

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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: 001-39775

**ContextLogic Inc.**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
**One Sansome Street 33rd Floor**  
**San Francisco, CA**  
(Address of principal executive offices)

**27-2930953**  
(I.R.S. Employer  
Identification No.)

**94104**  
(Zip Code)

Registrant's telephone number, including area code: (415) 432-7323

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.0001 par value	WISH	Nasdaq Global Select Market

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. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

As of October 31, 2022, the number of shares of the registrant's Class A common stock outstanding was 677 million.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), which statements involve substantial risks and uncertainties. Forward-looking statements include all statements that are not historical facts such as information concerning our possible or assumed future results of operations and expenses, user experience, including new or planned features or services, management strategies and plans, competitive position, merchant programs, partnership expectations, business environment and potential growth strategies and opportunities. In some cases, forward-looking statements can be identified by terms such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "forecasts," "intends," "goals," "may," "might," "outlook," "plans," "potential," "predicts," "projects," "seeks," "should," "targets," "will," "would" or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Those risks include those described in Part II, Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q, as well as in our condensed consolidated financial statements, related notes, and the other information appearing elsewhere in this Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission ("SEC"). The inclusion of forward-looking information should not be regarded as a representation by us, our management or any other person that the future plans, estimates, or expectations contemplated by us will be achieved. Given these uncertainties, you should not place undue reliance on any forward-looking statements in this Quarterly Report on Form 10-Q.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject, including, but not limited to, statements regarding future financial performance; implementation and execution of business strategies, including turnaround and restructuring plans; our future liquidity, operating expenditures, and financial condition; the potential impact of our marketing and product initiatives, including the global brand campaign and ad spending to support the rebrand effort; new executive hires and transitions; our continued listing on Nasdaq; new merchant programs and related outcomes; the impact of coronavirus disease 2019 ("COVID-19") on our business; our future market position and competitive changes in the marketplace; technological advances; expected consumer behavior; the outcome of ongoing litigation; the effect of new or revised tax laws and accounting pronouncements; and other characterizations of future events or circumstances. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q. While we believe such information provides a reasonable basis for these statements, such information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the SEC as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

## RISK FACTORS SUMMARY

Below is a summary of the principal factors that make an investment in our Class A common stock speculative or risky. This summary does not contain all of the information that may be important to you, and you should read this summary together with the more detailed discussion of risks and uncertainties set forth in the section titled "Risk Factors" included elsewhere in this Quarterly Report on Form 10-Q:

- Our efforts to acquire new users and engage existing users may not be successful or may be more costly than we expect, which could prevent us from maintaining or increasing our revenue.
- If we are unable to promote, maintain, and protect our brand and reputation and offer a compelling user experience, our ability to attract new users and engage with our existing base of users will be impaired.
- The transition to a new, Interim Chief Executive Officer ("CEO") may impact our ability to execute on our business strategy in a timely manner.
- If we lose the services of members of our senior management team we may not be able to execute our business strategy.
- We rely on the Apple App Store and the Google Play Store to offer and promote our app. If we are unable to maintain a good relationship with such platform providers, if their terms and conditions change to our detriment, if we violate, or if a platform provider believes that we have violated, the terms and conditions of its platform, our business will suffer.
- Our brand, reputation, and business may be harmed if merchants on our platform use unethical or illegal business practices, including the sale of counterfeit or fraudulent products or if our policies and practices with respect to such sales are perceived or found to be inadequate, and we may be impacted by the unlawful activity of merchants on our platform.
- Our company is evolving and we are in the process of executing on new business strategies and restructuring efforts; if we fail to successfully execute on these, our business, financial condition, and operating results could be harmed.
- We may not successfully execute or achieve the expected benefits of our restructuring and turnaround initiatives, which could adversely affect our business.
- The market in which we operate is rapidly evolving and we face intense competition; if we do not compete effectively, our results of operations and financial condition could be harmed.
- The ongoing COVID-19 pandemic may adversely affect our business and results of operations.
- Economic tension between the United States and China, or between other countries, may intensify and the United States, China, or other countries may adopt drastic measures in the future that impact our business.
- Merchants on our platform may experience additional disruptions to their supply and restrictions on their ability to deliver products to our users in a timely manner, which could harm our business.
- Our business and our merchants and users may be subject to sales and other taxes and these taxes may negatively impact our revenue and growth.
- Any significant disruption in service on our platform or in our computer systems, some of which are currently hosted by third-party providers, for any reason, including cyber threats, could damage our reputation and result in a loss of users, which would harm our business and results of operations.
- We may be involved in litigation matters or other legal proceedings or regulatory investigations that are expensive, time consuming, and may result in restrictions on our business operations.
- We may not be able to comply with all applicable listing requirements or standards of the Nasdaq Global Select market and Nasdaq could delist our common stock.
- We identified material weaknesses in our internal control over financial reporting and may identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, which may result in material misstatements of our consolidated financial statements or cause us to fail to meet our periodic reporting obligations.

**PART I—FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements (Unaudited)**

**CONTEXTLOGIC INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in millions, except par value)  
(unaudited)

	As of September 30, 2022	As of December 31, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 587	\$ 1,009
Marketable securities	250	150
Funds receivable	13	17
Prepaid expenses and other current assets	40	48
Total current assets	890	1,224
Property and equipment, net	11	17
Right-of-use assets	7	18
Marketable securities	—	17
Other assets	3	7
Total assets	<u>\$ 911</u>	<u>\$ 1,283</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 56	\$ 67
Merchants payable	121	185
Refunds liability	6	23
Accrued liabilities	143	174
Total current liabilities	326	449
Lease liabilities, non-current	11	16
Total liabilities	337	465
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value: 100 shares authorized as of September 30, 2022 and December 31, 2021; No shares issued and outstanding as of September 30, 2022 and December 31, 2021	—	—
Common stock, \$0.0001 par value: 3,000 Class A shares and 3,500 (3,000 Class A, 500 Class B) shares authorized as of September 30, 2022 and December 31, 2021; 675 Class A shares and 658 (593 Class A, 65 Class B) shares issued and outstanding as of September 30, 2022 and December 31, 2021	—	—
Additional paid-in capital	3,404	3,360
Accumulated other comprehensive (loss) income	(11)	3
Accumulated deficit	(2,819)	(2,545)
Total stockholders' equity	574	818
Total liabilities and stockholders' equity	<u>\$ 911</u>	<u>\$ 1,283</u>

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

**CONTEXTLOGIC INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in millions, except per share data)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 125	\$ 368	\$ 448	\$ 1,796
Cost of revenue	91	201	308	808
Gross profit	34	167	140	988
Operating expenses:				
Sales and marketing	80	147	181	1,013
Product development	42	54	154	157
General and administrative	40	29	86	121
Total operating expenses	162	230	421	1,291
Loss from operations	(128)	(63)	(281)	(303)
Other income, net:				
Interest and other income, net	6	3	10	11
Loss before provision for income taxes	(122)	(60)	(271)	(292)
Provision for income taxes	2	4	3	11
Net loss	(124)	(64)	(274)	(303)
Net loss per share, basic and diluted	\$ (0.18)	\$ (0.10)	\$ (0.41)	\$ (0.49)
Weighted-average shares used in computing net loss per share, basic and diluted	673	628	667	623

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

**CONTEXTLOGIC INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(in millions)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	\$ (124)	\$ (64)	\$ (274)	\$ (303)
Other comprehensive loss:				
Unrealized holding gains (losses) on derivatives and marketable securities, net of tax	—	1	(5)	—
Foreign currency translation adjustment	(5)	—	(9)	—
Comprehensive loss	<u>\$ (129)</u>	<u>\$ (63)</u>	<u>\$ (288)</u>	<u>\$ (303)</u>

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

**CONTEXTLOGIC INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in millions)  
(unaudited)

Three Months Ended September 30, 2022						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances as of June 30, 2022	670	\$ —	\$ 3,383	\$ (6)	\$ (2,695)	\$ 682
Issuance of common stock upon settlement of restricted stock units	8	—	—	—	—	—
Shares withheld related to net share settlement	(3)	—	(5)	—	—	(5)
Stock-based compensation	—	—	26	—	—	26
Other comprehensive loss, net	—	—	—	(5)	—	(5)
Net loss	—	—	—	—	(124)	(124)
Balances as of September 30, 2022	675	\$ —	\$ 3,404	\$ (11)	\$ (2,819)	\$ 574

Nine Months Ended September 30, 2022						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances as of December 31, 2021	658	\$ —	\$ 3,360	\$ 3	\$ (2,545)	\$ 818
Issuance of common stock upon exercise of options for cash	1	—	—	—	—	—
Issuance of common stock upon settlement of restricted stock units	21	—	—	—	—	—
Shares withheld related to net share settlement	(6)	—	(10)	—	—	(10)
Issuance of common stock through ESPP	1	—	1	—	—	1
Stock-based compensation	—	—	53	—	—	53
Other comprehensive loss, net	—	—	—	(14)	—	(14)
Net loss	—	—	—	—	(274)	(274)
Balances as of September 30, 2022	675	\$ —	\$ 3,404	\$ (11)	\$ (2,819)	\$ 574

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



**CONTEXTLOGIC INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in millions)  
(unaudited)

	Three Months Ended September 30, 2021					
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances as of June 30, 2021	627	\$ —	\$ 3,285	\$ —	\$ (2,423)	\$ 862
Issuance of common stock upon exercise of options for cash	5	—	—	—	—	—
Issuance of common stock upon settlement of restricted stock units	3	—	—	—	—	—
Stock-based compensation	—	—	30	—	—	30
Other comprehensive gain, net	—	—	—	1	—	1
Net loss	—	—	—	—	(64)	(64)
Balances as of September 30, 2021	<u>635</u>	<u>\$ —</u>	<u>\$ 3,315</u>	<u>\$ 1</u>	<u>\$ (2,487)</u>	<u>\$ 829</u>

	Nine Months Ended September 30, 2021					
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances as of December 31, 2020	587	\$ —	\$ 3,210	\$ 1	\$ (2,184)	\$ 1,027
Issuance of common stock upon exercise of options for cash	10	—	3	—	—	3
Issuance of common stock upon settlement of restricted stock units	36	—	(5)	—	—	(5)
Net exercises of common stock warrant	1	—	—	—	—	—
Issuance of common stock through ESPP	1	—	3	—	—	3
Stock-based compensation	—	—	104	—	—	104
Other comprehensive loss, net	—	—	—	—	—	—
Net loss	—	—	—	—	(303)	(303)
Balances as of September 30, 2021	<u>635</u>	<u>\$ —</u>	<u>\$ 3,315</u>	<u>\$ 1</u>	<u>\$ (2,487)</u>	<u>\$ 829</u>

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

**CONTEXTLOGIC INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)  
(unaudited)

	Nine Months Ended September 30,	
	2022	2021
<b>Cash flows from operating activities:</b>		
Net loss	\$ (274)	\$ (303)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash inventory write downs	3	12
Depreciation and amortization	5	7
Noncash lease expense	5	10
Impairment of lease assets, property, and equipment	11	—
Stock-based compensation expense	53	104
Other	(3)	—
Changes in operating assets and liabilities:		
Funds receivable	4	56
Prepaid expenses, other current and noncurrent assets	2	30
Accounts payable	(10)	(364)
Merchants payable	(64)	(238)
Accrued and refund liabilities	(36)	(181)
Lease liabilities	(6)	(11)
Other current and noncurrent liabilities	(3)	(24)
Net cash used in operating activities	(313)	(902)
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment and development of internal-use software	(2)	(1)
Purchases of marketable securities	(303)	(235)
Sales of marketable securities	—	50
Maturities of marketable securities	218	202
Other	2	—
Net cash (used in) provided by investing activities	(85)	16
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock through employee equity incentive plans	1	6
Payment of taxes related to RSU settlement	(10)	(5)
Other	—	(1)
Net cash used in financing activities	(9)	—
Foreign currency effects on cash, cash equivalents and restricted cash	(17)	—
Net decrease in cash, cash equivalents and restricted cash	(424)	(886)
Cash, cash equivalents and restricted cash at beginning of period	1,018	1,965
Cash, cash equivalents and restricted cash at end of period	\$ 594	\$ 1,079
<b>Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets:</b>		
Cash and cash equivalents	\$ 587	\$ 1,072
Restricted cash included in prepaid and other current assets in the condensed consolidated balance sheets	7	7
Total cash, cash equivalents and restricted cash	\$ 594	\$ 1,079
<b>Supplemental cash flow disclosures:</b>		
Cash paid for income taxes, net of refunds	\$ 6	\$ 4

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

**NOTE 1. OVERVIEW, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

ContextLogic Inc. (“Wish” or the “Company”) is an ecommerce company that provides a shopping experience that is mobile-first and discovery-based, which connects merchants’ products to users based on user preferences. The Company generates revenue from marketplace and logistics services provided to merchants.

