

SEZZLE, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017(restated)

SEZZLE, INC. AND SUBSIDIARY
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DECEMBER 31, 2018 AND 2017 (restated)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sezzle, Inc. and Subsidiary
Minneapolis, MN

We have audited the accompanying consolidated financial statements of Sezzle, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sezzle, Inc. and Subsidiary as of December 31, 2018 and 2017, and the

results of their operations and their cash flows and substantially all of the disclosures for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the consolidated financial statements, the 2017 consolidated financial statements have been restated to correct errors related to classification and measurement of future equity obligations, adjustment for deferred tax asset valuation and other audit related adjustments.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
May 29, 2019

Sezzle, Inc. and Subsidiary
Consolidated Balance Sheets
As of December 31, 2018 and 2017

	2018	2017 (restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,519,400	\$ 831,896
Restricted cash	545,454	-
Notes receivable, net	4,930,616	212,976
Other receivables, net	32,780	2,220
Prepaid expenses and other current assets	128,167	28,078
Total current assets	12,156,417	1,075,170
Non-Current Assets		
Internally developed intangible assets, net	260,732	73,944
Property and equipment, net	75,676	10,233
Restricted cash	20,000	20,000
Other assets	22,509	1,403
Total Assets	\$ 12,535,334	\$ 1,180,750
Liabilities, Mezzanine Equity, and Stockholders' Deficit		
Current Liabilities		
Merchant accounts payable	\$ 2,276,880	\$ 107,899
Other payables	96,252	16,677
Accrued liabilities	457,488	35,996
Total current liabilities	2,830,620	160,572
Long Term Liabilities		
Long term debt	250,000	-
Future equity obligations	-	3,272,553
Line of credit, net of unamortized debt issuance costs of \$66,172 and \$0, respectively	4,133,828	-
Total Liabilities	7,214,448	3,433,125
Mezzanine Equity		
Preferred stock, 6% noncumulative, \$0.00001 par value; 200,000,000 shares authorized; 69,536,840 and 0 shares issued and outstanding, respectively	11,678,429	-
Stockholders' Deficit		
Common stock, \$0.00001 par value; 300,000,000 shares authorized; 59,416,666 and 59,416,666 shares issued and outstanding, respectively	594	594
Additional paid-in capital	99,857	69,180
Stock subscriptions	-	(57,708)
Accumulated deficit	(6,457,994)	(2,264,441)
Total Stockholders' Deficit	(6,357,543)	(2,252,375)
Total Liabilities, Mezzanine Equity, and Stockholders' Deficit	\$ 12,535,334	\$ 1,180,750

Sezzle, Inc. and Subsidiary
Consolidated Statements of Operations
For the years ended December 31, 2018 and 2017

	2018	2017 (restated)
Income		
Sezzle income	\$ 1,415,077	\$ 24,446
End-customer other income	216,983	4,920
Total income	<u>1,632,060</u>	<u>29,366</u>
Cost of Income	<u>915,266</u>	<u>35,347</u>
Gross profit (loss)	<u>716,794</u>	<u>(5,981)</u>
Operating Expenses		
Selling, general, and administrative expenses	3,829,013	762,072
Provision for uncollectible accounts	940,498	46,276
Total operating expenses	<u>4,769,511</u>	<u>808,348</u>
Operating Loss	<u>(4,052,717)</u>	<u>(814,329)</u>
Other Income (Expense)		
Interest expense	(96,496)	-
Other income and expense	(36,850)	308
Fair value adjustment on future equity obligations	(7,490)	(956,553)
Loss Before Taxes	<u>(4,193,553)</u>	<u>(1,770,574)</u>
Income tax expense	-	-
Net Loss	<u>\$ (4,193,553)</u>	<u>\$ (1,770,574)</u>
Earnings per share:		
Basic and diluted loss per common share	\$ (0.07)	\$ (0.03)
Basic and diluted weighted average shares outstanding	59,416,666	54,498,858

Sezzle, Inc. and Subsidiary
Consolidated Statements of Stockholders' Deficit
For the years ended December 31, 2018 and 2017

