sezzle

The way forward.

2020 HALF YEAR REPORT

Contents

Directors' Report

FOR THE HALF YEAR ENDED JUNE 30, 2020

The Directors present their report, together with the consolidated financial statements of Sezzle Inc. (ASX: SZL, Sezzle, or Company) and its wholly-owned subsidiaries for the half year ended June 30, 2020.

DIRECTORS

The following individuals were Directors of Sezzle for the half year ended June 30, 2020:

Charlie Youakim	Co-founder, Executive Chairman, and Chief Executive Officer
Paul Paradis	Co-founder, Executive Director, and President
Paul Lahiff	Independent Non-Executive Director
Kathleen Pierce-Gilmore	Independent Non-Executive Director
Paul Purcell	Independent Non-Executive Director
Mike Cutter	Independent Non-Executive Director

The Directors listed above each served as a Director throughout the duration of the period and through the date of this report, except for Mike Cutter, who was appointed to Director on June 1, 2020.

PRINCIPAL ACTIVITIES

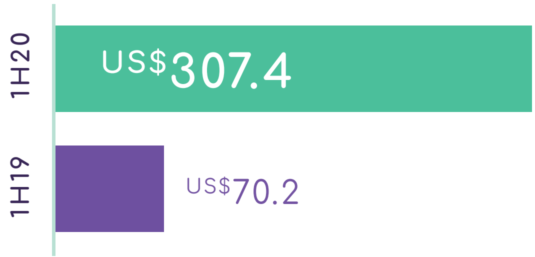
Sezzle provides a technology-driven payment platform that facilitates fast, secure, and easy payments between end-customers and retailers through its short-term, interest-free installment plans that deliver both a budgeting and financing value proposition to its end-customers.

FINANCIAL RESULT

The Company reported an after-tax loss of $8.2 million for the half year ended June 30, 2020, compared to $4.8 million for the prior comparative period.

Key Performance Metrics

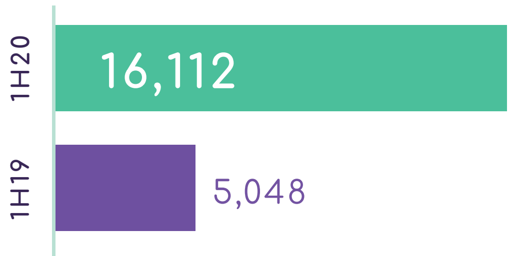
UNDERLYING MERCHANT SALES (UMS) ($000,000s)



338%

Underlying Merchant Sales (UMS) increased by 338%.

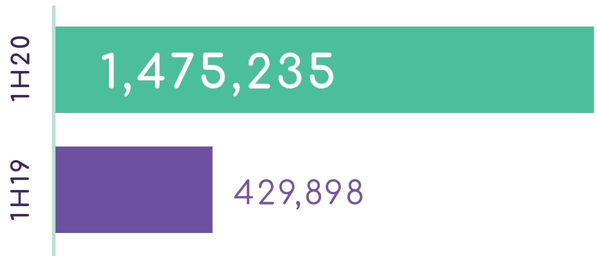
ACTIVE MERCHANTS



219%

Active Merchants increased by 219%.

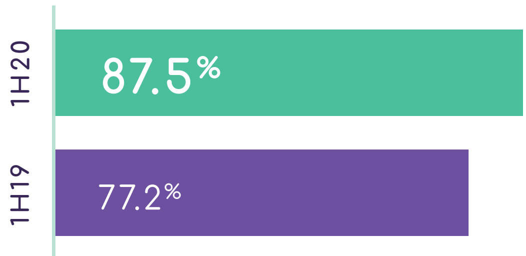
ACTIVE CUSTOMERS



243%

Active Customers increased by 243%.

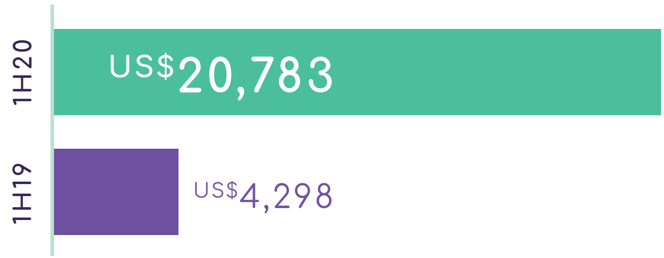
REPEAT USAGE



10.3pp

Repeat Usage increased 10.3 percentage points (pp) and is calculated as the percentage of cumulative orders made by returning end-customers to date relative to total cumulative orders to date. This is an indication of increasingly positive user experience and growing brand loyalty.

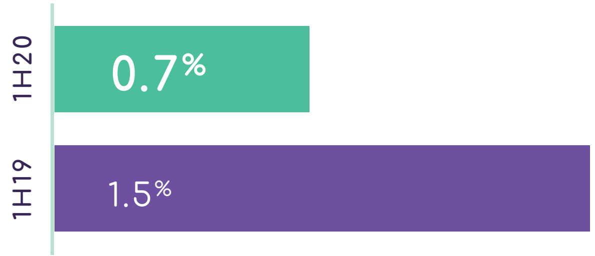
TOTAL INCOME ($000's)



384%

Total income increased by 384% from June 2019 reflecting strong top-line growth.

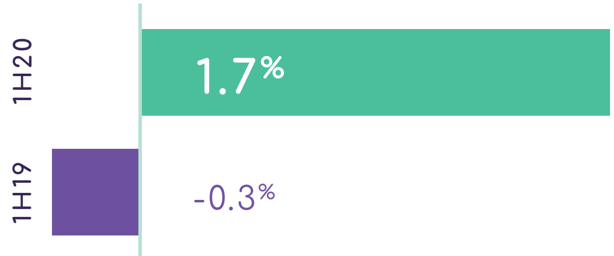
NET TRANSACTION LOSS AS A PERCENTAGE OF UMS



0.8pp

Losses as a percentage of UMS decreased 0.8 pp since June 2019 reflecting disciplined credit risk management and increased usage.