The Company was incorporated in the state of Delaware in June 2010 and is headquartered in San Francisco, California, with additional operations in Canada, China and the Netherlands.

***Class B Common Stock Conversion***

On August 4, 2022, Piotr Szulczewski provided notice of his intention to resign as a member of the Company’s Board, effective August 9, 2022. In tandem with his resignation notice, Mr. Szulczewski submitted a conversion notice to convert (the “Conversion”) all shares of Class B common stock of the Company he held into the same number of shares of Class A common stock of the Company, also effective August 9, 2022. The Class B common stock was entitled to twenty votes per share and the Class A common stock is entitled to one vote per share.

In accordance with the Company’s Amended and Restated Certificate of Incorporation (the “Certificate of Incorporation”), as the remaining outstanding shares of Class B common stock represented less than five percent (5%) of the aggregate number of outstanding shares of Class A common stock and Class B common stock outstanding after the Conversion, all remaining shares of Class B common stock were automatically converted into Class A common stock immediately following the Conversion on a one-to-one basis and no further Class B common stock will be issued. Additionally, all shares issuable pursuant to outstanding awards under the Company’s 2010 Stock Plan will be issuable for Class A common stock.

***Basis of Presentation and Consolidation***

The accompanying condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”). The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The interim financial data as of September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 is unaudited. In the opinion of management, the interim financial data includes all adjustments, consisting only of normal recurring adjustments, necessary to a fair statement of the results for the interim periods. The consolidated balance sheet as of December 31, 2021 is derived from audited financial statements, however, it does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the SEC on March 14, 2022 (the “2021 Form 10-K”).

***Use of Estimates***

The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates form the basis for judgments the Company makes about the carrying values of its assets and liabilities that are not readily available from other sources. These estimates include, but are not limited to, fair value of financial instruments, useful lives of long-lived assets, fair value of derivative instruments, incremental borrowing rate applied to lease accounting, contingent liabilities, redemption probabilities associated with Wish Cash, allowances for refunds and chargebacks and uncertain tax positions. As of September 30, 2022, the effects of the ongoing COVID-19 pandemic on the Company’s business, results of operations, and financial condition continue to evolve. As a result, many of the Company’s estimates and assumptions required increased judgment and these estimates may change materially in future periods.

***Segments***

The Company manages its operations and allocates resources as a single operating segment. The Company’s chief operating decision-maker is its interim Chief Executive Officer (“CEO”) who makes operating decisions, assesses financial performance and allocates resources based on condensed consolidated financial information. As such, the Company has determined that it operates in one reportable segment.

## Concentrations of Risk

**Credit Risk** — Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, funds receivable and marketable securities. The Company's cash and cash equivalents are held on deposit with creditworthy institutions. Although the Company's deposits exceed federally insured limits, the Company has not experienced any losses in such accounts. The Company invests its excess cash in money market accounts, U.S. Treasury notes, U.S. Treasury bills, commercial paper, corporate bonds, and non-U.S. government securities. The Company is exposed to credit risk in the event of a default by the financial institutions holding its cash, cash equivalents and marketable securities for the amounts reflected on the condensed consolidated balance sheets. The Company's investment policy limits investments to certain types of debt securities issued by the U.S. government, its agencies and institutions with investment-grade credit ratings and places restrictions on maturities and concentration by type and issuer.

The Company maintains certain bank accounts in China. The Company manages the counterparty risk associated with these funds through diversification with major financial institutions and monitors the concentration of this credit risk on a monthly basis. The total cash balance in these accounts represented approximately 19% and 15% of the Company's total cash and cash equivalents as of September 30, 2022 and December 31, 2021, respectively.

The Company's derivative financial instruments expose it to credit risk to the extent that the counterparties may be unable to meet the terms of the arrangement. The Company seeks to mitigate such risk by limiting its counterparties to, and by spreading the risk across, major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on a monthly basis. The Company is not required to pledge, nor is it entitled to receive, collateral related to its foreign exchange derivative transactions.

The Company is exposed to credit risk in the event of a default by its Payment Service Providers ("PSPs"). The Company does not generate revenue from PSPs. Significant changes in the Company's relationship with its PSPs could adversely affect users' ability to process transactions on the Company's marketplaces, thereby impacting the Company's operating results.

The following PSPs each represented 10% or more of the Company's funds receivable balance:

	September 30, 2022	December 31, 2021
PSP 1	53 %	62 %
PSP 2	38 %	32 %

**Services Risk** — The Company serves all its users using third-party data center and hosting providers. The Company has disaster recovery protocols at the third-party service providers. Even with these procedures for disaster recovery in place, access to the Company's service could be significantly interrupted, resulting in an adverse effect on its operating results and financial position. No significant interruptions of service were known to have occurred during the three and nine months ended September 30, 2022 and 2021.

## Summary of Significant Accounting Policies

There have been no changes to the Company's significant accounting policies described in its 2021 Form 10-K, filed with the SEC on March 14, 2022, that have had a material impact on its condensed consolidated financial statements.

## Accounting Pronouncements

The Company has reviewed recent accounting pronouncements and concluded they are either not applicable to the business or no material impact is expected on the condensed consolidated financial statements as a result of future adoption.

## NOTE 2. DISAGGREGATION OF REVENUE

The Company generates revenue from marketplace and logistics services provided to its customers. Revenue is recognized as the Company transfers control of promised goods or services to its customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company considers both the merchant and the user to be customers. The Company evaluates whether it is appropriate to recognize revenue on a gross or net basis based upon its evaluation of whether the Company obtains control of the specified goods or services by considering if it is primarily responsible for fulfillment of the promise, has inventory risk and has latitude in establishing pricing and selecting suppliers, among other factors. Based on these factors, marketplace revenue is generally recognized on a net basis and logistics revenue is generally recognized on a gross basis. Revenue excludes any amounts collected on behalf of third parties, including indirect taxes.

### *Marketplace Revenue*

The Company provides a mix of marketplace services to its customers. The Company provides merchants access to its marketplace where merchants display and sell their products to users. The Company also provides ProductBoost services to help merchants promote their products within the Company's marketplace.

Marketplace revenue includes commission fees collected in connection with user purchases of the merchants' products. The commission fees vary depending on factors such as user location, demand, product type, and dynamic pricing. The Company recognizes revenue when a user's order is processed and the related order information has been made available to the merchant. Commission fees are recognized net of estimated refunds and chargebacks. Marketplace revenue also includes ProductBoost revenue for displaying a merchant's selected products in preferential locations within the Company's marketplace. Effective May 2022, the Company recognizes revenue based on the number of actions, such as clicks, on the merchant's product listing. Prior to the transition, the Company recognized revenue when the merchants' selected products were displayed. The Company refers to its marketplace revenue, excluding ProductBoost revenue, as its core marketplace revenue.

### *Logistics Revenue*

The Company's logistics offering for merchants is designed for direct end-to-end single order shipment from a merchant's location to the user. Logistics services include transportation and delivery of the merchant's products to the user. Merchants are required to prepay for logistics services on a per order basis.

The Company recognizes revenue over time as the merchant simultaneously receives and consumes the logistics services benefit as the logistics services are performed. The Company uses an output method of progress based on days in transit as it best depicts the Company's progress toward complete satisfaction of the performance obligation.

The following table shows the disaggregated revenue for the applicable periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
		(in millions)		
Core marketplace revenue	\$ 40	\$ 183	\$ 184	\$ 1,038
ProductBoost revenue	11	37	36	137
Marketplace revenue	51	220	220	1,175
Logistics revenue	74	148	228	621
Revenue	<u>\$ 125</u>	<u>\$ 368</u>	<u>\$ 448</u>	<u>\$ 1,796</u>

Refer to Note 11 – Geographical Information for the disaggregated revenue by geographical location.

### NOTE 3. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

The Company's financial instruments consist of cash equivalents, marketable securities, funds receivable, derivative instruments, accounts payable, accrued liabilities and merchants payable. Cash equivalents' carrying value approximates fair value at the balance sheet dates, due to the short period of time to maturity. Marketable securities and derivative instruments are recognized at fair value. Funds receivable, accounts payable, accrued liabilities and merchants payable carrying values approximate fair value due to the short time to the expected receipt or payment date.

Assets and liabilities recognized at fair value on a recurring basis in the condensed consolidated balance sheets consisting of cash equivalents, marketable securities and derivative instruments are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets and liabilities subject to fair value measurements on a recurring basis and the level of inputs used in such measurements are as follows:

	September 30, 2022			
	Total	Level 1	Level 2	Level 3
	(in millions)			
<b>Financial assets:</b>				
Cash equivalents:				
Money market funds	\$ 42	\$ 42	\$ —	\$ —
Marketable securities:				
U.S. Treasury bills	\$ 200	\$ —	\$ 200	\$ —
Commercial paper	6	—	6	—
Corporate bonds	37	—	37	—
Certificates of deposit	3	—	3	—
Non-U.S. government	4	—	4	—
Total marketable securities	\$ 250	\$ —	\$ 250	\$ —
Prepaid and other current assets:				
Derivative assets	\$ 3	\$ —	\$ 3	\$ —
Total financial assets	\$ 295	\$ 42	\$ 253	\$ —
<b>Financial liabilities:</b>				
Accrued liabilities:				
Derivative liabilities	\$ 8	\$ —	\$ 8	\$ —
Total financial liabilities	\$ 8	\$ —	\$ 8	\$ —

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
	(in millions)			
<b>Financial assets:</b>				
Cash equivalents:				
Money market funds	\$ 13	\$ 13	\$ —	\$ —
Marketable securities:				
U.S. Treasury bills	\$ 53	\$ —	\$ 53	\$ —
Commercial paper	39	—	39	—
Corporate bonds	57	—	57	—
Certificates of deposit	5	—	5	—
Non-U.S. government	13	—	13	—
Total marketable securities	\$ 167	\$ —	\$ 167	\$ —
Prepaid and other current assets:				
Derivative assets	\$ 4	\$ —	\$ 4	\$ —
Total financial assets	\$ 184	\$ 13	\$ 171	\$ —
<b>Financial liabilities:</b>				
Accrued liabilities:				
Derivative liabilities	\$ 1	\$ —	\$ 1	\$ —
Total financial liabilities	\$ 1	\$ —	\$ 1	\$ —

The Company classifies cash equivalents and marketable securities within Level 1 or Level 2 because the Company uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value. The derivative asset and liability related to the Company's foreign currency derivative contracts are classified within Level 2 of the fair value hierarchy as the valuation inputs are based on quoted prices and market observable data of similar instruments in active markets, including currency spot and forward rates.

The following table summarizes the contractual maturities of the Company's marketable securities:

	September 30, 2022		December 31, 2021	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in millions)			
Due within one year	\$ 251	\$ 250	\$ 150	\$ 150
Due after one year through five years	—	—	17	17
Total marketable securities	\$ 251	\$ 250	\$ 167	\$ 167

All of the Company's available-for-sale marketable securities are subject to a periodic evaluation for a credit loss allowance and impairment review. The Company did not identify any of its available-for-sale marketable securities requiring an allowance for credit loss or as other-than-temporarily impaired in any of the periods presented. Additionally, the unrealized net loss and net gain on available-for-sale marketable securities as of September 30, 2022 and December 31, 2021, respectively, were insignificant.

