

Appendix 4D (Rule 4.2A.3)

Half Year Report

Name of Entity: Sezzle Inc. (Sezzle or Company)

ARBN: 633 327 358

Reporting Period: For the six months ended 30 June 2019

Previous Period: For the six months ended 30 June 2018

Results for Announcement to the Market

Sezzle 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). All results of the Company are denominated in U.S. Dollars unless otherwise noted.

Financial Information

	30 June 2019	30 June 2018	% Change	Up / Down
Income from ordinary activities	\$4,298,070	\$255,902	1580%	Up
Loss before tax	(4,754,794)	(1,021,466)	365%	Up
Loss after tax attributable to the members of Sezzle	(4,754,794)	(1,021,466)	365%	Up

Net Tangible Assets per Share

	30 June 2019	30 June 2018
Net tangible assets	\$18,768,173	\$8,651,360
Total number of shares on issue	59,633,632	59,416,666
Net tangible assets per share	\$0.31	\$0.15

Dividends

No dividends on common shares were declared or issued during the six months ended 30 June 2019. On 23 June 2019, the Board of Directors declared and issued a 15% stock dividend resulting in the issue of 909,451 Series A preferred shares to the existing holders of Series A-1 through A-5 preferred stock, valued at \$763,939. The preferred stock dividend is classified as Series A-6 preferred stock and is subject to the same rights as all other series of preferred stock. All preferred stock was converted into common stock on 24 July 2019 in conjunction with the Company listing on the Australian Securities Exchange (**ASX**).

Basis of Preparation

The results of the Company are reported under accounting principles generally accepted in the United States of America (U.S. GAAP).

Other Information Required by Listing Rule 4.2A.3

Other information requiring disclosure to comply with Listing Rule 4.2A.3 is contained in the consolidated financial statements for the half year ended 30 June 2019.



SEZZLE INC.
ARBN 633 327 358

HALF YEAR REPORT

FOR THE HALF YEAR
ENDED 30 JUNE 2019



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Directors' Report

The Directors present their report, together with the consolidated financial statements, of Sezzle Inc. (ASX: **SZL**, **Sezzle** or **Company**) and its wholly owned subsidiary for the half year ended 30 June 2019.

Directors

The following individuals were Directors of Sezzle for the full half year ended 30 June 2019:

Charlie Youakim

Co-founder, Executive Chairman, and Chief Executive Officer

Paul Paradis

Co-founder, Executive Director, and Chief Revenue Officer

Additionally, the following individuals were named to the Board of Directors during the reporting period:

Paul Lahiff

Independent Non-Executive Director – appointed 7 May 2019;

Kathleen Pierce-Gilmore

Independent Non-Executive Director – appointed 15 April 2019; and

Paul Purcell

Independent Non-Executive Director – appointed 15 April 2019.

Background to the Results

Sezzle is a technology-driven payments company based in the United States with the mission of financially empowering the next generation. Sezzle provides a payments platform that facilitates fast, secure and easy payments between End-customers and merchants. Sezzle's payment product is a short-term, interest-free installment plan that delivers to End-customers both a budgeting and financing value proposition.

Principal Activities

Sezzle earns its income primarily from interest-free lending to End-customers who purchase goods from affiliated merchants. Sezzle pays the Retail Merchant Clients the value of underlying sales net of transaction fees charged by Sezzle (**Merchant Fees**) for facilitating the purchases by End-customers transacted on their retail web sites. Merchant Fees are generated on each discrete, approved order placed by the End-customer through the Sezzle Platform. The fee is predominantly based on a percentage of the End-customer order value plus a fixed transaction fee per sale.

Reschedule Fees are applied to End-customers where the shopper requests to shift their installment schedule. Sezzle limits reschedules to two weeks from the originally scheduled date and allows End-customers to reschedule once per order for free. Additional reschedules on the order are levied a \$5.00 fee and are dependent on the shopper agreeing to that additional fee.

Sezzle's other main source of income is End-customer other income, which includes End-customer failed payment fees, net of fee waivers and net of the expected cost of uncollectible amounts attributable to failed payment fees. Failed payment fees are applied in cases where the End-customer's payment fails in the automated payment process. In these instances, the fee is waived if the End-customer corrects the failure within 48 hours. If the failure is not corrected within 48 hours, the failed payment fee remains and must be paid before the End-customer can use Sezzle again. The failed payment fee is currently \$10.00.

Sezzle does not charge interest or initiation fees for offering credit to End-customers and has no current plans to offer any interest bearing products to End-customers.

Directors' Report (cont.)

Business Updates

The Company's key operating metrics continue to trend strongly in a positive direction.

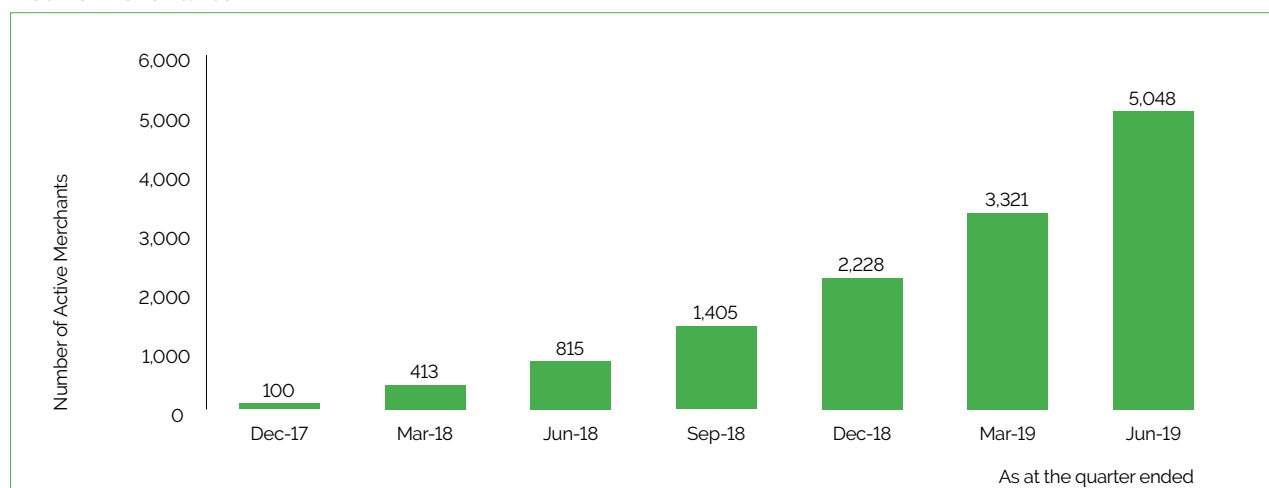
Measure	For the six months ended	
	30 June 2019	30 June 2018
Underlying Merchant Sales (UMS) (US\$)	\$70.2M	\$4.5M
Active Merchants	5,048	815
Active Customers	429,898	26,724

Active Merchants and Active Customers are defined as those that have transacted with Sezzle in the past 12 months

As at 30 June 2019, Sezzle had 5,048 Active Merchants using the Sezzle Platform, an increase from 3,321 Active Merchants at the end of the prior quarter and 815 Active Merchants as at 30 June 2018. Further, Active Customers increased to 429,898 as at 30 June 2019, compared to 269,820 at the end of the prior quarter and 26,724 as at 30 June 2018. Underlying Merchant Sales for the quarter ended 30 June 2019 were \$41.9 million, compared to \$28.3 million for the prior quarter and \$2.9 million for the quarter ended 30 June 2018. Merchant Fees were \$2.1 million for the quarter ended 30 June 2019, up from \$1.4 million for the prior quarter and \$0.2 million for the quarter ended 30 June 2018.

