UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from to

Commission file number 000-56267

SEZZLE INC.

(Exact name of registrant as specified in its charter)

Delaware	**81-0971660**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
251 N 1st Avenue, Ste. 200, Minneapolis, Minnesota	**55401**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: +1 651 504 5402

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registei

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒
Smaller reporting company ☒		Emerging growth company ☒

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Total shares of common stock, par value $0.00001 per share, outstanding at October 31, 2022 were 207,898,584.

SEZZLE INC.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

The information in this Quarterly Report on Form 10-Q ("Form 10-Q") includes "forward-looking statements" under Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements, other than statements of historical fact included in this Form 10-Q, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Form 10-Q, the words "could," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described in the section "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K"). These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. There is a risk that such predictions, estimates, projections, and other forward-looking statements will not be achieved. Nevertheless, and despite the fact that management's expectations and estimates are based on assumptions management believes to be reasonable and data management believes to be reliable, our actual results, performance or achievements are subject to future risks and uncertainties, any of which could materially affect our actual performance. Risks and uncertainties that could affect such performance include, but are not limited to:

- the potential impact of the termination of our merger agreement with Zip Co Limited, including any impact on our stock price, business, financial condition and results of operations, and the potential negative impact to our business and employee relationships;
- impact of the "buy-now, pay-later" ("BNPL") industry becoming subject to increased regulatory scrutiny;
- impact of operating in a highly competitive industry;
- impact of macro-economic conditions on consumer spending;
- our ability to increase our merchant network, our base of consumers and Underlying Merchant Sales ("UMS");
- our ability to effectively manage growth, sustain our growth rate and maintain our market share;
- our ability to meet additional capital requirements;
- impact of exposure to consumer bad debts and insolvency of merchants;
- impact of the integration, support and prominent presentation of our platform by our merchants;
- impact of any data security breaches, cyberattacks, employee or other internal misconduct, malware, phishing or ransomware, physical security breaches, natural disasters, or similar disruptions;
- impact of key vendors or merchants failing to comply with legal or regulatory requirements or to provide various services that are important to our operations;
- impact of the loss of key partners and merchant relationships;
- impact of exchange rate fluctuations in the international markets in which we operate;
- our ability to protect our intellectual property rights;
- our ability to retain employees and recruit additional employees;
- impact of the costs of complying with various laws and regulations applicable to the BNPL industry in the United States and the international markets in which we operate; and
- our ability to achieve our public benefit purpose and maintain our B Corporation certification;
- the other factors identified in the "Risk Factors" section of the 2021 Form 10-K.

We caution you that these forward-looking statements are subject to numerous risks and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks include, but are not limited to, the risks described in the section "Risk Factors" included in the 2021 Form 10-K. Should one or more of the risks or uncertainties described in this Form 10-Q occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

	As of	
	September 30, 2022	December 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	$ 57,874,902	$ 76,983,728
Restricted cash, current	870,158	1,886,440
Notes receivable, net	92,201,355	133,986,583
Other receivables, net	2,349,830	5,084,099
Prepaid expenses and other current assets	3,593,994	3,350,053
Total current assets	156,890,239	221,290,903
Non-Current Assets		
Internally developed intangible assets, net	1,290,793	910,584
Property and equipment, net	381,348	662,472
Operating right-of-use assets	126,856	285,865
Restricted cash, non-current	20,000	20,000
Other assets	231,971	233,752
Total Assets	**$ 158,941,207**	**$ 223,403,576**
Liabilities and Stockholders' Equity		
Current Liabilities		
Merchant accounts payable	$ 83,763,032	$ 96,516,668
Operating lease liabilities	112,041	171,959
Accrued liabilities	9,720,369	7,996,772
Other payables	5,151,254	2,874,046
Deferred revenue	531,092	—
Total current liabilities	99,277,788	107,559,445
Long Term Liabilities		
Long term debt	250,000	250,000
Lease liabilities	3,969	90,962
Line of credit, net of unamortized debt issuance costs of $327,952 and $1,088,869, respectively	53,680,434	77,711,131
Total Liabilities	**153,212,191**	**185,611,538**
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $0.00001 par value; 750,000,000 shares authorized; 208,869,848 and 204,891,057 shares issued, respectively; 207,838,683 and 204,230,939 shares outstanding, respectively	2,080	2,044
Additional paid-in capital	176,949,098	168,338,673
Stock subscriptions: 0 and 20,729 shares subscribed, respectively	—	(18,545)
Treasury stock, at cost: 1,031,165 and 660,118 shares, respectively	(4,040,521)	(3,691,322)
Accumulated other comprehensive (loss) income	(1,050,852)	563,911
Accumulated deficit	(166,130,789)	(127,402,723)
Total Stockholders' Equity	**5,729,016**	**37,792,038**
Total Liabilities and Stockholders' Equity	**$ 158,941,207**	**$ 223,403,576**

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Operations and Comprehensive Income (Loss) (unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Total income	$ 30,408,249	$ 28,471,726	$ 87,294,249	$ 81,887,607
Operating Expenses				
Personnel	11,586,551	16,101,023	40,288,070	43,766,412
Transaction expense	9,319,823	11,547,719	31,229,450	29,584,508
Third-party technology and data	2,177,376	1,410,595	6,282,651	3,680,225
Marketing, advertising, and tradeshows	3,857,393	2,323,145	15,402,963	5,699,154
General and administrative	2,287,595	4,320,404	14,231,719	10,609,726
Provision for uncollectible accounts	5,679,953	10,456,447	24,036,357	32,880,630
Reimbursement of merger-related costs	(11,000,000)	—	(11,000,000)	—
Total operating expenses	23,908,691	46,159,333	120,471,210	126,220,655
Operating Income (Loss)	**6,499,558**	**(17,687,607)**	**(33,176,961)**	**(44,333,048)**
Other Income (Expense)				
Net interest expense	(2,191,995)	(1,172,541)	(5,477,164)	(3,752,268)
Other income (expense), net	47,688	37,223	(25,315)	(16,682)
Loss on extinguishment of line of credit	—	—	—	(1,092,679)
Income (Loss) before taxes	4,355,251	(18,822,925)	(38,679,440)	(49,194,677)
Income tax expense	10,827	11,201	48,626	51,678
Net Income (Loss)	**4,344,424**	**(18,834,126)**	**(38,728,066)**	**(49,246,355)**
Other Comprehensive Income (Loss)				
Foreign currency translation adjustment	(1,354,622)	(212,357)	(1,614,763)	291,094
Total Comprehensive Income (Loss)	**$ 2,989,802**	**$ (19,046,483)**	**$ (40,342,829)**	**$ (48,955,261)**
Net income (loss) per share:				
Basic	$ 0.02	$ (0.09)	$ (0.19)	$ (0.25)
Diluted	$ 0.02	$ (0.09)	$ (0.19)	$ (0.25)
Weighted-average shares outstanding:				
Basic	207,650,379	202,326,434	206,483,444	199,069,123
Diluted	227,155,822	202,326,434	206,483,444	199,069,123

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity (unaudited)

	Common Stock		Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount						
Balance at January 1, 2021	**196,926,674**	**$ 1,970**	**$ 112,640,974**	**$ (69,440)**	**$ (875,232)**	**$ 494,505**	**$ (52,234,360)**	**$ 59,958,417**
Equity based compensation	—	—	8,746,439	—	—	—	—	8,746,439
Stock option exercises	1,179,669	11	411,411	—	—	—	—	411,422
Restricted stock issuances and vesting of awards	1,044,164	10	1,980,376	—	—	—	—	1,980,386
Conversion of liability-classified incentive awards to stockholders' equity	—	—	9,293,035	—	—	—	—	9,293,035
Stock subscriptions receivable related to stock option exercises	169,826	2	177,442	(177,444)	—	—	—	—
Stock subscriptions collected related to stock option exercises	—	—	—	208,578	—	—	—	208,578
Repurchase of common stock	(311,762)	(3)	—	—	(1,829,722)	—	—	(1,829,725)
Proceeds from issuance of common stock, net of issuance costs	4,559,270	46	29,997,186	—	—	—	—	29,997,232
Foreign currency translation adjustment	—	—	—	—	—	291,094	—	291,094
Net loss	—	—	—	—	—	—	(49,246,355)	(49,246,355)
Balance at September 30, 2021	**203,567,841**	**$ 2,036**	**$ 163,246,863**	**$ (38,306)**	**$ (2,704,954)**	**$ 785,599**	**$ (101,480,715)**	**$ 59,810,523**

	Common Stock		Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount						
Balance at January 1, 2022	**204,230,939**	**$ 2,044**	**$ 168,338,673**	**$ (18,545)**	**$ (3,691,322)**	**$ 563,911**	**$ (127,402,723)**	**$ 37,792,038**
Equity based compensation	—	—	6,237,440	—	—	—	—	6,237,440
Stock option exercises	1,449,898	15	99,723	—	—	—	—	99,738
Restricted stock issuances and vesting of awards	1,185,143	12	1,967,442	—	—	—	—	1,967,454
Stock subscriptions receivable related to stock option exercises	1,343,750	13	305,820	(305,833)	—	—	—	—
Stock subscriptions collected related to stock option exercises	—	—	—	324,378	—	—	—	324,378
Repurchase of common stock	(371,047)	(4)	—	—	(349,199)	—	—	(349,203)
Foreign currency translation adjustment	—	—	—	—	—	(1,614,763)	—	(1,614,763)
Net loss	—	—	—	—	—	—	(38,728,066)	(38,728,066)
Balance at September 30, 2022	**207,838,683**	**$ 2,080**	**$ 176,949,098**	**$ —**	**$ (4,040,521)**	**$ (1,050,852)**	**$ (166,130,789)**	**$ 5,729,016**

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity (unaudited)