#### NOTE 4. BALANCE SHEET COMPONENTS

##### Accrued Liabilities

Accrued liabilities consist of the following:

	September 30, 2022	December 31, 2021 <sup>(1)</sup>
	(in millions)	
Logistics costs <sup>(2)</sup>	\$ 39	\$ 56
Deferred revenue and customer deposits <sup>(3)</sup>	19	25
Wish Cash liability <sup>(4)</sup>	15	20
Sales and indirect taxes <sup>(5)</sup>	16	26
Other	54	47
Total accrued liabilities	\$ 143	\$ 174

- (1) The amounts previously disclosed in the Company's 2021 Form 10-K were realigned to ensure consistency with the amounts reflected as of September 30, 2022.
- (2) Logistics costs decreased by \$17 million or 30% primarily due to lower shipping volumes during the third quarter of 2022 compared to the fourth quarter of 2021.
- (3) Deferred revenue and customer deposits decreased by \$6 million or 24% primarily due to lower logistics volumes during the third quarter of 2022 compared to the fourth quarter of 2021.
- (4) While the Company will continue to honor all Wish Cash presented for payment, it may determine the likelihood of redemption to be remote for certain Wish Cash liability balances due to, among other things, long periods of inactivity. In these circumstances, to the extent the Company determines there is no requirement for remitting Wish Cash balances to government agencies under unclaimed property laws, the portion of Wish Cash liability balances not expected to be redeemed are recognized in core marketplace revenue. Wish Cash liability breakage recognized in core marketplace revenue during the third quarter of 2022 and the fourth quarter of 2021 was \$2 and \$3 million, respectively.
- (5) Sales and indirect taxes decreased by \$10 million or 38% primarily due to less taxes in connection with lower order volumes during the third quarter of 2022 compared to the fourth quarter of 2021.

## NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

The Company conducts business in certain foreign currencies throughout its worldwide operations, and various entities hold monetary assets or liabilities, earn revenues, or incur costs in currencies other than the entity's functional currency. As a result, the Company is exposed to foreign exchange gains or losses which impact the Company's operating results. The Company bills its users in their local currencies, primarily in U.S. dollars and Euros, and the Company makes payments to merchants for products sold on the Company's platforms in various currencies through third party payment service providers, which creates exposure to currency rate fluctuations. The Company hedges these exposures to reduce the risk that its earnings and cash flows will be adversely affected by changes in exchange rates. As part of the Company's foreign currency risk mitigation strategy, the Company enters into derivative contracts and foreign exchange forward contracts with up to twelve months in duration to hedge exposures for variability in U.S.-dollar equivalent of non-U.S.-dollar denominated cash flows associated with its forecasted revenue related transactions.

The Company's derivatives transactions are not collateralized and do not include collateralization agreements with counterparties. The Company does not use derivative financial instruments for speculative or trading purposes.

### Volume of Derivative Activity

Total gross notional amounts for outstanding derivatives (recognized at fair value) as of the end of period consist of the following:

	September 30, 2022	December 31, 2021
	(in millions)	
Cash flow hedges	\$ 143	\$ 320
Non-designated hedges	36	54
<b>Total</b>	<b>\$ 179</b>	<b>\$ 374</b>

### Fair Value of Derivative Financial Instruments

	September 30, 2022		December 31, 2021	
	Assets <sup>(1)</sup>	Liabilities <sup>(2)</sup>	Assets <sup>(1)</sup>	Liabilities <sup>(2)</sup>
	(in millions)			
Derivative designated as hedging instruments				
Cash flow hedges	\$ —	\$ 3	\$ 2	\$ —
Derivative not designated as hedging instruments				
Foreign currency forward contracts	\$ 3	\$ 5	\$ 2	\$ 1
<b>Total derivatives</b>	<b>\$ 3</b>	<b>\$ 8</b>	<b>\$ 4</b>	<b>\$ 1</b>

(1) Derivative assets are included in prepaid and other current assets in the condensed consolidated balance sheets.

(2) Derivative liabilities are included within "other" in accrued liabilities in the condensed consolidated balance sheets.

### Derivatives in Cash Flow Hedging Relationships

The changes in accumulated other comprehensive income (loss) resulting from cash flow hedging were as follows:

	September 30, 2022	December 31, 2021
	(in millions)	
Balance at the beginning of the period	\$ 2	\$ 2
Other comprehensive (loss) income before reclassifications	(8)	22
Amounts recognized in core marketplace revenue and reclassified out of accumulated other comprehensive income	4	(22)
<b>Balance at the end of the period</b>	<b>\$ (2)</b>	<b>\$ 2</b>



The Company recognizes changes in fair value of the cash flow hedges of foreign currency denominated merchants payable in accumulated other comprehensive income (loss) in its condensed consolidated balance sheets until the forecasted transaction occurs. When the forecasted transaction affects earnings, the Company reclassifies the related gain or loss on the cash flow hedge to core marketplace revenue. All amounts in other comprehensive income (loss) at period end are expected to be reclassified to earnings within 12 months. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the Company reclassifies the gain or loss on the related cash flow hedge from accumulated other comprehensive loss to core marketplace revenue. For the three and nine months ended September 30, 2022 and 2021, there were no net gains or losses recognized in core marketplace revenue relating to hedges of forecasted transactions that did not occur.

The Company classifies cash flows related to its cash flow hedges as operating activities in its condensed consolidated statements of cash flows.

#### *Derivatives Not Designated as Hedging Instruments*

The net gains and losses on the change in fair value of the Company's foreign exchange forward contracts not designated as hedging instruments recognized in other income, net in the condensed consolidated statements of operations were net losses of \$4 million and \$8 million for the three and nine months ended September 30, 2022, respectively, and were net gains of \$2 million and \$13 million for each of the three and nine months ended September 30, 2021, respectively.

The Company classifies cash flows related to its non-designated hedging instruments as operating activities in its condensed consolidated statements of cash flows.

#### **NOTE 6. OPERATING LEASES**

The Company leases its facilities and data center colocations under operating leases with various expiration dates through 2025.

Total operating lease cost was \$2 million and \$6 million for the three and nine months ended September 30, 2022, respectively, and \$3 million and \$10 million for the three and nine months ended September 30, 2021, respectively. Short-term lease costs, variable lease costs and sublease income were insignificant.

In February 2022, the Company's Board of Directors ("the Board") approved a restructuring plan, which included exiting various office leases. As a result, the Company ceased using certain office spaces. As the carrying value of the related right-of-use assets and leasehold improvements exceeded the estimated fair value, the Company recognized an impairment loss of \$5 and \$11 million for the three and nine months ended September 30, 2022, respectively, which is included as part of general and administrative expenses in its condensed consolidated financial statements. Of the \$5 million impairment loss for the three months ended September 30, 2022, \$3 million related to the impairment of operating right-of-use assets and \$2 million primarily related to impairment of leasehold improvements. Of the \$11 million impairment loss for the nine months ended September 30, 2022, \$6 million related to the impairment of operating right-of-use assets and \$5 million primarily related to impairment of leasehold improvements. See Note 12. Restructuring Costs for more information about the Company's restructuring plan.

As of September 30, 2022 and December 31, 2021, the Company's condensed consolidated balance sheets included right-of-use assets in the amount of \$7 million and \$18 million, respectively, and current lease liabilities in the amount of \$7 million and \$9 million in accrued liabilities, respectively, and \$11 million and \$16 million in lease liabilities, non-current, respectively.

As of September 30, 2022 and December 31, 2021, the weighted-average remaining lease term was 3 years and the weighted-average discount rate used to determine the net present value of the lease liabilities was 6% for both periods.

Supplemental cash flow information for the Company's operating leases were as follows:

	Nine Months Ended,	
	September 30, 2022	September 30, 2021
	(in millions)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 7	\$ 10

The maturities of the Company's operating lease liabilities are as follows:

<b>Year ending December 31,</b>	<b>September 30, 2022</b>	
	<b>(in millions)</b>	
2022 (remaining three months)	\$	2
2023		7
2024		7
2025		3
Total lease payments		19
Less: imputed interest		(1)
Present value of lease liabilities	\$	18

## **NOTE 7. COMMITMENTS AND CONTINGENCIES**

### ***Revolving Credit Facility***

In November 2020, the Company entered into a five-year \$280 million senior secured revolving credit facility (the "Revolving Credit Facility"). If the Company is able to secure additional lender commitments and satisfy certain other conditions, the aggregate facility commitments can be increased by up to \$100 million through an accordion option. The Company also enters into letters of credit from time to time, which reduces its borrowing capacity under the Revolving Credit Facility. Interest on any borrowings under the Revolving Credit Facility accrues at either adjusted LIBOR plus 1.50% or at an alternative base rate plus 0.50%, at the Company's election, and the Company is required to pay a commitment fee that accrues at 0.25% per annum on the unused portion of the aggregate commitments under the Revolving Credit Facility. The Company is required to pay a fee that accrues at 1.50% per annum on the average daily amount available to be drawn under any letters of credit outstanding under the Revolving Credit Facility.

The Revolving Credit Facility contains customary conditions to borrowing, events of default and covenants, including covenants that restrict the Company's ability (and the ability of certain of the Company's subsidiaries) to incur indebtedness, grant liens, make certain fundamental changes and asset sales, make distributions to stockholders, make investments or engage in transactions with affiliates. It also contains a minimum liquidity financial covenant of \$350 million, which includes unrestricted cash and any available borrowing capacity under the Revolving Credit Facility. The obligations under the Revolving Credit Facility are secured by liens on substantially all of the Company's domestic assets and are guaranteed by any material domestic subsidiaries, subject to customary exceptions. A standby letter of credit in the amount of approximately \$7 million has been issued under the Revolving Credit Facility in conjunction with the lease of the Company's headquarters in San Francisco, California. As of September 30, 2022, the Company had not made any borrowings under the Revolving Credit Facility and it was in compliance with the related financial covenants. Fees incurred under the Revolving Credit Facility were insignificant for the three and nine months ended September 30, 2022 and 2021.

### ***Purchase Obligations***

Effective September 1, 2022, the Company entered into an amendment to a colocation and cloud services arrangement committing the Company to make payments of \$85 million for services over 3 years. As of September 30, 2022, the remaining commitment under this amended agreement was approximately \$82 million and is payable within the next three years.

## **Legal Contingencies and Proceedings**

Beginning in May 2021, four putative class action lawsuits were filed in the U.S. District Court for the Northern District of California against the Company, its directors, certain of its officers and the underwriters named in its initial public offering (“IPO”) registration statement alleging violations of securities laws based on statements made in its registration statement on Form S-1 filed with the SEC in connection with its IPO and seeking monetary damages. One of these cases has since been dismissed by the plaintiff and the remaining three have been coordinated and consolidated. In May 2022, the Court appointed lead plaintiffs, who subsequently filed an amended consolidated class action complaint pursuant to Sections 11 and 15 of the Securities Act and Sections 10(b) and 20(a) of the Exchange Act. The Company believes these lawsuits are without merit and it intends to vigorously defend them. The Company recently filed a motion to dismiss, which will not be ready for adjudication until early 2023. Based on the preliminary nature of the proceedings in these cases, the Company cannot estimate a range of potential losses at this point in time. Further, even if there was a reasonable possibility of a material loss, the Company believes the possibility of material loss with respect to each of the matters is remote.

In August 2021, a shareholder derivative action purportedly brought on behalf of the Company, Patel v. Szulczewski, was filed in the U.S. District Court for the Northern District of California alleging that the Company’s directors and officers made or caused the Company to make false and/or misleading statements about the Company’s business operations and financial prospects in various public filings. Plaintiff asserts claims for breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, violations of Section 14(a) of the Exchange Act, and for contribution under Sections 10(b) and 21D of the Exchange Act and is seeking monetary damages. This matter is currently stayed. The Company believes this lawsuit is without merit and it intends to vigorously defend it. Based on the preliminary nature of the proceedings in these cases, the Company cannot estimate a range of potential losses at this time. Further, even if there was a reasonable possibility of a material loss, the Company believes the possibility of a material loss is remote.

In November 2021, France’s Directorate General for Competition, Consumer Affairs and Repression of Fraud (“DGCCRF”) issued an injunction delisting the Wish “App” from Google Play and the Apple App Store, and blocking Wish from appearing in Google, Bing and Qwant search results on the premise that unsafe products or products of poor quality are available for purchase on Wish. The injunction could expose Wish to civil and criminal penalties. The Company has challenged the injunction in court but to date the injunction has been upheld. The Company continues to challenge the merits of the injunction and will pursue the matter in French Courts. The Company believes there is a reasonable possibility of a material loss, however, a range of potential losses cannot be estimated at this time.