	Common Stock		Additional	Stock	Accumulated	
	Shares	Amount	Paid-in Capital	Subscriptions	Deficit	Total
Balance at January 1, 2017 (restated)	55,000,000	\$ 550	\$ 18,950	\$ (7,500)	\$ (493,867)	\$ (481,867)
Issuance of common stock	11,416,666	114	65,594	(65,708)	-	-
Redemption of common stock	(7,000,000)	(70)	(15,430)	15,500	-	-
Equity based compensation	-	-	66	-	-	66
Net loss	-	-	-	-	(1,770,574)	(1,770,574)
Balance at December 31, 2017 (restated)	59,416,666	594	69,180	(57,708)	(2,264,441)	(2,252,375)
Equity based compensation	-	-	30,677	-	-	30,677
Collection of stock subscription	-	-	-	57,708	-	57,708
Net loss	-	-	-	-	(4,193,553)	(4,193,553)
Balance at December 31, 2018	59,416,666	\$ 594	\$ 99,857	\$ -	\$ (6,457,994)	\$ (6,357,543)

Sezzle, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017

	2018	2017 (restated)
Operating Activities:		
Net loss	\$ (4,193,553)	\$ (1,770,574)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	96,845	23,731
Provision for uncollectible accounts	940,498	46,276
Provision for other uncollectible receivables	102,540	3,290
Equity based compensation	30,677	66
Amortization of debt issuance costs	4,727	-
Fair value adjustment on future equity obligations	7,490	956,553
Impairment losses	19,827	-
Changes in operating assets and liabilities:		
Notes receivable	(5,658,137)	(259,252)
Other receivables	(133,100)	(5,510)
Prepaid expenses and other assets	(121,195)	(19,501)
Merchant accounts payable	2,168,981	107,899
Other payables	79,575	(4,742)
Accrued liabilities	421,492	21,561
Net cash used for operating activities	<u>(6,233,333)</u>	<u>(900,203)</u>
Investing Activities:		
Purchase of property and equipment	(101,529)	(8,864)
Internally developed intangible asset additions	(267,375)	(89,553)
Net cash used for investing activities	<u>(368,904)</u>	<u>(98,417)</u>
Financing Activities:		
Proceeds from issuance of long term debt	250,000	-
Proceeds from line of credit	4,600,000	-
Payments to line of credit	(400,000)	-
Payments of debt issuance costs	(70,899)	-
Proceeds of future equity obligations	30,000	495,000
Proceeds from issuance of preferred stock, net of costs	8,368,386	-
Collection of stock subscription	57,708	-
Net cash received from financing activities	<u>12,835,195</u>	<u>495,000</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	6,232,958	(503,620)
Cash, cash equivalents, and restricted cash:		
Beginning of Year	<u>851,896</u>	<u>1,355,516</u>
End of Year	<u>\$ 7,084,854</u>	<u>\$ 851,896</u>
Noncash investing and financing activities:		
Subscriptions receivable cancelled under stock redemptions	\$ -	\$ (15,500)
Issuance of common stock for stock subscriptions receivable	-	65,708
Issuance of preferred stock from future equity obligations	3,310,043	-
Supplementary disclosures:		
Cash paid for interest	34,634	-

See accompanying notes to the consolidated financial statements

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity

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

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

The Company is headquartered in Minneapolis, Minnesota.

Concentrations of Credit Risk

Cash and Cash Equivalents

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

Foreign Currency Risk

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

Notes Receivable

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

Basis of Presentation

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

Cash and Cash Equivalents

The Company had cash and cash equivalents of \$6,519,400 and \$831,896 as of December 31, 2018 and 2017, respectively. The Company considers all money market funds and other highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Company accepts debit and credit cards from end-customers as a method to settle its receivables, and these transactions are generally transmitted through third parties. The payments due from the third parties for debit and credit card transactions are generally settled within three days. The Company considers all bank, debit and credit card transactions initiated before year end to be cash and cash equivalents.

Restricted Cash

The Company is required to maintain cash balances in a bank account in accordance with the lending agreement executed on November 14, 2018 between Sezzle Funding SPE, LLC and Bastion Consumer Funding II, LLC (“Bastion”), Sezzle's third party

line of credit provider. The bank account is the property of Sezzle Funding SPE, LLC, but access to end-customer payments is controlled by Bastion. On a regular basis cash received from end-customers is deposited to the bank account and subsequently made available to Sezzle through daily settlement reporting with Bastion. Cash deposits to the bank account represent cash received from end-customers, not yet made available to Sezzle, as well as maintenance of minimum deposits required to maintain various fees, costs and interest charged by Bastion. The amount on deposit within the restricted bank account totaled \$545,454 as of December 31, 2018.

Additionally, as of December 31, 2018 and 2017, the Company was required to maintain a \$20,000 cash balance held in a reserve account to cover Automated Clearing House (ACH) transactions. The cash balance within this account is classified as restricted cash and reported within other non-current assets on the consolidated balance sheets.

