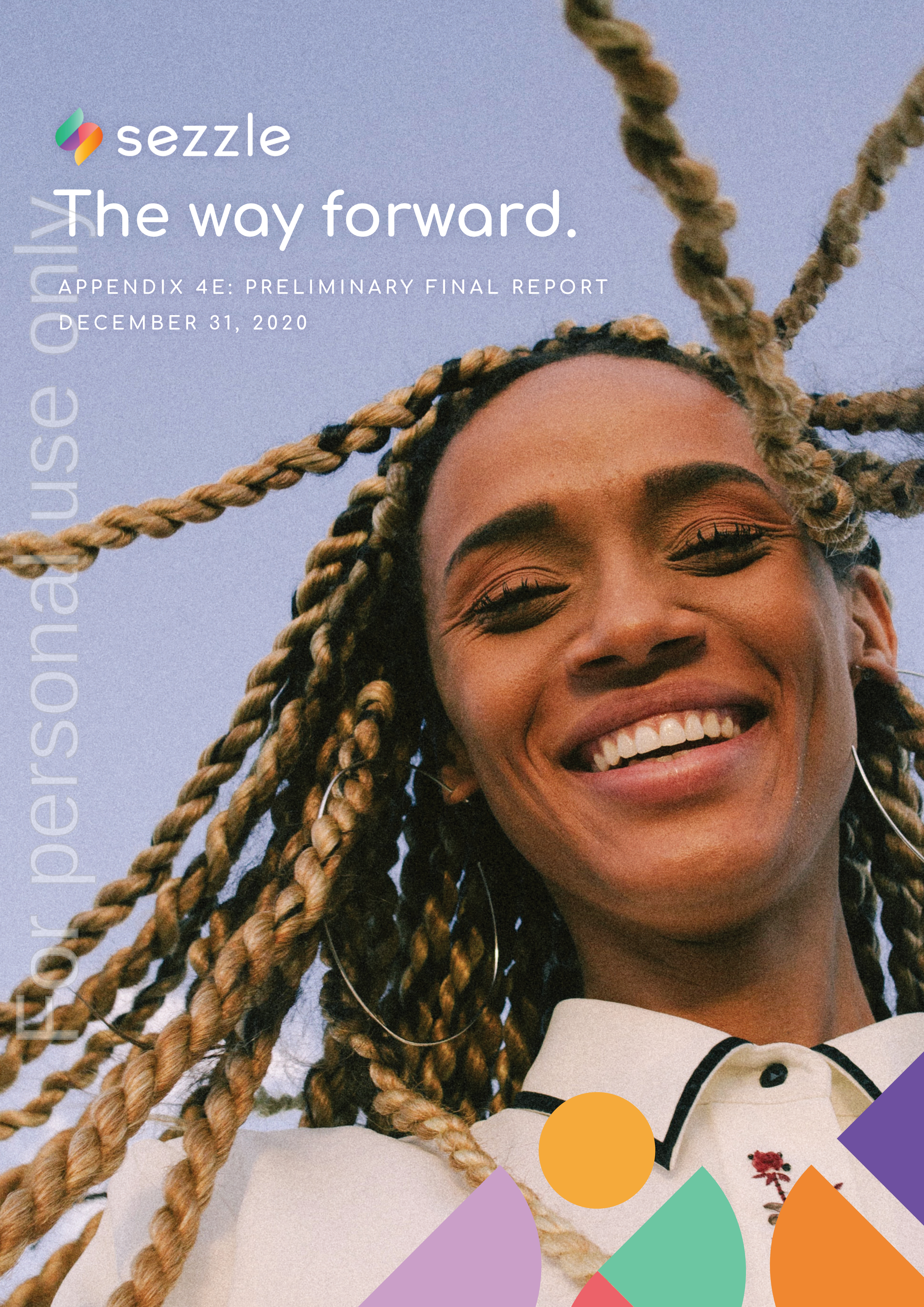
sezzle

The way forward.

APPENDIX 4E: PRELIMINARY FINAL REPORT
DECEMBER 31, 2020



OUR MISSION

Financially empowering the next generation.

CONTENTS

03 RESULTS FOR ANNOUNCEMENT TO THE MARKET

05 OPERATING & FINANCIAL REVIEW

15 PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

23 NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

Results for Announcement to the Market

UNDER ASX LISTING RULE 4.3A

COMPANY DETAILS

Name of Entity: Sezzle Inc.
ARBN: 633 327 358
Reporting Period: For the year ended December 31, 2020
Previous Period: For the year ended December 31, 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Sezzle Inc. (Sezzle or Company) is a technology-driven payments company based in the United States with the mission of financially empowering the next generation. The Company is registered as a 'foreign company' in Australia, under the Corporations Act, under the name Sezzle Inc. (ARBN 633 327 358). The Company's results for announcement to the market are as follows:

US$	31 Dec 2020	31 Dec 2019	% Change	Up / Down
Total income[1]	$ 58,788,273	$ 15,801,111	272 %	Up
Loss before tax	(31,867,271)	(13,049,372)	144 %	Up
Loss after tax	(31,898,235)	(13,061,353)	144 %	Up

[1] Total income is comprised of Sezzle Income (merchant fees and consumer reschedule fees, less financing origination costs) and consumer account reactivation fee income.

Total income increased by 272% to US$58.8 million in 2020 from $15.8 million in 2019. The growth is primarily driven by the rapid growth in all of the Company's key performance metrics, including Active Merchants, Active Consumers, Underlying Merchant Sales, and Merchant Fees. Loss before taxes increased by 144% to US$31.9 million, compared to US$13.0 million in the prior year. This increase is driven by additional investments in personnel, marketing expenses to increase market share, and research and development to further develop the Company and its product.

NET TANGIBLE ASSETS PER SHARE

US$	31 Dec 2020	31 Dec 2019
Net tangible assets (US$)	$ 173,573,727	$ 64,063,037
Common shares outstanding	196,926,674	178,931,312
Net tangible assets per share (US$)	**$ 0.88**	**$ 0.36**

DIVIDENDS

No dividends on common shares were declared or issued during the year ended December 31, 2020.

BASIS OF PREPARATION

This preliminary financial report is prepared under accounting principles generally accepted in the United States of America (U.S. GAAP) and is denominated in US Dollars.

AUDIT STATUS

The financial information in this report is based on the Company's Preliminary Consolidated Financial Statements, which are in the process of being audited.

CHANGES IN CONTROL OVER ENTITIES

The following entities were incorporated during the year ended December 31, 2020. All are wholly-owned subsidiaries of Sezzle Inc. unless otherwise noted.

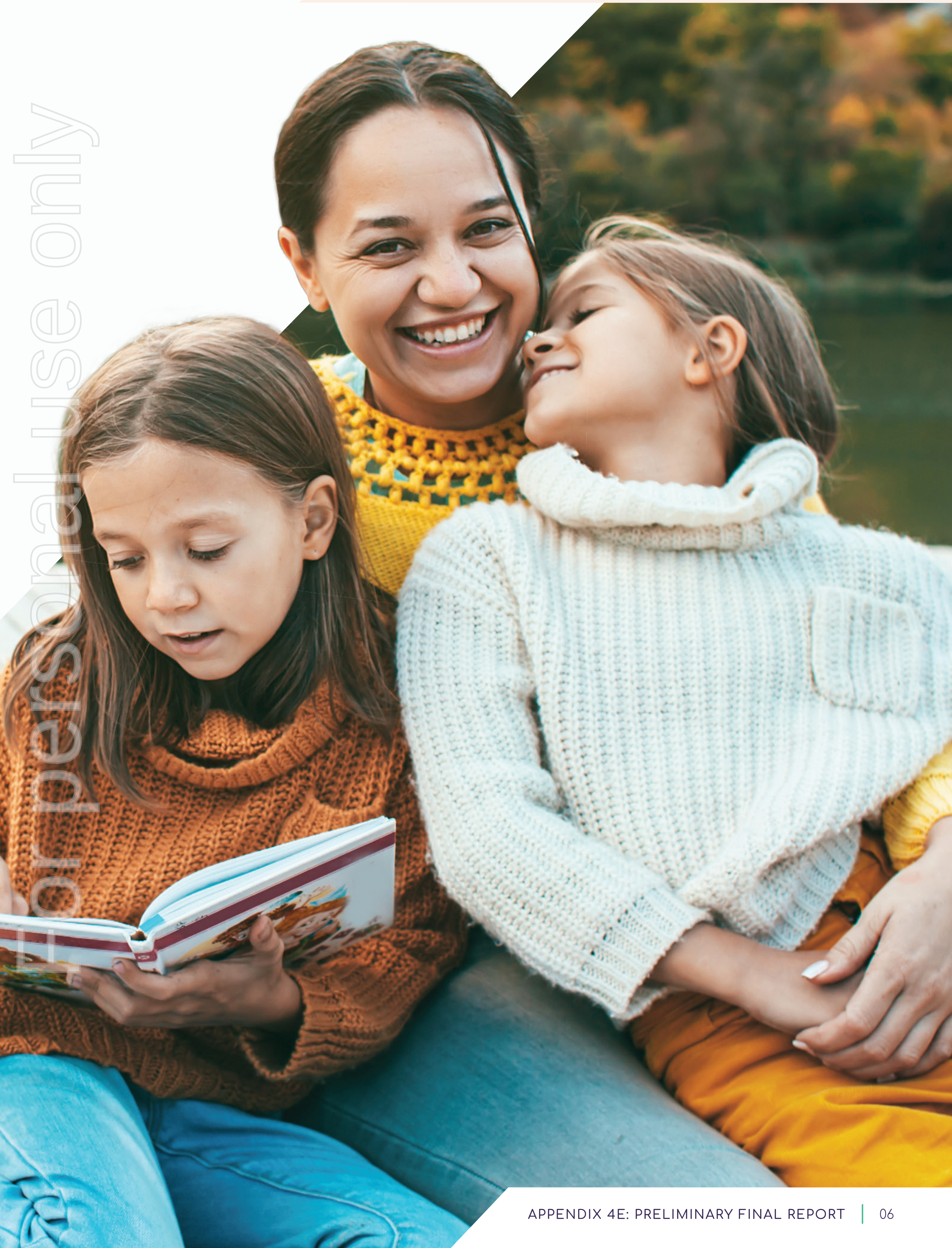
Name	Country of Incorporation	% Equity Interest
Sezzle Holdings III B.V.	Netherlands	100%
Sezzle Germany GmbH	Germany	100%
Sezzle Lithuania UAB	Lithuania	100%
Sezzle Payments Private Limited	India	99.9%
Sezzle FinTech Private Limited	India	99.9%
Sezzle Funding SPE II, LLC	United States	100%