In December 2021, the Company became aware that authorities in France charged Wish with legal violations relating to the Company’s former practice and use of strikethrough pricing in France, the Company’s previous failure to translate into French listings and product details on the Company’s app and website, and the Company’s anti-counterfeiting policies and practices. The Company disputes the charges and is preparing to defend itself at a hearing that is currently scheduled for March 2023. Any adverse outcome could result in payment of substantial fines, payments to allegedly impacted consumer groups, harm to the Company’s reputation, loss of rights, or adverse changes to the Company’s offerings or business practices in France. Any of these results could adversely affect the Company’s business. In addition, defending claims may be costly and may impose a significant burden on the Company’s management. The Company believes that the possibility of a loss is probable and management has previously disclosed the matter, however, the total amount accrued remains immaterial.

As of September 30, 2022, in the opinion of management, there were no other legal contingency matters that arose in the ordinary course of business, either individually or in aggregate, that would have a material adverse effect on the financial position, results of operations, or cash flows of the Company. Given the unpredictable nature of legal proceedings, the Company bases its estimate on the information available at the time of the assessment. As additional information becomes available, the Company will reassess the potential liability and may revise the estimate.

## NOTE 8. EQUITY AWARD ACTIVITY AND STOCK-BASED COMPENSATION

### Equity Award Activity

A summary of activity under the equity plans and related information is as follows:

	Options Outstanding			RSUs Outstanding
	Number of Options (in millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Number of RSUs (in millions)
Balances at December 31, 2021 <sup>(1)</sup>	45	\$ 0.254	2.5	48
Granted	8	\$ 2.398		78
Vested	—	\$ —		(20)
Exercised	(1)	\$ 0.149		—
Forfeited or cancelled	(4)	\$ 2.926		(38)
Balances at September 30, 2022	48	\$ 0.403	0.5	68

(1) Outstanding restricted stock units ("RSUs") as of December 31, 2021 include 11 million performance stock units ("PSUs"), which were cancelled in February 2022.

The weighted-average grant date fair value of RSUs was \$1.49 and \$1.80 per share for the three and nine months ended September 30, 2022, respectively, and \$7.75 and \$11.15 per share for the three and nine months ended September 30, 2021, respectively. As of September 30, 2022, 32 million shares remained available for grant under the Company's equity incentive plans, including the 2022 Inducement Plan.

### Performance Stock Units

On January 31, 2022, Mr. Szulczewski resigned from his position as CEO of the Company. Due to his resignation prior to the second anniversary of the Company's IPO, Mr. Szulczewski is no longer eligible to vest in his PSUs, and as such, the PSUs were canceled. Consequently, the Company reversed \$21 million of previously recognized stock-based compensation expense related to these PSUs in the first quarter of 2022.

In February 2022, Jacqueline Reses resigned from her position as Executive Chair. Upon her resignation, Ms. Reses entered into a consulting agreement with the Company and her PSU award was modified to eliminate the market condition, with only continued service until the expiration of the consulting agreement being the sole vesting condition. Consequently, the Company reversed \$3 million of previously recognized stock-based compensation expense upon modification and will recognize the modified fair value of approximately \$2 million from the modification date to the expiration date of the consulting agreement, which is May 16, 2023.

### 2022 Inducement Plan

In January 2022, the Company's Board adopted and approved the 2022 Inducement Plan ("2022 Plan"). The Company intends that the 2022 Plan be reserved for persons to whom the Company may issue securities without stockholder approval as an inducement of employment pursuant to Rule 5635(c)(4) of the Marketplace Rules of the Nasdaq Stock Market, LLC. The 2022 Plan provides for the award of options, stock appreciation rights, restricted shares, and RSUs of the Company's Class A common stock to the Company's employees. Stock-based awards under the 2022 Plan that expire or are forfeited, cancelled, or repurchased generally are returned to the pool of shares of Class A common stock available for issuance under the 2022 Plan.

In May 2022, the Company's Board approved an amendment to the 2022 Plan to increase the 2022 Plan reserve from 12 million to 27 million shares. As of September 30, 2022, 16 million shares under the 2022 Plan remained available for grant.

## CEO transition

In January 2022, the Company entered into an employment agreement with Vijay Talwar, as the Company's new CEO, with employment commencing on February 1, 2022. As an inducement of employment, Mr. Talwar was granted, i) 5 million RSUs with an aggregate grant date fair value of \$13 million and ii) options to purchase 6 million shares of the Company's Class A common stock at an exercise price of \$2.86 per share with an aggregate grant date fair value of \$12 million. These RSUs and options were granted under the 2022 Plan and would have become vested and exercisable, respectively, in periodic installments over a 4-year term, subject to the CEO's continued employment with the Company. The option award had a term of 10 years.

In September 2022, the Company's Board terminated Mr. Talwar from his position as CEO of the Company. As set forth in his employment agreement with the Company, Mr. Talwar was entitled to certain benefits, which included, accelerated vesting of the unvested portion of his equity awards that would have vested within twelve months of his involuntary termination. Consequently, the Company recognized \$6 million of stock-based compensation expense upon the acceleration of Mr. Talwar's equity awards on his termination date.

In September 2022, the Company entered into an employment agreement with Jun Yan, as the Company's interim CEO, with employment commencing September 27, 2022. As an inducement of employment, Mr. Yan was granted i) 2 million RSUs with an aggregate grant date fair value of \$2 million and ii) options to purchase 2 million shares of the Company's Class A common stock at an exercise price of \$0.86 per share with an aggregate grant date fair value of \$1 million. These RSUs and options were granted under the 2022 Plan and will become vested and exercisable, respectively, in periodic installments over an approximate 1-year term, subject to the interim CEO's continued employment with the Company. The option award has a term of 10 years. If Mr. Yan is terminated from his position as interim CEO within six months from his commencement of employment, 50% of both his RSU and options shall immediately vest.

## Stock Option Valuation

The fair value of options is estimated using the Black-Scholes option pricing model which takes into account inputs such as the exercise price, the value of the underlying shares as of the grant date, expected term, expected volatility, risk free interest rate, and dividend yield. The fair value of the options was determined using the methods and assumptions discussed below:

- The expected term of the options was determined using the "simplified" method as prescribed in the SEC's Staff Accounting Bulletin No. 107, whereby the expected life equals the arithmetic average of the vesting term and the original contractual term of the option due to the Company's lack of sufficient historical data.
- The risk-free interest rate was based on the interest rate payable on the U.S. Treasury securities in effect at the time of grant for a period that is commensurate with the assumed expected term.
- The expected volatility was based on the historical volatility of the publicly traded common stock of peer group companies blended with the limited historical volatility of the Company's own common stock weighted to reflect the short trading period of the Company's stock since its IPO in December 2020.
- The expected dividend yield was zero because the Company has not historically paid and does not expect to pay a dividend on its ordinary shares in the foreseeable future.

A summary of the weighted-average assumptions used in the Black-Scholes option pricing model to determine the fair value of the options granted during the nine months ended September 30, 2022 is as follows:

	<b>Black-Scholes Assumptions</b>
Expected term (in years)	5.93
Risk free interest rate	2.28 %
Volatility	75.53 %
Dividend yield	—

## Stock-Based Compensation Expense

Total stock-based compensation expense included in the condensed consolidated statements of operations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions)			
Cost of revenue	\$ 2	\$ 5	\$ 4	\$ 15
Sales and marketing	2	4	5	10
Product development	13	17	41	46
General and administrative	9	4	3	33
Total stock-based compensation <sup>(1)</sup>	<u>\$ 26</u>	<u>\$ 30</u>	<u>\$ 53</u>	<u>\$ 104</u>

(1) Total stock-based compensation for the nine months ended September 30, 2022 decreased by \$51 million compared to the nine months ended September 30, 2021 primarily due to forfeitures driven by the resignation of Mr. Szulczewski from his former position as CEO, reductions to the Company's workforce as part of the Company's February 2022 Restructuring Plan, and modifications to the Company's former Executive Chair's equity awards. These reductions were partially offset by the acceleration of Mr. Talwar's equity awards upon his termination from his position as CEO.

The Company will recognize the remaining \$1 million and \$185 million of unrecognized stock-based compensation expense over a weighted-average period of approximately 1.0 years and 2.5 years related to options and RSUs, respectively.

### Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan ("ESPP") allows eligible employees to purchase shares of the Company's Class A common stock at a discount through payroll deductions of up to 15% of eligible compensation, subject to caps of \$25,000 in any calendar year and 2,500 shares on any purchase date. The ESPP provides for 24-month offering periods, generally beginning in November and May of each year, and each offering period consists of four six-month purchase periods. The initial offering period began on January 1, 2021 and will end in November 2022. During the nine months ended September 30, 2022 and 2021, fewer than 1 million shares of common stock were purchased under the ESPP in each period for an aggregate amount of \$1 million and \$3 million, respectively. No shares of common stock were purchased under the ESPP during the three months ended September 30, 2022 and 2021.

On each purchase date, participating employees will purchase Class A common stock at a price per share equal to 85% of the lesser of the fair market value of the Company's Class A common stock on (i) the first trading day of the applicable offering period, or (ii) the last trading day of each purchase period in the applicable offering period. If the stock price of the Company's Class A common stock on any purchase date in an offering period is lower than the stock price on the enrollment date of that offering period, the offering period will immediately reset after the purchase of shares on such purchase date and automatically roll into a new offering period (ESPP reset). During the three and nine months ended September 30, 2022, there was an ESPP reset that resulted in an additional expense of approximately \$4 million, which is being recognized over an offering period ending May 20, 2024.

### NOTE 9. INCOME TAXES

The Company's tax provision for the interim periods is determined using an estimate of the annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, the Company assesses its estimate of the annual effective tax rate, and if the estimated annual effective tax rate changes, the Company makes a cumulative adjustment in the period of change.

The Company's quarterly tax provision and the estimate of the annual effective tax rate is subject to fluctuation due to several factors, including variability in pre-tax earnings, the geographic distribution of the pre-tax earnings, tax law changes, non-deductible expenses, such as stock-based compensation, and changes in the estimate of the valuation allowance.

The provision for income taxes was \$2 million and \$3 million for the three and nine months ended September 30, 2022, respectively, and was \$4 million and \$11 million for the three and nine months ended September 30, 2021, respectively. The year-over-year decrease in provision for income taxes was primarily related to a decrease in pre-tax earnings of the Company's international operations. The Company continues to maintain a valuation allowance on its domestic net deferred tax assets which is excluded from the annual effective tax rate estimate.

Unrecognized tax benefits as of September 30, 2022 and December 31, 2021 were insignificant. Interest and penalties associated with the unrecognized tax benefits as of September 30, 2022 and December 31, 2021 were also insignificant.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is not currently under examination by income tax authorities in federal, state or other jurisdictions. All federal and state tax returns remain open to examination. Certain tax years are subject to foreign income tax examinations by tax authorities until the statute of limitations expire.

#### NOTE 10. NET LOSS PER SHARE

The Company computes net loss per share attributable to common stockholders using the two-class method required for multiple classes of common stock and participating securities. The rights, including the liquidation and dividend rights, of the holders of Class A and Class B common stock are identical, except with respect to voting. As the liquidation and dividend rights are identical, the Company's undistributed earnings or losses are allocated on a proportionate basis among the holders of both Class A and Class B common stock. As a result, the net loss per share attributed to common stockholders will, therefore, be the same for both Class A and Class B common stock on an individual or combined basis.

Effective August 9, 2022, all Class B common stock were converted to Class A common stock. Net loss per share for the three and nine months ended September 30, 2022 and 2021 were not affected by the conversion.

The following table sets forth the computation of basic and diluted net loss per share:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	(in millions, except per share data)			
<b>Numerator:</b>				
Net loss	\$ (124)	\$ (64)	\$ (274)	\$ (303)
<b>Denominator:</b>				
Weighted-average shares used in computing net loss per share, basic and diluted	673	628	667	623
Net loss per share, basic and diluted	\$ (0.18)	\$ (0.10)	\$ (0.41)	\$ (0.49)

The following outstanding shares of potentially dilutive securities were excluded from the computation of diluted net loss per share because including them would have had an anti-dilutive effect:

	<b>As of September 30,</b>	
	<b>2022</b>	<b>2021</b>
	(in millions)	
Common stock options outstanding	48	64
Unvested RSUs <sup>(1)</sup>	68	47
Employee Stock Purchase Plan	2	3
Total	118	114

(1) Unvested RSUs outstanding as of September 30, 2021 include 11 million PSUs, which were cancelled in the first quarter of 2022.