NET TRANSACTION MARGIN AS A PERCENTAGE OF UMS



2.0pp

We went from negative net transaction margin in June 2019 to positive margin in June 2020.

Operating and Financial Performance

Sezzle continued to deliver a strong performance in the first half of 2020, reporting a positive Net Transaction Margin (NTM) of $5.1 million (1.7% as a percentage of UMS), an improvement of over $5.3 million compared to the prior comparative period. The Company also delivered strong growth relative to the prior comparative period in Underlying Merchant Sales (up 338%), Active Merchants (up 219%), and Active Customers (up 243%).

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 Customers.

As of the half year ended June 30		H1 2020	H1 2019
Active Merchants[1]	Up 219%	16,112	5,048
Active Customers[1]	Up 243%	1,475,235	429,898
For the half year ended June 30 (US$000s)			
Underlying Merchant Sales (UMS)	Up 338%	$ 307,400	$ 70,233
Merchant Fees	Up 390%	$17,417	$3,555
Net Transaction Margin[2] (NTM) (% of UMS)	Up 2.0pp	1.7%	(0.3%)
Net Transaction Loss[2] (NTL) (% of UMS)	Down 0.8pp	(0.7%)	(1.5%)

[1] Active Merchants and Active Customers are defined as those who have transacted with Sezzle in the past 12 months.

[2] Net Transaction Margin and Net Transaction Loss are non-U.S. GAAP financial metrics.

NET TRANSACTION MARGIN

The Company's NTM for the half year ended June 30, 2020 improved by 2.0%, as a percentage of UMS, compared to the prior comparative period, driven primarily by improved efficiencies in Sezzle income, reductions in processing costs, and overall improvements in Net Transaction Loss.

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

(a) Total Sezzle Income earned divided by Underlying Merchant Sales, expressed as a percentage;

(b) Less the cost of end-customer communications and the total fees paid by Sezzle to process transactions, divided by Underlying Merchant Sales, expressed as a percentage;

(c) Less Transaction Funding Financing Costs, divided by Underlying Merchant Sales, expressed as a percentage;

(d) Less Net Transaction Loss, divided by Underlying Merchant Sales, expressed as a percentage.

Summarized below, Net Transaction Margin for the half years ended June 30 are as follows:

	FOR THE HALF YEARS ENDED			
	H1 2020		H1 2019	
Net Transaction Margin (NTM)	**US$000's**	**% of UMS**	**US$000's**	**% of UMS**
Underlying Merchant Sales (UMS)	$ 307,400	-	$ 70,233	-
Sezzle income	17,887	5.8%	3,615	5.1%
Cost of income	(8,707)	(2.8%)	(2,292)	(3.3%)
Net Transaction Loss	(2,239)	(0.7%)	(1,061)	(1.5%)
Transaction funding financing costs	(1,856)	(0.6%)	(483)	(0.7%)
Net Transaction Margin	**$ 5,085**	**1.7%**	**$ (221)**	**(0.3%)**

Sezzle income relative to UMS was 5.8% for the H1 2020 period, compared to 5.1% in H1 2019. The year-over-year growth in Sezzle income relative to UMS is due to improvements in contractual Merchant Fee rates with the Company's retail partners (both new and existing).

Cost of income relative to UMS was (2.8%) for the H1 2020 period, compared to (3.3%) in H1 2019. The 0.5% improvement, as a percentage of UMS, is driven by reductions in fees incurred for processing payments of end-customer transactions.

Net Transaction Loss is calculated as the expected provision and actual losses against notes receivable and reschedule fee losses to be incurred (less end-customer fees collected), summarized below:

	FOR THE HALF YEARS ENDED			
	H1 2020		H1 2019	
Net Transaction Loss (NTL)	**US$000's**	**% of UMS**	**US$000's**	**% of UMS**
Provision for uncollectible accounts	$ (5,135)	(1.7%)	$ (1,744)	(2.5%)
End-customer other income	2,896	1.0%	683	1.0%
Net Transaction Loss	**$ (2,239)**	**(0.7%)**	**$ (1,061)**	**(1.5%)**

Overall, as a percentage of UMS, the Company had a 0.8pp improvement in actual and expected losses on end-customer notes receivable. The Company had improved collections on end-customer notes receivable in H1 2020 as a result of building its repeat usage and Active Customer bases, along with refinements in the Company's underwriting processes. It is likely that 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.

End-customer other income represents Account Reactivation Fees (formerly referred to as Failed Payment Fees) collected during the period. End-customer other income as a percentage of UMS remained relatively flat year over year. As a percentage of Total Income, Account Reactivation Fees were 13.9% and 15.9% for H1 2020 and H1 2019, respectively. The 2.0pp reduction, as a percentage of UMS, is driven by improvement in the Company's collection on end-customer accounts receivable, as well as an expansion of fee forgiveness and payment flexibility programs offered to end-customers as a response to COVID-19.

FINANCIAL REVIEW

Sezzle's financial results for the half years ended June 30 are as follows:

US$000's		**H1 2020**	**H1 2019**
Total income	Up 384%	$ 20,783	$ 4,298
Cost of income	Up 280%	(8,707)	(2,292)
Provision for uncollectible accounts	Up 194%	(5,135)	(1,744)
Net loss after tax	Up 72%	$ (8,183)	$ (4,755)

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

- EBITDA is earnings before interest, taxes, depreciation, and amortization;
- EBIT is earnings before interest and taxes;
- 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, 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 in this report are due to rounding.