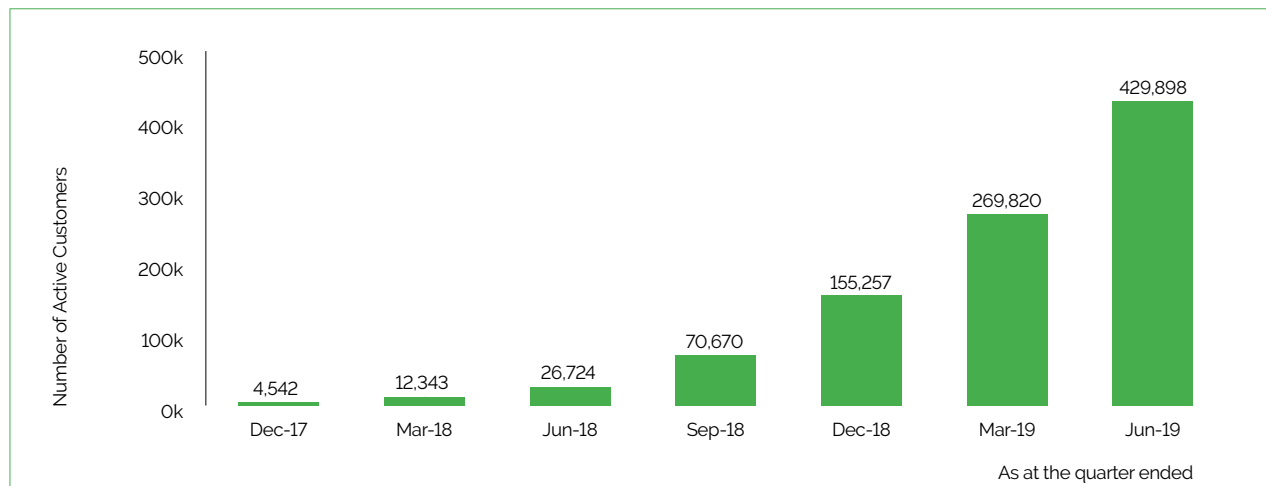
The Company launched its product in Canada during the second half of the six months ended 30 June 2019 and continues to see month over month growth in UMS in Canada.

Active Merchants

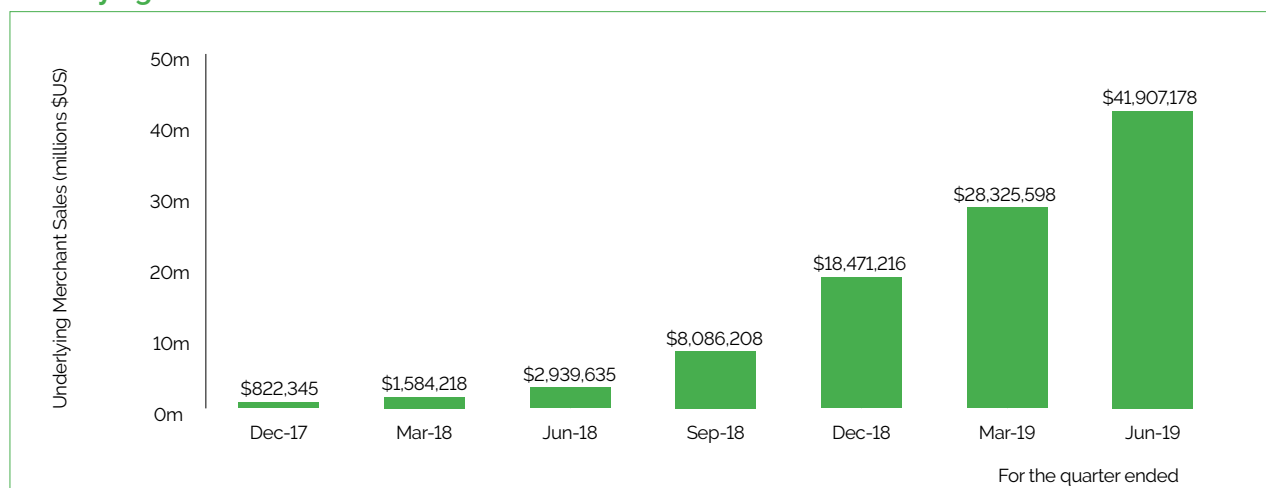


Directors' Report (cont.)

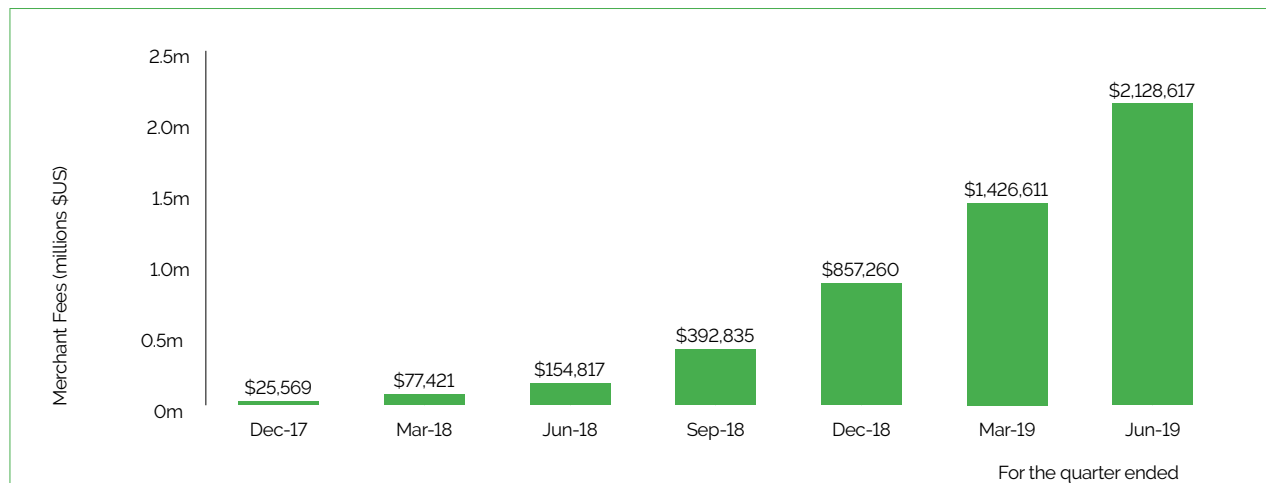
Active Customers



Underlying Merchant Sales



Merchant Fees



Directors' Report (cont.)

Operational Update

The results of the Company are reported under accounting principles generally accepted in the United States of America (U.S. GAAP). This report also includes certain non-U.S. GAAP financial information including EBITDA, EBIT, Gross Profit, Gross Margin, Net Transaction Loss, and Net Transaction Margin, as defined in the applicable sections below.

- > EBITDA is earnings before interest, tax, depreciation and amortization expenses;
- > EBIT is earnings before interest and taxation;
- > Gross profit is calculated as Total Income less cost of income; and
- > Gross margin is gross profit divided by Total Income, expressed as a percentage.