## NOTE 11. GEOGRAPHICAL INFORMATION

The Company believes it is relevant to disclose geographical revenue information on both a demand basis, determined by the ship-to address of the user, and on a supply basis, determined by the location of the merchants' operations.

Core marketplace revenue by geographic area based on the ship-to address of the user is as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	(in millions)							
Europe	\$ 16	40 %	\$ 70	38 %	\$ 68	37 %	\$ 483	47 %
North America <sup>(1)</sup>	18	45 %	78	43 %	89	48 %	413	40 %
South America	1	3 %	10	5 %	6	3 %	45	4 %
Other	5	12 %	25	14 %	21	12 %	97	9 %
Core marketplace revenue	\$ 40	100 %	\$ 183	100 %	\$ 184	100 %	\$ 1,038	100 %

(1) United States accounted for \$14 million and \$71 million of core marketplace revenue for the three and nine months ended September 30, 2022, respectively and \$63 million and \$343 million for the three and nine months ended September 30, 2021, respectively.

China accounted for substantially all of marketplace and logistics revenue during the three and nine months ended September 30, 2022 and 2021 based on the location of the merchants' operations.

The Company's long-lived tangible assets, which consist of property and equipment, net and operating lease right-of-use assets, net, located in the United States were 83% and 85% of the total long-lived tangible assets as of September 30, 2022 and December 31, 2021, respectively. The long-lived tangible assets outside the United States were located in China, Canada and the Netherlands.

## NOTE 12. RESTRUCTURING COSTS

In February 2022, the Company's Board approved the February 2022 Restructuring Plan ("Restructuring Plan") to refocus the Company's operations to support sustainable long-term growth, better align resources, and improve operational efficiencies. The Restructuring Plan includes i) reducing the Company's headcount by approximately 15% (or approximately 190 positions), ii) exiting various office leases, and iii) reducing and realigning vendor expenditures. The Company expects the Restructuring Plan to be substantially implemented by the end of fiscal year 2022.

During the three months ended September 30, 2022, the Company recorded \$5 million in impairments of lease assets and property and equipment. During the nine months ended September 30, 2022, the Company recorded charges of approximately \$3 million in severance and other personnel reductions costs for terminated employees and \$11 million in impairments of lease assets and property and equipment. All related severance payments have been paid as of September 30, 2022.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with (1) the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2021 included in our Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K"). Unless otherwise indicated, all results presented are prepared in a manner that complies, in all material respects, with U.S. GAAP. Additionally, unless otherwise indicated, all changes identified for the current-period results represent comparisons to results for the prior corresponding fiscal period. Our discussion and analysis may contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" in Item 1A of our 2021 Form 10-K, as updated and supplemented by our Quarterly Reports on Form 10-Q, including in Part 2, Item 1A, the Special Note Regarding Forward-Looking Statements in this Quarterly Report on Form 10-Q, and elsewhere in this Quarterly Report on Form 10-Q.

### Financial Results for the Three Months Ended September 30, 2022

- Total revenue was \$125 million.
- Total cost of revenue and operating expenses were \$253 million, including stock-based compensation expense of \$26 million.
- Loss from operations was \$128 million.
- Net loss was \$124 million.
- Adjusted EBITDA was a loss of \$95 million or 76% of total revenue.
- Cash and cash equivalents and marketable securities were \$837 million.

As of September 30, 2022, we had an accumulated deficit of \$2.8 billion. We expect losses from operations to continue for the foreseeable future as we incur costs and expenses related to brand development, expansion of market share, and continued development of our mobile shopping marketplace infrastructure.

During the first nine months of 2022, we continued to face headwinds from the rise in digital advertising costs which has among other things impacted new customer acquisition and conversion. In response to the rising cost of digital advertising, starting in the third quarter of 2021, we decided to significantly reduce our digital advertising expenditures as we focused our resources on other strategic initiatives. As discussed below under "Key Financial and Performance Metrics," our monthly active users ("MAUs") and last twelve months ("LTM") active buyers have been negatively impacted by our decision to significantly reduce our digital advertising expenditures over the past twelve months.

Beginning late June of 2022 and throughout the third quarter of 2022, the Company began to ramp up digital advertising spend and initiated a number of programs such as our corporate rebranding, which we believe could enhance the consumer experience, foster customer acquisition, increase consumer retention, and position the Company for long-term sustainable growth. However, our digital ad spending in the third quarter of 2022 is significantly lower than the spending levels in the third quarter of 2021.

### COVID-19

As of the date of filing of this Quarterly Report, the outbreak of COVID-19, including recent and any future variants, has affected businesses worldwide, and continues to impact the major markets in which we operate. Our business, operations and financial condition and results have been and may continue to be impacted by the COVID-19 pandemic and a range of external factors related to the COVID-19 pandemic that are not within our control. The COVID-19 pandemic has resulted in significant governmental measures being implemented at various times and in various geographic areas over the course of the pandemic to control the spread of the virus. Our operations as well as the operations of our third-party merchants have been, and we expect will continue to be, disrupted by varying individual and governmental responses to COVID-19 around the world and could be disrupted by future pandemics. In addition, the COVID-19 pandemic and governmental measures to control it, have also disrupted the global supply chain, which may interfere with the delivery of our merchants' products to our users.

Our MAUs, LTM Active Buyers and revenue may be negatively impacted due to a combination of reasons including: (i) macroeconomic factors including changes in consumer spending trends, inflationary trends, national, regional and global recessions; (ii) the disruption of the global supply chain; and (iii) changing consumer shopping habits including the return worldwide of retail brick and mortar businesses.

## February 2022 Restructuring Plan

In February 2022, our Board of Directors approved the Restructuring Plan to refocus our operations to support sustainable long-term growth, better align resources, and improve operational efficiencies. We expect the Restructuring Plan to be substantially implemented by the end of fiscal year 2022.

The Restructuring Plan includes i) reducing our headcount by approximately 15% (or approximately 190 positions), ii) exiting various office leases, and iii) reducing and realigning vendor expenditures. During the three months ended September 30, 2022, we recorded charges of approximately \$5 million in impairments of lease assets and property and equipment. During the nine months ended September 30, 2022, we recorded charges of \$3 million in severance and other personnel reductions costs for terminated employees and \$11 million in impairments of lease assets and property and equipment.

### Our Financial Model

Our business benefits from powerful network effects, fueled by our data advantage and massive scale. As more users join Wish, attracted by our affordable value proposition and personalized shopping experiences, we are able to increase revenue potential for our merchants. The successes of our merchants attract more merchants and broaden the product selection on Wish's platform, which further improves user experiences. The growth in users and merchants generates more data, which, in turn, refines our algorithm and strengthens our data advantage. By focusing on users and merchants, we align their success with our own.

The economics of the Wish platform rely on cost-effectively adding new users, converting those users into buyers, and improving engagement and monetization of those buyers over time as well as acquiring new merchants and monetizing the end-to-end services that we provide to them.

### Key Financial and Performance Metrics

In addition to the measures presented in our condensed consolidated financial statements, we monitor the following key metrics and other financial information to measure our performance, identify trends affecting our business, and make strategic decisions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions)			
MAU	24	60	25	84
LTM Active Buyers	16	46	16	46
Adjusted EBITDA	\$ (95)	\$ (30)	\$ (193)	\$ (176)
Adjusted EBITDA Margin	(76)%	(8)%	(43)%	(10)%
Free Cash Flow	\$ (100)	\$ (344)	\$ (315)	\$ (903)

### Monthly Active Users

We define MAUs as the number of unique users that visited the Wish platform, either on our mobile app, mobile web, or on a desktop, during the month. MAUs for a given reporting period equal the average of the MAUs for that period. An active user is identified by a unique email-address; a single person can have multiple user accounts via multiple email addresses. The change in MAUs in a reported period captures both the inflow of new users as well as the outflow of existing users who did not visit the platform in a given month. We view the number of MAUs as a key driver of revenue growth as well as a key indicator of user engagement and brand awareness.

MAUs decreased approximately 60% and 70% for the three and nine months ended September 30, 2022, respectively, compared to the same periods in 2021. We believe this decline was primarily driven by our decision to significantly reduce our digital advertising expenditures.

## LTM Active Buyers

As of the last date of each reported period, we determine our number of unique LTM active buyers by counting the total number of individual users who have placed at least one order on the Wish platform, either on our mobile app, mobile web, or on a desktop, during the preceding 12 months. We, however, exclude from the computation those buyers whose order is canceled before the item is shipped and the purchase price is refunded. The number of Active Buyers is an indicator of our ability to attract and monetize a large user base to our platform and of our ability to convert visits into purchases. We believe that increasing our Active Buyers will be a significant driver to our future revenue growth.

LTM Active Buyers decreased approximately 65% for the three and nine months ended September 30, 2022 compared to the same periods in 2021. We believe this decline was primarily driven by reduced digital advertising expenditures resulting in lower MAUs and conversion.

## A Note About Metrics

The numbers for some of our metrics, including MAUs, are calculated and tracked with internal tools, which are not independently verified by any third party. We use these metrics to assess the growth and health of our overall business. While these numbers are based on what we believe to be reasonable estimates of our user or merchant base for the applicable period of measurement, there are inherent challenges in measurement as the methodologies used require significant judgment and may be susceptible to algorithm or other technical errors. In addition, we regularly review and adjust our processes for calculating metrics to improve their accuracy, and our estimates may change due to improvements or changes in technology or our methodology.

## Non-GAAP Financial Measures

### *Adjusted EBITDA and Adjusted EBITDA Margin*

We provide Adjusted EBITDA, a non-U.S. GAAP financial measure that represents our net loss before interest and other income, net (which includes foreign exchange gain or loss and gain or loss on one-time transactions recognized), income tax expense, and depreciation and amortization, adjusted to eliminate stock-based compensation expense and related payroll taxes, lease termination and impairment related expenses, and to add back certain recurring other items. Additionally, we provide Adjusted EBITDA Margin, a non-U.S. GAAP financial measure that represents Adjusted EBITDA divided by revenue. Below is a reconciliation of Adjusted EBITDA to net loss, the most directly comparable U.S. GAAP financial measure.

We have included Adjusted EBITDA and Adjusted EBITDA Margin in this report because they are key measures used by our management and Board of Directors to understand and evaluate our operating performance and trends and how we are allocating internal resources, to prepare and approve our annual budget and to develop short- and long-term operating plans. We also believe that the exclusion of certain items in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our business as it removes the impact of non-cash items, certain non-recurring cash items, and certain variable charges.

Adjusted EBITDA has limitations as an analytical measure, and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not consider the impact of stock-based compensation and related payroll taxes;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA and Adjusted EBITDA Margin alongside other financial performance measures, including various cash flow metrics, net loss and our other U.S. GAAP results.

The following table reflects the reconciliation of net loss to Adjusted EBITDA and net loss as a percentage of revenue to Adjusted EBITDA margin for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions)			
Revenue	\$ 125	\$ 368	\$ 448	\$ 1,796
Net loss	(124)	(64)	(274)	(303)
Net loss as a percentage of revenue	(99)%	(17)%	(61)%	(17)%
Excluding:				
Interest and other income, net	(6)	(3)	(10)	(11)
Provision for income taxes	2	4	3	11
Depreciation and amortization	1	2	5	7
Stock-based compensation expense and related employer payroll taxes <sup>(1),(2)</sup>	27	30	55	111
Lease impairment related expenses	—	—	—	6
Restructuring and other discrete items <sup>(3)</sup>	5	—	29	—
Recurring other items	—	1	(1)	3
Adjusted EBITDA	(95)	(30)	(193)	(176)
Adjusted EBITDA margin	(76)%	(8)%	(43)%	(10)%

- (1) Total amount for the three months ended September 30, 2022 consists of \$26 million of stock-based compensation expense and \$1 million of related employer payroll taxes. Total amount for the three months ended September 30, 2021 consists of \$30 million of stock-based compensation expense. Total amount for the nine months ended September 30, 2022 consists of \$53 million of stock-based compensation expense and \$2 million of related employer payroll taxes. Total amount for nine months ended September 30, 2021 consists of \$104 million of stock-based compensation expense and \$7 million of related employer payroll taxes.
- (2) Total stock-based compensation and related employer payroll taxes for the nine months ended September 30, 2022 decreased by \$56 million compared to the nine months ended September 30, 2021 primarily due to forfeitures driven by the resignation of Mr. Szulczewski from his former position as CEO, reductions to the Company's workforce as part of the Company's February 2022 Restructuring Plan, and modifications to the Company's former Executive Chair's equity awards. These reductions were partially offset by the acceleration of Mr. Talwar's equity awards upon his termination from his position as CEO.
- (3) Total amount for the three months ended September 30, 2022 includes restructuring charges consisting of \$5 million in impairment of lease assets and property and equipment. Total amount for the nine months ended September 30, 2022 includes a \$15 million one-time discretionary cash bonus paid to select employees to cover their respective tax obligations triggered by the settlement of their RSUs that vested upon the Company's IPO as well as restructuring charges consisting of \$3 million of employee severance and \$11 million in impairment of lease assets and property and equipment.