The financial results of the Company for the half years ended June 30 are presented below:

	FOR THE HALF YEARS ENDED		
US$000's	**H1 2020**	**H1 2019**	**Change**
Sezzle income	$ 17,887	$ 3,615	$ 14,272
End-customer other income	2,896	683	2,213
Total income	**20,783**	**4,298**	**16,485**
Cost of income	(8,707)	(2,292)	(6,415)
Gross profit	**12,076**	**2,006**	**10,070**
Gross margin %	58.1%	46.7%	11.4pp
Other income (expense)	(43)	20	(63)
Provision for uncollectible accounts	(5,135)	(1,744)	(3,391)
Other operating expenses	(13,027)	(4,441)	(8,586)
EBITDA	**(6,129)**	**(4,159)**	**(1,970)**
Depreciation and amortization	(190)	(98)	(92)
EBIT	**(6,319)**	**(4,257)**	**(2,062)**
Net interest expense	(1,856)	(498)	(1,358)
Loss before tax	**(8,175)**	**(4,755)**	**(3,420)**
Income tax expense	(8)	-	(8)
Net loss after tax	**$ (8,183)**	**$ (4,755)**	**$ (3,428)**

TOTAL INCOME

Sezzle income totaled $17.9 million for the half year ended June 30, 2020, compared to $3.6 million in the prior comparative period, an increase of nearly 395% year-over-year driven by growth in Underlying Merchant Sales throughout the United States and Canada, as well as improved contractual rates with the Company's merchants. Merchant fees and end-customer reschedule fees, less financing origination costs, collectively comprise Sezzle income and are initially recorded as a deduction from notes receivable in the consolidated balance sheets. Deferred fees and expenses are recognized in the consolidated statements of operations over the average duration of the underlying notes receivable. Together, total end-customer reschedule fees and note origination costs were $0.4 million, or 2.5% of total Sezzle income recognized in the first half of 2020 compared to $0.1 million and 1.7% of Sezzle income in the prior comparative period, driven by an improvement in note origination costs year over year.

COST OF INCOME

Cost of income primarily comprises payment processing costs paid to third-party payment processors. Payment processing costs as a percentage of UMS were 2.2% for the half year ended June 30, 2020, compared to 2.7% in the prior comparative period. The first half of 2020 includes the full benefit of Sezzle's change in card processing service providers, executed in April 2019.

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

RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS

Sezzle's end-customer notes receivables before expected losses increased to $48.7 million as of June 30, 2020, compared to $28.7 million as of December 31, 2019, an increase of 70.0% driven by increases in UMS and Active Customers. 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 $5.1 million or 1.7% of UMS for the first half year in 2020, compared to $1.7 million or 2.5% of UMS in the prior half year. Improved loss rates are driven by several factors, including increased repeat usage among end-customers, continuous improvements in Sezzle's proprietary underwriting processes, tightening of credit to end-customers in response to COVID-19, and overall improved collections driven in part by U.S. government stimulus offered to many of Sezzle's end-customers through the CARES Act.

OTHER OPERATING EXPENSES

Overall, other operating expenses increased 193% 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 half years ended are comprised of the following:

	FOR THE HALF YEARS ENDED			
	H1 2020		H1 2019	
Other operating expenses	US$000's	% of Total	US$000's	% of Total
Compensation related expenses	$ 9,812	75.3%	$ 2,811	63.3%
Third-party service provider costs	857	6.6%	554	12.5%
Marketing, advertising, and tradeshows	825	6.3%	370	8.3%
Professional services	650	5.0%	238	5.4%
Rent	206	1.6%	158	3.5%
Other	677	5.2%	310	7.0%
Other operating expenses	**$ 13,027**		**$ 4,441**	

- Compensation related expenses increased to $9.8 million for the half year ended June 30, 2020, from $2.8 million in the prior comparative period. Sezzle continued to invest in its employees throughout the second half of 2019 and into the first quarter of 2020. Total employees and contractors were 175 as of June 30, 2020, compared to 87 at the prior comparative period.
- Third-party service provider costs consist primarily of costs incurred to obtain data used in underwriting end-customers and fraud prevention. These costs increased to $0.9 million for the half year ended June 30, 2020, compared to $0.6 million in the prior half year, driven by growth in Active Customers.

- Marketing, advertising, and tradeshow costs were $0.8 million for the half year ended June 30, 2020, compared to $0.4 million in the prior half year, as a result of the Company's efforts in expanding its presence with both merchants and customers, as well as the investment to implement Sezzle's new brand.
- Professional services include legal, consultation, recruiting, financial audit, and tax compliance related costs. Costs of $0.7 million for the half year ended June 30, 2020 were driven by the completion of its financial statement audit for the 2019 reporting year, as well as other ongoing professional services costs associated with the Company's status as publicly listed on the ASX.
- Rent expense remains constant at $0.2 million for the half years ended June 30, 2020 and 2019.

Other operating expenses relative to UMS decreased year over year, primarily driven by the Company's objective to reduce or maintain costs in response to COVID-19.

US$000's	H1 2020	H1 2019
Other operating expenses	$ 13,027	$ 4,441
% of UMS	4.2%	6.3%

Most notably, the Company pulled back on hiring and implemented a work from home policy beginning in mid March 2020. In addition, the Company implemented reductions in attendance to group events, including industry-related conferences. These COVID-19 related measures resulted in lower than anticipated operating expenses for H1 2020. The Company continues to monitor the impact of COVID-19 on its stakeholders, including end-customers, merchants, employees, community and shareholders.

NET INTEREST EXPENSE

Net interest expense totaled $1.9 million for the half year ended June 30, 2020, driven by the Company's continued utilization of its revolving line of credit to facilitate the increase in UMS and related customer receivables and to meet the minimum utilization requirements per the loan agreement.

FINANCIAL POSITION

Sezzle's total assets increased to $102.5 million as of June 30, 2020, from $64.5 million as of December 31, 2019. This growth of $38.0 million is primarily from increases in cash and cash equivalents and notes receivable.

Merchant accounts payable increased to $39.2 million as of June 30, 2020, compared to $13.3 million as of December 31, 2019. This increase is related to the growth in Underlying Merchant Sales, Active Merchants, and further utilization of the Company's Merchant Interest Program. Refer to Note 15 within the consolidated financial statements for additional details.