Receivables and Credit Policy

Notes receivable represent amounts from uncollateralized consumer receivables generated from the purchase of online merchandise. The original terms of the notes are to be paid back in equal installments every two weeks over a six-week period. The Company does not charge interest on the notes to end-customers. Sezzle defers direct note origination costs over the average life of the notes receivable using the effective interest rate method. These net deferred fees and costs are recorded within notes receivable, net on the consolidated balance sheets. The Company evaluates the collectability of the balances based on historical experience and the specific circumstances of individual notes, with an allowance for uncollectible accounts being provided as necessary. All notes receivable from end-customers, as well as related fees, outstanding greater than 90 days past due or delinquent are charged off as uncollectible. It is the Company's practice to continue collection efforts after the charge-off date. Refer to Note 4 for further information about receivable balances, allowances, and charge-off amounts.

Debt Issuance Costs

Costs incurred in connection with originating debt have been capitalized and are classified in the consolidated balance sheets as a reduction of the line of credit balance to which those costs relate. These debt issuance costs are being amortized over the life of the underlying debt obligation utilizing the straight-line method, which approximates the effective interest method. Amortization of debt issuance costs is included within interest expense in the consolidated statements of operations.

Property and Equipment

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

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

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

Internally Developed Intangible Assets

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

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

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

Research and Development Costs

Research expenditures that relate to the development of new processes, including internally developed software, are expensed as incurred.

Such costs were approximately \$394,000 and \$110,000 for the years ended December 31, 2018 and 2017, respectively, and are recorded within selling, general, and administrative expenses within the consolidated statements of operations.

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets, including property, equipment and internally developed intangible assets for impairment whenever events and circumstances indicate that the carrying value of the assets may not be recoverable from the future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Management has determined that \$19,827 and \$0 of impairment losses occurred during the years ended December 31, 2018 and 2017, respectively. The impairment losses are captured within selling, general, and administrative expenses within the consolidated statements of operations.

As of December 31, 2018 and 2017, the Company had not renewed or extended the initial determined life for any of its recognized internally developed intangible assets.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of receivables, property and equipment, and accrued liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. A full valuation allowance is recorded against the Company's deferred tax assets as of December 31, 2018 and 2017.

The Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law on December 22, 2017. Effective January 2018, the TCJA, among other provisions, reduces the marginal U.S. corporate income tax rate from 35% to 21%, limits the deductibility of interest expenses, limits the deduction for net operating losses and eliminates net operating loss carrybacks, modifies or eliminates many business deductions and credits, and also includes various international provisions. See Note 6 for further information on the impact of this change to the consolidated financial statements.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2018 and 2017, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Advertising Costs

Advertising costs are expensed as incurred and consist of internet, e-mail and promotional product expenses. Such costs were \$179,394 and \$81,139 for the years ended December 31, 2018 and 2017, respectively.

Equity Based Compensation

The Company maintains a stock option plan which provides the offering of incentive and non-statutory stock options to employees and advisors of the Company. Equity based compensation expense reflects the fair value of awards measured at the grant date and recognized over the relevant vesting period. The Company estimates the fair value of each award on the measurement date using the Black-Scholes option valuation model which incorporates assumptions as to stock price volatility, the expected life of the options, risk-free interest rate and dividend yield. The Company issues new shares upon the exercise of stock options. Refer to Note 15 for further information around the Company's equity based compensation plans.

Estimates

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

software, determining impairment of property and equipment and internally developed software, valuation of stock options, fair value of future equity obligations, and income taxes.

Fair Value

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

Level 1 — Unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 — Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and

Level 3 — Unobservable inputs for the asset or liability, which include management's own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

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

	Cash Contributions	Fair Value Adjustments	Total
As of January 1, 2017	\$ 1,821,000	\$ -	\$ 1,821,000
Cash contributions	495,000	-	495,000
Loss on fair value adjustments	-	956,553	956,553
As of December 31, 2017	2,316,000	956,553	3,272,553
Cash contributions	30,000	-	30,000
Loss on fair value adjustments	-	7,490	7,490
Fair value at conversion date	2,346,000	964,043	3,310,043
Total conversion to preferred stock	(2,346,000)	(964,043)	(3,310,043)
As of December 31, 2018	\$ -	\$ -	\$ -

Cost of Income and Selling, General and Administrative Expenses

The primary costs classified in each major expense category are:

Cost of income:

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

Selling, general, and administrative expenses:

- All compensation related costs for employees and contractors
- Third party service provider costs
- Depreciation and amortization
- Advertising costs
- Rent expense