OTHER INFORMATION REQUIRED BY LISTING RULE 4.3A

Other Appendix 4E disclosure requirements under Listing Rule 4.3A, which includes additional information on the results of the Company, is contained in the Company's Preliminary Consolidated Financial Statements for the year ended December 31, 2020. This document should be read in combination with any public announcements made during the period, pursuant to the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

Operating and Financial Review

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019



OVERVIEW

Sezzle is a technology-enabled payments company based in the United States, with operations in the United States, Canada, and startup operations in India and Europe. 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, improve conversion rates, raise 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 effectively 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 merchants by Sezzle in advance of the collection of the purchase price installments by Sezzle from the consumer.

The Company is headquartered in Minneapolis, Minnesota. Sezzle is a Delaware Public Benefit Corporation.

HOW WE EVALUATE OUR OPERATIONS

The following discussion of our results of operations includes references to and analysis of EBIT, EBITDA, Gross Margin, Net Transaction Loss and Net Transaction Margin, which are financial measures not recognized in accordance with U.S. GAAP. These non-GAAP financial measures are used by investors to measure our operating performance, especially against competitors in our industry, and lenders to measure our ability to incur and service debt. These measures are not intended to serve as an alternative to U.S. GAAP measures of performance and may not be comparable to similarly titled measures presented by other companies. A reconciliation of these non-GAAP measures to their most directly comparable measure under U.S. GAAP is included below.

- EBIT is defined as earnings before interest and taxes.
- EBITDA is defined as earnings before interest, taxes, depreciation, and amortization.
- Gross margin is our gross profit divided by Total income, expressed as a percentage.
- Net Transaction Loss is calculated as the expected provision and actual losses against notes receivable and reschedule fee losses to be incurred (less account reactivation fees collected).
- Net Transaction Margin is expressed as a percentage and is calculated as:
    - Sezzle Income earned divided by Underlying Merchant Sales, expressed as a percentage;
    - Less the cost of consumer communications and the total fees paid by Sezzle to process transactions, divided by Underlying Merchant Sales, expressed as a percentage; and
    - Less Net Transaction Loss, divided by Underlying Merchant Sales, expressed as a percentage.
    - Less Transaction Funding Financing Costs, divided by Underlying Merchants Sales, expressed as a percentage;

Note, the amounts included in this section were rounded to the nearest US$1,000 (unless otherwise stated). Any discrepancies between totals and the sums of components contained within the Operating and Financial Review are due to rounding.

Below is a reconciliation of non-GAAP measures to GAAP measures:

	For the years ended December 31,			
(US$000s)		2020		2019
Operating loss	$	(27,932)	$	(11,252)
Other income and expense		434		133
Interest income		(66)		(128)
Earnings before interest and taxes (EBIT)		(27,564)		(11,247)
Depreciation and amortization expense		436		261
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	$	(27,128)	$	(10,986)

Net Transaction Loss and Net Transaction Margin are comprised of U.S. GAAP measures as disclosed within the 'Results of Operations' section below.

RESULTS OF OPERATIONS

Our management uses a variety of financial and key operating metrics to analyze our performance. These financial and operating metrics include: (i) volume of Active Merchants and Active Consumers; (ii) Net Transaction Margins and Net Transaction Gain/Loss; (iii) Gross Profit and Gross Margin; (iv) EBITDA; and (v) EBIT.

Summary of Key Operating Metrics

The Company's key operating metrics continue to show signs of rapid growth during the financial year due to the continued success of onboarding and retaining Active Merchants and Active Consumers. A summary of the key operation metric results as of and for the years ended is shown below:

	For the years ended December 31,			
		2020		2019
Active Merchants		26,690		10,010
Active Consumers		2,231,089		914,886
Underlying Merchant Sales (UMS) (US$000s)	$	856,382	$	244,126
Merchant Fees (US$000s)	$	47,581	$	12,969
Net Transaction Margin (NTM) (% of UMS)		1.4 %		0.2 %
Net Transaction Loss (NTL) (% of UMS)		(1.2)%		(1.5)%

For the year ended December 31, 2020, Active Merchants increased by 167% to 26,690 compared to the year ended December 31, 2019. Likewise, Active Consumers has increased by 144% to 2,231,089 during the same comparative period.

Net Transaction Margin

The Company's NTM for the year ended December 31, 2020 improved by 1.2%, as a percentage of UMS, compared to the year ended December 31, 2019, driven primarily by improved efficiencies in Sezzle income, reductions in processing costs, and overall improvements in Net Transaction Losses. Summarized below, Net Transaction Margin for the years ended December 31, 2020 and 2019 is as follows:

	For the years ended December 31,					
	2020			2019		
Net Transaction Margin (NTM)		US$000s	% of UMS		US$000s	% of UMS
Underlying Merchant Sales (UMS)	$	856,382	— %	$	244,126	— %
Sezzle income		49,659	5.8 %		13,319	5.5 %
Cost of income		(22,490)	(2.6)%		(7,660)	(3.1)%
Net Transaction Loss		(10,459)	(1.2)%		(3,754)	(1.5)%
Transaction funding financing costs		(4,303)	(0.5)%		(1,307)	(0.5)%
Net Transaction Margin	$	12,408	1.4 %	$	598	0.2 %

Sezzle income relative to UMS was 5.8% and 5.5% for the years ended December 31, 2020 and 2019, respectively. The 0.3pp improvement in Sezzle income relative to UMS is due to lower promotional rates and efficiencies in direct loan origination costs, partially offset by the onboarding of large enterprise merchants. Cost of income relative to UMS was (2.6%) and (3.1%) for the years ended December 31, 2020 and 2019, respectively. The 0.5pp improvement is primarily driven by reductions in fees incurred for processing payments of consumer transactions.

Net Transaction Loss

During the year ended December 31, 2020, Net Transaction Loss improved 0.3pp of UMS compared to the year ended December 31, 2019, primarily due to higher collections of notes receivable and consumer account reactivation fees.

	For the years ended December 31,					
	2020			2019		
Net Transaction Loss (NTL)		US$000s	% of UMS		US$000s	% of UMS
Provision for uncollectible accounts	$	(19,588)	(2.3)%	$	(6,236)	(2.6)%
Account reactivation fee income		9,129	1.1 %		2,482	1.0 %
Net Transaction Loss	$	(10,459)	(1.2)%	$	(3,754)	(1.5)%

During the year ended December 31, 2020 the Company had improved collections on consumer notes receivable as a result of building its repeat usage and Active Consumer bases, along with refinements in the Company's underwriting processes. In the first half of the year, the various stimulus measures enacted by the U.S. government pertaining to the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act) contributed to the Company's improved collections, in addition to underwriting changes made in anticipation of the COVID-19 impact. In the second half of the year, Sezzle saw higher Net Transaction Losses primarily due to seasonality and universe expansion testing.

Account reactivation fee income as a percentage of UMS remained relatively flat year over year.

As a percentage of Total income, Account Reactivation Fees were 15.5% and 15.7% for the years ended December 31, 2020 and 2019, respectively. The 0.2pp reduction, as a percentage of Total income, is a result of improved collections on consumer notes receivable and the expansion of the Company's fee forgiveness and payment flexibility programs offered to consumers as a response to COVID-19.

Financial Review

A summary of Sezzle's financial results for the years ended December 31, 2020 and 2019 are as follows:

	For the years ended December 31,		
(US$000s)	2020	2019	Change (%)
Total income	$ 58,788	$ 15,801	272 %
Cost of income	(22,490)	(7,660)	194 %
Provision for uncollectible accounts	(19,588)	(6,236)	214 %
Net loss after tax	(31,898)	(13,061)	144 %

The financial results of the Company for the years ended December 31, 2020 and 2019 are presented below:

	For the years ended December 31,		
(US$000s)	2020	2019	Change
Sezzle income	$ 49,659	$ 13,319	$ 36,340
Account reactivation fee income	9,129	2,482	6,647
Total income	58,788	15,801	42,987
Cost of Income	(22,490)	(7,660)	(14,829)
Gross profit	36,299	8,141	28,158
Gross margin %	*61.7 %*	*51.5 %*	*10.2 %*
Other income (expense)	368	5	363
Provision for uncollectible accounts	(19,588)	(6,236)	(13,352)
Other operating expenses	(44,207)	(12,896)	(31,311)
EBITDA	(27,128)	(10,986)	(16,142)
Depreciation and amortization	(436)	(261)	(175)
EBIT	(27,564)	(11,247)	(16,317)
Net interest expense	(4,303)	(1,332)	(2,971)
Interest expense on beneficial conversion feature	—	(470)	470
Loss before tax	(31,867)	(13,049)	(18,818)
Income tax expense	(31)	(12)	(19)
Net loss after tax	$ (31,898)	$ (13,061)	$ (18,837)

Total Income

Sezzle income totaled US$49.7 million for the year ended December 31, 2020, compared to US$13.3 million in for the year ended December 31, 2019, an increase of 273% year-over-year driven by growth in Underlying Merchant Sales throughout the United States and Canada, including the addition of a number of enterprise merchants. Merchant fees and consumer reschedule fees, less direct financing origination costs, collectively comprise Sezzle income and are initially recorded as a deduction from notes receivable in the preliminary consolidated balance sheets. Deferred fees and expenses are recognized in the preliminary consolidated statements of operations over the average duration of the underlying notes receivable. Together, total consumer reschedule fees and note origination costs were US$1.9 million, or 3.9% of total Sezzle income recognized during the year ended December 31, 2020 compared to US$0.4 million and 2.6% of Sezzle income during the year ended December 31, 2019, driven by an improvement in note origination costs year over year.