Total long term liabilities were $38.7 million as of June 30, 2020, compared to $21.6 million as of December 30, 2019, an increase primarily driven by additional draws on the Company's revolving line of credit.

CAPITAL MANAGEMENT

The Company had the following sources of funds for the period ended June 30, 2020 and through the date of this report:

Sezzle maintained its revolving line of credit agreement with Bastion Consumer Funding II, LLC, Atalaya Asset Income Fund Iv LP, and Hudson Cove Credit Opportunity Master Fund, LP "the Syndicate." The revolving line of credit offers a $100.0 million warehouse facility that matures in May 2022. As of June 30, 2020, the Company had drawn $37.0 million on this facility.

On July 15, 2020 Sezzle raised $53.2 million (net of costs of the offer) via an institutional placement and on August 10, 2020 raised $5.1 million via a Securities Purchase Plan to accelerate its growth strategy. The Company's planned use of the funds includes further investment in sales and marketing, product enhancements, international expansion opportunities, and strengthening its balance sheet. Sezzle issued 16,289,935 Chess Depository Interests (CDIs) at a price of A$5.30 as part of the capital raise. The CDI's issued are equivalent to common shares on a 1:1 basis.

CASHFLOW ACTIVITY

Sezzle had $2.5 million of net cash inflows for its operating activities for the half year ended June 30, 2020, compared with $6.5 million cash outflows for the half year ended June 30, 2019. Improvements in operating cash flows are primarily driven by additional funds retained in the Merchant Interest Program.

The increase in net working capital was primarily due to an increase in receivables from end-customers of $25.5 million, offset by an increase in accrued liabilities and other non-current liabilities of $2.1 million and other payables of $0.2 million. Significant non-cash items include expenses recorded to establish the provision for uncollectible accounts on notes and other receivables from end-customers ($6.1 million for the half year ended June 30, 2020, compared to $2.0 million for the half year ended June 30, 2019) and expenses recorded for the Company's equity-based compensation for employees ($1.5 million versus $0.1 million for the half years ended June 30, 2020, and 2019, respectively).

Net cash used in investing activities remains at $0.2 million for the half years ended June 30, 2020 and 2019. Net cash flow received from financing activities increased to $16.8 million compared to $6.6 million for the half years ended June 30, 2020, and 2019, respectively, driven by additional funds drawn on the Company's line of credit, as well as $1.2 million in net proceeds from the US Small Business Administration's Paycheck Protection Program (PPP).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE HALF YEAR

On July 15, 2020 Sezzle raised $53.2 million (net of costs of the offer) via an institutional placement and on August 10, 2020 raised $5.1 million 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. The issued CDI's are equivalent to common shares on a 1:1 basis.

The Directors are not aware of any other matters or circumstances that have arisen since June 30, 2020 that have significantly affected or may significantly affect the operations of the Company in subsequent financial years, the results of those operations, or the state of affairs of the Company in future financial years.

DIVIDENDS

No dividends were declared or paid to shareholders during the period.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has sought to bring material proceedings on behalf of the consolidated entity, and the consolidated entity is not a party to any material proceedings, for the purpose of taking responsibility on behalf of the consolidated entity for any such material proceedings, or for a particular step in any such proceedings.

SEZZLE INC. & SUBSIDIARIES

Consolidated Financial Statements

FOR THE HALF YEAR ENDED JUNE 30, 2020

Independent Auditors' Review 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 June 30, 2020 and December 31, 2019, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the half year ended June 30, 2020 and 2019 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 US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
August 31, 2020

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

Consolidated Balance Sheets

	AS OF THE HALF YEAR ENDED	
	June 30, 2020 (unaudited) US$	December 31, 2019 (audited) US$
Assets		
Current Assets		
Cash and cash equivalents	$ 52,779,070	$ 34,965,069
Restricted cash, current	2,934,055	1,639,549
Notes receivable, net	44,631,863	25,189,135
Other receivables, net	323,658	315,502
Prepaid expenses and other current assets	793,300	882,939
Total current assets	101,461,946	62,992,194
Non-Current Assets		
Internally developed intangible assets, net	527,772	480,098
Property and equipment, net	142,855	134,400
Right-of-use assets	319,707	867,272
Restricted cash	20,000	20,000
Other assets	73,240	49,171
Total Assets	$ 102,545,520	$ 64,543,135
Liabilities and Stockholders' Equity		
Current Liabilities		
Merchant accounts payable	$ 39,177,780	$ 13,284,544
Lease liability (current)	280,413	389,257
Accrued liabilities	3,205,305	1,670,261
Other payables	464,034	267,934
Total current liabilities	43,127,532	15,611,996
Long Term Liabilities		
Long term debt	1,470,332	250,000
Lease liability (non-current)	33,243	500,131
Line of credit, net of unamortized debt issuance costs of US$382,300 and US$590,827, respectively	36,617,700	20,859,173
Other non-current liabilities	575,000	-
Total Liabilities	81,823,807	37,221,300
Stockholders' Equity		
Common stock, $0.00001 par value; 300,000,000 shares authorized; 179,249,866 and 178,931,312 shares issued and outstanding, respectively	1,792	1,789
Additional paid-in capital	52,721,500	51,138,207
Accumulated deficit	(32,001,579)	(23,818,161)
Total Stockholders' Equity	20,721,713	27,321,835
Total Liabilities and Stockholders' Equity	$ 102,545,520	$ 64,543,135

Consolidated Statements of Operations

(Unaudited)