	Common Stock		Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount						
Balance at July 1, 2021	**198,320,795**	**$ 1,984**	**$ 128,254,415**	**$ (43,993)**	**$ (1,656,684)**	**$ 997,956**	**$ (82,646,589)**	**$ 44,907,089**
Equity based compensation	—	—	4,233,148	—	—	—	—	4,233,148
Stock option exercises	362,369	3	159,998	—	—	—	—	160,001
Restricted stock issuances and vesting of awards	419,558	4	530,591	—	—	—	—	530,595
Stock subscriptions receivable related to stock option exercises	76,559	1	71,525	(71,526)	—	—	—	—
Stock subscriptions collected related to stock option exercises	—	—	—	77,213	—	—	—	77,213
Repurchase of common stock	(170,710)	(2)	—	—	(1,048,270)	—	—	(1,048,272)
Proceeds from issuance of common stock, net of issuance costs	4,559,270	46	29,997,186	—	—	—	—	29,997,232
Foreign currency translation adjustment	—	—	—	—	—	(212,357)	—	(212,357)
Net loss	—	—	—	—	—	—	(18,834,126)	(18,834,126)
Balance at September 30, 2021	**203,567,841**	**$ 2,036**	**$ 163,246,863**	**$ (38,306)**	**$ (2,704,954)**	**$ 785,599**	**$ (101,480,715)**	**$ 59,810,523**

	Common Stock		Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount						
Balance at July 1, 2022	**207,506,377**	**$ 2,077**	**$ 174,333,629**	**$ —**	**$ (4,016,528)**	**$ 303,770**	**$ (170,475,213)**	**$ 147,735**
Equity based compensation	—	—	2,032,549	—	—	—	—	2,032,549
Stock option exercises	194,463	2	1,703	—	—	—	—	1,705
Restricted stock issuances and vesting of awards	208,304	2	581,217	—	—	—	—	581,219
Repurchase of common stock	(70,461)	(1)	—	—	(23,993)	—	—	(23,994)
Foreign currency translation adjustment	—	—	—	—	—	(1,354,622)	—	(1,354,622)
Net income	—	—	—	—	—	—	4,344,424	4,344,424
Balance at September 30, 2022	**207,838,683**	**$ 2,080**	**$ 176,949,098**	**$ —**	**$ (4,040,521)**	**$ (1,050,852)**	**$ (166,130,789)**	**$ 5,729,016**

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows (unaudited)

	For the nine months ended September 30, 2022	For the nine months ended September 30, 2021
Operating Activities:		
Net loss	$ (38,728,066)	$ (49,246,355)
Adjustments to reconcile net loss to net cash provided from (used for) operating activities:		
Depreciation and amortization	649,343	537,826
Provision for uncollectible accounts	24,036,357	32,880,630
Provision for other uncollectible receivables	6,833,033	4,428,035
Equity based compensation and restricted stock vested	8,204,894	10,726,825
Amortization of debt issuance costs	821,770	500,202
Impairment losses on long-lived assets	26,109	5,474
Loss on extinguishment of line of credit	—	1,092,679
Changes in operating assets and liabilities:		
Notes receivable	17,155,162	(65,794,390)
Other receivables	(4,103,107)	(4,486,106)
Prepaid expenses and other assets	(307,559)	(3,297,530)
Merchant accounts payable	(12,171,770)	29,848,199
Other payables	2,361,293	2,135,408
Accrued liabilities	1,750,462	9,456,969
Deferred revenue	531,092	—
Operating leases	12,107	(30,832)
Net Cash Provided from (Used for) Operating Activities	**7,071,120**	**(31,242,966)**
Investing Activities:		
Purchase of property and equipment	(12,404)	(559,502)
Internally developed intangible asset additions	(774,139)	(515,023)
Net Cash Used for Investing Activities	**(786,543)**	**(1,074,525)**
Financing Activities:		
Payments on long term debt	—	(1,220,332)
Proceeds from line of credit	5,000,000	67,666,667
Payments to line of credit	(29,791,614)	(102,666,667)
Payments of debt issuance costs	(60,853)	(1,698,190)
Payment of debt extinguishment costs	—	(1,000,000)
Proceeds from stock option exercises	99,738	411,422
Stock subscriptions collected related to stock option exercises	324,378	208,578
Repurchase of common stock	(349,203)	(1,829,725)
Proceeds from issuance of common stock	—	30,000,000
Costs incurred from issuance of common stock	—	(2,768)
Net Cash Used for Financing Activities	**(24,777,554)**	**(10,131,015)**
Effect of exchange rate changes on cash	(1,632,131)	239,519
Net decrease in cash, cash equivalents, and restricted cash	(18,492,977)	(42,448,506)
Cash, cash equivalents, and restricted cash, beginning of year	78,890,168	89,103,903
Cash, cash equivalents, and restricted cash, end of period	**$ 58,765,060**	**$ 46,894,916**
Noncash investing and financing activities:		
Lease liabilities arising from obtaining right-of-use assets	—	142,597
Conversion of liability-classified incentive awards to stockholder's equity	—	9,293,035
Supplementary disclosures:		
Interest paid	4,865,371	3,611,852
Income taxes paid	24,298	4,575

See the accompanying Notes to the Consolidated Financial Statements.

Notes to Consolidated Financial Statements (unaudited)

Note 1. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

These unaudited consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial statements. While these consolidated financial statements and the accompanying notes thereof reflect all normal recurring adjustments that are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These consolidated financial statements and their accompanying notes should be read in conjunction with the consolidated financial statement disclosures in our 2021 annual consolidated financial statements. Operating results reported for the three and nine months ended September 30, 2022 might not be indicative of the results for any subsequent period or the entire year ending December 31, 2022.

Sezzle Inc. (the "Company" or "Sezzle") uses the same accounting policies in preparing quarterly and annual consolidated financial statements. The Company consolidates 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 its wholly-owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation.

Segments

We conduct our operations through a single operating segment and, therefore, one reportable segment. There are no significant concentrations by state or geographical location.

Fair Value

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

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

The Company measures the value of its money market securities on a regular basis. The fair value of its money market securities, totaling $359,413 and $6,408,389 as of September 30, 2022 and December 31, 2021, respectively, are based on Level 1 inputs and are included within cash and cash equivalents on the consolidated balance sheets.

Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the consolidated balance sheet as of September 30, 2022 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

Liquidity and Financial Condition

The Company meets its liquidity requirements primarily through proceeds from its line of credit, of which it is subject to various covenants. During the year ended December 31, 2021, the Company incurred net losses from its operations, which if continued at the same level in future periods would result in the breach of one or more of such line of credit covenants. The Company's line of credit is a significant component of its working capital management.

On February 25, 2022 and July 31, 2022, the Company amended its existing line of credit covenants as disclosed in Note 7. Line of Credit within the notes to the consolidated financial statements. On March 10, 2022, the Company undertook a workforce reduction to provide annualized cost savings. The Company also scaled back international operations, restructured contracts with certain merchants and partners, and phased-in the introduction of Sezzle Premium, a paid subscription service for users to access large, non-integrated merchants for a monthly or annual fee.

On October 14, 2022, Sezzle entered into a revolving credit facility with Bastion Funding IV, LLC, as administrative agent, and other certain lenders. The revolving credit facility has a maturity date of October 14, 2024 and allows the Company to borrow up to $100 million.

The implementation of these plans allows the Company to continue as a going concern through at least November 14, 2023.

The accompanying consolidated financial statements assume that the Company will continue as a going concern and have been prepared on the basis of the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The accompanying consolidated financial statements do not include any adjustments to the recoverability and classifications of recorded assets and liabilities as a result of uncertainties.

Reclassifications

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

Recent Accounting Pronouncements

In March 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2022-02, "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosures" which requires an entity to disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. As a smaller reporting company, Sezzle plans to adopt this standard beginning January 1, 2023 in conjunction with ASU 2016-13. At that time, Sezzle will include this additional disclosure within its vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit-quality indicator and class of financing receivable by year of origination.

None of the other recent accounting pronouncements issued by the FASB or the SEC during the nine months ended September 30, 2022 are within scope for the Company; therefore, it does not expect any of the other recent accounting pronouncements issued to have a material effect on the Company's consolidated financial statements.

Note 2. Total Income

Total income for the three months ended September 30, 2022 and 2021 was $30,408,249 and $28,471,726, respectively, and $87,294,249 and $81,887,607 for the nine months ended September 30, 2022 and 2021, respectively. Total income in the fourth quarter has historically been strongest for the Company, in line with consumer spending habits during the holiday shopping season. Sezzle's total income is classified into two categories: transaction income and income from other services.

Transaction Income

Transaction income is comprised of all income earned from merchants, consumers, and other third-parties that relate to placing and processing orders on the Sezzle Platform. This primarily includes merchant processing fees, virtual card interchange revenue, and convenience fee income.

Sezzle earns its income primarily from fees paid by merchants in exchange for Sezzle's payment processing services. These merchant processing fees are applied to the underlying sales to consumers passing through the Company's platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction.

Sezzle also earns income through interchange fees through the Sezzle Virtual Card solution. Virtual card interchange income is recognized at the time a transaction that uses a virtual card is processed. Additionally, Sezzle charges a convenience fee to consumers that choose to make installment payments (excluding the first installment) using a debit or credit card. Sezzle does not charge a fee for using ACH on subsequent installments. Sezzle recognizes convenience fee income at the time the transaction is processed.

Transaction income is reduced by direct loan origination fees. Such costs are comprised of costs paid to third-parties to obtain data for underwriting consumers which result in a successful transaction. Such costs which result in a declined order are recorded within third-party technology and data on the consolidated statements of operations and comprehensive income (loss).

Income from Other Services

Income from other services includes all other incomes earned from merchants, consumers, and other third-parties not included in transaction income. This primarily includes account reactivation fees, reschedule fees, and Sezzle Premium subscription revenue.

Sezzle earns income from consumers in the form of account reactivation fees. These fees are assessed to consumers who fail to make a timely payment. Sezzle allows, at a minimum and subject to state jurisdiction regulation, a 48-hour waiver period where fees are dismissed if the installment is paid by the consumer. Account reactivation fees are recognized at the time the fee is charged to the consumer to the extent they are reasonably collectible by Sezzle. Sezzle also earns income from consumers in the form of reschedule fees. Consumers are also allowed to reschedule their initial installment one time without incurring a reschedule fee and the principal of a rescheduled payment is not considered to be delinquent. If consumers reschedule a payment more than once in the same order cycle they are subject to a reschedule fee.