Account reactivation fee income was US$9.1 million for the year ended December 31, 2020, compared to US$2.5 million for the year ended December 31, 2019. Account reactivation fee income is comprised of account reactivation fees and makes up 15.5% of Total income for the year ended December 31, 2020, compared to 15.7% in the year ended December 31, 2019. The relative reduction in this metric is driven by improvement in the Company's collection on consumer notes receivable, as well as an expansion of fee forgiveness and payment flexibility programs offered to consumers as a response to COVID-19.

Cost of Income

Cost of income primarily comprises payment processing costs paid to third-party payment processors, customer communication costs, and merchant affiliate program and partnership fees. Payment processing costs as a percentage of UMS were 2.0% and 2.4% for the years ended December 31, 2020 and 2019, respectively. The 2020 results include the full benefit of Sezzle's change in card processing service providers, executed in April 2019, as well as 0.1pp year over year reduction, as a percentage of UMS, in customer communication expenses.

As a percentage of UMS, short-term referral fee costs stipulated by agreements with partners and merchants of Sezzle remained consistent year over year.

Receivables and Uncollectible Accounts

Sezzle's consumer notes receivables before expected losses and deferred net loan origination fees increased to US$95.4 million as of December 31, 2020, compared to US$29.7 million as of December 31, 2019, an increase of 221%, driven by increases in UMS and Active Consumers. Sezzle's notes receivable have a weighted average days outstanding of 34 days, consistent with prior year's duration.

Provisions for uncollectible accounts on the notes receivable are calculated on an expected loss basis. The total provision for uncollectible accounts was US$19.6 million or 2.3% of UMS for the year ended December 31, 2020, compared to US$6.2 million or 2.6% of UMS for the year ended December 31, 2019. In the first half of 2020, the Company saw improved loss rates driven by several factors, including increased repeat usage among consumers, continuous improvements in Sezzle's proprietary underwriting processes, tightening of credit to consumers in response to COVID-19, and overall improved collections driven in part by U.S. government stimulus offered to many of Sezzle's consumers through the CARES Act. In the second half of 2020, the Company saw higher loss rates as a result of universe expansion testing of its underwriting processes and seasonality of loss rate patterns.

Other Operating Expenses

Overall, other operating expenses increased 243% year over year as a result of the Company's continued investment in its personnel, marketing, and other various third party service provider and professional service expenses. Other operating expenses for the years ended December 31, 2020 and 2019 are comprised of the following:

	2020			2019		
		US$000s	% of Total		US$000s	% of Total
Compensation-related expenses	$	17,077	38.6 %	$	7,420	57.5 %
Equity and incentive-based compensation expenses		13,613	30.8 %		1,167	9.1 %
Third-party service provider costs		2,464	5.6 %		1,284	10.0 %
Marketing, advertising, and tradeshows		4,275	9.7 %		839	6.5 %
Professional services		2,357	5.3 %		720	5.6 %
Rent		540	1.2 %		369	2.9 %
Other		3,881	8.8 %		1,096	8.5 %
Other operating expenses	$	44,207	100.0 %	$	12,896	100.0 %

Compensation related expenses increased to US$17.1 million for the year ended December 31, 2020, from US$7.4 million for the year ended December 31, 2019. Sezzle continued to invest in its employees throughout 2019 and 2020. Total employees were 279 as of December 31, 2020, compared to 133 as of December 31, 2019.

Stock and incentive-based compensation expenses increased to US$13.6 million for the year ended December 31, 2020, from US$1.2 million for the year ended December 31, 2019, due to the increase in number of employees , increase in fair value of awards issued in 2020 (driven by the appreciation of the Company's share price), as well as the introduction of new incentive plans. In 2020, Sezzle introduced new short-term and long-term stock based incentive programs to attract, motivate and retain talented employees. The expenses for the new incentive plans totaled US$8.1 million for the year ended December 31, 2020.

Third-party service provider costs consist primarily of costs incurred to obtain data used in underwriting consumers and fraud prevention. These costs increased to US$2.5 million for the year ended December 31, 2020, compared to US$1.3 million for the year ended December 31, 2019, driven by growth in Active Consumers.

Marketing, advertising, and tradeshow costs increased to US$4.3 million for the year ended December 31, 2020, compared to US$0.8 million for the year ended December 31, 2019, as a result of the Company's increased initiatives to co-market the Sezzle brand with its merchants.

Professional services include legal, consultation, recruiting, financial audit, and tax compliance related costs. Costs increased by $1.6 million year-over-year as a result of costs associated with the Company's status of being publicly listed on the ASX, as well as additional financial statement audit, tax, and legal costs.

Other operating expenses as a percent of UMS decreased to 5.2% for the year ended December 31, 2020 from 5.3% for the year ended December 31, 2019, primarily related to reductions in costs in response to COVID-19. Most notably, the Company rolled out a work-from-home program for its employees beginning in mid-March 2020. In addition, the Company implemented reductions in travel and attendance of group events, including industry-related conferences. These COVID-19 related measures resulted in lower than anticipated operating expenses, offset against expenses related to the Company's new short and long-term incentive plans, for the year ended December 31, 2020.

Interest Expense

Net interest expense was US$4.3 million for the year ended December 31, 2020, driven by the Company's continued utilization of both its revolving line of credit and its Merchant Interest Program to facilitate the growth in UMS and related consumer notes receivables. Refer to Notes 11 and 15 within the Preliminary Consolidated Financial Statements for additional commentary on its line of credit and Merchant Interest Program, respectively.

Interest expense on the beneficial conversion feature was incurred on the Company's Initial Public Offering date and resulted from the conversion of US$5.8 million of notes issued in the first half of 2019. Refer to Note 13 of the Preliminary Consolidated Financial Statements for further information.

Financial Position Activity

Sezzle's total assets increased to US$174.1 million as of December 31, 2020 from US$64.5 million as of December 31, 2019. This growth of US$109.6 million is primarily driven by increases in both cash and cash equivalents and consumer notes receivable.

Merchant accounts payable increased to US$60.9 million as of December 31, 2020, compared to US$13.3 million as of December 31, 2019. This increase is related to the growth in Underlying Merchant Sales and Active Merchants during 2020, in addition to the increase of merchants participating in the Merchant Interest Program. Total liabilities increased to US$114.2 million as of December 31, 2020, compared to US$37.2 million in the prior year.

Stockholders' equity increased to US$60.0 million as of December 31, 2020, from US$27.3 million as of December 31, 2019, primarily as a result of the proceeds from the Company's capital raise in the third quarter of 2020. Refer to Note 9 of the Preliminary Consolidated Financial Statements for further information.

Capital Management

To help manage the increase in UMS, Sezzle signed an agreement with the Syndicate to increase its debt facility to US$100 million in November 2019. As of December 31, 2020, Sezzle had drawn US$40.0 million from its revolving line of credit and had US$23.9 million in additional borrowing capacity.

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

Refer to the Preliminary Consolidated Balance Sheets and the accompanying notes to the Preliminary Consolidated Financial Statements for further information.

Cashflow Activity

Sezzle incurred net losses from operating activities for the years ended December 31, 2020 and 2019. For the years ended December 31, 2020 and 2019 Sezzle incurred a net loss of US$31.9 million and US$13.1 million, respectively. As of December 31, 2020, Sezzle had cash and cash equivalents of US$84.3 million and working capital of US$104.6 million.

Operating Activities

Net cash used for operating activities was $24.3 million and $19.9 million for the years ended December 31, 2020 and 2019, respectively. The increase in cash used for operating activities during the year ended December 31, 2020 was driven by increased consumer notes receivable, offset with an increased participation in the Company's Merchant Interest Program. Net cash used for operating activities for the year ended December 31, 2019 was primarily driven by increases in notes receivable due from consumers.

Investing Activities

Net cash used for investing activities during the year ended December 31, 2020 increased slightly to US$0.7 million, compared to US$0.5 million during the year ended December 31, 2019. Cash outflows for investing activities are primarily used for purchasing computer equipment, as well as payments of salaries to employees who create capitalized internal-use software.

Financing Activities

Net cash provided by financing activities during the year ended December 31, 2020 was US$77.5 million, compared to US$50.0 million during the year ended December 31, 2019. The increase was related to the Company's capital raise, as well as additional funds drawn on the Company's line of credit facility.