	FOR THE HALF YEAR ENDED	
	June 30, 2020 US$	June 30, 2019 US$
Income		
Sezzle income	$ 17,887,117	$ 3,614,947
End-customer other income	2,895,804	683,123
Total income	20,782,921	4,298,070
Cost of Income	8,706,879	2,292,369
Gross profit	12,076,042	2,005,701
Operating Expenses		
Selling, general, and administrative expenses	13,216,831	4,538,649
Provision for uncollectible accounts	5,134,589	1,743,966
Total operating expenses	18,351,420	6,282,615
Operating Loss	(6,275,378)	(4,276,914)
Other Income (Expense)		
Interest expense	(1,902,305)	(498,080)
Other income and expense, net	2,640	20,200
Loss before taxes	(8,175,043)	(4,754,794)
Income tax expense	8,375	-
Net Loss	$ (8,183,418)	$ (4,754,794)
Losses per share:		
Basic and diluted loss per common share	$ (0.05)	$ (0.08)
Basic and diluted weighted average shares outstanding	179,110,131	59,491,390

Consolidated Statements of Stockholders' Equity (Deficit)

(Unaudited)

	Common Stock				
	Outstanding shares	Amount US$	Additional Paid-in Capital US$	Accumulated Deficit US$	Total US$
Balance at January 1, 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 June 30, 2019	59,633,332	$ 596	$ 188,466	$ (11,976,727)	$ (11,787,665)

	Common Stock				
	Outstanding shares	Amount US$	Additional Paid-in Capital US$	Accumulated Deficit US$	Total US$
Balance at January 1, 2020	178,931,312	$ 1,789	$ 51,138,207	$ (23,818,161)	$ 27,321,835
Equity based compensation	-	-	1,501,263	-	1,501,263
Stock option exercises	637,304	6	45,574	-	45,580
Vesting of restricted stock	25,000	-	38,687	-	38,687
Repurchase of common stock	(343,750)	(3)	(2,231)	-	(2,234)
Net loss	-	-	-	(8,183,418)	(8,183,418)
Balance at June 30, 2020	179,249,866	$ 1,792	$ 52,721,500	$ (32,001,579)	$ 20,721,713

Consolidated Statements of Cash Flows

(Unaudited)

	FOR THE HALF YEAR ENDED	
	June 30, 2020 US$	June 30, 2019 US$
Operating Activities:		
Net loss	$ (8,183,418)	$ (4,754,794)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	184,638	97,595
Provision for uncollectible accounts	5,134,589	1,743,966
Provision for other uncollectible receivables	931,549	240,497
Equity based compensation and restricted stock vested	1,539,950	81,765
Amortization of debt issuance costs	208,527	15,836
Impairment losses on long-lived assets	5,287	-
Amortization of convertible note discounts	-	3,219
Changes in operating assets and liabilities:		
Notes receivable	(24,577,317)	(7,659,433)
Other receivables	(939,705)	(308,540)
Prepaid expenses and other assets	65,570	(264,989)
Merchant accounts payable	25,893,236	3,915,222
Other payables	196,100	81,570
Operating leases	(28,167)	42,316
Accrued liabilities	1,535,044	296,847
Other non-current liabilities	575,000	-
Net cash provided by (used for) operating activities	2,540,883	(6,468,923)
Investing Activities:		
Purchase of property and equipment	(71,331)	(36,141)
Internally developed intangible asset additions	(174,723)	(206,473)
Net cash used for investing activities	(246,054)	(242,614)
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	27,650,000	3,700,000
Payments to line of credit	(12,100,000)	(2,900,000)
Proceeds from employee stock option exercises	45,580	6,846
Payments of debt issuance costs	-	(13,941)
Repurchase of common stock	(2,234)	-
Net cash provided by financing activities	16,813,678	6,580,405
Net increase (decrease) in cash, cash equivalents, and restricted cash	19,108,507	(131,132)
Cash, cash equivalents, and restricted cash:		
Beginning of Period	36,624,618	7,084,854
End of Period	$ 55,733,125	$ 6,953,722
Noncash investing and financing activities:		
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	1,653,730	479,025

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

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

The Company's core product allows consumers to make online purchases and split the payment for the purchase over four equal, interest-free payments over six weeks. The 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.

Basis of Presentation

The consolidated financial statements are prepared and presented under accounting principles generally accepted in the United States of America (U.S. GAAP). All amounts 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 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, and Sezzle Payments Private Limited. 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 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 that the Company routinely monitors.

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.

Merchant Concentration

Sezzle partners with retail merchant clients and earns income off the sales of transactions with end-customers. There are no material concentrations of income for the half years ended June 30, 2020 and 2019, respectively.

Cash and Cash Equivalents

The Company had cash and cash equivalents of $52,779,070 and $34,965,069 as of June 30, 2020 and December 31, 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 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 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 end-customer payments is controlled by the Syndicate. 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 the Syndicate. Cash deposits to the bank account represent cash received from end-customers not yet made available to Sezzle, as well as a minimum balance consisting of the sum of $20,000 accrued interest on the drawn credit facility, and accrued management fees charged by the Syndicate. Additionally, the Company is required to maintain minimum balances in a deposit account with a third-party service provider to fund notes receivable. The amount on deposit within the current restricted bank accounts totaled $2,934,055 and $1,639,549 as of June 30, 2020 and December 31, 2019, respectively.

As of June 30, 2020 and December 31, 2019, the Company was required to maintain a $20,000 cash balance held in a reserve account to cover Automated Clearing House (ACH) transactions. The cash balance within this account is classified as non-current restricted cash on the consolidated balance sheets.

Receivables and Credit Policy

Notes receivable represent amounts from uncollateralized end-customer receivables generated from the purchase of online merchandise. The original terms of the notes for the Company's core product are to be paid back in equal installments every two weeks over a six-week period. The Company does not charge interest on the notes to 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 costs are recorded within notes receivable, net on the consolidated balance sheets. Notes receivable are recorded at net realizable value and are recorded as current assets. The Company evaluates the collectability of the balances based on historical performance, current economic conditions, and specific circumstances of individual notes, with an allowance for uncollectible accounts being provided as necessary.