Segments

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

Foreign Currency Exchange Losses

Sezzle works with international merchants creating exposure to gains and losses from foreign currency exchanges. Sezzle's income and cash can be affected by movements in the Canadian Dollar. Sezzle has transactional currency exposures arising from merchant fees and payouts to Canadian merchant partners. Losses from foreign exchanges affecting Sezzle's net loss totaled \$38,859 for the year ended December 31, 2018 and are recorded within other expenses on the consolidated statements of operations. The Company did not hold foreign currency prior to 2018.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, "Revenue from Contracts with Customers" which supersedes the guidance in "Revenue Recognition" (Topic 605) and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company has determined the provisions within ASU No. 2014-09 are not applicable. The Company's sources of income are derived from two main sources: Sezzle income, and other income derived from failed payment fees. The Company determined both sources of income are within the scope of ASC 310 *Receivables*. Refer to Note 8 for further information about Sezzle's sources of income.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows" outlining changes for presentation of restricted cash on the statement of cash flows. The new guidance requires the classification and presentation of changes in restricted cash and cash equivalents in the statement of cash flows. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending balances shown in the statement of cash flows. The Company adopted the new standard as of January 1, 2017 using the retrospective transition method. The Company's restricted cash balance was \$565,454 and \$20,000 as of December 31, 2018 and 2017, respectively.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which requires all lessees to recognize a liability and a corresponding right-of-use asset for all long-term leases. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, with early application permitted. The Company has evaluated the new standard and on January 1, 2019 will adopt using a modified retrospective approach. The Company expects adoption will result in the recognition of a right-of-use asset and lease liability for the operating lease of its headquarters for approximately \$349,000 on the consolidated financial statements. Adoption of the new standard is not expected to have a material impact on the consolidated statements of operations. Further, the adjustment to opening retained earnings is not expected to be material.

In June 2018, the FASB issued ASU No. 2018-07, "Improvements to Nonemployee Share-Based Payment Accounting" to include share-based payment transactions for acquiring goods and services from nonemployees. The Company will adopt the ASU beginning January 1, 2019. The Company does not expect this to have a material impact to the consolidated financial statements.

Note 2 - Property and Equipment

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

	2018	2017 (restated)
Computer and office equipment	\$ 114,978	19,176
Furniture and fixtures	5,727	-
Property and equipment, gross	120,705	19,176
Less: accumulated depreciation	(45,029)	(8,943)
Property and equipment, net	<u>\$ 75,676</u>	<u>\$ 10,233</u>

Depreciation expense relating to property and equipment was \$36,086 and \$6,422 for the years ended December 31, 2018 and 2017, respectively.

Note 3 – Internally Developed Intangible Assets

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

	2018	2017 (restated)
Internal use software	\$ 257,537	\$ 73,777
Web development costs	29,027	17,476
Work in process	46,370	-
Internally developed intangible assets, gross	332,934	91,253
Less: accumulated amortization	(72,202)	(17,309)
Internally developed intangible assets, net	<u>\$ 260,732</u>	<u>\$ 73,944</u>

Amortization of internally developed intangible assets was \$60,759 and \$17,309 for the years ended December 31, 2018 and 2017, respectively.

Note 4 - Notes Receivable

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

	2018	2017 (restated)
Notes receivable, gross	\$ 5,719,723	\$ 264,663
Less: allowance for uncollectible accounts		
Balance at start of period	(45,783)	-
Provision	(940,498)	(46,276)
Charge-offs	340,949	493
Total allowance for uncollectible accounts	(645,332)	(45,783)
Notes receivable, net of allowance	5,074,391	218,880
Deferred net origination fees on notes receivable	(143,775)	(5,904)
Balance at end of year	<u>\$ 4,930,616</u>	<u>\$ 212,976</u>

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

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

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

Sezzle estimates the allowance for doubtful accounts by segmenting end-customer accounts receivable by the number of days balances are delinquent. Balances that are at least one day past the initial due date are considered delinquent. Balances that are not delinquent are considered current. End-customer notes receivable are charged-off following the passage of 90 days without receiving a qualifying payment. End-customers are allowed to reschedule a payment one time without incurring a reschedule fee and the principal of a rescheduled payment is not considered to be delinquent. If end-customers reschedule a payment more than once in the same order cycle they are subject to a reschedule fee. Alternatively, failed payment fees are applied to any missed payments for which an end-customer did not reschedule. Any failed payment fees associated with a delinquent payment are considered to be the same number of days delinquent as the principal payment.