Note, some numerical figures included in the Directors' Report have been subject to rounding adjustments. Any discrepancies between totals and sums of components in tables contained in this report are due to rounding.

The financial results of the Company for the six months ended 30 June 2019 are presented below:

US\$000's	For the six months ended		
	30 June 2019	30 June 2018	Change
Sezzle Income	3,615	225	3,390
End-customer other income	683	31	652
Total Income	4,298	256	4,042
Cost of income	(2,292)	(71)	(2,221)
Gross profit	2,006	185	1,821
<i>Gross margin %</i>	46.7%	72.3%	45.1%
Other income	20	1	19
Uncollectible accounts	(1,744)	(128)	(1,616)
Other operating expenses	(4,441)	(1,040)	(3,401)
EBITDA	(4,159)	(982)	(3,177)
Depreciation and amortization	(98)	(31)	(67)
EBIT	(4,257)	(1,013)	(3,244)
Net interest expense	(498)	(1)	(497)
Fair value adjustment on future equity obligations	–	(7)	7
Loss before taxes	(4,755)	(1,021)	(3,734)
Income tax benefit/(expense)	–	–	–
Net loss after taxes	(4,755)	(1,021)	(3,734)

The Company continues to see growth in the business as a result of continued success of onboarding and retaining Active Merchants and Active Customers. The Company recorded a loss of (\$4.8) million for the six months ended 30 June 2019, compared to a loss of (\$1.0) million for the six months ended 30 June 2018.

Directors' Report (cont.)

Sezzle Income

Merchant Fees totaled \$3.6 million for the six months ended 30 June 2019, compared to \$0.2 million for the six months ended 30 June 2018.

Merchant Fees and End-customer reschedule fees, less note origination costs, collectively comprise Sezzle Income and are initially recorded as a deduction from notes receivable in the consolidated balance sheets and then recognized in the consolidated statements of operations over the average duration of the underlying notes receivable. Total End-customer reschedule fees less note origination costs were less than \$0.1 million for the six months ended 30 June 2019. Sezzle Income as a percentage of UMS was 5.1% for the six months ended 30 June 2019 compared to 5.0% for the six months ended 30 June 2018.

End-customer other income

End-customer other income was \$0.7 million for the six months ended 30 June 2019 with failed payment fee income as the driver for the increase. The growth in failed payment fee income is driven by operational improvements in the Company's collection strategy.

Cost of income

Cost of income primarily consists of payment processing costs. The increase in cost of income for the six month comparative periods is due to the increase in card utilization over direct debit from End-customer bank accounts as a form of payment. In April 2019, Sezzle changed card processing service providers with the aim of lowering these processing costs. During the six months ended 30 June 2019 Sezzle started to realize lower processing costs.

Uncollectible accounts

The total provision for uncollectible accounts was \$1.7 million for the six months ended 30 June 2019, or approximately 2.5% of UMS, compared to \$0.1 million for the comparative period (approximately 2.8% of UMS). Improved loss rates are largely driven by the Company's continued improvement in underwriting processes as well as increases in the ratio of existing versus new End-customers using the Sezzle Platform.

Other operating expenses

Other operating expenses for the six months ended are comprised of the following:

	For the six months ended			
	30 June 2019		30 June 2018	
Other operating expenses	US\$000's	% of Total	US\$000's	% of Total
Compensation related expenses	2,811	63.3%	636	61.1%
Third party service provider costs	554	12.5%	146	14.0%
Marketing, advertising and tradeshow	370	8.3%	109	10.5%
Professional services	238	5.4%	16	1.6%
Rent	158	3.5%	29	2.8%
Other	310	7.0%	104	10.0%
Total Other operating expenses	4,441		1,040	

- > Compensation related expenses increased to \$2.8 million compared to \$0.6 million for the comparative period as a result of increased headcount.
- > Third party service provider costs consist primarily of costs incurred to obtain data used in underwriting End-customers. Costs increased to \$0.6 million compared to \$0.1 million driven by increases in Active Customers using the Sezzle Platform.

Directors' Report (cont.)

- > Marketing, advertising and tradeshow costs were \$0.4 million for the six months ended 30 June 2019 and are driven by the Company's efforts in expanding its presence and brand name with both merchants and End-customers.
- > Professional services include legal, financial audit, and tax related costs. The total costs of \$0.2 million for the six months ended 30 June 2019 are primarily driven by the Company's completion of its financial statement audit for the years ended 2017 and 2018.
- > Rent expense was \$0.2 million for the six months ended 30 June 2019. The Company's corporate headquarters moved to a larger facility to accommodate its expanded employee headcount.

Net interest expense

Net interest expense totaled \$0.5 million for the six months ended 30 June 2019, primarily driven by a full period of utilizing the Company's revolving credit facility with Bastion.

Net Transaction Margin is expressed as a percentage and is calculated by Sezzle as:

- (a) total Sezzle Income earned divided by UMS, expressed as a percentage;
- (b) less the cost of End-customer communications and the total costs paid by Sezzle to process transactions, divided by the UMS, expressed as a percentage;
- (c) less Transaction Funding Financing Costs, divided by the UMS, expressed as a percentage;
- (d) less Net Transaction Loss, divided by the UMS, expressed as a percentage.

Summarized below, Net Transaction Margin for the six months ended 30 June 2019 and 2018 are as follows:

	For the six months ended			
	30 June 2019		30 June 2018	
Net Transaction Margin (NTM)	US\$000's	% of UMS	US\$000's	% of UMS
Underlying Merchant Sales (UMS)	70,233		4,524	
Sezzle income	3,615	5.1%	225	5.0%
Cost of income	(2,292)	-3.3%	(71)	-1.6%
Net Transaction Loss	(1,061)	-1.5%	(97)	-2.1%
Transaction funding financing costs	(483)	-0.7%	(1)	-0.0%
Net Transaction Margin	(221)	-0.3%	56	1.2%

Net Transaction Loss, calculated by Sezzle as the expected provision and actual losses against notes receivable and reschedule fee losses to be incurred (less End-customer fees collected), has shown improvement in relation to the comparative period. This is due to a mixture of improved collection of principal notes receivable and increases in End-customer other income (End-customer fees comprise non-waived failed payment fees, net of the expected cost of uncollectible accounts attributable to failed payment fees).

	For the six months ended			
	30 June 2019		30 June 2018	
Net Transaction Loss	US\$000's	% of UMS	US\$000's	% of UMS
Uncollectible accounts	(1,744)	-2.5%	(128)	-2.8%
End-customer other income	683	1.0%	31	0.7%
Net Transaction Loss	(1,061)	-1.5%	(97)	-2.1%

Directors' Report (cont.)

Balance Sheet Activity

The Company's End-customer notes receivable, net, increased to \$10.8 million from \$4.9 million as of 30 June 2019 and 31 December 2018. Merchant accounts payable also increased to \$6.2 million from \$2.3 million. Both increases are a result of increased volumes in Underlying Merchant Sales, Active Merchants, and Active Customers. To help facilitate the increased activity the Company's revolving line of credit increased to \$5.0 million from \$4.2 million as of 30 June 2019 and 31 December 2018, respectively.