All notes receivable from end-customers, 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 consolidated balance sheets as a reduction of the line of credit balance to which those costs relate. Debt issuance costs are amortized over the life of the underlying debt obligation utilizing the straight-line method, which approximates the effective interest method. Amortization of debt issuance costs is included within interest expense in the consolidated statements of operations. For the half years ended June 30, 2020 and 2019, amortization expense recorded for debt issuance costs totaled $208,527 and $15,836, respectively. Total cumulative cash payments to date for debt issuance costs were $663,649 as of June 30, 2020 and December 31, 2019.

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
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 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 $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 $426,000 and $284,000 for the half years ended June 30, 2020 and 2019, respectively. Research expenditures are recorded within selling, general, and administrative expenses in 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 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. During the half year ended June 30, 2020, Sezzle recognized $5,287 of impairment losses. There were no impairment losses incurred during the half year ended June 30, 2019.

As of June 30, 2020 and December 31, 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 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 June 30, 2020 and December 31, 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 June 30, 2020 and December 31, 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 $781,441 and $135,528 for the half years ended June 30, 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 each option award on the measurement date using the Black-Scholes option valuation model which incorporates assumptions about 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 14 for further information around the Company's equity based compensation plans.

Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The Company's estimates and judgments are based on historical experience and various other assumptions that it believes are reasonable under the circumstances.

The amount of assets and liabilities reported on the Company's consolidated balance sheets and the amounts of income and expenses reported for each of the periods presented are affected by estimates and assumptions, which are used for, but not limited to, determining the allowance for uncollectible accounts recorded against outstanding receivables, the useful life of property and equipment and internally developed intangible assets, determining impairment of property and equipment and internally developed intangible assets, valuation of equity based compensation, leases, and income taxes.

Fair Value

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

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

The Company measures the value of its money market securities on a regular basis. The fair value of its money market securities was $11,000,861 and $7,282,946 as of June 30, 2020 and December 31, 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
- End-customer 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 end-customers located in the United States who purchase goods from its affiliated merchants. During the year ended 2019, the Company began operations in Canada. While a distinct geographic location, the operations in Canada are still in an early growth stage. As of June 30, 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 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 and Indian Rupee. Sezzle has transactional currency exposures arising from merchant fees and payouts to Canadian merchant partners. Gains (losses) from foreign exchange rate fluctuations that affect Sezzle's net loss totaled ($36,126) and $16,556 for the half years ended June 30, 2020 and 2019, respectively, within other income and expenses on the 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 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 consolidated statements of operations, consolidated balance sheets, and 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 consolidated financial statements for the half year ended June 30, 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 consolidated financial statements for the half year ended June 30, 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 and is currently assessing the impact of implementation.

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 consolidated financial statements.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment, net consists of the following:

	June 30, 2020 US$		Dec 31, 2019 US$	
Computer and office equipment	$	296,517	$	225,186
Furniture and fixtures		28,394		28,394
Property and equipment, gross		324,911		253,580
Less: accumulated depreciation		(182,056)		(119,180)
Property and equipment, net	$	142,855	$	134,400

Depreciation expense relating to property and equipment was $62,883 and $28,059 for the half years ended June 30, 2020 and 2019, respectively.

NOTE 3 – INTERNALLY DEVELOPED INTANGIBLE ASSETS

Internally developed intangible assets, net consists of the following:

	June 30, 2020 US$		Dec 31, 2019 US$	
Internal use software	$	772,635	$	662,653
Web development costs		20,195		20,195
Work in process		72,786		13,672
Internally developed intangible assets, gross		865,616		696,520
Less: accumulated amortization		(337,844)		(216,422)
Internally developed intangible assets, net	$	527,772	$	480,098

Amortization of internally developed intangible assets was $121,755 and $69,536 for the half years ended June 30, 2020 and 2019, 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:

	June 30, 2020 US$		Dec 31, 2019 US$	
Notes receivable, gross	$	50,571,435	$	29,700,598
Less: allowance for uncollectible accounts				
Balance at start of period		(3,461,837)		(645,332)
Provision		(5,134,589)		(6,235,820)
Charge-offs, net		4,528,926		3,419,315
Total allowance for uncollectible accounts		(4,067,500)		(3,461,837)
Notes receivable, net of allowance		46,503,935		26,238,761
Deferred origination fees, net		(1,872,072)		(1,049,626)
Balance at end of period	$	44,631,863	$	25,189,135

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 or related to an end-customer becoming deceased or bankrupt are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Included in charge-offs, net were recoveries of $324,072 and $57,574 for the half years ended June 30, 2020 and 2019, respectively.

Sezzle uses its judgement to evaluate the allowance for uncollectible accounts based on current economic conditions and historical performance of end-customer principal payments. The historical vintages are grouped into fortnightly 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 origination fees, net are comprised of Merchant fees net of direct note origination costs, which are recognized over the duration of the note with the end-customer and are recorded within Sezzle income on the consolidated statements of operations.

Sezzle estimates the allowance for doubtful 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, or when an end-customer becomes deceased or bankrupt. 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, account reactivation fees are applied to any missed payments for which an end-customer did not reschedule. 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 June 30, 2020 and December 31, 2019:

	June 30, 2020			Dec 31, 2019		
	Gross Receivables US$	Allowance US$	Net Receivables US$	Gross Receivables US$	Allowance US$	Net Receivables US$
Current	$ 45,479,812	$ (1,197,990)	$ 44,281,822	$ 25,695,723	$ (1,014,888)	$ 24,680,835
Days past due:						
1-28	2,959,133	(1,044,954)	1,914,179	2,251,591	(923,396)	1,328,195
29-56	1,293,360	(1,014,466)	278,894	919,177	(719,910)	199,267
57-90	839,130	(810,090)	29,040	834,107	(803,643)	30,464
Total	$ 50,571,435	$ (4,067,500)	$ 46,503,935	$ 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 space in the United States and Canada. Total lease expense incurred for the half years ended June 30, 2020 and 2019 was $186,969 and $157,483, respectively, and is recorded within selling, general and administrative expenses on the consolidated statements of operations.