Additionally, Sezzle offers its consumers the ability to subscribe to its Sezzle Premium service which, along with other benefits, allows consumers to shop at select large, non-integrated "premium merchants" for a monthly or annual fee. Sezzle Premium subscription fees are recognized straight-line over the subscription period.

Disaggregation of Total Income

The following table breaks out the Company's total income by category:

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Transaction income	$ 25,062,708	$ 23,213,376	$ 72,879,496	$ 67,225,719
Income from other services	5,345,541	5,258,350	14,414,753	14,661,888
Total income	**$ 30,408,249**	**$ 28,471,726**	**$ 87,294,249**	**$ 81,887,607**

Within total income, $2,336,364 and $8,386 do not fall under the scope of the Accounting Standards Codification ("ASC") Topic 310, Receivables, for the three months ended September 30, 2022 and 2021, respectively. $2,913,351 and $8,386 do not fall under ASC Topic 310, Receivables, for the nine months ended September 30, 2022 and 2021, respectively. Such income relates to revenue from contracts with customers and is within the scope of ASC 606.

Total income that falls under the scope of ASC Topic 310 (excluding account reactivation fees) is initially recorded as a reduction to notes receivable, net, within the consolidated balance sheets. The income is then recognized over the average duration of the note using the effective interest rate method. Total income to be recognized over the duration of existing notes receivable outstanding was $3,968,605 and $5,240,919 as of September 30, 2022 and December 31, 2021, respectively.

Total income that falls under the scope of ASC Topic 606, Revenue from Contracts with Customers, generally comprises a single performance obligation. For performance obligations that occur over a period of time (e.g. consumers' ability to access the features of Sezzle Premium over the subscription term), Sezzle recognizes the total revenue straight-line over the duration of the performance obligation. Total income to be recognized over the remaining duration of outstanding performance obligations was $531,092 as of September 30, 2022. Sezzle had no deferred revenue related to ASC Topic 606 as of December 31, 2021.

Note 3. Notes Receivable

Sezzle's notes receivable comprise outstanding consumer principal and reschedule fees that Sezzle reasonably expects to collect from its consumers. Consumer installment payment plans typically consist of four installments, with the first payment made at the time of purchase and subsequent payments coming due every two weeks thereafter. As of September 30, 2022 and December 31, 2021, Sezzle's notes receivable, related allowance for uncollectible accounts, and deferred net origination fees are recorded within the consolidated balance sheets as follows:

As of	**September 30, 2022**	**December 31, 2021**
Notes receivable, gross	$ 107,489,312	$ 162,341,675
Less allowance for uncollectible accounts:		
Balance at beginning of year	(23,114,173)	(11,133,146)
Provision	(24,036,357)	(52,621,682)
Charge-offs, net of recoveries totaling $3,970,930 and $6,153,728, respectively	35,831,178	40,640,655
Total allowance for uncollectible accounts	(11,319,352)	(23,114,173)
Notes receivable, net of allowance	96,169,960	139,227,502
Deferred transaction income	(3,968,605)	(5,240,919)
Notes receivable, net	**$ 92,201,355**	**$ 133,986,583**

Sezzle maintains an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal and reschedule fee receivables from consumers. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. 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. Sezzle has not changed the methodology for estimating its allowance for uncollectible accounts during the nine months ended September 30, 2022.

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

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

Deferred transaction income is comprised of unrecognized merchant fees and consumer reschedule fees net of direct note origination costs, which are recognized over the duration of the note with the consumer and are recorded as an offset to Sezzle income on the consolidated statements of operations and comprehensive income (loss). Sezzle's notes receivable had a weighted average days outstanding of 34 days, consistent with the prior year's duration.

The following table summarizes Sezzle's gross notes receivable and related allowance for uncollectible accounts as of September 30, 2022 and December 31, 2021:

As of	**September 30, 2022**			**December 31, 2021**		
	Gross Receivables	**Less Allowance**	**Net Receivables**	**Gross Receivables**	**Less Allowance**	**Net Receivables**
Current	$ 95,832,203	$ (3,443,270)	$ 92,388,933	$ 139,024,393	$ (7,989,217)	$ 131,035,176
Days past due:						
1–28	5,404,629	(2,175,022)	3,229,607	12,263,154	(5,126,611)	7,136,543
29–56	3,030,930	(2,523,216)	507,714	5,266,164	(4,267,236)	998,928
57–90	3,221,550	(3,177,844)	43,706	5,787,964	(5,731,109)	56,855
Total	**$ 107,489,312**	**$ (11,319,352)**	**$ 96,169,960**	**$ 162,341,675**	**$ (23,114,173)**	**$ 139,227,502**

Note 4. Other Receivables

As of September 30, 2022 and December 31, 2021, the balance of other receivables, net, on the consolidated balance sheets is comprised of the following:

As of	**September 30, 2022**	**December 31, 2021**
Account reactivation fees receivable, net	$ 210,201	$ 1,325,443
Receivables from merchants, net	2,139,629	3,758,656
Other receivables, net	**$ 2,349,830**	**$ 5,084,099**

Account reactivation fees are applied to principal installments that are delinquent for more than 48 hours (or longer depending on the regulations within a specific state jurisdiction) after the scheduled installment payment date. Any account reactivation fees associated with a delinquent payment are considered to be the same number of days delinquent as the principal payment. Account reactivation fees receivable, net, is comprised of outstanding account reactivation fees that Sezzle reasonably expects to collect from its consumers.

As of September 30, 2022 and December 31, 2021, Sezzle's account reactivation fees receivable and related allowance for uncollectible accounts are recorded within the consolidated balance sheets as follows:

As of	**September 30, 2022**	**December 31, 2021**
Account reactivation fees receivable, gross	$ 1,321,650	$ 3,016,514
Less allowance for uncollectible accounts:		
Balance at start of period	(1,691,071)	(1,071,588)
Provision	(6,352,570)	(6,128,851)
Charge-offs, net of recoveries totaling $977,941 and $1,273,319, respectively	6,932,192	5,509,368
Total allowance for uncollectible accounts	(1,111,449)	(1,691,071)
Account reactivation fees receivable, net	**$ 210,201**	**$ 1,325,443**

Sezzle maintains the allowance at a level necessary to absorb estimated probable losses on consumer account reactivation fee receivables. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. 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. Sezzle has not changed the methodology for estimating its allowance for uncollectible accounts during the nine months ended September 30, 2022.

Receivables from merchants primarily represent merchant fees receivable for orders settled with the Sezzle Virtual Card solution. Such receivables totaled $1,989,006 and $3,738,765 as of September 30, 2022 and December 31, 2021, respectively. Virtual card transactions are settled with the merchant for the full purchase price at the point of sale and Sezzle separately invoices the merchant for the merchant fees due to Sezzle.

Additionally, the Company had other receivables from merchants, net, which totaled $150,623 and $19,891 as of September 30, 2022 and December 31, 2021, respectively. During the three months ended September 30, 2022 and 2021, the Company recorded direct write-downs of $156,457 and $539,242, respectively, and $480,463 and $994,425 during the nine months ended September 30, 2022 and 2021, respectively, related to these other receivables from merchants which are included in transaction expense on the consolidated statements of operations and comprehensive income (loss).

Note 5. Merchant Accounts Payable

Sezzle offers its merchants an interest bearing program in which merchants may defer payment from the Company in exchange for interest. Merchant accounts payable in total were $83,763,032 and $96,516,668 as of September 30, 2022 and December 31, 2021, respectively, as disclosed in the consolidated balance sheets. Of these amounts, $68,446,039 and $78,097,910 were recorded within the merchant interest program balance as of September 30, 2022 and December 31, 2021, respectively.

Effective August 1, 2022, all deferred payments retained in the program began bearing interest at a fixed rate of 3.8% on an annual basis, compounding daily. Prior to that, deferred payments retained in the program bore interest at the Secured Overnight Financing Rate ("SOFR") plus three percent on an annual basis, compounding daily, between March 1, 2022 and July 31, 2022, and LIBOR daily (3 month) rate plus three percent on an annual basis, compounding daily before that. The weighted average annual percentage yield was 3.87% and 3.18% for the three months ended September 30, 2022 and 2021, respectively, and 3.45% and 3.23% for the nine months ended September 30, 2022 and 2021, respectively. Interest expense associated with the program totaled $646,507 and $620,353 for the three months ended September 30, 2022 and 2021, respectively, and $1,835,044 and $1,666,420 for the nine months ended September 30, 2022 and 2021, respectively.

Deferred payments are due on demand, up to $250,000 during any seven day period, at the request of the merchant. Any request larger than $250,000 is honored after 7 days. Sezzle reserves the right to impose additional limits on the program and make changes to the program without notice or limits. These limits and changes to the program can include but are not limited to: maximum balances, withdrawal amount limits, and withdrawal frequency.

Note 6. Line of Credit

The Company had an outstanding line of credit balance of $54,008,386 as of September 30, 2022, recorded within line of credit, net, as a non-current liability on the consolidated balance sheets. As of September 30, 2022, Sezzle had pledged $92,218,071 of eligible gross notes receivable, which had a carrying value of $87,100,289, and had an unused borrowing capacity of $5,254,109.

For the three months ended September 30, 2022 and 2021, interest expense relating to the utilization of its lines of credit was $1,111,022 and $185,035, respectively, and $2,737,061 and $1,172,366 for the nine months ended September 30, 2022 and 2021, respectively. Interest expense relating to unused daily amounts was $59,981 and $183,940 for the three months ended September 30, 2022 and 2021, respectively, and $229,088 and $433,557 for the nine months ended September 30, 2022 and 2021, respectively. Interest expense recorded for the amortization of debt issuance costs related to its line of credit totaled $448,502 and $189,727 for the three months ended September 30, 2022 and 2021, respectively, and $821,770 and $500,202 for the nine months ended September 30, 2022 and 2021, respectively.