The following table summarizes Sezzle's gross notes receivable and related allowance for uncollectible accounts for the years ended December 31:

	2018			2017 (restated)		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Current	\$ 4,975,024	\$ (101,054)	\$ 4,873,970	\$ 206,632	\$ (7,728)	\$ 198,904
Days past due:						
1-28	400,755	(215,592)	185,163	28,903	(15,728)	13,175
29-56	200,491	(188,339)	12,152	23,561	(17,485)	6,076
57-90	143,453	(140,347)	3,106	5,567	(4,842)	725
Total	<u>\$ 5,719,723</u>	<u>\$ (645,332)</u>	<u>\$ 5,074,391</u>	<u>\$ 264,663</u>	<u>\$ (45,783)</u>	<u>\$ 218,880</u>

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

Note 5 – Commitments and Contingencies

Operating Leases

The Company leases its corporate headquarters in Minneapolis, Minnesota. Rent expense under operating leases was \$76,252 and \$25,522 for the years ended December 31, 2018 and 2017, respectively. Rent is recognized and recorded on a straight-line basis over the life of the lease and recorded in selling, general, and administrative expenses. Differences between cash payments and rent expense are deferred and recognized on the consolidated balance sheets as an accrued liability.

On May 1, 2018, the Company signed a new lease for an office space in Minneapolis, Minnesota. Due to growth in headcount, the Company terminated this lease and on February 4, 2019 entered into a new lease agreement which expires in June 2020. The new office space is also in Minneapolis, Minnesota.

Under the terms of the Company's current lease for office space through June 2020, the approximate minimum remaining lease commitments were:

Years ending December 31:	
2019	\$ 267,000
2020	180,000
Total	<u>\$ 447,000</u>

Marketing and Advertising

In September 2018, the Company entered into an agreement with a third party whereby Sezzle will pay for marketing and advertising costs. The agreement stipulates it will spend up to \$250,000 in marketing and advertising expenses over the four years following the date of the agreement. Sezzle incurred \$50,000 of this amount for the year ended December 31, 2018.

Note 6 - Income Taxes

Deferred tax assets and liabilities consist of the following components as of December 31:

	2018	2017 (restated)
Deferred tax assets:		
Net operating loss carryforwards	\$ 959,000	\$ 264,750
Allowance for uncollectible accounts	149,255	10,349
Deferred Sezzle income	30,320	-
Equity based compensation	2,110	-
Depreciation and amortization	2,866	413
Startup costs	11,913	12,854
Deferred tax assets:	1,155,464	288,366
Valuation allowance	(1,155,464)	(288,366)
Net deferred tax assets/liabilities:	\$ -	\$ -

The total approximate amount of gross federal net operating loss carryforwards are \$4,394,000 and \$1,105,000 as of December 31, 2018 and 2017, respectively. Net operating loss carryforwards originating in 2018 have no expiration date. The total amount of carryforwards originated prior to 2018 have expiration dates between 2036 and 2037. Approximate gross state net operating losses are \$461,000 and \$424,000 as of December 31, 2018 and 2017, respectively. The state net operating losses have expiration dates between 2036 and 2038. The Company's ability to utilize a portion of its net operating loss carryforwards to offset future taxable income may be subject to certain limitations under Section 382 of the Internal Revenue Code due to changes in the equity ownership. The Company has not performed an analysis to determine if an ownership change has occurred.

The Company has a full valuation allowance recorded against deferred tax assets due to the uncertainty around the Company's ability to generate future taxable income necessary to realize its deferred tax assets, particularly in light of the Company's historical losses.

The TCJA was signed into law on December 22, 2017, and reduced U.S. corporate income tax rates from 35% to 21% beginning January 1, 2018. As a result of the TCJA, the Company remeasured its deferred tax assets and liabilities to 21%. There was no impact to income tax expense as a result of this change due to the Company maintaining a full valuation allowance against net deferred tax assets.

The following table reflects the effective income tax rate reconciliation for the years ended December 31, 2018 and 2017:

	2018	2017 (restated)
U.S. federal statutory tax rate	(21.0) %	(34.0) %
State income taxes	(0.1)	-
Impact of the TCJA	-	10.1
Fair value adjustment on future equity obligations	-	18.4
Nondeductible expenses	0.4	0.1
Change in valuation allowance	20.7	5.4
Effective tax rate	- %	- %

Note 7 - Merchant Concentration

There are no material concentrations for the year ended December 31, 2018. The Company had two merchants that each accounted for 23% of net Sezzle income for the year ended December 31, 2017.