During the six months ended 30 June 2019, the Company issued convertible notes totaling \$5.8 million. The proceeds from this offering were utilized to fund the Company's operations as well as facilitate the lending activity with Active Customers and Active Merchants. The convertible notes were converted to common stock upon the Company's Initial Public Offering (**IPO**) on the Australian Securities Exchange (see the 'Subsequent Events' section of the Directors' Report for additional detail around the IPO).

Refer to the Consolidated Balance Sheets on page 12 within this Half Year Report for further information.

Statement of Cash Flows

Significant non-cash items include expenses recorded to establish the provision for uncollectible accounts on notes and other receivables from End-customers (H1 FY19 \$2.0 million and H1 FY18 \$0.1 million), and expenses recorded for the Company's equity based compensation for employees (H1 FY19 \$0.1 million and \$0.0 million for H1 FY18).

The (\$0.1) million net cash outflow for the six month period ended 30 June 2019 is driven by higher operating losses (negative EBITDA) during the period and increases in net working capital, offset by cash inflows from the issuance of convertible notes totaling \$5.8 million and a \$0.8 million increase in the line of credit balance utilized by the Company.

The increase in net working capital is primarily due to an increase in receivables from End-customers of \$8.0 million, partly offset by an increase in accounts payable to merchants of \$3.9 million and accrued liabilities of \$0.3 million.

Refer to the Consolidated Statements of Cash Flows on page 15 within this Half Year Report for further information.

Dividends

No dividends on common shares were declared or issued during the six months ended 30 June 2019.

On 23 June 2019, the Board of Directors declared and issued a 15% stock dividend resulting in the issue of 909,451 Series A preferred shares to the existing holders of Series A-1 through A-5 preferred stock, valued at \$0.8 million. The preferred stock dividend is classified as Series A-6 preferred stock and is subject to the same rights as all other series of preferred stock. All preferred stock was converted into common stock on 24 July 2019 in conjunction with the Company listing on the Australian Securities Exchange (ASX).

Subsequent Events

On 24 July 2019, the Company restructured its share capital in anticipation of listing on the ASX. Each of the Series A preferred stock and convertible notes outstanding were converted into common stock. The Company issued 70,446,291 common shares upon conversion of 70,446,291 of Series A preferred stock, converted on a 1:1 basis in accordance with the terms of the preferred stock agreements. In addition, the Company issued 12,064,155 common shares following the conversion of the \$5.8 million of convertible notes outstanding, along with accrued interest, at a conversion price of \$0.49 per common share.

Additionally, the Company issued 5,150,000 of stock options to employees under the 2019 Stock Option Plan at an exercise price of \$0.84 per share and an expiration date of 24 July 2029.

On 29 July 2019, the Company was formally admitted to the Official List of the ASX and on 30 July 2019, the Company's securities commenced trading 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 approximately A\$43.6 million (US\$30 million).

SEZZLE INC. AND SUBSIDIARY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR
ENDED 30 JUNE 2019



Independent Auditors' Report



INDEPENDENT AUDITORS' REVIEW REPORT

Board of Directors, Audit Committee and Shareholders
Sezzle, Inc. and Subsidiary
Minneapolis, Minnesota
ARBN: 633 327 358

Report on the Consolidated Financial Statements

We have reviewed the accompanying consolidated balance sheets of Sezzle, Inc. and Subsidiary as of 30 June 2019 and 31 December 2018, and the related consolidated statements of operations, stockholders' deficit and cash flows for the six months ended 30 June 2019 and 2018 and the related notes to the consolidated financial statements.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditor's Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
29 August 2019

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

Consolidated Balance Sheets

	As of the period ended	
	30 June 2019 (unaudited)	31 December 2018 (audited)
Assets		
Current Assets		
Cash and cash equivalents	\$6,468,615	\$6,519,400
Restricted cash	465,107	545,454
Notes receivable, net	10,846,083	4,930,616
Other receivables, net	100,818	32,780
Prepaid expenses and other current assets	382,798	128,167
Total current assets	18,263,421	12,156,417
Non-Current Assets		
Internally developed intangible assets, net	397,669	260,732
Property and equipment, net	83,759	75,676
Right-of-use assets	368,126	–
Restricted cash	20,000	20,000
Other assets	32,867	22,509
Total Assets	\$19,165,842	\$12,535,334
Liabilities, Mezzanine Equity, and Stockholders' Deficit		
Current Liabilities		
Merchant accounts payable	\$6,192,102	\$2,276,880
Lease liability (current)	372,291	–
Other payables	177,822	96,252
Accrued liabilities	754,335	457,488
Total current liabilities	7,496,550	2,830,620
Long Term Liabilities		
Long term debt, net of unamortized discounts of \$21,781 and \$0, respectively	6,040,719	250,000
Lease liability (noncurrent)	38,147	–
Line of credit, net of unamortized debt issuance costs of \$64,277 and \$66,172, respectively	4,935,723	4,133,828
Total Liabilities	18,511,139	7,214,448
Mezzanine Equity		
Preferred stock, 6% noncumulative, \$0.00001 par value; 200,000,000 shares authorized; 70,446,291 and 69,536,840 shares issued and outstanding, respectively	12,442,368	11,678,429
Stockholders' Deficit		
Common stock, \$0.00001 par value; 300,000,000 shares authorized; 59,633,632 and 59,416,666 shares issued and outstanding, respectively	596	594
Additional paid-in capital	188,466	99,857
Accumulated deficit	(11,976,727)	(6,457,994)
Total Stockholders' Deficit	(11,787,665)	(6,357,543)
Total Liabilities, Mezzanine Equity, and Stockholders' Deficit	\$19,165,842	\$12,535,334

See accompanying notes to the consolidated financial statements

Consolidated Statements of Operations

	For the six months ended	
	30 June 2019	30 June 2018
Income		
Sezzle income	\$3,614,947	\$224,758
End-customer other income	683,123	31,144
Total income	4,298,070	255,902
Cost of Income	2,292,369	70,934
Gross profit (loss)	2,005,701	184,968
Operating Expenses		
Selling, general, and administrative expenses	4,538,649	1,071,202
Provision for uncollectible accounts	1,743,966	127,659
Total operating expenses	6,282,615	1,198,861
Operating Loss	(4,276,914)	(1,013,893)
Other Income (Expense)		
Interest expense	(498,080)	(1,335)
Other income and expense	20,200	1,252
Fair value adjustment on future equity obligations	–	(7,490)
Loss before taxes	(4,754,794)	(1,021,466)
Income tax expense	–	–
Net Loss	\$(4,754,794)	\$(1,021,466)
Earnings per share:		
Basic and diluted loss per common share	\$(0.08)	\$(0.02)
Basic and diluted weighted average shares outstanding	59,491,390	59,416,666

See accompanying notes to the consolidated financial statements

Consolidated Statements of Stockholders' Deficit

	Common Stock		Additional	Stock	Accumulated	
	Shares	Amount	Paid-in Capital	Subscriptions	Deficit	Total
Balance at 1 January 2018	59,416,666	\$594	\$69,180	\$(57,708)	\$(2,264,441)	\$(2,252,375)
Equity based compensation	-	-	1,515	-	-	1,515
Net loss	-	-	-	-	(1,021,466)	(1,021,466)
Balance at 30 June 2018	59,416,666	\$594	\$70,695	\$(57,708)	\$(3,285,907)	\$(3,272,326)