Effective January 1, 2022, the Company amended its Revolving Credit and Security Agreement, dated as of February 10, 2021, as amended (the "2021 Credit Agreement" and, such amendment, the "January Credit Agreement Amendment"), which was entered into by Sezzle Funding SPE II, LLC, a wholly owned indirect subsidiary of Sezzle (the "Borrower"), Goldman Sachs Bank USA (the "Class A senior lender"), and Bastion Consumer Funding II LLC and Bastion Funding IV LLC (the "Class B mezzanine lenders"). The January Credit Agreement replaced references to LIBOR with the U.S. Federal Reserve's Secured Overnight Financing Rate ("SOFR") plus a spread adjustment of 0.262% (collectively, "Adjusted SOFR"). The 2021 Credit Agreement carries an interest rate of Adjusted SOFR+3.375% and Adjusted SOFR+10.689% (the Adjusted SOFR floor rate is set at 0.25%) for funds borrowed from the Class A senior lender and the Class B mezzanine lenders, respectively. As of September 30, 2022, the weighted average interest rate was 9.12%.

On February 25, 2022, the Company entered into an additional amendment (the "February Credit Agreement Amendment") to the 2021 Credit Agreement. As part of the February Credit Agreement Amendment, certain definitions and events of default under the 2021 Credit Agreement were amended to clarify the terms of applicable cure periods, involving replacement of the servicer and a required change in the level of availability and data exchanged with the backup servicer.

On February 25, 2022, the Company entered into Amendment No. 1 (the "Limited Guaranty Amendment") to that certain Limited Guaranty and Indemnity Agreement, dated as of February 10, 2021, by and among the Company (as "Limited Guarantor" thereunder) and the Administrative Agent (the "Limited Guaranty"). The Limited Guaranty Amendment adjusted and provided alternatives for certain Limited Guarantor financial covenant measurement thresholds and required certain Limited Guarantor compliance reporting obligations during a defined modification period. The modification period ended upon the termination of the Zip Merger on July 11, 2022.

Effective July 31, 2022, Sezzle entered into Amendment No. 4 to the Revolving Credit and Security Agreement and Amendment No. 2 to Limited Guaranty and Indemnity Agreement (the "July Credit Agreement Amendment"), which amends its line of credit agreement with Goldman Sachs Bank USA dated February 10, 2021. Key changes in the July Line of Credit Amendment include: (a) lowering the committed facility amount from $125,000,000 to $64,287,184, (b) lowering the advance rate from 90% to 70%, (c) increasing the Class A interest rate from Adjusted SOFR plus 3.375% to Adjusted SOFR plus 4.375%, (d) increasing the Class B interest rate from Adjusted SOFR plus 10.689% to Adjusted SOFR plus 11.689%, and (e) other miscellaneous administrative requirements including reporting frequency. The July Credit Agreement Amendment does not require extending the modified covenants period; however, it was mutually agreed to extend the modified covenants period through October 14, 2022, which was the date the Company entered into its new revolving credit facility as disclosed in Note 10.

Note 7. Commitments and Contingencies

Merchant Contract Obligations

The Company has entered into several agreements with third-parties in which Sezzle will reimburse these third-parties for mutually agreed upon co-branded marketing and advertising costs. As of September 30, 2022 and December 31, 2021, the Company had outstanding agreements that stipulate Sezzle will commit to spend up to approximately $23.1 million and $35.1 million, respectively, in marketing and advertising spend in future periods. These agreements generally have contractual terms ranging from one to three years.

Expenses incurred relating to these agreements totaled $3,484,407 and $1,611,495 for the three months ended September 30, 2022 and 2021, respectively, and $13,936,420 and $4,071,057 for the nine months ended September 30, 2022 and 2021, respectively. These expenses are included within marketing, advertising, and tradeshows on the consolidated statements of operations and comprehensive income (loss). Sezzle had no prepaid expenses related to these agreements in the consolidated balance sheets as of September 30, 2022. As of December 31, 2021, Sezzle had $83,333 recorded as prepaid expense related to such agreements.

Certain agreements also contain provisions that may require payments by the Company and are contingent on Sezzle and/or the third party meeting specified criteria, such as achieving volume targets and implementation benchmarks. As of September 30, 2022 and December 31, 2021, the Company had outstanding agreements that stipulate Sezzle may spend approximately $0.1 million and $6.7 million, respectively, in future periods if such criteria are met.

Note 8. Net Income (Loss) Per Share

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Numerator:				
Net income (loss)	$ 4,344,424	$ (18,834,126)	$ (38,728,066)	$ (49,246,355)
Denominator:				
Basic shares:				
Weighted-average shares outstanding	207,650,379	202,326,434	206,483,444	199,069,123
Diluted shares:				
Stock options	2,958,971	—	—	—
Restricted stock units	16,546,472	—	—	—
Weighted-average shares outstanding	227,155,822	202,326,434	206,483,444	199,069,123
Net income (loss) per share:				
Basic	$ 0.02	$ (0.09)	$ (0.19)	$ (0.25)
Diluted	$ 0.02	$ (0.09)	$ (0.19)	$ (0.25)

Because their effect would have been anti-dilutive, 11,457,669 weighted-average shares were excluded from the denominator of diluted net income per share for the three months ended September 30, 2022.

Note 9. Reimbursement of Merger-Related Costs

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

Note 10. Subsequent Events

On October 14, 2022, Sezzle entered into a revolving credit facility with Bastion Funding IV, LLC, as administrative agent, and other certain lenders. The revolving credit facility has a maturity date of October 14, 2024 and allows the Company to borrow up to $100 million. The revolving credit facility has minimum utilization rates of $50 million at close, $75 million beginning December 31, 2022, and $80 million beginning March 31, 2023. The revolving credit facility carries an interest rate of Adjusted SOFR + 11.5%. The advance rate under the revolving credit facility is equal to 75% of the available receivable balance.

Sezzle also issued to the lenders warrants to purchase up to 2,075,064 shares of the Company’s common stock as consideration for the revolving credit facility. These warrants are exercisable until October 14, 2029 at an exercise price of A$0.49 per share.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q (“Form 10-Q”). This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. You should review the “Forward-Looking Statements”, “Factors Affecting Results from Operations”, and “Risk Factors” sections of the 2021 Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements described in the following discussion and analysis.

Overview

We are a purpose-driven payments company that is on a mission to financially empower the next generation. Launched in 2017, we have built a digital payments platform that allows merchants to offer their consumers a flexible alternative to traditional credit. As of September 30, 2022, our platform has supported the business growth of 45 thousand Active Merchants while serving 3.2 million Active Consumers. Through our payments products we aim to enable consumers to take control over their spending, be more responsible, and gain access to financial freedom. Our vision is to create a digital ecosystem benefiting all of our stakeholders— merchant partners, consumers, employees, communities and investors—while continuing to drive ethical growth.

The Sezzle Platform connects consumers with merchants via our core proprietary, digital payments platform that instantly extends credit at the point-of-sale. Our core product is differentiated from traditional lenders through our credit-and-capital-light approach, and we believe that it is mutually beneficial for our merchants and consumers given the network effects inherent in our platform. We enable consumers to acquire merchandise upfront and spread payments over four equal, interest-free installments over six weeks. We realize high repeat usage rates by many of our consumers, with the top 10% of our consumers measured by Underlying Merchant Sales (UMS, as defined below) transacting an average of 44 times per year based on the transaction activity during the rolling twelve months ended September 30, 2022, although historical transaction activity is not an indication of future results.

Our core product offering is completely free for consumers who pay on time; instead, we generate a majority of our revenues by charging our merchants fees in the form of a Merchant Discount Rate. We also offer two upgraded versions of the core Sezzle experience: Sezzle Up and Sezzle Premium. Sezzle Up is completely free and provides a credit-building solution for new-to-credit consumers, helping consumers adopt credit responsibility and build their credit history. Sezzle Premium is a paid subscription service for consumers to access large, non-integrated “premium merchants” for a monthly or annual fee, in addition to other benefits. Additionally, we have expanded our product suite to provide consumers with access to a long-term installment lending option through partnerships with third-parties.

A critical component of our business model is the ability to effectively manage the repayment risk inherent in allowing consumers to pay over time. To that end, a team of Sezzle engineers and risk specialists oversee our proprietary systems, identify transactions with elevated risk of fraud, assess the credit risk of the consumer and assign spending limits, and manage the ultimate receipt of funds. Further, we believe repayment risk is more limited relative to other traditional forms of unsecured credit because consumers primarily settle 25% of the purchase value upfront. Additionally, ongoing user interactions allow us to continuously refine and enhance the effectiveness of these platform tools through machine learning.

Terminated Merger with Wholly-Owned Subsidiary of Zip

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

Factors Affecting Results of Operations

We have set out below a discussion of the key factors that have affected our financial performance and that are expected to impact our performance going forward.

Adoption of the Sezzle Platform

Our ability to profitably scale our business is reliant on adoption of the Sezzle Platform by both consumers and merchants. Changes in our Active Merchant and Active Consumer bases (as such terms are defined below) have had, and will continue to have, an impact on our results of operations. It is costly for us to recruit (and in some cases retain) Active Merchants. Turnover in our merchant base could result in higher than anticipated overhead costs.

We believe that we have built a sustainable, transparent business model in which our success is aligned with the financial success of our merchants and consumers. We earn fees from our merchants predominately based on a percentage of the UMS value plus a fixed fee per transaction, or the Merchant Discount Rate. We pay our merchants for transaction value upfront net of the merchant fees owed to us and assume all costs associated with the consumer payment processing, fraud and payment default. The Merchant Discount Rate comprised approximately 76% and 80% of our total income for the three months ended September 30, 2022 and 2021, respectively, and 79% and 82% of our total income for the nine months ended September 30, 2022 and 2021, respectively.

Growth and Diversification of Merchants offered on the Sezzle Platform

We depend on continued relationships with our current merchants or merchant partners and on the acquisition of new merchants to maintain and grow our business. As of September 30, 2022, we had 45 thousand Active Merchants on our platform. Our integration into scaled e-commerce platforms is expected to give more merchants the opportunity to offer Sezzle as a payment option at checkout, and we expect that our partnerships with larger retailers will familiarize more consumers with the Sezzle Platform.