Note 8 – Income

Sezzle income

Sezzle receives its income predominantly from fees paid by retail merchant clients in exchange for Sezzle's payment processing services. These fees are applied to the underlying sales to end-customers passing through the Company's platform and are predominantly based on a percentage of the end-customer order value plus a fixed fee per transaction. End-customer installment payment plans typically consist of

four installments, with the first payment made at the time of purchase and subsequent payments coming due every two weeks thereafter. Additionally, end-customers may reschedule their initial installment plan by delaying payment for up to two weeks, for which Sezzle earns a rescheduled payment fee. The total of merchant fees and rescheduled payment fees, less note origination costs, are collectively referred to as Sezzle income within the consolidated statement of operations.

Sezzle income is initially recorded as a reduction to notes receivable, net within the consolidated balance sheets. Sezzle income is then recognized over the average duration of the end-customer note using the effective interest rate method. The total Sezzle income to be recognized over the duration of existing notes receivable outstanding was \$143,775 and \$5,904 at December 31, 2018 and 2017, respectively. Total Sezzle income recognized was \$1,415,077 and \$24,446 for the years ended December 31, 2018 and 2017, respectively.

End-customer other income

Sezzle also earns income from end-customers in the form of failed payment fees. These fees are assessed to end-customers who fail to make a timely payment. Sezzle allows a 48-hour waiver period where fees are dismissed if the installment is paid by the end-customer. Failed payment fees are recognized at the time the fee is charged to the end-customer, less an allowance for uncollectible amounts. Total failed payment fee income recognized totaled \$216,983 and \$4,920 for the years ended December 31, 2018 and 2017, respectively.

Note 9 – Stockholders’ Deficit

Stock Subscriptions

As of December 31, 2017, stock subscriptions represent a receivable for consideration that has not been paid to the Company based on the subscription price agreed to between the stockholder and the Company related to the purchase of common stock. Stock subscriptions are included within stockholders’ deficit. The Company issued a stock subscription receivable of \$57,708 for 19,416,666 shares of common stock prices ranging from \$0.0005 and \$0.0065 to employees. The total amount of stock subscriptions were fully paid by stockholders as of December 31, 2018.

Note 10 – Mezzanine Equity

Preferred Stock

The Company has authorized and designated shares of Series A-1 through A-5 preferred stock as follows:

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

The Company also has 106,567,426 of preferred shares authorized but unissued and undesignated. On April 10, 2018, the Company issued 19,655,605 shares of A-1 through A-3 preferred stock in exchange for converted Simple Agreement for Future Equity (SAFE) agreements issued in prior years. The exchange of the SAFE agreements resulted in issuance of preferred stock valued at \$3,310,043. The initial cash proceeds of the SAFE agreements were \$2,346,000. Refer to Note 14 for additional disclosures regarding the SAFE agreements.

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

The preferred stockholders are entitled to receive, as and if declared by the Board of Directors, a preferential 6% noncumulative dividend. As of December 31, 2018 and 2017, no dividends have been declared.

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

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

Note 11 – Employee Benefit Plan

The Company sponsors a defined contribution 401(k) for eligible U.S. employees. Plan assets are held separately from those of the Company in funds under the control of a third-party trustee. Participants in the plan may elect to defer a portion of their eligible compensation, on a pre or post-tax basis, subject to annual statutory contribution limits. The Company does not offer matching contributions. There were no Company contributions related to the plan for the years ended December 31, 2018 and 2017.

Note 12 - Revolving Line of Credit with Bastion

On November 14, 2018, Sezzle Funding SPE, LLC entered into a Loan and Security Agreement (the “Loan Agreement”) with Bastion Consumer Funding II, LLC (Bastion). The Loan Agreement provides for a credit facility of \$30,000,000 (the “Maximum Dollar Amount”). As of December 31, 2018 the Company had an outstanding revolving line of credit balance of \$4,200,000, recorded within Line of credit, net as a non-current liability on the consolidated balance sheets.

The line of credit has a maturity date of November 14, 2021 and bears interest at a floating per annum rate equal to the 3 month LIBOR + 12% on the first \$15,000,000 and 3-month LIBOR + 10% for the remaining \$15,000,000 (14.74% as of December 31, 2018). Interest on borrowings is due monthly and all borrowings are due at maturity. Borrowings are based on 85-90% of eligible domestic notes receivable, defined as past due balances outstanding less than 30 days. Total interest expense incurred related to the line of credit was \$80,744 through December 31, 2018.

The Company’s obligations under the Loan Agreement are secured by its installment payments receivable. The collateral does not include the Company’s intellectual property, but the Company has agreed not to encumber its intellectual property without the consent of Bastion.

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

Debt issuance costs incurred to obtain the line of credit with Bastion totaled \$70,899 for the period ended December 31, 2018. The costs were capitalized as a reduction to the line of credit balance and are amortized over the life of the agreement. Total amortization of capitalized line of credit costs was \$4,727 for the year ended December 31, 2018.