	Common Stock		Additional	Stock	Accumulated	
	Shares	Amount	Paid-in Capital	Subscriptions	Deficit	Total
Balance at 1 January 2019	59,416,666	\$594	\$99,857	\$-	\$(6,457,994)	\$(6,357,543)
Equity based compensation	-	-	81,765	-	-	81,765
Stock option exercises	216,666	2	6,844	-	-	6,846
Preferred stock dividend	-	-	-	-	(763,939)	(763,939)
Net loss	-	-	-	-	(4,754,794)	(4,754,794)
Balance at 30 June 2019	59,633,332	\$596	\$188,466	\$-	\$(11,976,727)	\$(11,787,665)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

	For the six months ended	
	30 June 2019	30 June 2018
Operating Activities:		
Net loss	\$(4,754,794)	\$(1,021,466)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	97,595	30,708
Provision for uncollectible accounts	1,743,966	127,659
Provision for other uncollectible receivables	240,497	15,339
Equity based compensation	81,765	1,515
Amortization of debt issuance costs	15,836	-
Amortization of convertible note discounts	3,219	-
Fair value adjustment on future equity obligations	-	7,490
Changes in operating assets and liabilities:		
Notes receivable	(7,659,433)	(729,015)
Other receivables	(308,540)	(20,488)
Prepaid expenses and other assets	(264,989)	(27,930)
Merchant accounts payable	3,915,222	419,561
Other payables	81,570	65,617
Operating leases	42,316	-
Accrued liabilities	296,847	34,078
Net cash used for operating activities	(6,468,923)	(1,096,932)
Investing Activities:		
Purchase of property and equipment	(36,141)	(36,140)
Internally developed intangible asset additions	(206,473)	(85,949)
Net cash used for investing activities	(242,614)	(122,089)
Financing Activities:		
Proceeds from issuance of long term debt	5,812,500	-
Costs incurred for convertible note issuance	(25,000)	-
Proceeds from line of credit	3,700,000	-
Payments to line of credit	(2,900,000)	-
Proceeds from employee stock option exercises	6,846	-
Payments of debt issuance costs	(13,941)	-
Proceeds of future equity obligations	-	30,000
Proceeds from issuance of preferred stock, net of costs	-	8,073,234
Net cash provided by financing activities	6,580,405	8,103,234
Net increase (decrease) in cash, cash equivalents, and restricted cash	(131,132)	6,884,213
Cash, cash equivalents, and restricted cash:		
Beginning of Period	7,084,854	851,896
End of Period	\$6,953,722	\$7,736,109
Noncash investing and financing activities:		
Issuance of preferred stock from future equity obligations	\$-	\$3,310,043
Issuance of preferred stock dividend	763,939	-
Non-cash lease liabilities arising from obtaining right-of-use assets	576,426	-
Supplementary disclosures:		
Cash paid for interest	479,025	1,335

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

Note 1 – Principal Business Activity and Significant Accounting Policies

Principal Business Activity

Sezzle Inc. (the “Company” or “Sezzle”) is a technology driven payments company based in the United States with the mission of financially empowering the next generation. The Company is a Delaware corporation formed on 4 January 2016. In May 2017, Sezzle pivoted to its current payment product which provides a payments platform that facilitates fast, secure and easy payments between end-customers and merchants. Sezzle’s payment product is a short-term, interest-free installment plan that delivers to end-customer both a budgeting and financing value proposition. By providing access to a payments platform that allows shoppers to pay for products purchased online with interest-free installments over short durations, Sezzle assists end-customers by providing a flexible payment option and enables end-customers to budget for purchases over time while also providing merchants with a tool to increase sales, increase average order values and reduce cart checkout abandonment.

The Company’s product allows end-customers to make online purchases and effectively split the payment for the purchase over four equal, interest free payments over six weeks. The end-customer 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 retail merchant clients by Sezzle in advance of the collection of the purchase price installments by Sezzle from the end-customer.

The Company is headquartered in Minneapolis, Minnesota.

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 Federal Deposit Insurance Corporation (FDIC) limits. As of the date of this report, the Company has experienced no such losses.

Foreign Currency Risk

The Company is exposed to foreign currency fluctuations on its consolidated balance sheets and consolidated statements of operations. Currency risk is managed through limits set on total foreign deposits on hand which are routinely monitored by the Company.

Notes Receivable

The Company has a policy for establishing credit lines for individual end customers that helps mitigate credit risk. The allowance for uncollectible accounts is adequate for covering any potential losses on outstanding notes receivable.

Basis of Presentation

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

Notes to the Consolidated Financial Statements (cont.)

Cash and Cash Equivalents

The Company had cash and cash equivalents of \$6,468,615 and \$6,519,400 as of 30 June 2019 and 31 December 2018, respectively. The Company considers all money market funds and other highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Company accepts debit and credit cards from end-customers 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 year end to be cash and cash equivalents.

Restricted Cash

The Company is required to maintain cash balances in a bank account in accordance with the lending agreement executed on 14 November 2018 between Sezzle Funding SPE, LLC and Bastion Consumer Funding II, LLC ("Bastion"), Sezzle's third party line of credit provider. The bank account is the property of Sezzle Funding SPE, LLC, but access to end-customer payments is controlled by Bastion. On a regular basis cash received from end-customers is deposited to the bank account and subsequently made available to Sezzle through daily settlement reporting with Bastion. Cash deposits to the bank account represent cash received from end-customers, not yet made available to Sezzle, as well as maintenance of minimum deposits required to maintain various fees, costs and interest charged by Bastion. The amount on deposit within the restricted bank account totaled \$465,107 and \$545,454 as of 30 June 2019 and 31 December 2018, respectively.

Additionally, as of 30 June 2019 and 31 December 2018, the Company was required to maintain a \$20,000 cash balance held in a reserve account to cover Automated Clearing House (ACH) transactions. The cash balance within this account is classified as restricted cash and reported within other non-current assets on the consolidated balance sheets.

Receivables and Credit Policy

Notes receivable represent amounts from uncollateralized consumer receivables generated from the purchase of online merchandise. The original terms of the notes 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 end-customers. Sezzle defers direct note origination costs over the average life of the notes receivable using the effective interest rate method. These net deferred fees and costs are recorded within notes receivable, net on the consolidated balance sheets. The Company evaluates the collectability of the balances based on historical experience and the specific circumstances of individual notes, with an allowance for uncollectible accounts being provided as necessary. All notes receivable from end-customers, as well as related fees, outstanding greater than 90 days past due or delinquent 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 consolidated balance sheets as a reduction of the line of credit balance to which those costs relate. These debt issuance costs are being amortized over the life of the underlying debt obligation utilizing the straight-line method, which approximates the effective interest method. Amortization of debt issuance costs is included within interest expense in the consolidated statements of operations.

Notes to the Consolidated Financial Statements (cont.)

Property and Equipment

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

	Years	Method
Computer equipment	3	Double-declining balance
Furniture and fixtures	7	Straight-line
Office equipment	5	Double-declining balance

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

Internally Developed Intangible Assets

The Company capitalizes costs incurred for software developed for internal use. The costs capitalized primarily relate to direct labor costs for employees and contractors working directly on the development and implementation of the software. Projects are deemed eligible for capitalization once it is determined that the project is being designed or modified to meet internal business needs, the project is ready for its intended use, the total estimated costs to be capitalized exceed \$500, and there are no plans to market, sell or lease the project.