### Free Cash Flow

We also provide Free Cash Flow, a non-U.S. GAAP financial measure that represents net cash used in operating activities less purchases of property and equipment. We believe that Free Cash Flow is an important measure since we use third parties to host our services and therefore we do not incur significant capital expenditures to support revenue generating activities.

Free Cash Flow has limitations as an analytical measure, and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- it is not a substitute for net cash used in operating activities;
- other companies may calculate Free Cash Flow or similarly titled non-U.S. GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of free cash flow as a tool for comparison; and
- the utility of free cash flow is further limited as it does not reflect our future contractual commitments and does not represent the total increase or decrease in our cash balance for any given period.

Because of these limitations, you should consider Free Cash Flow alongside other financial performance measures, such as net cash used in operating activities, net loss and our other U.S. GAAP results.

The following table reflects the reconciliation of net cash used in operating activities to Free Cash Flow for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions)			
Net cash used in operating activities	\$ (100)	\$ (344)	\$ (313)	\$ (902)
Less:				
Purchases of property and equipment and development of internal-use software	—	—	2	1
Free Cash Flow	<u>\$ (100)</u>	<u>\$ (344)</u>	<u>\$ (315)</u>	<u>\$ (903)</u>

## Results of Operations

The following table shows our results of operations for the periods presented and express the relationship of certain line items as a percentage of revenue for those periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions)			
Revenue	\$ 125	\$ 368	\$ 448	\$ 1,796
Cost of revenue <sup>(1)</sup>	91	201	308	808
Gross profit	34	167	140	988
Operating expenses:				
Sales and marketing <sup>(1)</sup>	80	147	181	1,013
Product development <sup>(1)</sup>	42	54	154	157
General and administrative <sup>(1)</sup>	40	29	86	121
Total operating expenses	162	230	421	1,291
Loss from operations	(128)	(63)	(281)	(303)
Other income, net				
Interest and other income, net	6	3	10	11
Loss before provision for income taxes	(122)	(60)	(271)	(292)
Provision for income taxes	2	4	3	11
Net loss	<u>\$ (124)</u>	<u>\$ (64)</u>	<u>\$ (274)</u>	<u>\$ (303)</u>

(1) Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions)			
Cost of revenue	\$ 2	\$ 5	\$ 4	\$ 15
Sales and marketing	2	4	5	10
Product development	13	17	41	46
General and administrative	9	4	3	33
Total stock-based compensation	<u>\$ 26</u>	<u>\$ 30</u>	<u>\$ 53</u>	<u>\$ 104</u>

The following table presents the components of our condensed consolidated statements of operations as a percentage of revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	73 %	55 %	69 %	45 %
Gross profit	27 %	45 %	31 %	55 %
Operating expenses:				
Sales and marketing	64 %	40 %	40 %	56 %
Product development	33 %	15 %	34 %	9 %
General and administrative	32 %	8 %	19 %	7 %
Total operating expenses	129 %	63 %	93 %	72 %
Loss from operations	(102)%	(17)%	(62)%	(17)%
Other income, net:				
Interest and other income, net	5 %	1 %	2 %	1 %
Loss before provision for income taxes	(97)%	(16)%	(60)%	(16)%
Provision for income taxes	2 %	1 %	1 %	1 %
Net loss	(99)%	(17)%	(61)%	(17)%

### Comparison of Three and Nine Months Ended September 30, 2022 and 2021

#### Revenue

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
	(in millions)							
Core marketplace revenue <sup>(1)</sup>	\$ 40	\$ 183	\$ (143)	(78)%	\$ 184	\$ 1,038	\$ (854)	(82)%
ProductBoost revenue	11	37	(26)	(70)%	36	137	(101)	(74)%
Marketplace revenue	51	220	(169)	(77)%	220	1,175	(955)	(81)%
Logistics revenue	74	148	(74)	(50)%	228	621	(393)	(63)%
Revenue	\$ 125	\$ 368	\$ (243)	(66)%	\$ 448	\$ 1,796	\$ (1,348)	(75)%

- (1) Wish Cash liability breakage recognized within core marketplace revenue was \$2 million and \$3 million for the three and nine months ended September 30, 2022, respectively, and \$5 and \$26 million for the three and nine months ended September 30, 2021, respectively. Refer to Note 4 to our condensed consolidated financial statements in Item 1 of Part I, "Financial Information" for additional details. In addition, Core marketplace revenue for the three and nine months ended September 30, 2022 included approximately a \$4 million net loss for both periods and \$2 million and \$19 million net gains for the three and nine months ended September 30, 2021, respectively, from our cash flow hedging program.

Revenue decreased \$243 million, or 66%, to \$125 million for the three months ended September 30, 2022 as compared to \$368 million for the three months ended September 30, 2021. Revenue decreased \$1.3 billion, or 75%, to \$448 million for the nine months ended September 30, 2022 as compared to \$1.8 billion for the nine months ended September 30, 2021. This decrease was attributable to decreased marketplace and logistics revenue, as noted below.

Marketplace revenue for the three and nine months ended September 30, 2022 decreased \$169 million, or 77%, and \$955 million, or 81%, respectively, compared to the same periods in 2021. This decrease was primarily driven by lower order volumes associated with reduced MAUs and LTM Active Buyers, as well as revisions to our pricing strategy, which resulted in lower marketplace revenue per order. While we expect pricing adjustments across most geographies to have an unfavorable effect on revenues over the short term, we expect to see corresponding increases in order volume over time.

Logistics revenue for the three and nine months ended September 30, 2022 decreased \$74 million, or 50%, and \$393 million, or 63%, respectively, compared to the same periods in 2021. Like marketplace revenue, the decrease was primarily driven by lower order volumes.

## Cost of Revenue and Gross Margin

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,				September 30,			
	2022	2021	\$	%	2022	2021	\$	%
	(in millions)							
Cost of revenue	\$ 91	\$ 201	\$ (110)	(55)%	\$ 308	\$ 808	\$ (500)	(62)%
Percentage of revenue	73%	55%			69%	45%		
Gross Margin	27%	45%			31%	55%		

Cost of revenue for the three and nine months ended September 30, 2022 decreased \$110 million, or 55%, and \$500 million, or 62%, respectively, compared to the same periods in 2021. This decrease was primarily due to lower marketplace and logistics related costs as a result of lower order volumes.

Gross margin decreased to 27% and 31% for the three and nine months ended September 30, 2022, respectively, from 45% and 55% for the three and nine months ended September 30, 2021, respectively, primarily driven by a greater percentage of lower margin logistics services making up overall revenue during the nine months of 2022 compared to the same period in 2021 and revisions to our pricing strategy, which resulted in lower marketplace revenue per order.

## Sales and Marketing

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,				September 30,			
	2022	2021	\$	%	2022	2021	\$	%
	(in millions)							
Sales and marketing	\$ 80	\$ 147	\$ (67)	(46)%	\$ 181	\$ 1,013	\$ (832)	(82)%
Percentage of revenue	64%	40%			40%	56%		

Sales and marketing expense for the three and nine months ended September 30, 2022 decreased \$67 million, or 46%, and \$832 million, or 82%, respectively, compared to the same periods in 2021 primarily due to reduced digital advertising expenditures in order to focus our resources on other strategic initiatives.

## Product Development

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,				September 30,			
	2022	2021	\$	%	2022	2021	\$	%
	(in millions)							
Product development	\$ 42	\$ 54	\$ (12)	(22)%	\$ 154	\$ 157	\$ (3)	(2)%
Percentage of revenue	34%	15%			34%	9%		

Product development expense for the three months ended September 30, 2022 decreased \$12 million, or 22%, compared to the same periods in 2021. The decrease was primarily due to a reduction in employee-related costs, including stock-based compensation, driven by reduced headcount and decrease in expenses associated with data warehousing, processing, and analytics.

Product development expense for the nine months ended September 30, 2022 decreased by \$3 million or 2%, compared to the same periods in 2021. The decrease was primarily due to a reduction in expenses associated with data warehousing, processing and analytics, offset by a one-time discretionary bonus paid to select employees to cover their respective tax obligations triggered by the settlement of their RSUs that vested upon the Company's IPO.

## General and Administrative

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
	(in millions)							
General and administrative	\$ 40	\$ 29	\$ 11	38%	\$ 86	\$ 121	\$ (35)	(29)%
Percentage of revenue	32%	8%			19%	7%		

General and administrative expense for the three months ended September 30, 2022 increased \$11 million, or 38%, compared to the same period in 2021. The increase was driven by severance benefits paid to the Company's former CEO (Mr. Talwar), including accelerated vesting of his equity awards, and an impairment charge of the Company's lease assets and property and equipment during the third quarter of 2022.

General and administrative expense for the nine months ended September 30, 2022 decreased \$35 million, or 29%, compared to the same period in 2021. The decrease was primarily related to a reversal of stock-based compensation in connection with the resignation of both our former CEO (Mr. Szulczewski) and executive chair, a reduction in employee-related costs, including stock-based compensation, driven by a reduced headcount from the Restructuring Plan, and to a lesser extent, decreases in legal, audit, tax, and lease related expenses.

## Provision for Income Taxes

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
	(in millions)							
Provision for income taxes	\$ 2	\$ 4	\$ (2)	(50)%	\$ 3	\$ 11	\$ (8)	(73)%
Percentage of revenue	2%	1%			1%	1%		

Provision for income taxes for the three and nine months ended September 30, 2022 decreased \$2 million, or 50%, and \$8 million, or 73%, respectively, compared to the same periods in 2021. The change in provision for income taxes was primarily due to a decrease in pre-tax earnings of our international operations.

## Liquidity and Capital Resources

As of September 30, 2022, we had cash, cash equivalents and marketable securities of \$837 million, a majority of which were held in cash deposits and money market funds and were held for working capital purposes. We believe that our existing cash, cash equivalents and marketable securities will be sufficient to meet our anticipated cash needs for at least the next 12 months, though we may require additional financing or capital resources in the future.

Our material cash requirements include \$177 million in accounts and merchants payable, \$82 million remaining on a colocation and cloud services purchase commitment, and \$19 million of facility lease obligations, of which \$7 million is due within the next 12 months.

## November 2020 Credit Facility

In November 2020, we entered into the Revolving Credit Facility which enables us to borrow up to \$280 million. The Revolving Credit Facility contains an accordion option which, if exercised and provided we are able to secure additional lender commitments and satisfy certain other conditions, would allow us to increase the aggregate commitments by up to \$100 million. As of September 30, 2022, we had not made any borrowings under the Revolving Credit Facility. Refer to Note 7 to our condensed consolidated financial statements in Item 1 of Part I, "Financial Information" for additional details related to the Revolving Credit Facility.

## Cash Flows

	Nine Months Ended September 30,	
	2022	2021
	(in millions)	
Net cash (used in) provided by:		
Operating activities	\$ (313)	\$ (902)
Investing activities	(85)	16
Financing activities	(9)	—



### **Net Cash Used in Operating Activities**

Net cash used in our operating activities for the nine months ended September 30, 2022 was \$313 million. This was primarily driven by our net loss of \$274 million and \$113 million of unfavorable changes in our operating assets and liabilities, which was partially offset by non-cash expenses of \$74 million, mainly consisting of \$53 million in stock-based compensation expense and \$11 million in non-cash impairment charges. Unfavorable working capital movement was mainly driven by reductions in accounts payable, merchants payable and accrued and refund liabilities. Accounts payable, merchants payable, and accrued and refund liabilities decreased by \$110 million primarily due to lower order volumes and reduced digital advertising expenditures.

