred stock issuances are outlined within Note 12.

Conversion of Convertible Notes to Common Stock

On July 24, 2019, the Company issued 12,064,155 common shares following the conversion of the $5,812,500 of convertible notes outstanding, along with accrued interest, at a conversion price of $0.49 per common share. Refer to Note 17 for further information on the convertible note issuance.

Initial Public Offering of Common Stock

On July 29, 2019, the Company listed on the ASX. The initial public offer of 35,714,286 CHESS Depository Interests (CDIs) over shares of common stock (one CDI equates to one common share) were offered at an issuance price of A$1.22 (approximately $0.84) per CDI to raise approximately A$43.6 million ($30,286,785). Total costs of the offer were $2,777,097, resulting in overall net proceeds of $27,509,688.

NOTE 12 MEZZANINE EQUITY

Preferred Stock

As of December 31, 2018, the Company had authorized, and designated shares of Series A-1 through A-5 preferred stock as follows:

Series A-1:	174,652 shares
Series A-2:	15,584,042 shares
Series A-3:	18,291,457 shares
Series A-4:	33,981,205 shares
Series A-5:	25,401,218 shares

The Company also had 106,567,426 of preferred shares authorized but unissued and undesignated. On April 10, 2018, the Company issued 19,655,605 shares of A-1 through A-3 preferred stock in exchange for converted Simple Agreement for Future Equity (SAFE) agreements issued in prior years. The exchange of the SAFE agreements resulted in the issuance of preferred stock valued at $2,794,247. The initial cash proceeds of the SAFE agreements were $2,346,000. Refer to Note 16 for further information regarding the SAFE agreements.

During 2018, the Company issued 49,881,235 of A-4 and A-5 preferred shares in exchange for cash proceeds of $8,368,386, net of costs to issue. As of December 31, 2018, the preferred shares were classified as mezzanine equity on the consolidated balance sheets due to the fact they were redeemable upon a deemed liquidation event, defined as a change in control upon a merger, consolidation, transfer or sale of the Company that the Company cannot control or prevent from occurring.

The preferred stockholders were entitled to receive, if declared by the Board of Directors, a preferential 6% noncumulative dividend. On May 1, 2019, the Company amended its articles of incorporation. One of the amendments required the first dividend declared by the Board of Directors to be calculated at 15% of the original issue price.

On June 23, 2019, the Board of Directors declared and issued a dividend of 909,451 shares of Series A preferred shares to the existing holders of Series A-1 through A-5 preferred stock, valued at $763,939. The preferred stock dividend was classified as Series A-6 preferred stock and was subject to the same rights as all other series of preferred shares.

Additionally, the preferred shares were mandatorily convertible upon either (a) the closing of a public offering for the sale of common stock resulting in at least $50 million of proceeds, less issuance costs; or (b) the date and time, or occurrence of an event, specified by vote or written consent of the holders of a majority of the then outstanding preferred shares. Upon the occurrence of either of the aforementioned events, all outstanding preferred shares were to be automatically converted into common shares on a one-to-one basis. The conversion ratios of preferred to common stock price per share range from $0.1152 to $0.1684.

All preferred stock mandatorily converted to shares of common stock on July 24, 2019 in conjunction with the Company's initial public offering of common stock on the ASX. Refer to Note 11 for more information.

NOTE 13 EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution 401(k) plan for eligible U.S. employees. Plan assets are held separately from those of the Company in funds under the control of a third-party trustee. Participants in the plan may elect to defer a portion of their eligible compensation, on a pre or post-tax basis, subject to annual statutory contribution limits. The Company does not offer matching contributions and may make discretionary contributions. There have been no Company contributions made to the plan for the years ended December 31, 2019 and 2018.

NOTE 14 REVOLVING LINE OF CREDIT

On November 14, 2018, Sezzle Funding SPE, LLC and Sezzle Inc. entered into a Loan and Security Agreement with Bastion Consumer Funding II, LLC ("Bastion"). The loan agreement provided for a credit facility of $30,000,000.

As of December 31, 2018, the Company had an outstanding revolving line of credit balance relating to this agreement of $4,200,000, recorded within line of credit, net as a non-current liability on the consolidated balance sheets. The line of credit bared interest at a floating per annum rate equal to the 3-month LIBOR + 12% on the first $15,000,000 and 3-month LIBOR + 10% for the remaining $15,000,000 (14.74% as of December 31, 2018).