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

Maturity of Lease Liabilities		US$
2020	$	156,379
2021		166,852
Less: interest		(9,575)
Present value of lease liabilities	$	313,656

The weighted average remaining term of the Company's operating leases is 1.1 years. During the half year ended June 30, 2020, the Company revised the estimated lease 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 June 30, 2020, Sezzle has not entered into any lease agreements that contain residual value guarantees or financial covenants.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Marketing and Advertising

The Company has entered into several agreements with third-parties, whereby Sezzle will pay for marketing and advertising costs. Sezzle has $271,626 and $495,240 recorded as a prepaid expense in marketing and advertising on the consolidated balance sheets as of June 30, 2020 and December 31, 2019, respectively.

Costs incurred relating to these agreements totaled $333,566 and $13,251 for the half years ended June 30, 2020 and 2019, respectively, and are included within selling, general and administrative expenses within the consolidated statements of operations.

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. The effective tax rate for the half years ended June 30, 2020 and 2019 was 0.1% and 0.0%, respectively.

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.

At December 31, 2019, the Company has federal and state net operating loss carryforwards of approximately $11,898,000 and $1,735,000, respectively. The federal net operating loss carryforwards that originated after 2017 will have an indefinite life and may be used to offset 80% of a future year's taxable income. The federal net operating loss carryforwards that originated prior to 2018 have expiration dates between 2036 and 2037. The state net operating losses carry forward 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.

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

NOTE 8 – INCOME

Sezzle income

Sezzle receives its income primarily 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.

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 $1,872,072 and $383,532 and as of June 30, 2020 and 2019, respectively. Total Sezzle income recognized was $17,887,117 and $3,614,947 for the half years ended June 30, 2020 and 2019, respectively.

End-customer other income
Sezzle also earns income from end-customers in the form of account reactivation 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. Account reactivation fees are recognized net of an allowance for uncollectible amounts at the time the fee is charged to the end-customer. Total account reactivation fee income recognized totaled $2,895,804 and $683,123 for the half years ended June 30, 2020 and 2019, respectively.

NOTE 9 – STOCKHOLDERS' EQUITY (DEFICIT)

Preferred Stock Dividend
On June 23, 2019, the Board of Directors declared and issued a preferred stock dividend of 909,451 Series A preferred shares to existing to preferred stockholders, valued at $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).

Repurchase of Common Stock
On June 3, 2020, the Company repurchased 343,750 common shares from an existing stockholder. The purchase was made at the original cost basis, totaling $2,234, and is recorded as a reduction to common stock and additional paid-in capital within the consolidated statements of stockholders' equity (deficit) as of June 30, 2020. The repurchased shares were retired upon purchase by the Company.

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. Since inception there have been no Company contributions made to the plan through June 30, 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 $30,000,000.
On November 29, 2019, Sezzle Funding SPE, LLC, Sezzle Inc. and Bastion terminated 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 $100,000,000, with a maturity date of May 29, 2022.

The Company had an outstanding revolving line of credit balance of $37,000,000 and $21,450,000 as of June 30, 2020 and December 31, 2019, respectively, recorded within line of credit, net as a non-current liability on the consolidated balance sheets. The new line of credit agreement bears interest at a floating per annum rate equal to the 3-month LIBOR + 7.75% (minimum 9.50%) on the $100,000,000 (9.50% as of June 30, 2020).

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. Total interest expense incurred related to the line of credit was $1,070,208 and $359,623 for the half years ended June 30, 2020 and 2019, respectively. As of June 30, 2020, and December 31, 2019, Sezzle had pledged $42,018,636 and $23,946,153, respectively, of its notes receivable to Sezzle Funding SPE, LLC.

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 the Syndicate.

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

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

The cumulative total of debt issuance costs incurred to obtain and manage the line of credit with Bastion totaled $663,649 through June 30, 2020. 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 were $208,527 and $15,836 for the half years ended June 30, 2020 and 2019, respectively.

NOTE 12 - NOTES PAYABLE

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

On April 14, 2020, the Company received loan proceeds in the amount of $1,220,332 under the U.S. Small Business Administration's Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The Company is permitted to apply for forgiveness so long as the loan proceeds are used for eligible purposes, including payroll, benefits, rent, and utilities. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. As of June 30, 2020, the Company has accrued $2,374 of interest expense for this note.

NOTE 13 – CONVERTIBLE NOTES

On March 29, 2019, the Company issued $5,662,500 of convertible notes to a group of investors. The promissory notes had a stated maturity date of March 29, 2021 and paid an annual interest rate of 4% on the unpaid principal balance through June 30, 2019. Subsequent to June 30, 2019, the notes paid an annual interest rate of 8% on the unpaid principal balance. The notes were issued at a $25,000 discount, which is amortized over the life of the convertible notes. Amortization of the discount totaled $3,219 for the half year ended June 30, 2019 and is recorded within interest expense within the 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 consummates an equity financing arrangement with an aggregate sales price of no less than $10,000,000. Upon the occurrence of one of the aforementioned events, the notes would have converted into 80% of the price per share value of common stock applicable at the time of the event. The notes also carried an optional conversion feature whereby the notes may convert into common stock.

On June 6, 2019, the Company issued two separate convertible notes totaling $150,000. The promissory notes had a stated maturity date of June 6, 2021 with the option of individual 1-year renewable periods for up to 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 $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 would have also converted in the event the Company consummated an equity financing arrangement with an aggregate sales price of no less than $500,000. Upon the occurrence of one of the aforementioned events the note would convert into 80% of the price per share value of common stock applicable at the time of the event. The note also carried an optional conversion feature whereby the notes may convert into common stock.

The second convertible note of $75,000 carried 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 (or a security representing common stock). The note would have also converted automatically in the event the Company consummated an equity financing arrangement with an aggregate sales price of not less than $500,000. Upon the occurrence of one of the aforementioned events the note would have converted into 80% of the price per share value of common stock applicable at the time of the event. The note also carried an optional conversion feature whereby the notes may convert into common stock.