Net cash used in our operating activities for the nine months ended September 30, 2021 was \$902 million. This was primarily driven by our net loss of \$303 million and \$732 million unfavorable net working capital changes, which was partially offset by non-cash expenses of \$133 million, mainly consisting of \$104 million in stock-based compensation expense. Unfavorable working capital movement was mainly driven by accounts payable, merchants payable and accrued and refund liabilities. Accounts payable decreased by \$364 million primarily due to our decision to significantly reduce digital advertising expenditures and the timing of payments and shorter vendor payment terms. Earlier during the COVID-19 pandemic, we were able to negotiate favorable payment terms with certain key digital advertising partners (45 days and 60 days). The payment terms with these key digital advertising partners reverted back to 30 days when the favorable terms expired on December 31, 2020. Merchants payable decreased by \$238 million primarily due to lower volumes driven by reduced digital advertising expenditures that resulted in lower MAUs and LTM Active Buyers.

### **Net Cash (Used in) Provided by Investing Activities**

Our primary investing activities have consisted of investing excess cash balances in marketable securities.

Net cash used in investing activities was \$85 million for the nine months ended September 30, 2022. This was primarily due to \$303 million in purchases of marketable securities and \$2 million in capital expenditures, partially offset by \$218 million of maturities in marketable securities.

Net cash provided by investing activities was \$16 million for the nine months ended September 30, 2021. This was primarily due to \$252 million in maturities and sales of marketable securities, partially offset by purchases of \$235 million of marketable securities.

### **Net Cash Used in Financing Activities**

Net cash used in our financing activities was \$9 million for the nine months ended September 30, 2022. This was primarily due to \$10 million in payments of taxes related to employee RSU settlements, offset by \$1 million in proceeds from common stock purchased under the Company's ESPP.

Net cash used in our financing activities was insignificant during the nine months ended September 30, 2021.

### **Off Balance Sheet Arrangements**

For the three and nine months ended September 30, 2022 and 2021, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### **Contingencies**

We are involved in claims, lawsuits, government investigations, and proceedings arising from the ordinary course of our business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. Such legal proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to be incorrect, it could have a material impact on our results of operations, financial position, and cash flows.

### **Critical Accounting Policies**

The preparation of consolidated financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates, including those listed below on an ongoing basis. We

base our estimates on historical facts and various other assumptions that we believe to be reasonable at the time the estimates are made. Actual results could differ from those estimates.

Our critical accounting policies are as follows:

- Revenue recognition;
- Operating lease obligations;
- Impairment of long-lived assets, including intangibles and lease assets;
- Stock-based compensation; and
- Income taxes.

Our critical accounting policies are important to the portrayal of our financial condition and results of operations, and require us to make judgments and estimates about matters that are inherently uncertain.

There have been no material changes to our critical accounting policies and estimates as compared to those described in our 2021 Form 10-K, filed with the SEC on March 14, 2022.

#### **Recent Accounting Pronouncements**

See Note 1 of Part I, Item 1 of this Quarterly Report on Form 10-Q for a full description of recent accounting pronouncements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business, including the effects of interest rate changes and foreign currency fluctuations. Information relating to quantitative and qualitative disclosures about these market risks is described below.

#### ***Interest Rate Sensitivity***

Cash, cash equivalents and marketable securities as of September 30, 2022 were held primarily in cash deposits, treasuries, and corporate bonds. The fair value of our cash, cash equivalents, and investments would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of these instruments and that the Company's policy is to hold investments to maturity except in cases of non-compliance with our investment policy.

#### ***Foreign Currency Risk***

We transact business in various foreign countries and are, therefore, subject to risk of foreign currency exchange rate fluctuations. We have established a foreign currency risk management policy to provide processes and procedures for managing this risk. We use natural hedging techniques first to net off existing foreign currency exposures. For the remaining exposure, we may enter into short term foreign currency derivative contracts, including forward contracts to hedge exposures associated with monetary assets and liabilities, mainly merchants payable, and cash flows denominated in non-functional currencies.

The credit risk of our foreign exchange derivative contracts is minimized since contracts are not concentrated with any one financial institution and all contracts are only placed with large financial institutions. The gains and losses on foreign currency derivative contracts generally offset the losses and gains on the assets, liabilities and cash flows hedged. The fair value of foreign exchange derivative contracts is reported in the condensed consolidated balance sheets. The majority of these foreign exchange contracts expire in less than three months and all expire within one year. Refer to Note 5 to our condensed consolidated financial statements in Item 1 of Part I, "Financial Statements" for more information related to our derivative financial instruments.

Based on our overall currency rate exposures as of September 30, 2022, including the derivative financial instruments intended to hedge the nonfunctional currency-denominated monetary assets, liabilities and cash flows, and other factors, a 10% appreciation or depreciation of the U.S. dollar from its cross-functional rates would not be expected, in the aggregate, to have a material effect on our financial position, results of operations and cash flows in the near-term.

#### ***Inflation Risk***

As of the date of filing of this Quarterly Report, we do not believe that inflation has had a material effect on our business, financial condition, or results of operations. If the Company's costs were to become subject to significant inflationary pressures, the Company may not be able to fully offset such higher costs through increases in revenue as increases in core inflation rates may also affect consumers' willingness to make discretionary purchases on our platforms. The Company's inability or failure to do so could harm the Company's business, financial condition, and results of operations.

## Item 4. Controls and Procedures.

### ***Evaluation of Disclosure Controls and Procedures***

Our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure. Our Chief Executive Officer and Chief Financial Officer, with assistance from other members of management, have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2022, and, based on their evaluation, have concluded that the disclosure controls and procedures were not effective as of such date due to material weaknesses in internal control over financial reporting, described below.

### ***Previously Reported Material Weaknesses in Internal Control over Financial Reporting***

As disclosed in Item 9A, "Controls and Procedures" within our 2021 Form 10-K, which was filed with the SEC on March 14, 2022, the following material weaknesses were identified and remain outstanding as of September 30, 2022:

- The Company did not design and maintain effective controls over information technology general controls ("ITGCs") for information systems and applications that are relevant to the preparation of the consolidated financial statements. Specifically, the Company did not design and maintain: (i) sufficient user access controls to ensure appropriate segregation of duties and adequately restrict user and privileged access to financial applications, programs and data to appropriate Company personnel; (ii) program change management controls to ensure that information technology program and data changes affecting financial information technology applications and underlying accounting records are identified, tested, authorized and implemented appropriately; and (iii) computer operations controls to ensure that critical batch and interface jobs are monitored, privileges are appropriately granted, and data backups are authorized and monitored. Business process controls (automated and manual) that are dependent on the ineffective ITGCs, or that rely on data produced from systems impacted by the ineffective ITGCs, are also deemed ineffective.
- The Company did not fully implement components of the COSO framework, including elements of the control environment, information and communication, control activities and monitoring activities components, relating to: (i) providing sufficient management oversight and ownership over the internal control evaluation process; (ii) hiring and training sufficient competent personnel to support the Company's internal control objectives; (iii) performing timely monitoring to ascertain whether the components of internal control are present and functioning effectively; (iv) communicating deficiencies in a timely manner to those parties responsible for taking corrective action; and (v) retaining sufficient documentation of control activities and evidence supporting the operating effectiveness of the controls. As such, management concluded that it did not have an adequate process in place to complete its assessment of the design and operating effectiveness of internal control over financial reporting in a timely manner.

None of the material weaknesses described above resulted in a material misstatement to our annual or interim consolidated financial statements. However, the material weaknesses described above could result in a misstatement of one or more account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

After giving full consideration to these material weaknesses, and the additional analyses and other procedures we performed to ensure that our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q were prepared in accordance with U.S. GAAP, our management has concluded that our condensed consolidated financial statements present fairly, in all material respects, our financial position, results of operations and cash flows for the periods disclosed in conformity with U.S. GAAP.

## **Management's Plan to Remediate the Material Weaknesses**

Our remediation efforts are ongoing and we will continue our initiatives to implement measures designed to ensure that control deficiencies contributing to the material weaknesses are remediated, such that these controls are designed, implemented, and operating effectively.

The remediation measures we have taken to date include:

- i. hiring and continuing to hire additional qualified accounting, financial reporting, tax and information technology personnel as well as increasing third-party consultants with public company and internal control over financial reporting experience including a new Chief Executive Officer with a deep understanding of ecommerce and cross border business, a technical project manager to assist with communicating, documenting, and assisting with the remediation of deficiencies, and additional resources to test internal controls;
- ii. providing additional training for our personnel including the appropriate level of documentation to be maintained to support internal control over financial reporting;
- iii. holding periodic SOX Steering Committee meetings which are comprised of all the top Executives of the Company and whose purpose is to provide oversight of the Company's SOX program on behalf of the CEO, CFO and Management responsible for SOX Compliance, including monitoring progress of the identified deficiencies and their remediation efforts;
- iv. designing and implementing controls to formalize roles and review responsibilities to align with the staff's skills and experience and to ensure proper internal control over financial reporting;

Measures specifically taken during the quarter ended September 30, 2022 include:

- v. continuing to enhance and standardize user access reviews and monitoring controls to improve segregation of duties, and more comprehensively review user and privileged access to financial applications, programs and data to appropriate Company personnel;
- vi. continuing to enhance processes to monitor critical batch and interface jobs;
- vii. holding periodic meetings with the Audit Committee to communicate deficiencies, discuss the overall remediation plan, and discuss progress made against the approved plan;
- viii. performed a comprehensive reassessment of financial reporting risks relevant to our consolidated financial statements, including identification of financially relevant systems and business processes at the financial statement assertion level, to facilitate the design and implementation or enhancement of existing controls to address the identified risks;
- ix. enhancing the oversight and review of non-recurring transactions to include consistent communication between functional areas, support consistent documentation of conclusions reached, and retention of evidence supporting the operation of control activities;
- x. enhancing our IT governance processes, including automating components of our change management and logical access processes, enhancing role-based access and logging capabilities, implementing automated controls, enhancing testing and approval controls for program development, and implementing more robust IT policies and procedures over change management and computer operations.

We are committed to continuing to implement a strong system of controls and believe that our ongoing remediation efforts will result in significant improvements to our internal control over financial reporting and will remediate the material weaknesses. However, material weaknesses are not considered remediated until the new controls have been operational for a sufficient period of time, are tested, and management concludes that these controls are operating effectively. This remediation process will require resources and time to implement, and remediation efforts could continue beyond the fiscal year ending December 31, 2023. We will continue to monitor the effectiveness of these remediation measures, and we will make any changes to the design of this plan and take such other actions that we deem appropriate given the circumstances.

### ***Changes in Internal Control over Financial Reporting***

As described above under “Management’s Plan to Remediate the Material Weaknesses”, there were changes in our internal control over financial reporting during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ***Inherent Limitations on the Effectiveness of Disclosure Controls and Procedures***

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

The information set forth under Note 7, Commitments and Contingencies, in Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q, is incorporated herein by reference.

### Item 1A. Risk Factors.

Investing in our Class A common stock involves a high degree of risk. Before deciding whether to purchase shares of our Class A common stock, you should consider carefully the risks and uncertainties described below, our consolidated financial statements and related notes, and all of the other information in this Quarterly Report on Form 10-Q. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect our business. These risk factors could materially and adversely affect our business, financial condition and results of operations, and the market price of our ordinary shares could decline. These risk factors do not identify all risks that we face – our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. Due to risks and uncertainties, known and unknown, our past financial results may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

We have marked with an asterisk (\*) those risks described below that reflect substantive changes from, or additions to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2021.

#### Risks Related to Our Business and Industry

***Our efforts to acquire new users and engage existing users may not be successful or may be more costly than we expect, which could prevent us from maintaining or increasing our revenue.\****

Our success depends on our ability to attract new users and engage existing users in a cost-effective manner. In order to acquire and engage users, we must, among other things, promote and sustain our platform and provide high-quality products, user experiences, and service. Our marketing efforts currently include various initiatives and consist primarily of digital marketing on a variety of social media channels, such as Facebook, search engine optimization on websites, such as Google, Bing, and Yahoo!, various branding strategies, such as our relationship with social influencers, and mobile “push” notifications, text messaging, and email. For the years ended December 31, 2021, 2020 and 2019, we spent \$1.1 billion, \$1.7 billion and \$1.5 billion on sales and marketing, representing 53%, 67% and 77% of our revenue, respectively. We anticipate that sales and marketing expenses will continue to comprise a substantial majority of our overall operating costs for the foreseeable future. We have historically acquired a significant number of our users through digital advertising on platforms and websites owned by Facebook and Google, which may terminate their agreements with us anytime. Our investments in sales and marketing may not effectively reach potential users, potential users may decide not to buy through us, or user spend on our platform may not yield the intended return on investment, any of which could negatively affect our financial results.