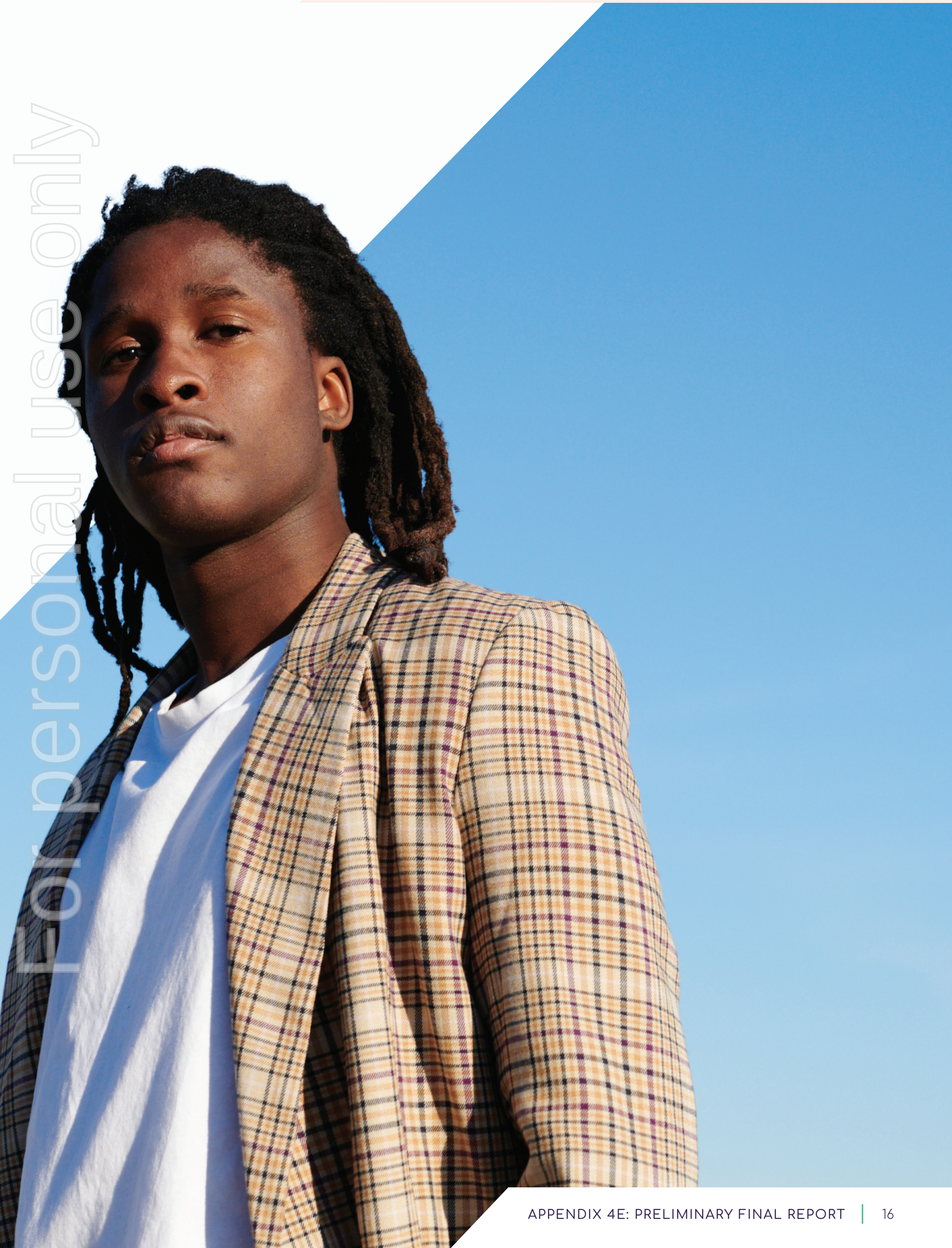
Off Balance Sheet Arrangements

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

SEZZLE INC. & SUBSIDIARIES

Preliminary Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019



Preliminary Consolidated Balance Sheets

US$	As of December 31, 2020	As of December 31, 2019
Assets		
Current Assets		
Cash and cash equivalents	$ 84,285,383	$ 34,965,069
Restricted cash, current	4,798,520	1,639,549
Notes receivable, net	80,807,300	25,189,135
Other receivables, net	1,403,306	315,502
Prepaid expenses and other current assets	1,705,919	882,939
Total current assets	173,000,428	62,992,194
Non-Current Assets		
Internally developed intangible assets, net	537,046	480,098
Property and equipment, net	375,186	134,400
Right-of-use assets	145,576	867,272
Restricted cash	20,000	20,000
Other assets	32,537	49,171
Total Assets	**$ 174,110,773**	**$ 64,543,135**
Liabilities and Stockholders' Equity		
Current Liabilities		
Merchant accounts payable	$ 60,933,272	$ 13,284,544
Lease liabilities	142,743	389,257
Accrued liabilities	6,680,870	1,677,780
Other payables	615,839	267,934
Total current liabilities	68,372,724	15,619,515
Long Term Liabilities		
Long term debt	1,470,332	250,000
Lease liabilities	—	500,131
Line of credit, net of unamortized debt issuance costs of $173,773 and $590,827, respectively	39,826,227	20,859,173
Other non-current liabilities	4,483,073	—
Total Liabilities	**114,152,356**	**37,228,819**
Stockholders' Equity		
Common stock, $0.00001 par value; 300,000,000 shares authorized; 197,078,709 and 178,931,312 shares issued, respectively; 196,926,674 and 178,931,312 shares outstanding, respectively	1,970	1,789
Additional paid-in capital	112,640,974	47,154,147
Stock subscriptions; 64,000 and no shares subscribed, respectively	(69,440)	—
Treasury stock, at cost; 152,035 and no shares, respectively	(875,232)	—
Accumulated deficit	(51,739,855)	(19,841,620)
Total Stockholders' Equity	**59,958,417**	**27,314,316**
Total Liabilities and Stockholders' Equity	**$ 174,110,773**	**$ 64,543,135**

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

Preliminary Consolidated Statements of Operations

US$	For the years ended December 31, 2020	December 31, 2019
Income		
Sezzle income	$ 49,659,042	$ 13,319,218
Account reactivation fee income	9,129,231	2,481,893
Total income	58,788,273	15,801,111
Cost of Income	22,489,626	7,660,276
Gross Profit	**36,298,647**	**8,140,835**
Operating Expenses		
Selling, general, and administrative expenses	44,643,039	13,156,891
Provision for uncollectible accounts	19,587,918	6,235,820
Total operating expenses	64,230,957	19,392,711
Operating Loss	**(27,932,310)**	**(11,251,876)**
Other Income (Expense)		
Interest expense	(4,369,397)	(1,459,782)
Interest expense on beneficial conversion feature	—	(470,268)
Other income and expense, net	434,436	132,554
Loss before taxes	(31,867,271)	(13,049,372)
Income tax expense	30,964	11,981
Net Loss	**$ (31,898,235)**	**$ (13,061,353)**
Losses per share:		
Basic and diluted loss per common share	$ (0.17)	$ (0.12)
Basic and diluted weighted average shares outstanding	186,842,646	111,576,824

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

Preliminary Consolidated Statements of Stockholders' Equity (Deficit)

US$	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Deficit	Total
Balance at January 1, 2019	**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
Conversion of notes to common stock	12,064,155	121	6,370,877	—	—	—	6,370,998
Proceeds of initial public offering, net of issuance costs	35,714,286	357	27,509,331	—	—	—	27,509,688
Net loss	—	—	—	—	—	(13,061,353)	(13,061,353)
Balance at December 31, 2019	**178,931,312**	**1,789**	**$ 47,154,147**	**—**	**—**	**(19,841,620)**	**27,314,316**
Equity based compensation	—	—	6,528,356	—	—	—	6,528,356
Stock option exercises	1,672,476	16	436,190	—	—	—	436,206
Restricted stock issuances and vesting of awards	464,736	5	482,483	—	—	—	482,488
Stock subscriptions receivable	64,000	1	69,439	(69,440)	—	—	—
Repurchase of common stock	(152,035)	—	—	—	(875,232)	—	(875,232)
Retirement of common stock	(343,750)	(3)	(2,231)	—	—	—	(2,234)
Proceeds of fundraise, net of issuance costs	16,289,935	162	57,972,590	—	—	—	57,972,752
Net loss	—	—	—	—	—	(31,898,235)	(31,898,235)
Balance at December 31, 2020	**196,926,674**	**$ 1,970**	**$112,640,974**	**$ (69,440)**	**$ (875,232)**	**$ (51,739,855)**	**$ 59,958,417**