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

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

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 \$284,000 and \$98,000 for the six months ended 30 June 2019 and 2018, respectively. Research expenditures are recorded within selling, general, and administrative expenses within the consolidated statements of operations.

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets, including property, equipment and internally developed intangible assets for impairment whenever events and circumstances indicate that the carrying value of the assets may not be recoverable from the future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. There were no impairment losses incurred as of the six months ended 30 June 2019 and 2018.

As of 30 June 2019 and 31 December 2018, the Company had not renewed or extended the initial determined life for any of its recognized internally developed intangible assets.

Notes to the Consolidated Financial Statements (cont.)

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of receivables, property and equipment, and accrued liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. A full valuation allowance is recorded against the Company's deferred tax assets as of 30 June 2019 and 31 December 2018.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of 30 June 2019 and 31 December 2018, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Advertising Costs

Advertising costs are expensed as incurred and consist of internet, e-mail and promotional product expenses. Such costs were \$135,528 and \$43,987 for the six months ended 30 June 2019 and 2018, respectively.

Equity Based Compensation

The Company maintains a stock option plan which provides the offering of incentive and non-statutory stock options to employees and advisors of the Company. Equity based compensation expense reflects the fair value of awards measured at the grant date and recognized over the relevant vesting period. The Company estimates the fair value of each award on the measurement date using the Black-Scholes option valuation model which incorporates assumptions as to stock price volatility, the expected life of the options, risk-free interest rate and dividend yield. The Company issues new shares upon the exercise of stock options. Refer to Note 17 for further information around the Company's equity based compensation plans.

Estimates

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

Fair Value

The fair values of future equity obligations 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.

Notes to the Consolidated Financial Statements (cont.)

The fair value of future equity obligations are determined based on Level 3 inputs. Primarily, the fair value of previously issued instruments were determined based on observable valuations applied by investors near the respective measurement date. Changes in fair value are recorded through the consolidated statements of operations within the fair value adjustment on future equity obligations. The following is a summary of the changes in value of future equity obligations:

	Cash Contributions	Fair Value Adjustments	Total
As of 1 January 2018	\$2,316,000	\$956,553	\$3,272,553
Cash contributions	30,000	–	30,000
Loss on fair value adjustments	–	7,490	7,490
Fair value at 10 April 2018 conversion	2,346,000	964,043	3,310,043
Total conversion to preferred stock	(2,346,000)	(964,043)	(3,310,043)
As of 30 June 2018	\$–	\$–	\$–

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;
- > End-customer communication expenses;
- > Merchant affiliate program fees; and
- > International payment processing costs

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

Segments

The Company's operations consist primarily of lending to end-customers located in the United States who purchase goods from its affiliated merchants. The chief operating decision maker reviews the results of the Company on a consolidated basis and, accordingly, the Company has concluded it has one reportable segment.

Foreign Currency Exchange Gains and Losses

Sezzle works with international merchants creating exposure to gains and losses from foreign currency exchanges. Sezzle's income and cash can be affected by movements in the Canadian Dollar. Sezzle has transactional currency exposures arising from merchant fees and payouts to Canadian merchant partners. Gains from foreign exchange rate fluctuations affecting Sezzle's net loss totaled \$16,556 for the six months ended 30 June 2019 and are recorded within other income and expenses on the consolidated statements of operations. The Company did not hold foreign currency prior to October 2018.

Notes to the Consolidated Financial Statements (cont.)

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which requires all lessees to recognize a liability and a corresponding right-of-use asset for all long-term leases. The Company has adopted the new standard as of 1 January 2019 using the modified retrospective approach. Upon adopting this standard the Company established a right of use asset of \$345,607, lease liabilities of \$355,567, and reduced its deferred rent liability by \$9,960. The Company elected to apply the package of three practical expedients which most notably allowed the Company to carryforward the classifications of its existing leases. Refer to Note 5 for further discussion around lease implementation.

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

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" which requires reporting entities estimate credit losses expected to occur over the life of the asset. Expected losses will be recorded in current period earnings and recorded through an allowance for credit losses on the consolidated balance sheets. The standard is effective for interim and annual periods beginning after 15 December 2019, with a modified retrospective cumulative adjustment to retained earnings required upon adoption. Sezzle plans to adopt this standard beginning 1 January 2020 and is currently evaluating the impact of the standard on its consolidated statements of operations and consolidated balance sheets.

Note 2 – Property and Equipment

Property and equipment, net consists of the following:

	30 June 2019	31 Dec 2018
Computer and office equipment	\$142,097	114,978
Furniture and fixtures	14,749	5,727
Property and equipment, gross	156,846	120,705
Less: accumulated depreciation	(73,087)	(45,029)
Property and equipment, net	\$83,759	\$75,676

Depreciation expense relating to property and equipment was \$28,059 and \$9,962 for the six months ended 30 June 2019 and 2018, respectively.

Notes to the Consolidated Financial Statements (cont.)

Note 3 – Internally Developed Intangible Assets

Internally developed intangible assets, net consists of the following:

	30 June 2019	31 Dec 2018
Internal use software	\$478,752	\$257,537
Web development costs	29,027	29,027
Work in process	31,628	46,370
Internally developed intangible assets, gross	539,407	332,934
Less: accumulated amortization	(141,738)	(72,202)
Internally developed intangible assets, net	\$397,669	\$260,732

Amortization of internally developed intangible assets was \$69,536 and \$20,746 for the six months ended 30 June 2019 and 2018, respectively.

Note 4 – Notes Receivable

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

	30 June 2019	31 Dec 2018
Notes receivable, gross	\$12,440,942	\$5,719,723
Less: allowance for uncollectible accounts		
Balance at start of period	(645,332)	(45,783)
Provision	(1,743,966)	(940,498)
Charge-offs	1,177,971	340,949
Total allowance for uncollectible accounts	(1,211,327)	(645,332)
Notes receivable, net of allowance	11,229,615	5,074,391
Deferred net origination fees on notes receivable	(383,532)	(143,775)
Balance at end of year	\$10,846,083	\$4,930,616

Sezzle maintains an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal receivables from end-customers. Any amounts delinquent after 90 days are charged-off with an offsetting equivalent reversal of the allowance for uncollectible accounts through the provision for uncollectible accounts.

Sezzle uses its judgement to evaluate the allowance for uncollectible accounts based on existing economic conditions and historical performance of end-customer principal payments. The historical vintages are grouped into bi-weekly populations for purposes of the allowance assessment, in line with the standard payment plan of an end-customer. The balances of historical cumulative charge-offs by vintage support the calculation for estimating the allowance for uncollectible accounts for vintages outstanding less than 90 days.

Deferred net origination fees are comprised of Sezzle income and are recognized over the duration of the note with the end-customer.

Notes to the Consolidated Financial Statements (cont.)