In addition, investment in sales, co-marketing, and offering of competitively priced merchant fee rates and incentives are critical for us to onboard new and retain existing merchants and grow utilization of the Sezzle Platform. We currently provide our merchants with a toolkit to grow their businesses. Our merchants gain access to our marketing efforts that begin with a launch campaign to introduce new brands to Sezzle consumers. We face intense competitive pressure to bring new larger merchants on to our platform. In order to stay competitive, we have and may continue to need to adjust our pricing or offer incentives to larger merchants to increase payments volume. These pricing structures with merchants include up-front cash payments, fee discounts, rebates, credits, performance-based incentives, marketing, and other support payments that impact our revenues and profitability. We expect to continue to incur substantial costs to acquire these larger merchants. Certain agreements contain provisions that may require us to make payments to certain merchants and are contingent on us and/or the merchants meeting specified criteria, such as achieving volume targets and implementation benchmarks. If we are not able to increase our volumes as predicted, the financial impact of these incentives, fee discounts, and rebates, these arrangements with certain merchants will impact our results of operations and financial performance.

There is a risk that we may lose merchants for a variety of reasons, including a failure to meet key contractual or commercial requirements, or merchants shifting to other service providers, including competitors or in-house offerings. We also face the risk that our key partners could become competitors of our business if such partners are able to determine how we have designed and implemented our model to provide our services. In the current year, we have prioritized our focus on merchant profitability, which has resulted in a slowdown in the growth of our merchant base.

New Products

Our expanding product suite enables us to further promote our mission of financial empowerment, and the adoption of these products by our consumers is expected to drive operating and financial performance. In 2021, we began working with other lending partners to offer consumers at participating merchants longer-term, monthly fixed-rate installment-loan products, which will support consumer purchases for big ticket items and earn us a fee on such transactions. Additionally, this year we phased-in the introduction of Sezzle Premium, a paid subscription service for consumers to access large, non-integrated “premium merchants” for a monthly or annual fee. We continue to seek out new partners to adopt our existing products and strategize on new products to complement our platform and core products, which we believe will have an impact on continued growth of our business.

Growth of our Consumer Base

To continue to grow our business, we need to maintain and increase our existing Active Consumer base and introduce new consumers to our platform. We rely heavily on our growing merchant base to offer our core product to new consumers at the point of sale for online transactions. We continue to provide offerings such as Sezzle Spend, which is a way we can issue credit to Sezzle accounts for various reasons and often involve rewards and promotions to new consumers. As of September 30, 2022, we had 3.2 million Active Consumers on the platform. We realize high repeat usage rates as a result of our differentiated offering, with the top 10% of our consumers measured by UMS transacting 44 times per year based on the transaction activity during the rolling twelve months ended September 30, 2022, although historical transaction activity is not an indication of future results.

Managing Credit Risk

A critical component of our business model is the ability to effectively manage the repayment risk inherent in allowing consumers to pay over time. To that end, a team of Sezzle engineers and risk specialists oversee our proprietary systems, identify transactions with elevated risk of fraud, assess the credit risk of the consumer and assign spending limits, and manage the ultimate receipt of funds. Because consumers primarily settle 25% of the purchase value upfront at the point of sale, we believe repayment risk is more limited relative to other traditional forms of unsecured consumer credit. Further, ongoing user interactions allow us to continuously refine and enhance the effectiveness of these platform tools through machine learning.

We absorb the costs of all core product uncollectible receivables from our consumers. The provision for uncollectible accounts is a significant component of our operating expenses, and excessive exposure to consumer repayment failure may impact our results of operations. We believe our systems and processes are highly effective and allow for predominantly accurate, real-time decisions in connection with the consumer transaction approval process. As our consumer base grows, the availability of data on consumer repayment behavior will also better optimize our systems and ability to make real-time consumer repayment capability decisions on a go forward basis. Optimizing repayment capacity decisions of our current and future consumer base may reduce our provision for uncollectible accounts and related charge-offs by providing optimal limitations on spending power to qualified consumers. Beginning in the current year, we began using a third-party collection agency in addition to our internal collections process, which further helps us lower our loss rates and manage credit risk.

Maintaining our Capital-Light Strategy

Maintaining our funding strategy and our low cost of capital is important to our ability to grow our business. We have created an efficient funding strategy which, in our view, has allowed us to scale our business and drive rapid growth. The speed with which we are able to recycle capital due to the short-term nature of our products has a multiplier effect on our committed capital.

Our funding helps drive our low cost of capital. We primarily rely on revolving credit facilities to fund our receivables over time and use merchant account payables as a secondary, low-cost funding source.

General Economic Conditions and Regulatory Climate

Our business depends on consumers transacting with merchants, which in turn can be affected by changes in general economic conditions. For example, the retail sector is affected by such macro-economic conditions as unemployment, interest rates, consumer confidence, economic recessions, downturns or extended periods of uncertainty or volatility, all of which may influence customer spending, and suppliers' and retailers' focus and investment in outsourcing solutions. This may subsequently impact our ability to generate income. Additionally, in weaker economic environments, consumers may have less disposable income to spend and so may be less likely to purchase products by utilizing our services and bad debts may increase as a result of consumers' failure to repay the loans originated on the Sezzle Platform. Our industry is also impacted by numerous consumer finance and protection regulations, both domestic and international, and the prospects of new regulations, and the cost to comply with such regulations, have an ongoing impact on our results of operations and financial performance.

International Operations

We primarily operate in the United States and have operations in Canada, India, Brazil and certain countries in Europe. During the second quarter of 2022, we ceased payment processing activities in India, with the employees there continuing to support North American operations. Additionally, we are exploring the potential sale of our European and Brazilian operations.

Seasonality

We experience seasonality as a result of spending patterns of our Active Consumers. Total income and UMS in the fourth quarter have historically been strongest for us, in line with consumer spending habits during the holiday shopping season, which has typically been accompanied by increased charge-offs when compared to the prior three quarters. This is most evident in merchant fees as these are recognized over the duration of the note with the consumer once the terms of the executed merchant agreement have been fulfilled and the merchant successfully confirms the transaction.

Impact of COVID-19

The COVID-19 pandemic has had a significant impact on the U.S. economy and the markets in which we operate. We believe that our performance during this period demonstrates the value and effectiveness of our platform, the resilience of our business model, and the capabilities of our risk management and underwriting approach. Our employees continue to primarily work from home, although employees have the option to work from the office under a hybrid model. Additionally, our sales and marketing teams have begun to selectively attend group events and industry-related conferences.

Key Operating Metrics

Underlying Merchant Sales

	For the three months ended September 30,		Change		For the nine months ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
	(in thousands, except percentages)							
Underlying Merchant Sales ("UMS")	$ 421,460	$ 460,651	$ (39,191)	(8.5)%	$ 1,291,060	$ 1,246,829	$ 44,231	3.5 %

UMS is defined as the total value of sales made by merchants based on the purchase price of each confirmed sale where a consumer has selected the Sezzle Platform as the applicable payment option. UMS does not represent revenue earned by us, is not a component of our income, nor is included within our financial results prepared in accordance with U.S. GAAP. However, we believe that UMS is a useful operating metric to both us and our investors in assessing the volume of transactions that take place on the Sezzle Platform, which is an indicator of the success of our merchants and the strength of the Sezzle Platform.

For the three months ended September 30, 2022 and 2021, UMS totaled $421.5 million and $460.7 million, respectively, which was a decrease of 8.5%. For the nine months ended September 30, 2022 and 2021, UMS totaled $1,291.1 million and $1,246.8 million, respectively, which was an increase of 3.5%. The decrease for the three months ended September 30, 2022 and relatively slower increase in UMS for the nine months ended September 30, 2022 is a result of our strategic shift in 2022 to focus on profitability over top-line growth.

Active Merchants and Active Consumers

	As of		Change	
	September 30, 2022	December 31, 2021	#	%
	(in thousands, except percentages)			
Active Merchants	45	47	(2)	(4.5)%
Active Consumers	3,170	3,400	(230)	(6.8)%

Active Merchants is defined as merchants who have had transactions with us in the last twelve months. As of September 30, 2022, we had 45 thousand Active Merchants, a decrease of 4.5% when compared to the 47 thousand Active Merchants as of December 31, 2021, and an increase of 1.1% when compared to the 44 thousand Active Merchants as of September 30, 2021. There is no minimum required number of transactions to meet the Active Merchant criteria.

Active Consumers is defined as unique end users who have placed an order with us within the last twelve months. As of September 30, 2022, we had 3.2 million Active Consumers, a decrease of 6.8% when compared to our 3.4 million Active Consumers as of December 31, 2021, and consistent when compared to the 3.2 million Active Consumers as of September 30, 2021.

The decrease in Active Merchants and Active Consumers is driven by our prioritization of profitability, which has resulted in a slowdown in the growth of our consumer and merchant base as we tighten credit underwriting and merchant onboarding. Our ceasing of payment processing in India resulted in a decrease in Active Merchants by 1 thousand and a decrease in Active Consumers by 0.1 million.

Components of Results of Operations

Total Income

Sezzle's total income are classified into two categories: transaction income and income from other services. Transaction income is comprised of all income earned from merchants, consumers, and other third-parties that relate to placing and processing orders on the Sezzle Platform. This primarily includes merchant processing fees, virtual card interchange revenue, and convenience fee income. Sezzle earns its income primarily from fees paid by merchants in exchange for Sezzle's payment processing services. These merchant processing fees are applied to the underlying sales to consumers passing through the Company's platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction. Sezzle also earns income through interchange fees through the Sezzle Virtual Card solution. Virtual card interchange income is recognized at the time a transaction that uses a virtual card is processed. Additionally, Sezzle charges a convenience fee to consumers that choose to make installment payments (excluding the first installment) using a debit or credit card. Sezzle does not charge a fee for using ACH on subsequent installments. Sezzle recognizes convenience fee income at the time the transaction is processed. Transaction income is reduced by direct loan origination fees. Such costs are comprised of costs paid to third-parties to obtain data for underwriting consumers which result in a successful transaction. Such costs which result in a declined order are recorded within third-party technology and data on the consolidated statements of operations and comprehensive income (loss).