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

Preliminary Consolidated Statements of Cash Flows

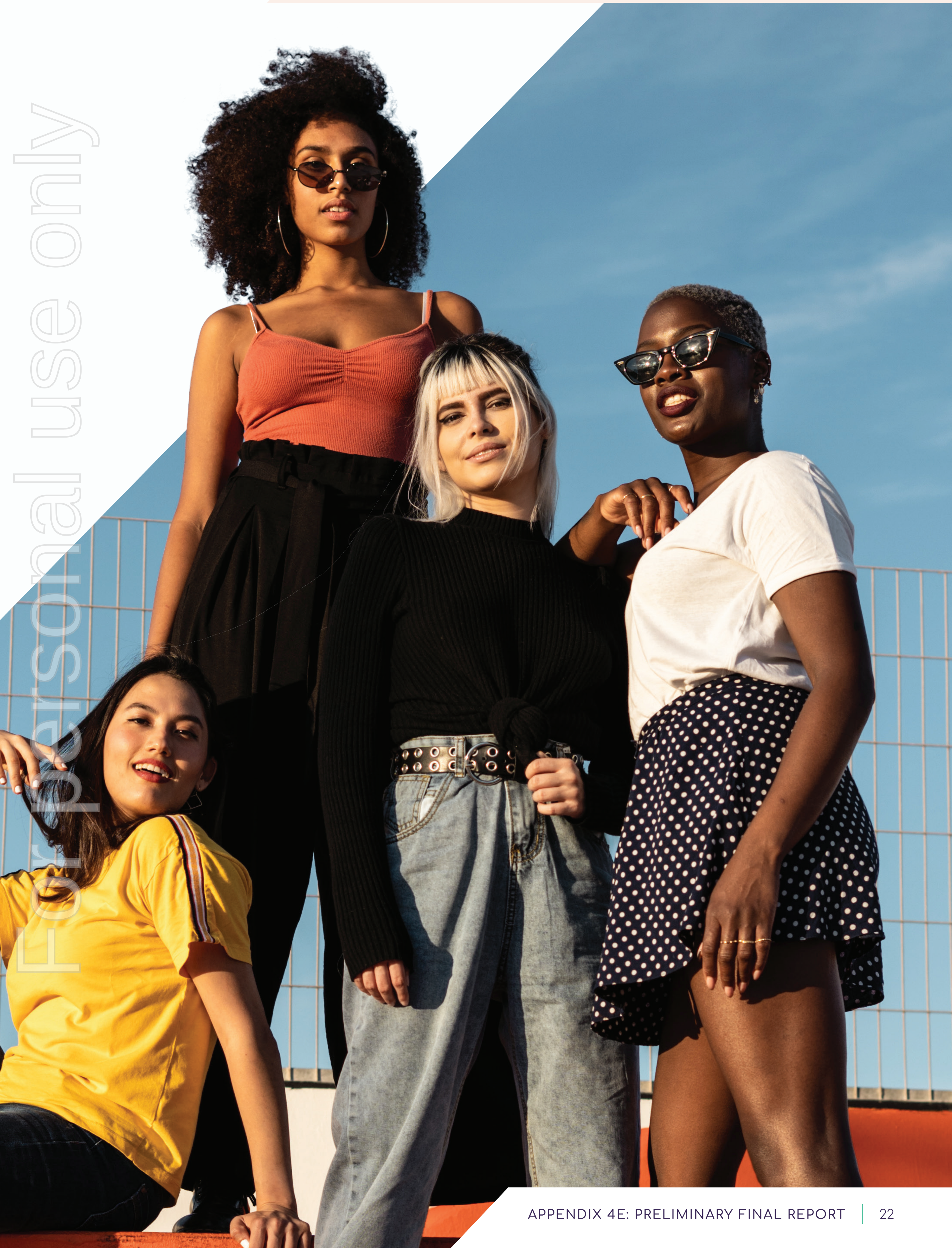
		For the years ended		
US$		December 31, 2020		December 31, 2019
Operating Activities:				
Net loss	$	(31,898,235)	$	(13,061,353)
Adjustments to reconcile net loss to net cash used for operating activities:				
Depreciation and amortization		428,374		245,496
Provision for uncollectible accounts		19,587,918		6,235,820
Provision for other uncollectible receivables		2,723,853		1,188,201
Equity based compensation and restricted stock vested		7,010,844		1,167,265
Amortization of debt issuance costs		417,054		72,379
Impairment losses on long-lived assets		7,850		15,623
Loss and accrued interest on conversion of convertible notes		—		579,216
Changes in operating assets and liabilities:				
Notes receivable		(75,206,083)		(26,494,339)
Other receivables		(3,811,657)		(1,470,923)
Prepaid expenses and other assets		(806,346)		(788,428)
Merchant accounts payable		47,648,728		11,007,664
Other payables		116,323		171,682
Accrued liabilities		9,486,163		1,190,018
Operating leases		(24,949)		22,116
Net Cash Used for Operating Activities		**(24,320,163)**		**(19,919,563)**
Investing Activities:				
Purchase of property and equipment		(411,735)		(125,885)
Internally developed intangible asset additions		(322,223)		(406,333)
Net Cash Used for Investing Activities		**(733,958)**		**(532,218)**
Financing Activities:				
Proceeds from issuance of long term debt		1,220,332		5,812,500
Costs incurred for convertible note issuance		—		(25,000)
Proceeds from line of credit		85,650,000		24,200,000
Payments to line of credit		(67,100,000)		(6,950,000)
Proceeds from stock option exercises		436,206		37,107
Payments of debt issuance costs		—		(592,750)
Proceeds from initial public offering		—		30,286,785
Costs incurred for initial public offering		—		(2,777,097)
Retirement of common stock		(2,234)		—
Proceeds from issuance of common stock		60,457,256		—
Costs incurred from issuance of common stock		(2,484,504)		—
Repurchase of common stock		(643,650)		—
Net Cash Provided from Financing Activities		**77,533,406**		**49,991,545**
Net increase in cash, cash equivalents, and restricted cash		52,479,285		29,539,764
Cash, cash equivalents, and restricted cash, beginning of year		36,624,618		7,084,854
Cash, cash equivalents, and restricted cash, end of year	**$**	**89,103,903**	**$**	**36,624,618**
Noncash investing and financing activities:				
Withholding of restricted stock units to cover employee tax withholding	$	231,582	$	—
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
Noncash lease liabilities arising from obtaining right-of-use assets		—		872,210
Supplementary disclosures:				
Interest paid		3,770,838		1,153,730
Income taxes paid		8,326		—

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

Notes

TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31,2020 AND 2019



NOTE 1 – PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

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

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

The Company's core product allows consumers to make online purchases and split the payment for the purchase over four equal, interest-free payments over six weeks. The consumer makes the first payment at the time of checkout and makes the subsequent payments every two weeks thereafter. The purchase price, less processing fees, is paid to merchants 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 preliminary consolidated financial statements are prepared and presented under accounting principles generally accepted in the United States of America (U.S. GAAP). All amounts are reported in U.S. dollars, unless otherwise noted. It is the Company's policy to consolidate the accounts of subsidiaries for which it has a controlling financial interest. The accompanying preliminary consolidated financial statements include all the accounts and activity of Sezzle Inc. and Sezzle's wholly-owned subsidiaries: Sezzle Canada Corp; Sezzle Funding SPE, LLC; Sezzle Holdings I, Inc.; Sezzle Holdings II, Inc.; Sezzle Holdings III B.V.; Sezzle Payments Private Limited; Sezzle FinTech Private Limited; Sezzle Germany GmbH; and Sezzle Lithuania UAB. 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 preliminary 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 US$84,285,383 and US$34,965,069 as of December 31, 2020 and 2019, 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 the 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 the end of the period 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 US$20,000, accrued interest on the drawn credit facility, and accrued management fees charged by the Syndicate. The Company is also required to maintain a minimum balance of US$25,000 in a deposit account with a third-party service provider to fund notes receivable. The Company has funds on deposit with foreign banking institutions as part of their respective local licensing processes that are restricted until the processes are completed. The amount on deposit within the current restricted bank accounts totaled US$4,798,520 and US$1,639,549 as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the Company was required to maintain a US$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 preliminary consolidated balance sheets.

Receivables and Credit Policy

Notes receivable represent amounts from uncollateralized consumer receivables generated from the purchase of merchandise. The original terms of the notes for the Company's core product are to be paid back in 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 costs are recorded within notes receivable, net on the preliminary consolidated balance sheets. Notes receivable are recorded at net realizable value and are recorded as current assets. The Company evaluates the collectability of the balances based on historical performance, current economic conditions, and specific circumstances of individual notes, with an allowance for uncollectible accounts being provided as necessary. All notes receivable from consumers, as well as related fees, outstanding greater than 90 days past due are charged off as uncollectible. It is the Company's practice to continue collection efforts after the charge-off date. Refer to Note 4 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 preliminary consolidated balance sheets as a reduction of the notes payable or 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 preliminary consolidated statements of operations.

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 and computer equipment	3	Double-declining balance
Office equipment	5	Double-declining balance
Furniture and fixtures	7	Straight-line

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

Internally Developed Intangible Assets

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

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

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

See Note 3 for further information.

Research and Development Costs

Research expenditures that relate to the development of new processes, including internally developed software, are expensed as incurred. Such costs were approximately US$490,000 and US$517,000 for the years ended December 31, 2020 and 2019, respectively. Research expenditures are recorded within selling, general, and administrative expenses within the preliminary consolidated statements of operations.

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets, which includes property, equipment, and internally developed intangible assets, for impairment whenever events and circumstances indicate that the assets' carrying value may not be recoverable from the future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects; the manner in which the asset is used; and the effects of obsolescence, demand, competition, and other economic factors. Impairment losses for the years ended December 31, 2020 and 2019 totaled US$7,850 and US$15,623, respectively.

As of December 31, 2020 and 2019, 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 preliminary consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of receivables, property and equipment, and accrued liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. A full valuation allowance is recorded against the Company's deferred tax assets as of December 31, 2020 and 2019.

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, 2020 and 2019, 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 US$4,199,021 and US$368,235 for the years ended December 31, 2020 and 2019, respectively.

Equity Based Compensation

The Company maintains stock compensation plans that offer incentives in the form of non-statutory stock options and restricted stock to employees, directors, and advisors of the Company. Equity based compensation expense reflects the fair value of awards measured at the grant date and recognized over the relevant vesting period. The Company estimates the fair value of stock options without a market condition on the measurement date using the Black-Scholes option valuation model. The fair value of stock options with a market condition is estimated, at the date of grant, using the Monte Carlo Simulation model. The Black-Scholes and Monte Carlo Simulation models incorporate assumptions about stock price volatility, the expected life of the options, risk-free interest rate, and dividend yield. For valuing the Company's stock option grants, significant judgment is required for determining the expected volatility of the Company's common stock and is based on the historical volatility of both its common stock and its defined peer group. The fair value of restricted stock awards and restricted stock units is based on the fair market value of the Company's common stock on the date of grant. The expense associated with equity based compensation is recognized over the requisite service period using the straight-line method. The Company issues new shares upon the exercise of stock options and vesting of restricted stock units. Refer to Note 14 and Note 16 for further information around the Company's equity based compensation plans.