Sezzle estimates the allowance for uncollectible accounts by segmenting end-customer 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. End-customer notes receivable are charged-off following the passage of 90 days without receiving a qualifying payment. End-customers 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 end-customers reschedule a payment more than once in the same order cycle they are subject to a reschedule fee. Alternatively, failed payment fees are applied to any missed payments for which an end-customer did not reschedule. Any failed payment 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 30 June 2019 and 31 December 2018:

	30 June 2019			31 December 2018		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Current	\$11,001,843	\$(320,667)	\$10,681,176	\$4,975,024	\$(101,054)	\$4,873,970
Days past due:						
1-28	734,615	(292,067)	442,548	400,755	(215,592)	185,163
29-56	370,199	(277,782)	92,417	200,491	(188,339)	12,152
57-90	334,285	(320,811)	13,474	143,453	(140,347)	3,106
Total	\$12,440,942	\$(1,211,327)	\$11,229,615	\$5,719,723	\$(645,332)	\$5,074,391

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

During the first six months of 2019, the Company entered into two new operating leases for corporate office space, both located within the United States. Total lease expense incurred for the six months ended 30 June 2019 and 2018 was \$157,483 and \$28,966, respectively, and is recorded within selling, general and administrative expenses on the consolidated statements of operations.

The Company's operating leases are recorded on the consolidated balance sheets as follows:

Operating Leases	Classification	30 June 2019
Assets	Right-of-use asset	\$368,126
Total leased assets		\$368,126
Liabilities		
Current	Lease liability (current)	\$372,291
Noncurrent	Lease liability (noncurrent)	38,147
Total lease liabilities		\$410,438

Notes to the Consolidated Financial Statements (cont.)

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

Maturity of Lease Liabilities	
2019	\$190,600
2020	206,297
2021	26,400
Less: interest	(12,859)
Present value of lease liabilities	\$410,438

The weighted average remaining term of the Company's operating leases is 1.2 years. The weighted average discount rate of all operating leases is 4.75%.

Note 6 – Commitments and Contingencies

Marketing and Advertising

In September 2018, the Company entered into an agreement with a third party whereby Sezzle will pay for marketing and advertising costs. The agreement stipulates it will spend up to \$250,000 in marketing and advertising expenses over the four years following the date of the agreement. No marketing and advertising costs in relation to this agreement were incurred for the six months ended 30 June 2019 and 2018.

Note 7 – Income Taxes

At the end of each interim reporting period Sezzle estimates its effective tax rate expected to be applicable for the full year. Consistent with prior years the Company has a full valuation allowance recorded against deferred tax assets due to the uncertainty around the Company's ability to generate future taxable income necessary to realize its deferred tax assets, particularly in light of the Company's historical losses.

As of 31 December 2018, the total approximate amount of gross federal and state net operating loss carryforwards were \$4,394,000 and \$461,000, respectively. Net operating loss carryforwards originating in 2018 and later have no expiration date. The total amount of carryforwards originated prior to 2018 have expiration dates between 2036 and 2037. The state net operating losses have expiration dates between 2036 and 2038. The Company's ability to utilize a portion of its net operating loss carryforwards to offset future taxable income may be subject to certain limitations under Section 382 of the Internal Revenue Code due to changes in the equity ownership. The Company has not performed an analysis to determine if an ownership change has occurred.

Note 8 – Merchant Concentration

There are no material concentrations for the six months ended 30 June 2019. The Company had one merchant that accounted for 15% of net Sezzle income for the six months ended 30 June 2018.

Note 9 – Income

Sezzle income

Sezzle receives its income predominantly from fees paid by retail merchant clients in exchange for Sezzle's payment processing services. These fees are applied to the underlying sales to end-customers passing through the Company's platform and are predominantly based on a percentage of the end-customer order value plus a fixed fee per transaction. End-customer 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, end-customers may reschedule their initial installment plan by delaying payment for up to two weeks, for which Sezzle earns a rescheduled payment fee. The total of merchant fees and rescheduled payment fees, less note origination costs, are collectively referred to as Sezzle income within the consolidated statements of operations.

Notes to the Consolidated Financial Statements (cont.)

Sezzle income is initially recorded as a reduction to notes receivable, net within the consolidated balance sheets. Sezzle income is then recognized over the average duration of the end-customer note using the effective interest rate method. The total Sezzle income to be recognized over the duration of existing notes receivable outstanding was \$383,532 and \$22,792 as of 30 June 2019 and 2018, respectively. Total Sezzle income recognized was \$3,614,947 and \$224,758 for the six months ended 30 June 2019 and 2018, respectively.

End-customer other income

Sezzle also earns income from end-customers in the form of failed payment fees. These fees are assessed to end-customers 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 end-customer. Failed payment fees are recognized at the time the fee is charged to the end-customer, less an allowance for uncollectible amounts. Total failed payment fee income recognized totaled \$683,123 and \$31,144 for the six months ended 30 June 2019 and 2018, respectively.

Note 10 – Stockholders' Deficit

Stock Subscriptions

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

Note 11 – Mezzanine Equity

Preferred Stock

The Company has authorized and designated shares of Series A-1 through A-6 preferred stock as follows:

- > Series A-1: 174,652 shares
- > Series A-2: 15,584,042 shares
- > Series A-3: 18,291,457 shares
- > Series A-4: 33,981,205 shares
- > Series A-5: 25,401,218 shares
- > Series A-6: 909,451 shares

The Company also has 106,567,426 of preferred shares authorized but unissued and undesignated. On 10 April 2018, the Company issued 19,655,605 shares of A-1 through A-3 preferred stock in exchange for converted Simple Agreement for Future Equity (SAFE) agreements issued in prior years. The exchange of the SAFE agreements resulted in issuance of preferred stock valued at \$3,310,043. The initial cash proceeds of the SAFE agreements were \$2,346,000. Refer to Note 15 for additional disclosures regarding the SAFE agreements.

Additionally, during 2018, the Company issued 49,881,235 of A-4 and A-5 preferred shares in exchange for cash proceeds of \$8,368,386, net of costs to issue.

The preferred stockholders are entitled to receive, as and if declared by the Board of Directors, a preferential 6% noncumulative dividend. On 1 May 2019, the Company amended its articles of incorporation. One of the amendments requires the first dividend declared by the Board of Directors to be calculated at 15% of the original issue price. On 23 June 2019, the Board of Directors declared and issued a dividend of 909,451 shares of Series A preferred shares to the existing holders of Series A-1 through A-5 preferred stock, valued at \$763,939. The preferred stock dividend is classified as Series A-6 preferred stock and is subject to the same rights as all other series of preferred shares. As of 31 December 2018, no dividends had been declared.

Notes to the Consolidated Financial Statements (cont.)

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

The preferred shares are classified as mezzanine equity on the consolidated balance sheets due to the fact they are redeemable upon a deemed liquidation event, defined as a change in control upon a merger, consolidation, transfer or sale of the Company that the Company cannot control or prevent from occurring.

Note 12 – Employee Benefit Plan

The Company sponsors a defined contribution 401(k) 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 30 June 2019.

Note 13 – Revolving Line of Credit with Bastion

On 14 November 2018, Sezzle Funding SPE, LLC entered into a Loan and Security Agreement (the “Loan Agreement”) with Bastion Consumer Funding II, LLC (Bastion). The Loan Agreement provides for a credit facility of \$30,000,000 (the “Maximum Dollar Amount”). As of 30 June 2019, the Company had an outstanding revolving line of credit balance of \$5,000,000, recorded within Line of credit, net as a non-current liability on the consolidated balance sheets.