Income from other services includes all other incomes earned from merchants, consumers, and other third-parties not included in transaction income. This includes account reactivation fees, reschedule fees, and Sezzle Premium subscription revenue. Sezzle earns income from consumers in the form of account reactivation fees. These fees are assessed to consumers who fail to make a timely payment. Sezzle allows, at a minimum and subject to state jurisdiction regulation, a 48-hour waiver period where fees are dismissed if the installment is paid by the consumer. Account reactivation fees are recognized at the time the fee is charged to the consumer to the extent they are reasonably collectible by Sezzle. Sezzle also earns income from consumers in the form of reschedule fees. Consumers are also allowed to reschedule their initial installment one time without incurring a reschedule fee and the principal of a rescheduled payment is not considered to be delinquent. If consumers reschedule a payment more than once in the same order cycle they are subject to a reschedule fee. Additionally, Sezzle offers its consumers the ability to subscribe to its Sezzle Premium service which, along with other benefits, allows consumers to shop at select large, non-integrated "premium merchants" for a monthly or annual fee. Sezzle Premium subscription fees are recognized straight-line over the subscription period.

Personnel

Personnel primarily comprises all wages and salaries paid to employees, contractor payments, employer-paid payroll taxes and employee benefits, and stock and incentive–based compensation.

Transaction Expense

Transaction expense primarily comprises processing fees paid to third parties to process debit, credit and ACH payments received from consumers, merchant affiliate program and partnership fees, and consumer communication costs. We incur merchant affiliate program and partnership fees when consumers make purchases with merchants who either were referred by another merchant or are associated with partner platforms with which we have a contractual agreement. We incur customer communication costs when we notify the consumer about the transaction status and upcoming payments. Communications are primarily made via text message directly to the consumer.

Third-Party Technology and Data

Third-party technology and data primarily comprises costs related to fraud prevention, other cloud-based computing services, and costs of failed loan applications. Underwriting costs incurred that result in successfully originated loans are an element of Sezzle Income and recognized as a reduction of the overall income and, therefore, are not included in third-party technology and data.

Marketing, Advertising, and Tradeshows

Marketing, advertising, and tradeshows primarily comprises costs related to marketing, sponsorships, advertising, attending tradeshows, promotions, and co-marketing the Sezzle brand with our merchants.

General and Administrative

General and administrative expenses are primarily comprised of professional fees, implementation incentives with merchants, insurance, and travel. Professional fees include legal, compliance, audit, tax, and consulting services to support the growth of our company.

Provision for Uncollectible Accounts

We calculate our provision for uncollectible accounts on notes receivable on an expected-loss basis. We maintain an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal and reschedule fee receivables from consumers. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. We use our judgment to evaluate the allowance for uncollectible accounts based on current economic conditions and historical performance of consumer payments.

Reimbursement of Merger-Related Costs

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

Net Interest Expense

We incur interest expense on a continuous basis as a result of draws on our revolving line of credit to fund consumer notes receivable as well as our Merchant Interest Program, whereby merchants may defer their payments owed by us in exchange for interest. Effective January 1, 2022, the interest paid on borrowings under our line of credit are based on SOFR. Effective August 1, 2022, interest paid to merchants under the Merchant Interest Program is based on a fixed interest rate. Prior to August 1, 2022, interest paid under the Merchant Interest Program was paid based on SOFR.

Income Tax Expense

Income tax expense consists of income taxes in various jurisdictions, primarily U.S. Federal and state income taxes, and also the other foreign jurisdictions in which we operate. Tax effects of transactions reported in the consolidated financial statements consist of taxes currently due. Additionally, we record deferred taxes related primarily to differences between the basis of receivables, property and equipment, equity based compensation, and accrued liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Given our history of losses, a full valuation allowance is recorded against our deferred tax assets.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) is comprised of foreign currency translation adjustments.

Results of Operations

Total Income

	For the three months ended September 30,		Change		For the nine months ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
	(in thousands, except percentages)							
Transaction income	$ 25,063	$ 23,214	$ 1,849	8.0 %	$ 72,879	$ 67,226	$ 5,653	8.4 %
Income from other services	5,345	5,258	87	1.7 %	14,415	14,662	(247)	(1.7) %
Total income	**$ 30,408**	**$ 28,472**	**$ 1,936**	**6.8 %**	**$ 87,294**	**$ 81,888**	**$ 5,406**	**6.6 %**

Transaction income for the three months ended September 30, 2022 and 2021 totaled $25.1 million and $23.2 million, respectively, which was an increase of 8.0%. As a percentage of total income, transaction income was 82.4% and 81.5% for the three months ended September 30, 2022 and 2021, respectively. Transaction income for the nine months ended September 30, 2022 and 2021 totaled $72.9 million and $67.2 million, respectively, which was an increase of 8.4%. As a percentage of total income, transaction income was 83.5% and 82.1% for the nine months ended September 30, 2022 and 2021, respectively. The increase in transaction income was primarily driven by higher Merchant Discount Rates through renegotiating or offboarding unprofitable merchants and partners. Within transaction income, merchant processing fees totaled $23.1 million and $22.9 million for the three months ended September 30, 2022 and 2021, respectively, and $69.0 million and $66.9 million for the nine months ended September 30, 2022 and 2021, respectively. The increase in merchant processing fees was driven by the increase in Merchant Discount Rates through renegotiation or offboarding of unprofitable merchants. Partner, affiliate, and other income comprised the rest of transaction income, and relates to fees paid to us by third-parties when a consumer places an order with us on certain merchant websites.

Income from other services totaled $5.3 million both for the three months ended September 30, 2022 and 2021, or 17.6% and 18.5% of total income for the three months ended September 30, 2022 and 2021, respectively. The increase during the three months ended September 30, 2022 and 2021 was driven by the launch of our Sezzle Premium subscription product, which launched in June 2022, offset against decreases in account reactivation and reschedule fees. Income from other services totaled $14.4 million and $14.7 million for the nine months ended September 30, 2022 and 2021, respectively, or 16.5% and 17.9% of total income, respectively. The decrease during the nine months ended September 30, 2022 and 2021 in income from other services was primarily driven by lower account reactivation and reschedule fees compared to the prior year, offset against the launch of our Sezzle Premium subscription service. Consumer account reactivation fees totaled $2.8 million and $4.0 million for the three months ended September 30, 2022 and 2021, respectively, and $9.9 million and $11.5 million for the nine months ended September 30, 2022 and 2021 The decrease in reactivation fees was driven by tightening of our credit underwriting, resulting in fewer consumers becoming delinquent on their orders.

Personnel

	For the three months ended September 30,		Change		For the nine months ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
	(in thousands, except percentages)							
Personnel	$ 11,587	$ 16,101	$ (4,514)	(28.0)%	$ 40,288	$ 43,766	$ (3,478)	(7.9)%

Personnel costs decreased by 28.0% to $11.6 million for the three months ended September 30, 2022, from $16.1 million for the three months ended September 30, 2021. Personnel costs decreased by 7.9% to $40.3 million for the nine months ended September 30, 2022, from $43.8 million for the nine months ended September 30, 2021. The decrease in personnel costs was a result of the workforce reduction we undertook in March 2022, as well as a change to our short-term incentive program which resulted in a decrease in the program's accrual.

Recorded within personnel, equity and incentive–based compensation totaled $2.6 million and $5.4 million for the three months ended September 30, 2022 and 2021, respectively, which was a 51.1% decrease. For the nine months ended September 30, 2022 and 2021, equity and incentive–based compensation totaled $8.2 million and $17.6 million, respectively, which was a 53.2% decrease. The decrease in equity and incentive–based compensation was a result of the change to our short-term incentive program as previously discussed, as well as the cancellation of awards associated with our workforce reduction executed in March 2022.

Transaction Expense

	For the three months ended September 30,		Change		For the nine months ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
	(in thousands, except percentages)							
Payment processing costs	$ 7,603	$ 8,560	$ (957)	(11.2) %	$ 25,142	$ 22,092	$ 3,050	13.8 %
Affiliate and partner fees	917	1,399	(482)	(34.4) %	3,256	4,194	(938)	(22.4) %
Other transaction expense	800	1,589	(789)	(49.7) %	2,831	3,299	(468)	(14.2) %
Transaction expense	**$ 9,320**	**$ 11,548**	**$ (2,228)**	**(19.3)%**	**$ 31,229**	**$ 29,585**	**$ 1,644**	**5.6 %**

Transaction expenses were $9.3 million and $11.5 million for the three months ended September 30, 2022 and 2021, respectively, and $31.2 million and $29.6 million for the nine months ended September 30, 2022 and 2021, respectively.

Payment processing costs were $7.6 million and $8.6 million for the three months ended September 30, 2022 and 2021, respectively. The decrease in costs were primarily driven by a larger share of payments using lower-cost ACH instead of card payments when compared to last year's third quarter. Payment processing costs were $25.1 million and $22.1 million for the nine months ended September 30, 2022 and 2021, respectively. The increase in costs were driven by higher volumes of orders transacted during the current period.

Merchant affiliate program and partnership fees are incurred by us when consumers make purchases with merchants who either were referred by another merchant, or are associated with partner platforms with which we have contractual agreements. Such costs were $0.9 million and $1.4 million for the three months ended September 30, 2022 and 2021, respectively, and $3.3 million and $4.2 million for the nine months ended September 30, 2022 and 2021, respectively. The decrease in costs was related to the restructuring of a partner contract effective at the beginning of the current year, which reduced our partner revenue-sharing fees.

Other costs included in transaction expense were $0.8 million and $1.6 million for the three months ended September 30, 2022 and 2021, respectively, and $2.8 million and $3.3 million for the nine months ended September 30, 2022 and 2021, respectively. Such costs are comprised of consumer communication costs, and consumer and merchant service adjustments. The decrease in costs were a result of fewer service adjustments being made to consumer and merchant accounts during the current period.

Third-Party Technology and Data

	For the three months ended September 30,		Change		For the nine months ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
	(in thousands, except percentages)							
Third-party technology and data	$ 2,177	$ 1,411	$ 767	54.4 %	$ 6,283	$ 3,680	$ 2,603	70.7 %

Third-party technology and data costs totaled $2.2 million and $1.4 million for the three months ended September 30, 2022 and 2021, respectively. Third-party technology and data costs totaled $6.3 million and $3.7 million for the nine months ended September 30, 2022 and 2021, respectively. The increase in expense was primarily related to our growth in volume and includes cloud-based infrastructure, fraud prevention, obtaining underwriting data that resulted in failed loan applications, and consumer engagement. The increase in costs was also due to the implementation and expanded use of key cloud-based systems to support the growth of our operations.