Estimates

The preparation of preliminary consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the preliminary 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 preliminary consolidated balance sheets and the amounts of income and expenses reported for each of the periods presented are affected by estimates and assumptions, which are used for, but not limited to, determining the allowance for uncollectible accounts recorded against outstanding receivables, the useful life of property and equipment and internally developed intangible assets, determining impairment of property and equipment and internally developed intangible assets, valuation of equity based compensation, leases, and income taxes.

Fair Value

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

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

The Company measures the value of its money market securities on a regular basis. The fair value of its money market securities was US$9,996,155 and US$7,282,946 as of December 31, 2020 and 2019, respectively.

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. Additionally, during the year ended December 31, 2020, Sezzle began operations in India. While distinct geographic locations, the operations in both countries are still in an early growth stage. As of December 31, 2020, 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 Gains (Losses)

Sezzle works with international merchants, creating exposure to gains and losses from foreign currency exchanges. Sezzle's income and cash can be affected by movements in the Canadian Dollar, Euro, and Indian Rupee. Sezzle has transactional currency exposures arising from merchant fees and payouts to Canadian and Indian merchant partners. Gains from foreign exchange rate fluctuations that affect Sezzle's net loss totaled US$369,212 and US$20,729 for the years ended December 31, 2020 and 2019, respectively. Foreign currency exchange gains and losses are recorded within other income and expenses on the preliminary consolidated statements of operations.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-13, "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" which requires reporting entities estimate credit losses expected to occur over the life of the asset. Expected losses will be recorded in current period earnings and recorded through an allowance for credit losses on the preliminary consolidated balance sheet. During November 2018, April 2019, May 2019, October 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"; ASU No. 2019-10 "Financial Instruments—Credit Losses (Topic 326): 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 nonpublic 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 delayed the effective date for applying this standard 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. Sezzle plans to adopt this standard beginning January 1, 2023 and is currently evaluating the impact of the standard on its preliminary consolidated statements of operations, preliminary consolidated balance sheets, and preliminary consolidated statements of cash flows.

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. Sezzle adopted this standard beginning January 1, 2020 with no material impact to the preliminary consolidated financial statements for the year ended December 31, 2020.

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40)" which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal use software license. Sezzle adopted this standard beginning January 1, 2020 with no impact to the preliminary consolidated financial statements for the year ended December 31, 2020.

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

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" which provides optional expedients and exceptions if certain criteria are met when accounting for contracts or other transactions that reference LIBOR. Application of the guidance is optional until December 31, 2022 and varies based on the practical expedients elected. The Company has not elected any expedients to date and is currently evaluating any potential future impacts on the Company's preliminary consolidated financial statements.

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

NOTE 2 – PROPERTY AND EQUIPMENT

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

US$		2020		2019
Computer and office equipment	$	636,950	$	225,186
Furniture and fixtures		28,393		28,394
Property and equipment, gross		665,343		253,580
Less accumulated depreciation		(290,157)		(119,180)
Property and equipment, net	**$**	**375,186**	**$**	**134,400**

Depreciation expense relating to property and equipment was US$170,949 and US$74,151 for the years ended December 31, 2020 and 2019, respectively, and is recorded within selling, general, and administrative expenses on the preliminary consolidated statements of operations.

NOTE 3 – INTERNALLY DEVELOPED INTANGIBLE ASSETS

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

US$		2020		2019
Internal use software and website development costs	$	825,018	$	682,848
Works in process		109,155		13,672
Internally developed intangible assets, gross		934,173		696,520
Less accumulated amortization		(397,127)		(216,422)
Internally developed intangible assets, net	**$**	**537,046**	**$**	**480,098**

Amortization expense relating to internally developed intangible assets was US$257,425 and US$171,345 for the years ended December 31, 2020 and 2019, respectively, and is recorded within selling, general, and administrative expenses on the preliminary consolidated statements of operations.

NOTE 4 – NOTES RECEIVABLE

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

US$		2020		2019
Notes receivable, gross	$	95,398,668	$	29,700,598
Less allowance for uncollectible accounts:				
Balance at start of period		(3,461,837)		(645,332)
Provision		(19,587,918)		(6,235,820)
Charge-offs, net of recoveries		11,916,609		3,419,315
Total allowance for uncollectible accounts		(11,133,146)		(3,461,837)
Notes receivable, net of allowance		84,265,522		26,238,761
Deferred origination fees, net of costs		(3,458,222)		(1,049,626)
Notes receivable, net	**$**	**80,807,300**	**$**	**25,189,135**

Sezzle maintains an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal and reschedule fee receivables from consumers. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. Included in charge-offs, net of recoveries, are recoveries of US$648,799 and US$170,231 for the years ended December 31, 2020 and 2019, respectively.

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

Deferred origination fees, net of costs are comprised of unrecognized merchant fees and consumer reschedule fees net of direct note origination costs, which are recognized over the duration of the note with the consumer and are recorded as an offset to Sezzle income on the preliminary consolidated statements of operations.

Sezzle estimates the allowance for uncollectible accounts by segmenting end-consumer accounts receivable by the number of days balances are delinquent. Balances that are at least one day past the initial due date are considered delinquent. Balances that are not delinquent are considered current. Consumer notes receivable are charged-off following the passage of 90 days without receiving a qualifying payment, upon notice of bankruptcy, or death. Consumers are allowed to reschedule a payment one time without incurring a reschedule fee and the principal of a rescheduled payment is not considered to be delinquent. If consumers reschedule a payment more than once in the same order cycle they are subject to a reschedule fee. Alternatively, account reactivation fees are applied to any missed payments for which a consumer did not reschedule 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, 2020 and 2019:

	2020			2019		
	Gross Receivables US$	Less Allowance US$	Net Receivables US$	Gross Receivables US$	Less Allowance US$	Net Receivables US$
Current	$ 79,673,073	$ (2,692,254)	$ 76,980,819	$ 25,695,723	$ (1,014,888)	$ 24,680,835
Days past due:						
1–28	9,574,902	(3,616,327)	5,958,575	2,251,591	(923,396)	1,328,195
29–56	3,576,255	(2,646,627)	929,628	919,177	(719,910)	199,267
57–90	2,574,438	(2,177,938)	396,500	834,107	(803,643)	30,464
Total	**$ 95,398,668**	**$ (11,133,146)**	**$ 84,265,522**	**$ 29,700,598**	**$ (3,461,837)**	**$ 26,238,761**

Principal payments recovered after the 90 day charge-off period are recognized as a reduction to the allowance for uncollectible accounts in the period the receivable is recovered.

NOTE 5 – LEASES

The Company holds operating leases for its corporate office spaces in the United States and Canada. Total lease expense incurred for the years ended December 31, 2020 and 2019 was US$513,248 and US$348,246 respectively. Lease expense is recognized within selling, general and administrative expenses on the preliminary consolidated statements of operations. Additionally, total cash paid for rent was US$558,631 and US$350,722 for the years ended December 31, 2020 and 2019, 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 that the Company is reasonably certain to exercise. Right-of-use assets and lease liabilities are recorded within current assets and current liabilities, respectively, on the preliminary consolidated balance sheets.

The expected maturity of the Company's operating leases as of December 31, 2020 is as follows:

		US$
2021	$	144,584
Less interest		(1,841)
Present value of lease liabilities	**$**	**142,743**

The weighted average remaining term of the Company's operating leases is 0.49 years. During the year ended December 31, 2020, the Company revised the estimated least term for its corporate headquarters and terminated two other leases, resulting in a reduction in the Company's right-of-use asset and lease liability. The weighted average discount rate of all operating leases is 4.75%. As of December 31, 2020, Sezzle has not entered into any lease agreements that contain residual value guarantees or financial covenants.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

The Company has entered into several agreements with third-parties in which Sezzle will reimburse the third-parties for co-branded for marketing and advertising costs. For the years ended December 31, 2020 and 2019, the Company entered into agreements that stipulate that Sezzle will commit to spend up to US$2,906,500 and US$1,085,000 in marketing and advertising spend. Absent a termination of the noted agreements, the Company is committed to spend an additional US$500,000 on an annual basis in future years. Sezzle has had approximately US$211,000 and US$495,000 recorded as a prepaid expense in the preliminary consolidated balance sheets as of December 31, 2020 and 2019, respectively.

Expenses incurred relating to these agreements totaled US$3,220,959 and US$34,760 for the years ended December 31, 2020 and 2019, respectively. These expenses are included within selling, general, and administrative expenses in the preliminary consolidated statements of operations.

NOTE 7 – INCOME TAXES

The income tax expense components for the years ended December 31, 2020 and 2019 are as follows:

US$		2020		2019
Current tax expense				
Federal		—		—
Foreign		—		—
State		30,964		11,981
Deferred tax expense				
Federal		—		—
Foreign		—		—
State		—		—
Income tax expense	$	30,964	$	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, 2020 and 2019 is as follows:

	2020		2019
Computed "expected" tax benefit	(21.0)	%	(21.0)
State income tax benefit, net of federal tax effect	(1.7)	%	—
Nondeductible equity-based compensation	—	%	1.6
Nondeductible interest expense on beneficial conversion feature	—	%	0.8
Other permanent differences	—	%	0.7
Change in valuation allowance	23.5	%	19.1
Foreign rate differentials and other	(0.7)	%	(1.1)
Income tax expense (benefit)	0.1	%	0.1

The components of the net deferred tax assets and liabilities as of December 31, 2020 and December 31, 2019 are as follows:

US$		2020		2019
Deferred tax assets:				
Net operating loss carryforwards	$	5,746,143	$	2,686,878
Allowance for uncollectible accounts		2,822,803		861,239
Equity based compensation		792,715		42,384
Depreciation and amortization		—		7,482
Lease liability		31,855		196,359
Startup costs		10,857		11,488
Accruals		1,722,143		45,421
Other		144,194		539
Total net deferred tax assets:		11,270,710		3,851,790
Valuation allowance		(11,142,585)		(3,660,314)
Deferred tax liabilities:				
Depreciation and amortization		(93,439)		—
Equity based compensation		(1,664)		—
Right-of-use asset		(33,022)		(191,476)
Total net deferred tax liabilities:		(128,125)		(191,476)
Net deferred tax asset/(liability):	$	—	$	—

As of December 31, 2020, the Company has federal, state and foreign net operating loss carryforwards of approximately US$23,170,623, US$5,776,323, and US$2,047,797 respectively. The federal net operating loss carryforwards that originated after 2017 have an indefinite life and may be used to offset 80% of a future year's taxable income. The federal net operating loss carryforwards that originated prior to 2018 have expiration dates between 2036 and 2037. The state net operating losses carryforward for between 15-20 years and begin to expire in 2031.