The line of credit has a maturity date of 14 November 2021 and bears interest at a floating per annum rate equal to the 3 month LIBOR + 12% on the first \$15,000,000 and 3-month LIBOR + 10% for the remaining \$15,000,000 (14.48% and 14.74% as of 30 June 2019 and 31 December 2018, respectively). Interest on borrowings is due monthly and all borrowings are due at maturity. Borrowings subsequent to 1 May 2019 are based on 90% of eligible domestic notes receivable, defined as past due balances outstanding less than 30 days. Total interest expense incurred related to the line of credit was \$359,623 for the six months ended 30 June 2019.

The Company’s obligations under the Loan Agreement are secured by its installment payments 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 Bastion.

The Company must maintain a drawdown from the credit facility of at least \$5,000,000 beginning 15 July 2019 and of at least \$10,000,000 beginning 2 January 2020.

Sezzle will pay a termination fee and make whole fee to Bastion in the event of an early termination. Fees differ based on termination timing differences. Any daily unused amounts will result in a facility fee due to Bastion from Sezzle at a rate of .75% per annum.

The cumulative total of debt issuance costs incurred to date to obtain and manage the line of credit with Bastion totaled \$84,840 through 30 June 2019. The costs were capitalized as a reduction to the line of credit balance and are amortized over the remaining life of the agreement. Total amortization of capitalized line of credit costs was \$15,836 for the six months ended 30 June 2019.

Notes to the Consolidated Financial Statements (cont.)

Note 14 – Notes Payable

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

Note 15 – Future Equity Obligations

During the six months ended 30 June 2018, the Company entered into various SAFE agreements with investors in exchange for proceeds of \$30,000. The SAFE agreements have no maturity date and bear no interest. The agreements provide the rights of the investors to preferred stock in the Company upon an equity financing event as defined in the agreements. The agreements are subject to valuation caps ranging from \$8,000,000 to \$12,000,000 and have conversion discount rates ranging from 15% to 25%.

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

The Company recorded the changes in fair value of the SAFE agreements at each reporting period to the consolidated statements of operations. The changes in fair value resulted in losses of \$0 and \$7,490 for the six months ended 30 June 2019 and 2018, respectively. The changes in fair value are recorded to other income (expense) within the consolidated statements of operations.

On 10 April 2018, the SAFE agreements converted into preferred stock.

Note 16 – Convertible Notes

On 28 March 2019, the Company issued \$5,662,500 of convertible notes to a group of investors. The promissory notes have a stated maturity date of 29 March 2021 and pay an annual interest rate of 4% on the unpaid principal balance through 30 June 2019. Subsequent to 30 June 2019, the notes pay an annual interest rate of 8% on the unpaid principal balance. The notes were issued at a \$25,000 discount which is amortized over the life of the convertible notes. Amortization of the discount totaled \$3,219 for the six months ended 30 June 2019 and is recorded within interest expense within the consolidated statements of operations. Additionally, the notes carry a conversion feature whereby they will 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 may also convert in the event the Company consummates an equity financing arrangement with an aggregate sales price of not less than \$10,000,000. Upon the occurrence of one of the aforementioned events the notes will convert into 80% of the price per share value of common stock applicable at the time of the event. The notes also carry an optional conversion feature whereby the notes may convert into common stock.

On 6 June 2019, the Company issued two separate convertible notes totaling \$150,000. The promissory notes have a stated maturity date of 6 June 2021 with the option of individual 1-year renewable periods for up to 5 years should no conversion event occur. The notes pay an annual interest rate of 10% on the unpaid principal balance through 6 June 2021.

Notes to the Consolidated Financial Statements (cont.)

The first convertible note of \$75,000 carries a conversion feature whereby they will 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 will also convert in the event the Company consummates an equity financing arrangement with an aggregate sales price of not less than \$500,000. Upon the occurrence of one of the aforementioned events the notes will convert into 80% of the price per share value of common stock applicable at the time of the event. The notes also carry an optional conversion feature whereby the notes may convert into common stock.

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

There were no contingencies that occurred for any of the convertible notes through 30 June 2019. Therefore, no beneficial conversion features were recorded in the consolidated financial statements during the six months ended 30 June 2019.

Note 17 – Equity Based Compensation

The Company issues incentive stock options to employees with vesting requirements varying from two to four years (one-year cliff vesting and monthly vesting after the first year of service). The Company utilizes the Black-Scholes model for valuing equity-based compensation expense. Equity based compensation expense recorded totaled \$81,765 and \$1,515 for the six months ended 30 June 2019 and 2018, respectively, and is recorded within selling, general, and administrative expenses within the consolidated statements of operations. The number of options authorized for issuance under the plan is 10,000,000. The Company had 9,798,334 and 7,430,000 options issued and outstanding as of 30 June 2019 and 31 December 2018, respectively. Additionally, the Company had 350,000 of restricted stock awards issued and outstanding as of 30 June 2019. During the six months ended 30 June 2019, 216,666 options were exercised into 216,666 shares of common stock.

For the six months ended 30 June 2019				
	Number of Options	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life
Outstanding, 1 January 2019	7,430,000	\$0.044	\$–	–
Granted	2,995,000	0.050	–	–
Exercised	(216,666)	0.032	–	–
Canceled	(410,000)	0.050	–	–
Outstanding, 30 June 2019	9,798,334	0.046	4,352,028	9.14
Exercisable, 30 June 2019	2,195,096	0.035	999,716	8.57
Expected to vest, 30 June 2019	7,603,238	\$0.049	\$3,352,312	9.31

Notes to the Consolidated Financial Statements (cont.)

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

	30 June 2019
Risk-free interest rate	2.26%–2.61%
Expected volatility	44.93%–50.42%
Expected life (in years)	5.82
Weighted-average estimated fair value of options granted	\$0.15

The total compensation cost related to non-vested awards not yet recognized is \$463,651, expected to be recognized over the weighted average remaining recognition period of approximately 3.0 years.

Note 18 – Losses per share

The computation for basic loss per share is established by dividing net losses for the period by the weighted average shares outstanding during the reporting period. Dilutive losses per share is computed in a similar manner, with weighted average shares increasing from the assumed exercise of employee stock options (if dilutive). Given the Company is in a loss position, the impact of including assumed exercises of stock options and conversion of future equity obligations and preferred stock would have an anti-dilutive impact on the calculation of diluted loss per share. Therefore, stock options, future equity obligations, convertible notes and preferred stock shares are not included in the calculation of diluted loss per share for the six months ended 30 June 2019 and 2018.

Note 19 – Subsequent Events

On 24 July 2019, the Company restructured its share capital in anticipation of listing on the Australian Securities Exchange (ASX). Each of the Series A preferred stock and convertible notes outstanding were converted into common stock. The Company issued 70,446,291 common shares upon conversion of 70,446,291 of Series A preferred stock, converted on a 1:1 basis in accordance with the terms of the preferred stock agreements. In addition, the Company issued 12,064,155 common shares following the conversion of the \$5,812,500 of convertible notes outstanding, along with accrued interest, at a conversion price of \$0.49 per common share.

Additionally, the Company issued 5,150,000 of stock options to employees under the 2019 Stock Option Plan at an exercise price of \$0.84 per share and an expiration date of 24 July 2029.

On 29 July 2019, the Company was formally admitted to the Official List of the ASX and on 30 July 2019, the Company's securities commenced trading 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 approximately A\$43.6 million (US\$30 million).

The Company has evaluated subsequent events through 29 August 2019.