Marketing, Advertising, and Tradeshows

	For the three months ended September 30,		Change		For the nine months ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
	(in thousands, except percentages)							
Marketing, advertising, and tradeshows	$ 3,857	$ 2,323	$ 1,534	66.0 %	$ 15,403	$ 5,699	$ 9,704	170.3 %

Marketing, advertising, and tradeshow costs increased to $3.9 million for the three months ended September 30, 2022, compared to $2.3 million for the three months ended September 30, 2021. Similarly, marketing, advertising, and tradeshow costs increased to $15.4 million for the nine months ended September 30, 2022, compared to $5.7 million for the nine months ended September 30, 2021. The increase in costs were primarily a result of increased initiatives to co-market the Sezzle brand with our enterprise merchants and partners. Costs related to Sezzle Spend promotions, digital advertising, and tradeshow attendance also contributed to increased expenses.

General and Administrative

	For the three months ended September 30,		Change		For the nine months ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
	(in thousands, except percentages)							
General and administrative	$ 2,288	$ 4,320	$ (2,033)	(47.1)%	$ 14,232	$ 10,610	$ 3,622	34.1 %

General and administrative expenses are primarily comprised of professional fees, implementation incentives with merchants, insurance, and travel. Professional fees include legal, compliance, audit, tax, and consulting services to support the growth of our company. General and administrative costs decreased to $2.3 million for the three months ended September 30, 2022, compared to $4.3 million for the three months ended September 30, 2021. The decrease in costs was a result of cost-cutting measures, as well as no longer incurring costs related to the Zip Merger. Costs related to our proposed merger with Zip totaled $0.1 million for the three months ended September 30, 2022, compared to $0.2 million during the three months ended September 30, 2021. General and administrative costs increased to $14.2 million for the nine months ended September 30, 2022, compared to $10.6 million for the nine months ended September 30, 2021. The increase in costs was primarily driven by costs related to our merger with Zip in the current year, which totaled $6.6 million for the nine months ended September 30, 2022, compared to $0.9 million for the nine months ended September 30, 2021.

Provision for Uncollectible Accounts

	For the three months ended September 30,		Change		For the nine months ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
	(in thousands, except percentages)							
Provision for uncollectible accounts	$ 5,680	$ 10,456	$ (4,776)	(45.7)%	$ 24,036	$ 32,881	$ (8,844)	(26.9)%

The total provision for uncollectible accounts was $5.7 million for the three months ended September 30, 2022, compared to $10.5 million for the three months ended September 30, 2021. As a percentage of total income, the provision for uncollectible accounts was 22.9% and 45.0% for the three months ended September 30, 2022 and 2021, respectively. For the nine months ended September 30, 2022, the total provision for uncollectible accounts was $24.0 million, compared to $32.9 million for the nine months ended September 30, 2021. As a percentage of Sezzle income, the provision for uncollectible accounts was 33.3% and 48.9% for the nine months ended September 30, 2022 and 2021, respectively.

During the three and nine months ended September 30, 2022, we implemented a strategic shift to focus on profitability over top-line growth. As a result, we tightened our credit underwriting and restructured contracts with merchants that exhibited high consumer loss rates. We began to see the effects of this strategy in the first quarter of 2022, and during the second and third quarter of 2022 we continued to see improvements in consumer loss rates. In the current year, in addition to our internal collections process, we began using a third-party collection agency which resulted in incremental recoveries of previously charged-off receivables totaling $0.6 million and $1.6 million for the three and nine months ended September 30, 2022, respectively.

Reimbursement of Merger-Related Costs

On July 11, 2022, we entered into an agreement to terminate our proposed merger with Zip. As part of the termination agreement, we received $11 million for reimbursement of merger-related costs. Refer to Note 10. Reimbursement of Merger-Related Costs on the accompanying notes to our consolidated financial statements for more information.

Net Interest Expense

	For the three months ended September 30,		Change		For the nine months ended September 30,		Change	
	2022	2021	$	%	2022	2021	$	%
	(in thousands, except percentages)							
Net interest expense	$ 2,192	$ 1,173	$ 1,019	86.9 %	$ 5,477	$ 3,752	$ 1,725	46.0 %

Net interest expense was $2.2 million and $1.2 million for the three months ended September 30, 2022 and 2021, respectively, and $5.5 million and $3.8 million for the nine months ended September 30, 2022 and 2021, respectively. The increase in expense was driven by a partial write-off of unamortized debt issuance costs totaling $0.3 million related to our line of credit amendment signed in July 2022. Increases in our line of credit spread, SOFR, borrowings, and amortization of debt issuance costs during the three and nine months ended September 30, 2022 also contributed to increased expense.

Income Taxes

Income tax expense for the three months ended September 30, 2022 and 2021 was $10,827 and $11,201, respectively. Income tax expense for the nine months ended September 30, 2022 and 2021 was $48,626 and $51,678, respectively. Our effective income tax rate for the three months ended September 30, 2022 was 0.2%. Our effective income tax rate for the nine months ended September 30, 2022 and the three and nine months ended September 30, 2021 was 0.1%. Our effective income tax rate was minimal due to a full valuation allowance and is comprised of minimum income taxes owed to state and local jurisdictions. Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2021. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. On the basis of this evaluation, a full valuation allowance is recorded against our net deferred tax assets as of September 30, 2022 and December 31, 2021.

Other Comprehensive Income (Loss)

We had ($1,354,622) and $(212,357) of foreign currency translation adjustments recorded within other comprehensive income (loss) for the three months ended September 30, 2022 and 2021, respectively. For the nine months ended September 30, 2022 and 2021, we had ($1,614,763) and $291,094 of foreign currency translation adjustments, respectively. Foreign currency translation adjustments are a result of the financial statements of our non-U.S. subsidiaries being translated into U.S. dollars in accordance with ASC 830, "Foreign Currency Matters". We expect to record foreign currency translation adjustments in future periods and changes will be dependent on fluctuations in foreign currencies of countries in which we have operations.

Liquidity and Capital Resources

We have incurred net losses since inception, incurring a net loss of $38.7 million and $49.2 million for the nine months ended September 30, 2022 and 2021, respectively. We have historically financed our operating and capital needs primarily through private sales of equity, our initial public offering on the Australian Securities Exchange, and our revolving line of credit. As of September 30, 2022, our principal sources of liquidity were cash, cash equivalents, restricted cash, the unused borrowing capacity on our line of credit, and certain cash flows from operations.

As of September 30, 2022, we had cash, cash equivalents, and restricted cash of $58.8 million, compared to $78.9 million as of December 31, 2021. Our cash and cash equivalents were held primarily for working capital requirements and the continued investment in our business. Substantially all of our restricted cash is made available for use within 2-3 business days.

As of September 30, 2022 and December 31, 2021, we had working capital of $57.6 million and $113.7 million, respectively. Additionally, as of September 30, 2022 we had an unused borrowing capacity on our line of credit of $5.3 million, compared to $29.8 million as of December 31, 2021.

We meet our liquidity requirements primarily through proceeds from our line of credit, which is subject to various covenants. On February 25, 2022 and July 31, 2022, we amended our existing line of credit covenants as disclosed in Note 7. Line of Credit within the accompanying notes to consolidated financial statements. Additionally, on October 14, 2022, we entered into a revolving credit facility with Bastion Funding IV, LLC, as administrative agent, and other certain lenders. The revolving credit facility has a maturity date of October 14, 2024 and allows us to borrow up to $100 million. If our net losses continue at the level they did in 2021, it would have resulted in the breach of one or more of such line of credit covenants prior to the amendments. Our line of credit is a significant component of our working capital management.

On March 10, 2022, we undertook a workforce reduction to provide us with annualized cost savings of approximately $10 million. We have also scaled back international operations, which will provide us with an additional annualized cost savings of approximately $7.0 million. Additionally, we restructured contracts with certain merchants and partners and phased-in the introduction of Sezzle Premium, a paid subscription service for users to access large, non-integrated merchants for a monthly or annual fee.

The implementation of these plans, along with our existing cash, cash equivalents, restricted cash, our unused borrowing capacity on our line of credit, and certain cash flows from operations will be sufficient to meet our working capital and investment requirements beyond the next 12 months.

	For the nine months ended	
	September 30, 2022	**September 30, 2021**
Net Cash Provided from (Used for) Operating Activities	$ 7,071,120	$ (31,242,966)
Net Cash Used for Investing Activities	(786,543)	(1,074,525)
Net Cash Used for Financing Activities	(24,777,554)	(10,131,015)
Net decrease in cash, cash equivalents, and restricted cash	$ (18,492,977)	$ (42,448,506)

Operating Activities

Net cash provided from (used for) operating activities was $7.1 million and ($31.2) million for the nine months ended September 30, 2022 and 2021, respectively.

During the nine months ended September 30, 2022, receipts from consumers totaled $1.28 billion compared with cash payments to merchants of $1.18 billion. Cash receipts from consumers exceeded payments to merchants primarily due to the deferral of payments to merchants under the Merchant Interest Program. Additionally, the Company incurred cash outflows of $30.6 million for personnel related expenses, $32.1 million for transaction expenses (primarily payment processing costs), $12.5 million for advertising, marketing and tradeshow related expenses, $4.9 million of interest expense payments, and $7.2 million of cash outflows for third-party technology and other general and administrative expenses.

During the nine months ended September 30, 2021, receipts from consumers totaled $1.15 billion compared with cash payments to merchants of $1.11 billion. Cash receipts from consumers exceeded payments to merchants primarily due to the deferral of payments to merchants under the Merchant Interest Program. Additionally, the Company incurred cash outflows of $25.1 million for personnel related expenses, $27.4 million for transaction expenses (primarily payment processing costs), $5.7 million for advertising, marketing and tradeshow related expenses, $3.6 million of interest expense payments, and $14.7 million of cash outflows for third-party technology and data, along with various general and administrative expenses.