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

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 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, 2020, a valuation allowance of US$11,142,585 has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth. The change in valuation allowance was approximately US$7,482,000 and US$2,495,000 for the years ended December 31, 2020 and 2019, respectively.

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

In November 2018, the US 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. The March 2020 Coronavirus Aid, Relief and Economic Security Act (CARES Act) increased the limitation to 50% of adjusted taxable income. For the year ending December 31, 2020, the Company was not subject to the business interest limitation.

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

NOTE 8 – INCOME

Sezzle Income

Sezzle receives its income primarily from fees paid by merchants in exchange for Sezzle's payment processing services. These fees are applied to the underlying sales to consumers passing through the Company's platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction. Consumer installment payment plans typically consist of four installments, with the first payment made at the time of purchase and subsequent payments coming due every two weeks thereafter. Additionally, consumers may reschedule their initial installment plan by delaying payment for up to two weeks, for which Sezzle generally 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 preliminary consolidated statements of operations.

Sezzle income is initially recorded as a reduction to notes receivable, net within the preliminary consolidated balance sheets. Sezzle income is then recognized over the average duration of the note using the effective interest rate method. Total Sezzle income to be recognized over the duration of existing notes receivable outstanding was US$3,458,222 and US$1,049,626 as of December 31, 2020 and 2019, respectively. Total Sezzle income recognized was US$49,659,042 and US$13,319,218 for the years ended December 31, 2020 and 2019, respectively.

Account Reactivation Fee Income

Sezzle also earns income from consumers in the form of account reactivation fees. These fees are generally 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 US$9,129,231 and US$2,481,893 for the years ended December 31, 2020 and 2019, respectively.

NOTE 9 - STOCKHOLDERS' EQUITY

Preferred Stock Dividend

On June 23, 2019, the Board of Directors declared and issued a preferred stock dividend of 909,451 shares of Series A preferred shares to existing to preferred stockholders, valued at US$763,939. The preferred stock dividend was subject to the same rights as all other series of preferred stock. All preferred stock converted to common stock in July 2019 in conjunction with the Company's initial public offering on the Australian Securities Exchange (ASX).

Conversion of Preferred Stock to Common Stock

On July 24, 2019, the Company restructured its share capital in anticipation of listing on the ASX. Each share of Series A preferred stock was converted into common stock. The Company issued 70,446,291 common shares upon conversion of 70,446,291 Series A preferred stock, converted on a 1:1 basis in accordance with the terms of the preferred stock agreements.

Conversion of Convertible Notes to Common Stock

On July 24, 2019, the Company issued 12,064,155 common shares following the conversion of the US$5,812,500 of convertible notes outstanding, along with accrued interest, at a conversion price of US$0.49 per common share. Refer to Note 13 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 US$0.84) per CDI to raise A$43.6 million, or US$30,286,785. Total costs of the offer incurred during the year ended December 31, 2019 totaled US$2,777,097, resulting in overall net proceeds of US$27,509,688.

Repurchase and Retirement of Common Stock

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

Sezzle retains a portion of vested restricted stock units to cover withholding taxes for employees. For the year ended December 31, 2020, Sezzle withheld 152,035 shares at a value of US$875,232. Sezzle recognizes this amount as treasury stock, reported within the preliminary consolidated balance sheets at cost as a reduction to stockholders' equity.

Issuance of Common Stock

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

NOTE 10 – 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. There have been no Company contributions made to the plan through December 31, 2020.

NOTE 11 – REVOLVING LINE OF CREDIT

On November 14, 2018, Sezzle Funding SPE, LLC and Sezzle Inc. entered into an agreement with Bastion Consumer Funding II, LLC (Bastion) that provided for a credit facility of US$30,000,000. On November 29, 2019, Sezzle Funding SPE, LLC, Sezzle Inc. and Bastion amended and restated the original agreement and entered into a new Loan and Security Agreement (the Loan Agreement) with Bastion, Atalaya Asset Income Fund IV LP, and Hudson Cove Credit Opportunity Master Fund, LP (the Syndicate) for a credit facility of US$100,000,000 with a maturity date of May 29, 2022.

The Company had an outstanding revolving line of credit balance of US$40,000,000 and US$21,450,000 as of December 31, 2020 and 2019, respectively, recorded within line of credit, net as a non-current liability on the preliminary 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% (minimum 9.50%) on the US$100,000,000 (9.50% as of December 31, 2020). Beginning May 27, 2020, any daily unused amounts incur a facility fee due to the Syndicate from Sezzle at a rate of .50% per annum.

Under the Loan Agreement, 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 originating from the United States. For the years ended December 31, 2020 and 2019, interest expense relating to the line of credit was US$2,468,263 and US$908,309, respectively. As of December 31, 2020 and 2019, Sezzle had pledged US$70,989,536 and US$23,757,188, respectively, of its notes receivable to Sezzle Funding SPE, LLC.

The Company's obligations under the Loan Agreement are secured by its consumer notes receivable. The collateral does not include the Company's intellectual property, but the Company has agreed not to encumber its intellectual property without the consent of the Syndicate.

The Company must maintain a drawdown from the credit facility of at least US$20,000,000 beginning November 29, 2019 and of at least US$40,000,000 beginning November 29, 2020. Sezzle will pay a termination fee and make-whole fee to the Syndicate in the event of early termination. Fees differ based on termination timing differences.

For the years ended December 31, 2020 and 2019, amortization expense recorded for debt issuance costs on the line of credit totaled US$417,054 and US$68,098, respectively. Total cumulative cash payments to date for debt issuance costs were US$663,649 as of December 31, 2020 and 2019.

NOTE 12 – LONG TERM DEBT

Minnesota Department of Employment and Economic Development Loan

On July 26, 2018, the Minnesota Department of Employment and Economic Development (DEED) funded a US$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.

Paycheck Protection Program Loan

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

The Company met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness as of December 31, 2020. When legal release is received, the Company will record the amount forgiven as forgiveness income within the other income (expense) section of its preliminary 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. As of December 31, 2020, the Company has accrued US$8,526 of interest expense for this note.

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.

NOTE 13 – CONVERTIBLE NOTES

On March 29, 2019, the Company issued US$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 US$25,000 discount, comprising of debt issuance costs, 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 US$25,000 for the year ended December 31, 2019 and is recorded within interest expense within the preliminary consolidated statements of operations. Additionally, the notes carried a 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. 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 US$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 conversion feature whereby the notes may convert into common stock.

On June 6, 2019, the Company issued two separate convertible notes totaling US$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 5 years should no conversion event occur. The notes paid an annual interest rate of 10% on the unpaid principal balance through June 6, 2021.

The first convertible note of US$75,000 carried a 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 also would have converted in the event the Company consummated an equity financing arrangement with an aggregate sales price of no less than US$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 US$75,000 carried a 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 also would have converted in the event the Company consummated an equity financing arrangement with an aggregate sales price of no less than US$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 contingent conversion features of the notes issued on March 29, 2019 and June 6, 2019 were triggered on July 24, 2019 as a result of the Company's initial public offering of common stock on the ASX. The total non-cash impact of the beneficial conversion feature was US$579,216, comprised of US$470,268 of expense incurred on the date of conversion, and accumulated interest incurred on the convertible notes of US$88,229. The impacts of the conversion are recorded within interest expense on beneficial conversion feature and interest expense, respectively, in the preliminary consolidated statements of operations for the year ended December 31, 2019.

NOTE 14 – 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 one 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, including vesting of restricted stock units, totaled US$7,010,844 and US$1,167,265 for the years ended December 31, 2020 and 2019, respectively. Equity based compensation expense is recorded within selling, general, and administrative expenses within the preliminary 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 6,844,170 and 8,336,253 options issued and outstanding under the plan as of December 31, 2020 and 2019, respectively. Additionally, the Company had 87,500 and 350,000 of restricted stock awards issued and outstanding as of December 31, 2020 and 2019, respectively. During the years ended December 31, 2020 and 2019, 1,344,145 and 882,914 options were exercised into 1,344,145 and 882,914 shares of common stock, respectively.

2019 Equity Incentive Plan

The Company adopted the 2019 Equity Incentive Plan on June 25, 2019. The number of options authorized for issuance under the plan is 26,000,000. The Company had 17,671,374 and 8,716,250 options issued and outstanding as of December 31, 2020 and 2019, respectively; and 2,747,296 and 557,000 restricted stock units issued and outstanding as of December 31, 2020 and 2019, respectively. During the year ended December 31, 2020, 392,331 options were exercised into 392,331 shares of common stock.