Note 13 - Notes Payable

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

Note 14 - Future Equity Obligations

For the years ended December 31, 2018 and 2017, the Company entered into various SAFE agreements with investors in exchange for proceeds of \$30,000 and \$2,316,000, respectively. The SAFE agreements have no maturity date and bear no interest. The agreements provide the rights of the investors to preferred stock in the Company upon an equity financing event as defined in the agreements. The agreements are subject to valuation caps ranging from \$8,000,000 to \$12,000,000 and have conversion discount rates ranging from 15% to 25%.

Based on the terms of the SAFE agreements, if there is a liquidity event before the termination of the SAFE agreements, the investors will, at their option, either: 1) receive a cash payment equal to the purchase amount or 2) automatically receive from the Company a number of shares of common stock equal to the purchase amount divided by the liquidity price. In a dissolution event, the SAFE agreement holders will be paid out of remaining assets prior to holders of the Company’s common stock. Due to these factors the future equity obligations are classified as long term liabilities within the consolidated balance sheets as of December 31, 2017.

The Company recorded the changes in fair value of the SAFE agreements at each reporting period to the consolidated statements of operations. The changes in fair value resulted in losses of (\$7,490) and (\$956,553) for the years ended December 31, 2018 and 2017, respectively. The changes in fair value are recorded to other income (expense) within the consolidated statements of operations.

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

Note 15 – Equity Based Compensation

The Company issues incentive stock options to employees with vesting requirements varying from two to four years (one-year cliff vesting and monthly vesting after the first year of service). The Company utilizes the Black-Scholes model for valuing equity-based compensation expense. Total equity based compensation expense recorded totaled \$30,677 and \$66 for the years ended December 31, 2018 and 2017, respectively, and is recorded within selling, general, and administrative expenses within the consolidated statements of operations. The number of options authorized for issuance are 10,000,000. The Company had issued 7,430,000 and 752,500 options as of December 31, 2018 and 2017, respectively. No stock options have fully vested or been exercised as of December 31, 2018. The options are exercisable into common stock.

	2017				
	Number of Options	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life	
Outstanding, beginning of year	552,500	\$ 0.001	\$ -	-	
Granted	200,000	0.007	-	-	
Exercised	-	-	-	-	
Canceled	-	-	-	-	
Outstanding, end of year	752,500	0.002	3,315	8.85	
Exercisable, end of year	319,131	0.001	1,915	8.45	
Expected to vest, end of year	433,369	\$ 0.003	\$ 1,400	9.15	
	2018				
	Number of Options	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life	
Outstanding, beginning of year	752,500	\$ 0.002	\$ -	-	
Granted	6,677,500	0.049	-	-	
Exercised	-	-	-	-	
Canceled	-	-	-	-	
Outstanding, end of year	7,430,000	0.044	44,749	9.48	
Exercisable, end of year	949,961	0.018	30,761	8.44	
Expected to vest, end of year	6,480,039	\$ 0.048	\$ 13,988	9.63	

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

	2018	2017
Risk-free interest rate	2.66%-3.09%	2.37%-2.40%
Expected volatility	48.11%-57.29%	54.97%-59.11%
Expected life (in years)	6.26	9.35
Weighted-average estimated fair value of options granted	\$ 0.026	\$ 0.005

The total compensation cost related to non-vested awards not yet recognized is \$146,780, expected to be recognized over the weighted average remaining recognition period of approximately 3.2 years.

Note 16 – Losses per share

The computation for basic loss per share is established by dividing net losses for the period by the weighted average shares outstanding during the reporting period. Dilutive losses per share is computed in a similar manner, with weighted average shares increased from the assumed exercise of employee stock options (if dilutive). Given the Company is in a loss position, the impact of including assumed exercises of stock options and conversion of future equity obligations and preferred stock would have an anti-dilutive impact on the calculation of diluted loss per share. Therefore, stock option, future equity obligations, and preferred stock shares are not included in the calculation of diluted loss per share for the years ended December 31, 2018 and 2017.

Note 17 – Restatement of December 31, 2017 Consolidated Financial Statements

The Company has restated its previously issued consolidated financial statements as of and for the year ended December 31, 2017.

On October 25, 2018, the Company issued compiled consolidated financial statements as of December 31, 2017 and for the year then ended. Subsequent to the issuance of these unaudited consolidated financial statements, certain adjustments were recorded to conform with proper presentation under U.S. GAAP.