The net cash provided from consumers for the nine months ended September 30, 2022 and 2021 was $94.3 million and $45.3 million, respectively. The increase in net cash provided from consumers is driven by the launch of new revenue-generating products during the year, as well as the year-over-year increase in UMS. Beginning in the third quarter of the previous year, payments to merchants began generally growing at a faster rate than receipts from consumers due to a higher proportion of enterprise merchants. Large enterprise merchants do not participate in the Merchant Interest Program, and as a result do not defer their payments. The increase in personnel cash outflows are driven by the increase in employee headcount throughout 2021. The increase in cash outflows for transaction and interest related expenses are driven by the overall increase in volume. Other increases in cash outflows, year-over-year, are due to overall growth in the Company's operations.

Investing Activities

Net cash used for investing activities during the nine months ended September 30, 2022 was $0.8 million, compared to $1.1 million during the nine months ended September 30, 2021. Cash outflows for investing activities were primarily used for purchasing computer equipment, as well as payments of salaries to employees who create capitalized internal-use software.

Financing Activities

Net cash used for financing activities during the nine months ended September 30, 2022 was $24.8 million, compared to $10.1 million during the nine months ended September 30, 2021.

Significant financing cash outflows during the nine months ended September 30, 2022 included net payments to our line of credit totaling $24.8 million, the repurchase of shares of common stock from employees to cover minimum statutory tax obligations totaling $0.3 million, and payments of debt issuance costs totaling $0.1 million. Financing cash inflows during the nine months ended September 30, 2022 consisted of proceeds from stock option exercises totaling $0.4 million.

Line of Credit

Refer to Note 7. Line of Credit on the accompanying notes to our consolidated financial statements for discussion about our line of credit.

Merchant Contract Obligations

Refer to Note 8. Commitments and Contingencies on the accompanying notes to our consolidated financial statements for discussion about our merchant contract obligations.

Critical Accounting Policies and Estimates

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

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

Receivables and Credit Policy

Notes receivable represent amounts from uncollateralized consumer receivables generated from the purchase of merchandise. The original terms of the notes for our core product are to be paid back in equal installments every two weeks over a six-week period. We do not charge interest on the notes to consumers. We defer 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. We evaluate 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.

Other receivables represent the net realizable value of consumer account reactivation fees receivable, merchant accounts receivable, and merchant processing fees receivable. Consumer account reactivation fees receivable, less an allowance for uncollectible accounts, represent the amount of account reactivation fees we reasonably expect to receive from consumers. Receivables from merchants represent amounts merchants owe us relating to transactions placed by consumers on their sites. All notes receivable from consumers, as well as related fees, outstanding greater than 90 days past due are charged off as uncollectible. It is our practice to continue collection efforts after the charge-off date.

Total Income

Sezzle’s total income are classified into two categories: transaction income and income from other services. Transaction income is comprised of all income earned from merchants, consumers, and other third-parties that relate to placing and processing orders on the Sezzle Platform. This includes merchant processing fees, virtual card interchange revenue, and convenience fee income. Sezzle earns its income primarily from fees paid by merchants in exchange for Sezzle’s payment processing services. These merchant processing fees are applied to the underlying sales to consumers passing through the Company’s platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction. Income from other services includes all other incomes earned from merchants, consumers, and other third-parties not included in transaction income. This includes account reactivation fees, reschedule fees, and Sezzle Premium subscription revenue.

Total income that falls under the scope of ASC Topic 310 (excluding account reactivation fees) is initially recorded as a reduction to notes receivable, net, within the consolidated balance sheets. The income is then recognized over the average duration of the note using the effective interest rate method. Total income that falls under the scope of ASC Topic 606, Revenue from Contracts with Customers, generally comprises a single performance obligation. For performance obligations that occur over a period of time (e.g. consumers’ ability to access the features of Sezzle Premium over the subscription term), Sezzle recognizes the total revenue straight-line over the duration of the performance obligation.

Equity Based Compensation

We maintain 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. We estimate the fair value of stock options without a market condition on the measurement date using the Black-Scholes option valuation model. The fair value of stock options with a market condition is estimated, at the date of grant, using the Monte Carlo Simulation model. The Black-Scholes and Monte Carlo Simulation models incorporate assumptions about stock price volatility, the expected life of the options, risk-free interest rate, and dividend yield. For valuing our stock option grants, significant judgment is required for determining the expected volatility of our shares of common stock and is based on the historical volatility of both its shares of common stock and its defined peer group. The fair value of restricted stock awards and restricted stock units that vest based on service conditions is based on the fair market value of our shares of common stock on the date of grant. The expense associated with equity-based compensation is recognized over the requisite service period using the straight-line method. We issue new shares of common stock upon the exercise of stock options and vesting of restricted stock units.

Income Taxes

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

We evaluate our tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. To date we have not recorded any liabilities for uncertain tax positions.

New Accounting Pronouncements

Refer to Note 1. Significant Accounting Policies on the accompanying notes to our consolidated financial statements for discussion about recent accounting pronouncements.

Off Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks during our ordinary course of business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices, interest rates, and foreign currency exchange rates. Our primary risk exposure is the result of fluctuations in interest rates and foreign currency exchange rates.

Interest Rate Risk

Our cash, cash equivalents, and restricted cash are primarily held in checking, savings, and money market accounts. As of September 30, 2022 and December 31, 2021, we had approximately $0.4 million and $6.4 million of cash equivalents invested in money market funds. The fair value of our cash and cash equivalents would not be materially affected by either an increase or decrease in interest rates due to the short-term nature of these investments.

Our line of credit accrues interest at a floating rate based on a formula tied to the U.S. Federal Reserve's Secured Overnight Financing Rate ("SOFR"). A 0.1 percentage point increase or decrease in SOFR would not have a material effect on our accrued interest.

Foreign Currency Risk

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

We are also subject to foreign currency exchange risk related to translation, as a number of our subsidiaries have functional currencies other than the U.S. Dollar. Translation from these foreign currencies to the U.S. Dollar is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate for the period. Resulting translation adjustments are reported as a component of accumulated other comprehensive income on the consolidated balance sheets. A hypothetical 10% change in our subsidiaries' functional currencies against the U.S. Dollar compared to the exchange rate as of September 30, 2022 would result in a foreign currency translation adjustment of approximately $1.8 million.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of September 30, 2022, Sezzle conducted an evaluation, under supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (Exchange Act).

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

Changes in Internal Control Over Financial Reporting

During the nine months ended September 30, 2022, no changes in our internal control over financial reporting materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, we are involved in various lawsuits and claims, including consumer, intellectual property and employment claims, and administrative proceedings. While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any of these matters, individually or in the aggregate, will have a material adverse effect on our consolidated balance sheets, operations and comprehensive income (loss), or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors described in Part I, Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2021.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Throughout the three months ended September 30, 2022, we repurchased shares from employees to cover minimum statutory tax obligations owed for vested restricted stock units issued under our equity incentive plans. The table below presents information with respect to common stock purchases made by us during the three months ended September 30, 2022, as follows:

Period	Total Number of Shares Purchased[(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Programs
July 1, 2022 through July 31, 2022	15,670	$ 0.19	—	$ —
August 1, 2022 through August 31, 2022	18,663	0.55	—	—
September 1, 2022 through September 30, 2022	36,128	0.40	—	—
Total	70,461	$ 0.39	—	$ —

(1) All 70,461 shares were surrendered to satisfy minimum statutory tax obligations under our equity incentive plans.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File Number	File Date	
3.1	Fourth Amended and Restated Certificate of Incorporation	10-12G/A	000-56267	10/25/21	
3.2	Third Amended and Restated Bylaws	10-12G/A	000-56267	10/25/21	
10.1	Termination Agreement, dated July 11, 2022, by and among Sezzle Inc., Zip Co Limited and Miyagi Merger Sub, Inc.	8-K	000-56267	7/12/22	
10.2	Amendment No. 4 to Revolving Credit Agreement and Amendment No. 2 to Limited Guaranty and Indemnity Agreement, dated as of July 31, 2022, by and among Sezzle Funding SPE II, LLC, Sezzle Inc., the Lenders party thereto and Goldman Sachs Bank USA.	8-K	000-56267	8/3/22	
10.3	Revolving Credit and Security Agreement dated as of October 14, 2022 among Sezzle Funding SPE II, LLC, lenders party thereto and Bastion Funding IV, LLC	8-K	000-56267	8/14/22	
10.4	Pledge and Guaranty Agreement dated as of October 14, 2022 by and between Sezzle Funding SPE II Parent, LLC, and Bastion Funding IV, LLC, in its capacity as administrative agent	8-K	000-56267	8/14/22	
10.5	Limited Guaranty and Indemnity Agreement dated as of October 14, 2022 by Sezzle Inc. for the benefit of Bastion Funding IV, LLC, in its capacity as administrative agent	8-K	000-56267	8/14/22	
10.6	Form of Warrant Agreement	8-K	000-56267	8/14/22	
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of the Chief Executive Officer as Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of the Chief Financial Officer as Adopted Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	XBRL Instance Document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

SIGNATURE

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

SEZZLE INC.

Dated: November 14, 2022

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

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

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

Certifications

I, Charles Youakim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sezzle Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)]
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2022

/s/ Charles Youakim
Charles Youakim
Chairman and Principal Executive Officer

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

Certifications

I, Karen Hartje, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sezzle Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)]
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2022

/s/ Karen Hartje
Karen Hartje
Principal Financial Officer

Exhibit 32.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
AS ADOPTED PURSUANT TO 18 U.S.C. SECTION 1350
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Sezzle Inc., a Delaware corporation (“the Company”), for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (“the Report”), the undersigned officer of the Company certifies pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the officer's knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 14, 2022

/s/ Charles Youakim
Charles Youakim
Chairman and Principal Executive Officer

Exhibit 32.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
AS ADOPTED PURSUANT TO 18 U.S.C. SECTION 1350
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Sezzle Inc., a Delaware corporation (“the Company”), for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (“the Report”), the undersigned officer of the Company certifies pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the officer's knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 14, 2022

/s/ Karen Hartje
Karen Hartje
Principal Financial Officer