The following tables summarize the options issued, outstanding, and exercisable as of December 31, 2020 and 2019:

	For the year ended December 31, 2020			
	Number of Options	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life
Outstanding, beginning of period	17,052,503	$ 0.624	$ 14,895,996	—
Granted	10,105,163	0.826	—	—
Exercised	(1,736,476)	0.305	5,917,834	—
Canceled	(905,646)	0.096	—	—
Outstanding, end of period	24,515,544	1.343	84,731,639	8.65
Exercisable, end of period	7,064,102	0.522	29,883,424	8.04
Expected to vest, end of period	17,451,442	$ 1.675	$ 54,848,215	8.90

	For the year ended December 31, 2019					
	Number of Options		Weighted Average Exercise Price		Intrinsic Value	Weighted Average Remaining Life
Outstanding, beginning of period	7,430,000	$	0.044	$	1,307,849	—
Granted	11,971,250		0.891		—	—
Exercised	(882,914)		0.042		1,108,483	—
Canceled	(1,465,833)		0.215		—	—
Outstanding, end of period	17,052,503		0.624		14,895,996	9.18
Exercisable, end of period	3,396,325		0.071		4,731,629	8.40
Expected to vest, end of period	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 non-employees of the Company under the Black-Scholes method. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date:

		2020		2019
Risk-free interest rate		0.37% - 0.56%		1.59% – 2.61%
Expected volatility		91.30% – 93.83%		65.00% – 82.88%
Expected life (in years)		6.00		6.00
Weighted average estimated fair value of options granted (US$)	$	2.23	$	0.66

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

		2020		2019
Risk-free interest rate		0.68%		-%
Expected volatility		93.0 %		-%
Expected life (in years)		6.1		-
Weighted average estimated fair value of options granted (US$)	$	0.64	$	-

Compensation granted under the LTIP to executive directors are recorded within long term liabilities as of December 31, 2020 and are subject to shareholder approval at the Company's annual general meeting. Refer to Note 16 for further information around the Company's LTIP plan.

Restricted stock award and restricted stock unit transactions during the years ended December 31, 2020 and 2019, respectively, are summarized as follows:

			Weighted Average Grant Date Fair Value
	Number of Shares		US$
Unvested shares, January 1, 2020	772,222	$	1.12
Granted	2,659,094		3.48
Vested	(581,402)		1.02
Forfeited or surrendered	(14,099)		1.41
Unvested shares, December 31, 2020	**2,835,815**	**$**	**3.37**

	Number of Shares	Weighted Average Grant Date Fair Value US$
Unvested shares, January 1, 2019	—	$ —
Granted	907,000	1.15
Vested	(134,778)	0.95
Forfeited or surrendered	—	—
Unvested shares, December 31, 2019	**772,222**	**$ 1.13**

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

For the year ended December 31, 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. The shares underlying the awards were assigned a weighted average fair value of US$1.15 per share, for a total value of US$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, 2020, the total compensation cost related to non-vested awards not yet recognized is US$23,912,268 and is expected to be recognized over the weighted average remaining recognition period of approximately 3.0 years.

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

NOTE 15 – 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 US$60,933,272 and US$13,284,544 as of December 31, 2020 and 2019, respectively, as disclosed on the preliminary consolidated balance sheets. Of these amounts, US$53,528,501 and US$10,053,570 were recorded within the merchant interest program balance as of December 31, 2020 and 2019, respectively.

Deferred payments retained in the program bear interest at the LIBOR daily (3 month) rate plus three percent (3.0%) on an annual basis, compounding daily. The weighted average annual percentage yield for the year ended December 31, 2020 was 5.43%. Interest expense associated with the program totaled US$1,475,554 and US$293,461 for the years ended December 31, 2020 and 2019, 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 16 – SHORT AND LONG TERM INCENTIVE PLANS

In May 2020 the Company adopted a short term incentive compensation program for its employees and executives. The program is based on achievements where individuals will be compensated for company-wide and individual and/or team performance for the fiscal year. Measurement of compensable amounts is determined at the end of the year and payouts to individuals will be made in the form of restricted stock units in the following year. As of December 31, 2020, the Company has accrued a total of US$2,133,806 for this program, which is recorded in accrued liabilities on the preliminary consolidated balance sheets and offset by an expense recognized in selling, general, and administrative expenses within the preliminary consolidated statements of operations.

The Company also adopted a Long Term Incentive Plan (LTIP) for its executive team in May 2020. The LTIP comprises grants of market priced stock options under the 2019 Equity Incentive Plan, with vesting subject to required levels of Comparative Total Shareholder Return (TSR) tested over three years, and subject to continued employment for a three-year period ending January 1, 2023. Both the market and service vesting conditions must be met in order for the grantee to vest at the end of the three year measurement period.

Each of the executive and designated senior officers of the Company was awarded an LTI stock option grant to purchase shares on May 22, 2020. The stock options have an exercise price of A$2.10 per share, based on the closing sale price of CDIs on the ASX on May 21, 2020, the trading day prior to the date of grant. The amount of each award is equal to 300% of the individual's salary in effect as of May 22, 2020 (100% for each of the three years in the performance period and pro-rated for start date).

The Company's stock price performance will be measured based on its volume weighted average price relative to other companies included within the S&P/ASX All Technology Index. The number of LTI stock option grants were calculated based on a fair value of US$0.64 for each option, determined under a Monte Carlo valuation simulation. Total expense recognized related to compensation under the LTIP program was US$5,939,644 for the year ended December 31, 2020. The compensable amounts under the LTIP to executive board members are subject to final shareholder approval. Due to the pending approval, as of December 31, 2020, the Company has accrued US$4,483,073 within other non-current liabilities in the preliminary consolidated balance sheets, offset by an expense recognized in selling, general, and administrative expense within the preliminary consolidated statements of operations. Awards to non-board member executives are included within the stock compensation amounts detailed within Note 14.

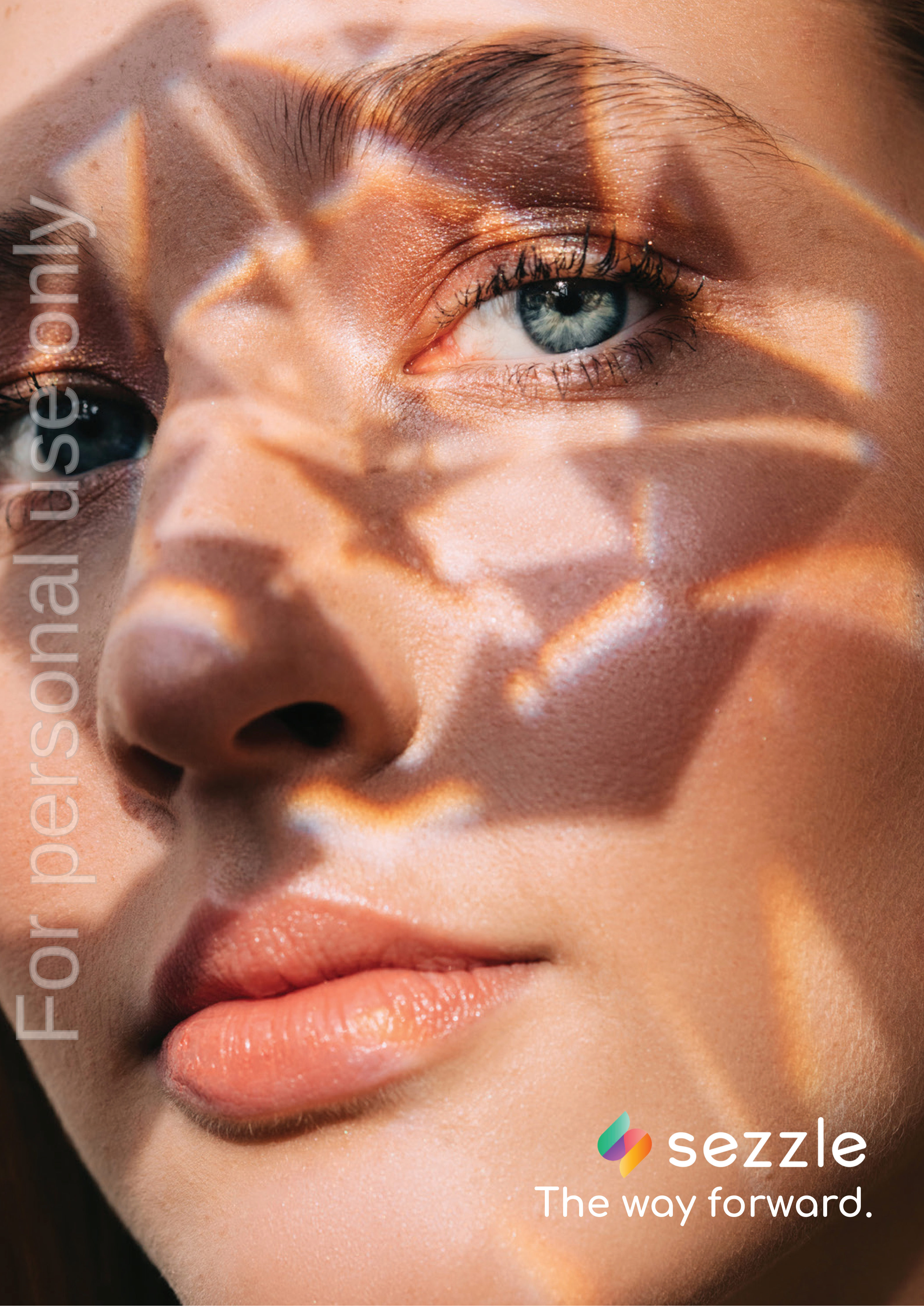
NOTE 17 – LOSSES PER SHARE

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. Diluted loss 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, 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, convertible notes, and preferred stock shares are not included in the calculation of diluted loss per share for the years ended December 31, 2020 and 2019.

NOTE 18 – SUBSEQUENT EVENTS

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 US$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 (US$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.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