On November 29, 2019, Sezzle Funding SPE, LLC and Sezzle Inc. entered into a new agreement with the Syndicate for a credit facility of $100,000,000, with a maturity date of May 29, 2022. As of December 31, 2019, the Company had an outstanding revolving line of credit balance of $21,450,000, recorded within the line of credit, net as a non-current liability on the consolidated balance sheets. The new line of credit agreement bears interest at a floating per annum rate equal to the 3-month LIBOR + 7.75% on the $100,000,000 line (9.65% as of December 31, 2019).

Under the agreements, interest on borrowings is due monthly and all borrowings are due at maturity. Borrowings subsequent to May 1, 2019 are based on 90% of eligible notes receivable from both the United States and Canada, defined as past due balances outstanding less than 30 days and originating from the United States. Total interest expense incurred related to the line of credit was $908,309 and $80,744 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, Sezzle had pledged $23,757,188 and $4,656,967, respectively, of its notes receivable to Sezzle Funding SPE, LLC.

The Company's obligations under the agreement are secured by its installment payments receivable.

The Company must maintain a drawdown from the credit facility of at least $20,000,000 beginning November 29, 2019 and of at least $40,000,000 beginning November 29, 2020.

Sezzle will pay a termination fee and a make-whole fee to the Syndicate in the event of an early termination. Fees differ based on termination timing differences. Beginning May 27, 2020, any daily unused amounts will result in a facility fee due to the Syndicate from Sezzle at a rate of .50% per annum.

The cumulative total of debt issuance costs incurred to obtain and manage the line of credit with Bastion and the Syndicate totaled $663,649 through December 31, 2019. The costs were capitalized as a reduction to the line of credit balance and are amortized over the remaining life of the agreement.

NOTE 15 LONG TERM DEBT

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

NOTE 16 FUTURE EQUITY OBLIGATIONS

During the year ended December 31, 2018, the Company entered into various SAFE agreements with investors in exchange for proceeds of $30,000. The SAFE agreements had no maturity date and bore no interest. The agreements provided the rights of the investors to preferred stock in the Company upon an equity financing event as defined in the agreements. The agreements were subject to valuation caps ranging from $8,000,000 to $12,000,000 and had conversion discount rates ranging from 15% to 25%.

Based on the terms of the SAFE agreements, if there were a liquidity event before the termination of the SAFE agreements, the investors would, at their option, either: 1) receive a cash payment equal to the purchase amount or 2) automatically receive from the Company a number of shares of common stock equal to the purchase amount divided by the liquidity price. In a dissolution event, the SAFE agreement holders would be paid out of remaining assets prior to holders of the Company's common stock.

The Company recorded the changes in fair value of the SAFE agreements at each reporting period to the consolidated statements of operations. The changes in fair value resulted in losses of $272,538 for the year ended December 31, 2018. The changes in fair value are recorded to other income (expense) within the consolidated statements of operations.

On April 10, 2018, the SAFE agreements converted into preferred stock. Refer to Note 12 for further information.

NOTE 17 CONVERTIBLE NOTES

On March 29, 2019, the Company issued $5,662,500 of convertible notes to a group of investors. The promissory notes had a stated maturity date of March 29, 2021 and paid an annual interest rate of 4% on the unpaid principal balance through June 30, 2019. Subsequent to June 30, 2019, the notes paid an annual interest rate of 8% on the unpaid principal balance. The notes were issued at a $25,000 discount which is amortized over the life of the convertible notes. Any unamortized discount is expensed upon the conversion of the notes. Amortization of the discount totaled $25,000 for the year ended December 31, 2019 and is recorded within interest expense within the consolidated statements of operations.

Additionally, the notes carried a contingent conversion feature whereby they would automatically convert upon either (a) a change in control of the Company; (b) a reorganization, merger, or consolidation of the Company; (c) the sale of the Company's assets; or (d) an initial public offering of the Company's common stock (or a security representing common stock). The notes also would have converted in the event the Company consummated an equity financing arrangement with an aggregate sales price of no less than $10,000,000. Upon the occurrence of one of the aforementioned events the notes would have converted into 80% of the price per share value of common stock applicable at the time of the event. The notes also carried an optional, noncontingent conversion feature whereby the notes may convert into common stock at the option of the holder assuming the contingent conversion features, of which the Company cannot control, were not triggered.

On June 6, 2019, the Company issued two separate convertible notes totaling $150,000. The promissory notes had a stated maturity date of June 6, 2021 with the option of individual 1-year renewable periods for up to five years should no conversion event occur. The notes would pay an annual interest rate of 10% on the unpaid principal balance through June 6, 2021.