The following is a summary of the effects of the restatement on the Company's December 31, 2017 consolidated balance sheet:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
As of December 31, 2017				
Cash, cash equivalents, and other current assets	\$ 1,097,219	\$ (22,049)	\$ 1,075,170	c
Deferred income taxes	349,000	(349,000)	-	a
Other non-current assets	127,835	(22,255)	105,580	c
Total assets	1,574,054	(393,304)	1,180,750	
Current liabilities	146,338	14,234	160,572	c
Long term liabilities	-	3,272,553	3,272,553	b
Total liabilities	146,338	3,286,787	3,433,125	
Stockholders' deficit	1,427,716	(3,680,091)	(2,252,375)	b, c
Total liabilities and stockholders' deficit	\$ 1,574,054	\$ (393,304)	\$ 1,180,750	

The following is a summary of the effects of the restatement for the year ended December 31, 2017 consolidated statement of operations:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
For the year ended December 31, 2017				
Total income	\$ 41,483	\$ (12,117)	\$ 29,366	c
Cost of income	19,738	15,609	35,347	c
Gross profit (loss)	21,745	(27,726)	(5,981)	
Operating expenses	769,795	38,553	808,348	c
Operating loss	(748,050)	(66,279)	(814,329)	
Other income	308	-	308	
Fair value adjustment on future equity obligations	-	(956,553)	(956,553)	b
Loss before taxes	(747,742)	(1,022,832)	(1,770,574)	
Income tax (expense) benefit	139,457	(139,457)	-	a
Net loss	\$ (608,285)	\$ (1,162,289)	\$ (1,770,574)	

The following is a summary of the effects of the restatement for the year ended December 31, 2017 consolidated statement of stockholders' deficit:

	Common Stock	Additional Paid- in Capital	Stock Subscriptions	Future Equity Obligations	Accumulated Deficit	Total
As previously reported	\$ 594	\$ 69,180	\$ (57,708)	\$ 2,316,000	\$ (900,350)	\$ 1,427,716
Restatement adjustments	-	-	-	(2,316,000)	(1,364,091)	(3,680,091)
As restated	\$ 594	\$ 69,180	\$ (57,708)	\$ -	\$ (2,264,441)	\$ (2,252,375)

The following is a summary of the effects of the restatement for the year ended December 31, 2017 consolidated statement of cash flows:

	As Previously Reported	Restatement Adjustments	As Restated	Restatement Reference
Year ended December 31, 2017				
Net loss	\$ (608,285)	\$ (1,162,289)	\$ (1,770,574)	a, c
Deferred income taxes	(138,000)	138,000	-	a
Other net loss to net cash reconciling items	(110,816)	981,187	870,371	b, c
Net Cash used for operating activities	(857,101)	(43,102)	(900,203)	
Net Cash used for investing activities	(145,909)	47,492	(98,417)	c
Net Cash received from financing activities	495,000	-	495,000	
Net decrease in cash, cash equivalents, and restricted cash	(508,010)	4,390	(503,620)	c
Cash, Cash Equivalents, and Restricted Cash, end of year	\$ 847,506	\$ 4,390	\$ 851,896	

Summary of restated items:

- (a) The change in the deferred tax asset and related income tax benefit related to the Company recording a valuation allowance against its deferred tax asset for the year ended December 31, 2017.
- (b) Based on the terms of the SAFE agreements discussed in Note 14 it was determined the SAFE agreements should be classified as liabilities. The noted adjustment is a reclass from stockholders' equity to long term liabilities within the consolidated balance sheet. Additionally, the Company remeasured the fair value of the SAFE instruments and recorded the fair value adjustment as part of the restatement.
- (c) The noted changes are the result of other miscellaneous adjustments either identified by management or as a result of the initial audit performed over the December 31, 2017 accounts.

Note 18 - Subsequent Events

On March 28, 2019, the Company issued \$5,662,500 of promissory notes to a group of investors. The promissory notes have a stated maturity date of June 30, 2019 and pay an annual interest rate of 4%. The notes also carry a conversion feature whereby they will automatically convert upon either (a) a change in control of the Company; (b) a reorganization, merger, or consolidation of the Company; (c) the sale of the Company's assets; or (d) an initial public offering of the Company's common stock. The notes may also convert in the event the Company consummates an equity financing arrangement with an aggregate sales price of not less than \$10,000,000. Upon the occurrence of one of the aforementioned events the notes will convert into 80% of the price per share value of common stock applicable at the time of the event. The notes also carry an optional conversion feature whereby the notes may convert into common stock.

The Company is contemplating an initial public offering in Australia.

Subsequent events have been evaluated through May 29, 2019, which is the date the consolidated financial statements were available to be issued.