The 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 Australian Securities Exchange (ASX).

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 $1,539,950 and $81,765 for the half years ended June 30, 2020 and 2019, respectively, and is recorded within selling, general, and administrative expenses within the consolidated statements of operations.

2016 Employee Stock Option Plan

The Company adopted the 2016 Employee Stock-Option Plan on January 16, 2016. The number of options authorized for issuance under the plan is 10,000,000. The Company had 7,666,603 and 8,336,253 options issued and outstanding under the plan as of June 30, 2020 and December 31, 2019, respectively. Additionally, the Company had 350,000 of restricted stock awards issued and outstanding as of June 30, 2020 and December 31, 2019. During the half year ended June 30, 2020, 612,096 options were exercised into 612,096 shares of common stock.

2019 Equity Incentive Plan

The Company adopted the 2019 Equity Incentive Plan on June 25, 2019. The number of options authorized for issuance under the plan is 26,000,000. The Company had 11,288,292 options and 1,545,977 restricted stock units issued and outstanding as of June 30, 2020. During the half year ended June 30, 2020, 25,208 options were exercised into 25,208 shares of common stock.

The following summarizes the options issued, outstanding, and exercisable as of June 30:

	For the half years ended June 30, 2019			
	Number of options	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Exercise Price
Outstanding Jan 1, 2019	7,430,000	$ 0.044	$ -	-
Granted	2,995,000	0.050	-	-
Exercised	(216,666)	0.032	-	-
Canceled or forfeited	(410,000)	0.050	-	-
Outstanding, June 30, 2019	9,798,334	0.046	4,352,028	9.14
Exercisable, June 30, 2019	2,195,096	0.035	999,716	8.57
Expected to vest, June 30, 2019	7,603,238	$ 0.049	$ 3,352,312	9.31

	For the half years ended June 30, 2020			
	Number of options	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life
Outstanding Jan 1, 2020	17,052,503	$ 0.624	$ 14,895,996	-
Granted	3,047,250	0.954	-	-
Exercised	(637,304)	0.077	609,775	-
Canceled or forfeited	(507,554)	1.329	-	-
Outstanding, June 30, 2019	18,954,895	0.677	36,085,296	8.86
Exercisable, June 30, 2019	4,336,874	0.163	10,483,898	8.12
Expected to vest, June 30, 2019	14,618,021	$ 0.829	$ 25,601,398	9.08

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. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date.

	June 30, 2020	June 30, 2019
Risk-free interest rate	0.40%-0.56%	2.26%-2.61%
Expected volatility	93.06%-93.26%	44.93%-50.42%
Expected life (in years)	6.00	5.82
Weighted-average estimated fair value of options granted	$ 0.74	$ 0.15

Restricted stock award and restricted stock unit transactions during the half years ended June 30, 2020 and 2019 are summarized as follows:

	Number of Shares	Weighted average grant date fair value US$
Unvested shares at January 1, 2019	-	$ -
Granted	350,000	0.49
Vested	(19,444)	0.49
Forfeited or surrendered	-	-
Unvested shares at June 30, 2019	330,556	$ 0.49

	Number of Shares	Weighted average grant date fair value US$
Unvested shares at January 1, 2020	772,222	$ 1.12
Granted	991,794	1.52
Vested	(83,333)	0.81
Forfeited or surrendered	(2,817)	0.93
Unvested shares at June 30, 2020	1,677,866	$ 1.40

During the first half of 2020, employees and non-employees received restricted stock units totaling 991,794. Vesting of restricted stock units and restricted stock awards totaled 25,000 and 58,333, respectively. The shares underlying the restricted stock units granted in 2020 were assigned a weighted average fair value of $1.52 per share, for a total value of $1,507,527. The restricted stock issuances are scheduled to vest over a range of one to four years.

As of June 30, 2020, the total compensation cost related to awards not yet recognized is $9,521,956 and is expected to be recognized over the weighted average remaining recognition period of approximately 3.1 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 $39,177,780 and $13,284,544 as of June 30, 2020 and December 31, 2019, respectively, as disclosed on the consolidated balance sheets. Of these amounts, $33,723,909 and $10,053,570 at June 30, 2020 and December 31, 2019, respectively, were recorded within the merchant interest program balance. Deferred payments retained in the program bear interest at the LIBOR daily (3 month) rate plus five percent (5.0%) on an annual basis, compounding daily. Interest expense associated with the program totaled $621,196 and $293,462 for the half years ended June 30, 2020 and 2019, respectively.

Deferred payments are due on demand at the request of the merchant. Additionally, Sezzle reserves the right to impose limits on the program and make changes to the program without notice. 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. For the half year ended June 30, 2020, the Company recorded an expense of $1,066,903 for this program which is recorded within selling, general, and administrative expenses on the consolidated statements of operations.

The Company also adopted a long term incentive compensation program for its executive team which is based on the Company's performance. The executives will be compensated with incentive stock options to the extent the Company meets its performance objectives. As of June 30, 2020, the Company has accrued $575,000 which is included within other non-current liabilities on the consolidated balance sheets and selling, general, and administrative expenses within the consolidated statements of operations.

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 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, convertible notes, and preferred stock shares are not included in the calculation of diluted loss per share for the half years ended June 30, 2020 and 2019.

NOTE 18 - SUBSEQUENT EVENTS

Capital Raise

On July 15, 2020 Sezzle raised $53.2 million (net of costs of the offer) via an institutional placement and on August 10, 2020 raised $5.1 million 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. The issued CDI's are equivalent to common shares on a 1:1 basis.

Other

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

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Paul Paradis
(Executive Director and President) – USA

Paul Purcell
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Kathleen Pierce-Gilmore
(Independent Non-Executive Director) – USA

Paul Lahiff
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