The first convertible note of $75,000 carried a contingent conversion feature where it would automatically convert upon either (a) a change in control of the Company; (b) a reorganization, merger, or consolidation of the Company; (c) the sale of the Company's assets; or (d) an initial public offering of the Company's common stock (or a security representing common stock). The note would have also converted in the event the Company consummates an equity financing arrangement with an aggregate sales price of no less than $500,000. Upon the occurrence of one of the aforementioned events the note would convert into 80% of the price per share value of common stock applicable at the time of the event. The note also carried an optional conversion feature whereby the note may convert into common stock.

The second convertible note of $75,000 carried a contingent conversion feature whereby the holder may convert, upon the holder's discretion, for either (a) a change in control of the Company; (b) a reorganization, merger, or consolidation of the Company; (c) the sale of the Company's assets; or (d) an initial public offering of the Company's common stock (or a security representing common stock). The note would have also converted automatically in the event the Company consummated an equity financing arrangement with an aggregate sales price of not less than $500,000. Upon the occurrence of one of the aforementioned events the note would have converted into 80% of the price per share value of common stock applicable at the time of the event. The note also carried an optional conversion feature whereby the note may convert into common stock.

The contingent conversion features of the notes issued on March 29, 2019 and June 6, 2019 were triggered as a result of the Company's initial public offering of common stock on the ASX. The total non-cash impact of the contingent and noncontingent beneficial conversion features was $579,216, comprised of $470,268 of expense incurred on the date of conversion, and accumulated interest incurred on the convertible notes of $88,229. The impacts of the conversion are recorded within interest expense on beneficial conversion feature and interest expense, respectively, in the consolidated statements of operations for the year ended December 31, 2019.

NOTE 18 EQUITY BASED COMPENSATION

The Company issues incentive and non-qualified stock options, restricted stock units, and restricted stock awards to employees and non-employees with vesting requirements varying from two to four years (the typical vesting is a one-year cliff vesting and monthly vesting after the first year of service). The Company utilizes the Black-Scholes model for valuing stock option issuances, and the grant date fair value for valuing the restricted stock issuances.

Equity-based compensation expense recorded totaled $1,167,265 and $74,533 for the years ended December 31, 2019 and 2018, respectively, and is recorded within selling, general, and administrative expenses within the consolidated statements of operations.

2016 Employee Stock Option Plan

The Company adopted the 2016 Employee Stock Option plan on January 16, 2016. The number of options authorized for issuance under the plan is 10,000,000. The Company had 8,336,253 and 7,430,000 options issued and outstanding as of December 31, 2019 and 2018, respectively. Additionally, the Company had 350,000 of restricted stock awards issued and outstanding as of December 31, 2019. During the year ended December 31, 2019, 882,914 options were exercised into 882,914 shares of common stock.

2019 Equity Incentive Plan

The Company adopted the 2019 Equity Incentive plan on June 25, 2019. The number of options authorized for issuance under the plan is 10,000,000. The Company had 8,716,250 options and 557,000 restricted stock units issued and outstanding as of December 31, 2019.

The following summarizes the options issued, outstanding, and exercisable as of December 31:

	2018			
	Number of options	**Weighted average exercise price**	**Intrinsic value**	**Weighted average remaining life**
Outstanding beginning of year	752,500	$ 0.002	$ 51,098	-
Granted	6,677,500	0.049	-	-
Exercised	-	-	-	-
Forfeited or surrendered	-	-	-	-
Outstanding, end of year	7,430,000	0.044	1,307,849	9.48
Exercisable, end of year	949,961	0.018	192,255	8.44
Expected to vest, end of year	6,480,039	$ 0.048	$ 1,115,594	9.63

	2019			
	Number of options	**Weighted average exercise price**	**Intrinsic value**	**Weighted average remaining life**
Outstanding beginning of year	7,430,000	$ 0.044	$ 1,307,849	-
Granted	11,971,250	0.891	-	-
Exercised	(882,914)	0.042	1,108,483	-
Forfeited or surrendered	(1,465,833)	0.215	-	-
Outstanding, end of year	17,052,503	0.624	14,895,996	9.18
Exercisable, end of year	3,396,325	0.071	4,731,629	8.40
Expected to vest, end of year	13,656,178	$ 0.762	$ 10,164,367	9.37

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

	2019	**2018**
Risk-free interest rate	1.59%–2.61%	2.66%–3.09%
Expected volatility	65.00%–82.88%	67.50%
Expected life (in years)	6.00	6.26
Weighted average estimated fair value of options granted	$ 0.66	$ 0.49

Restricted stock award and restricted stock unit transactions during the year ended December 31, 2019 are summarized as follows:

	Number of shares	Weighted average grant date fair value
Unvested shares as of January 1, 2019	-	$ -
Granted	907,000	1.15
Vested	(134,778)	0.95
Forfeited or surrendered	-	-
Unvested shares as of December 31, 2019	772,222	$ 1.13

During 2019, employees and non-employees received restricted stock grants totaling 907,000 shares, inclusive of 557,000 restricted stock units and 350,000 restricted stock awards. Vesting of restricted stock units and restricted stock awards are totaled 57,000 and 77,778, respectively. All restricted stock awards and 57,000 restricted stock units are recorded as issued and outstanding within the consolidated statements of stockholders' equity. The shares underlying the awards were assigned a weighted average fair value of $1.15 per share, for a total value of $1,043,050. The restricted stock issuances are scheduled to vest over a range of three to four years.

The Company had no restricted stock awards or restricted stock units issued or outstanding prior to 2019.

As of December 31, 2019, the total compensation cost related to non-vested options, restricted stock awards and restricted stock units not yet recognized is $8,160,309 and is expected to be recognized over the weighted average remaining recognition period of approximately 3.6 years.

NOTE 19 MERCHANT INTEREST PROGRAM

Sezzle offers its merchants an interest bearing program whereby merchants may defer payment from the Company in exchange for interest. Merchant accounts payable in total were $13,284,544 and $2,276,880 as of December 31, 2019 and 2018, respectively, as disclosed on the consolidated balance sheets. Of these amounts, $10,053,570 and $477,543 were recorded within the merchant interest program balance as of December 31, 2019 and 2018, respectively.

Deferred payments retained in the program bear interest at a stated yield of 8% on an annual basis, compounding daily. Interest expense associated with the program totaled $293,461 and $10,790 for the years ended December 31, 2019 and 2018, respectively.

Deferred payments are due on demand at the request of the merchant; however, Sezzle reserves the right to impose 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 20 LOSSES PER SHARE

The computation for basic loss per share is established by dividing net losses for the period by the weighted average shares outstanding during the reporting period. Dilutive losses per share is computed in a similar manner, with weighted average shares increasing from the assumed exercise of employee stock options (if dilutive). Given the Company is in a loss position, the impact of including assumed exercises of stock options and conversion of future equity obligations and preferred stock would have an anti-dilutive impact on the calculation of diluted loss per share. Therefore, stock options, restricted stock units, restricted stock awards, convertible notes and preferred stock shares have an anti-dilutive impact and are not included in the calculation of diluted loss per share for the years ended December 31, 2019 and 2018.

NOTE 21 SUBSEQUENT EVENTS

Paycheck Protection Program Loan

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

The Company met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness during December 2020. When legal release is received, the Company will record the amount forgiven as forgiveness income within the other income section of its consolidated statements of operations. If any portion of the Company's PPP loan is not forgiven, the Company will be required to repay that portion, plus unpaid interest, on April 14, 2022. Additionally, the Company will be required to make semiannual payments of all accrued unpaid interest, with the repayment term beginning at the time that the SBA remits the amount forgiven to the Company's lender. The Company has not received legal release from the SBA to date.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

Capital Raise

On July 15, 2020, Sezzle raised approximately A$79.1 million ($55,316,547) via an institutional placement. The costs of the offer were $2,089,236, resulting in overall net proceeds of $53,227,311. On August 10, 2020, the Company raised approximately A$7.2 million ($5,192,310) via a Securities Purchase Plan offered to existing investors. The costs of the offer were $51,600, resulting in overall net proceeds of $5,140,710. In exchange for the capital raise, Sezzle issued 16,289,935 Chess Depository Interests (CDIs) at a price of A$5.30 (approximately $3.82). The issued CDIs are equivalent to common shares on a 1:1 basis.

Receivable Funding Facility

On February 10, 2021, Sezzle entered into an agreement with Goldman Sachs Bank USA (the 'Class A' senior lender) and Bastion Funding IV LLC (the 'Class B' mezzanine lender) for a $250,000,000 receivables funding facility. The funding facility has a maturity date of June 12, 2023 (a 28-month term from the agreement date). The agreement is secured by the Company's consumer notes receivable it chooses to pledge and is subject to covenants. Fifty percent of the total available funding facility ($125,000,000) is committed while the remaining fifty percent is available to the Company for expanding its funding capacity. The funding facility carries an interest rate of LIBOR+3.375% and LIBOR+10.689% (the LIBOR floor rate is set at 0.25%) for funds borrowed from the Class A and Class B lender, respectively. In the event of a prepayment due to a broadly marketed and distributed securitization transaction with a party external to the agreement, an exit fee of 0.75% of such prepaid balance will be due to the lender upon such transaction.