In addition, during the first half of 2022 we continued to face headwinds from the rise in digital advertising costs which has among other things impacted new customer acquisition and conversion. In response to rising digital advertising costs, which contributed to lower marketing efficiency, starting in the third quarter of 2021, we decided to significantly reduce our digital advertising expenditures as we focused our resources on other strategic initiatives. As discussed under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial and Performance Metrics,” our monthly active users and last twelve months Active Buyers were negatively impacted by our decision to significantly reduce our digital advertising expenditures. Starting in the third quarter of 2021, in response to these headwinds, we commenced a number of initiatives that we believe will improve the user experience and increase retention, including (i) enhancing our product quality and selection, (ii) providing an unmatched fun and entertaining shopping experience, and (iii) improving the performance of the app. Beginning late June of 2022, we began to ramp up digital advertising spend and initiated a number of programs which we believe could enhance the consumer experience, encourage customer acquisition, increase consumer retention, and position the Company for long-term sustainable growth. We believe our continued strategy to increase users’ experience in our marketplace and provide a more differentiated and engaging user experience will position us for long-term sustainable growth, but there can be no assurance that our initiatives will be successful.

Many other factors, some of which are beyond our control, may reduce our ability to acquire, maintain and further engage with users, including those described in this “Risk Factors” section and the following:

- system updates to app stores and advertising platforms such as Facebook and Google, including adjustments to algorithms that may decrease user engagement or negatively affect our ability to target a broad audience;
- ongoing changes in advertising platforms’ pricing, which could continue to result in higher advertising costs;
- changes in digital advertising platforms’ policies, such as those of Facebook and Google, that may delay or prevent us from advertising through these channels, which could result in reduced traffic to and sales on our platform;
- changes in search algorithms by search engines;
- inability of our email marketing messages to reach the intended recipients’ inbox;
- ineffectiveness of our marketing efforts and other spend to continue to acquire new users and maintain and increase engagement with existing users;
- decline in popularity of, or governmental restrictions on, social media platforms where we advertise;
- the development of new search engines or social media sites that reduce traffic on existing search engines and social media sites;
- consumer behavior changes as a result of COVID-19; and
- products listed by merchants on our platform that are the subject of adverse media reports, regulatory investigations, or other negative publicity.

As a result of any of these factors or any additional factors that are outside of our control, if we are unable to continue acquiring new users or increasing engagement with existing users, it could have a material adverse effect on our business, financial condition, results of operations, and prospects.

***If we are unable to promote, maintain, and protect our brand and reputation, and offer a compelling user experience, our ability to attract new users and engage with our existing base of users will be impaired.***

We believe that maintaining our brand and reputation will be critical to attracting new users and encouraging users to transact on our platform. In addition to targeted online marketing, we spend a considerable amount of resources on promoting our brand and reputation. For example, starting in 2020, we began to invest in additional off-line marketing activities. Our brand promotion activities, including our proposed rebranding of Wish, may not be successful or cost effective, and to the extent that these activities yield increased revenue, the increased revenue may not offset the expenses we incur. If we do not successfully drive brand awareness, we may fail to attract new users or increase engagement with existing users and our business may not grow or may decline, all of which could harm our business, financial condition, results of operations, and prospects.

Our ability to provide a high-quality user experience is also highly dependent on external factors over which we may have little or no control, including, without limitation, the reliability and performance of our merchants and third-party carriers. If our users are dissatisfied with the quality of the products sold on our platform, the customer service they receive or their overall user experience, or if our merchants or third-party carriers cannot deliver products to our users in a timely manner or at all, our users may stop purchasing products on our platform. Our users may also become dissatisfied with their user experience if they are unable to receive timely customer service, and because we rely in large part on an automated customer service system, it is possible our users could become dissatisfied with our customer service. We also rely on merchants for information, including product characteristics, descriptions, images, and availability that may be inaccurate or misleading. Our failure to provide our users with high-quality products and high-quality user experiences for any reason could substantially harm our reputation and adversely impact our efforts to develop Wish as a trusted brand, which could have a material adverse effect on our business, financial condition, results of operations, and prospects.



In addition, we may be subject to unfavorable publicity that would create a public perception that non-authentic, counterfeit, dangerous, illegal, or defective goods are sold on our platform, or that our policies and practices are insufficient to deter or respond to such conduct. Even if these claims are factually incorrect or based on isolated incidents, it could damage our reputation, diminish the value of our brand, draw governmental or regulatory scrutiny or action, undermine our trust and credibility, or have a negative impact on our ability to attract new users, or discourage our existing users from continuing to transact on our platform. We may also be subject to negative media regarding our privacy or cyber security practices, terms of service, product quality, litigation or regulatory activity, the sale of illicit or dangerous goods, other unauthorized actions by merchants on our platform, or the actions of other companies that provide similar services to ours, which may adversely affect our reputation, business, and financial results.

***The transition to a new Chief Executive Officer (“CEO”) will be critical to our success and our business may be adversely impacted if we do not successfully manage the transition process in a timely manner.\****

Our success depends, in part, on the effectiveness of our new interim CEO, and a permanent CEO once such CEO is appointed. The CEO will be critical to executing on and achieving our vision, strategic direction, culture, products, and technology. Our capacity to identify and appoint a suitable permanent CEO in a timely manner will be essential to relieve any related speculation and uncertainty regarding our ability to execute the Company’s future business strategy. Likewise, the permanent CEO search and subsequent transition may be disruptive to the Company and our relationships with customers and employees. If we are unable to execute an orderly transition and successfully integrate the new CEO into our leadership team, revenue, operating results, and financial conditions may be adversely affected.

Additionally, Piotr Szulczewski, our founder and former CEO, resigned from the Board, and the departure of Mr. Szulczewski as our CEO and as a member of the Board has resulted in a loss of institutional knowledge. This loss of knowledge and experience can be mitigated through successful hiring and transition, but there can be no assurance that we will be successful in such efforts. The ability of the new CEO to quickly adapt to and understand our business, operations, and strategic plans will be critical to the Board and our management’s ability to make informed decisions about our strategic direction and operations.

***If we lose the services of members of our senior management team or key employees, we may not be able to execute our business strategy.***

Competition for talent in our industry and the technology industry has become increasingly intense as the current labor market to build, retain, and replace highly skilled personnel has become highly competitive. We rely on the continued service of our senior management team, key employees, and other highly skilled personnel. The failure to properly manage succession plans, develop leadership talent, and/or replace the loss of services of senior management or other key employees, could significantly delay or prevent the achievement of our objectives. From time to time, there have been and may continue to be changes in our senior management team resulting from the hiring or departure of executives, which could disrupt our business. We do not have long-term employment agreements with any of our key personnel, and do not maintain any “key person” life insurance policies. The loss of the services of one or more of our senior management or other key employees for any reason could adversely affect our business, financial condition, and results of operations, and require significant amounts of time, training and resources to find suitable replacements and integrate them within our business and could affect our corporate culture. Further, in connection with the announcement of our restructuring plan, we may find it even more difficult to recruit and retain highly skilled personnel, which could harm our business. See the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations— February 2022 Restructuring Plan” and Notes to Consolidated Financial Statements, Note 12. Restructuring Costs, for further discussion of our restructuring plan.

***We rely on the Apple App Store and the Google Play Store to offer and promote our app. If we are unable to maintain a good relationship with such platform providers, if their terms and conditions change to our detriment, if we violate, or if a platform provider believes that we have violated, the terms and conditions of its platform, our business will suffer.***

A significant portion of our users download our mobile app through the Apple App Store and the Google Play Store, and over 90% of our user activity and purchases occur on our mobile app.

We are subject to the policies and terms of service of these third-party platforms, which govern the promotion, distribution, content, and operation of our app on the platform. Each platform provider has broad discretion to change and interpret its terms of service and other policies with respect to us and other developers, and those changes may be unfavorable to us. A platform provider may also add fees associated with access to and use of its platform, alter how we are able to advertise on the platform, prevent our app from being offered on their platform, change how the personal information of its users is made available to application developers on the platform, or limit the use of personal information for advertising purposes.

If we violate, or a platform provider believes we have violated, its terms of service (or if there is any change or deterioration in our relationship with these platform providers), that platform provider could limit or discontinue our access to the platform. A platform provider may also object to content created by merchants on our platform, such as drug paraphernalia or adult content, and our perceived distribution or advertisement of such content may cause a platform provider to view us in a negative light or take other adverse actions against us. For example, platform providers have warned application developers on their platform, including Wish, that providing content related to drug paraphernalia or adult content could cause such platform providers to remove the apps from their platforms. While we believe that we have complied with platform providers' requirements, they may introduce additional requirements in the future. If a platform provider establishes more favorable relationships with one or more of our competitors or such platform provider determines that we are a competitor, our access to a platform may be limited or discontinued entirely. Any limit or discontinuation of our access to any platform could adversely affect our business, financial condition, and results of operations.

In the past, some of these platforms have been unavailable for short periods of time. This and other changes, bugs, or technical system issues could degrade the user experience on our platform. There may also be changes to mobile hardware or software technology that make it more difficult for our users to access and use our platform on their mobile devices, which could adversely affect our user growth and user engagement. If any of these events recurs on a prolonged, or even short-term basis, or other similar issues arise that impact users' ability to access our app or use mobile devices, our business, financial condition, results of operations, or reputation may be harmed.

***If we are unable to offer features and attract merchants to list products that keep pace with changing consumer preferences, our business, financial condition, and results of operations may be materially and adversely affected.***

Constantly changing consumer preferences have affected and will continue to affect the ecommerce industry. We must stay ahead of emerging consumer preferences and anticipate product trends that will appeal to existing and potential users. Our users choose to purchase products due in part to the attractive prices that we offer, and they may choose to shop elsewhere if we cannot match the prices offered by other websites and platforms or by brick-and-mortar stores. If our users do not find our platform entertaining and are not shown desired products on our platform at attractive prices, they may lose interest in us, which in turn may materially and adversely affect our business, financial condition, and results of operations.

***We rely on our merchants to provide a positive experience to our users.***

Negative publicity or sentiment as a result of complaints about merchants selling on our platform could reduce our ability to attract users, discourage users from making additional purchases on our platform, or otherwise damage our reputation. A perception that our levels of responsiveness and support for our users are inadequate could have similar results. In some situations, we may choose to reimburse users for their purchases to help avoid harm to our reputation, but we may not be able to recover the funds we expend for those reimbursements.

Disruptions in the operations of a substantial number of merchants on our platform, to the extent they are caused by events that are beyond their control, such as interruptions in order or payment processing, transportation disruptions, natural disasters, pandemics, inclement weather, geo-political conflicts, including the current conflict between Russia and Ukraine arising from the invasion of Ukraine by Russia, terrorism, public health crises, or political unrest, could result in negative experiences for a substantial number of our users, which could harm our reputation and adversely affect our business. For example, during the initial outbreak of COVID-19, our merchants based in China experienced supply interruptions and delivery delays. If there are subsequent or further increases in the number of COVID-19 outbreaks in China or elsewhere, merchants on our platform may experience additional disruptions to their supply and restrictions on their ability to deliver products to our users in a timely manner, which could harm our business.

***Our brand, reputation, and business may be harmed if merchants on our platform use unethical or illegal business practices, including the sale of hazardous, counterfeit, fraudulent, or illegal products, or if our policies and practices with respect to such sales are perceived or found to be inadequate, and we may be impacted by the unlawful activities of merchants on our platform.***

It is important that both merchants and users have confidence in the transactions they are completing on our platform. Merchants on our platform have in the past, and may in the future, engage in illegal or unethical business practices. Allegations or findings of such illegal or unethical business practices by merchants on our platform could harm our brand, reputation, and business. Our policies promote legal and ethical business practices, such as prohibiting false or misleading seller or product information, the listing or sale of counterfeit or otherwise infringing goods, and the listing or sale of hazardous, fraudulent, or illegal products. For example, our merchant terms explicitly prohibit any illegal activity by merchants and require compliance with our policies. We maintain a suite of policies that educate merchants regarding items and practices that are explicitly prohibited from the platform, as well as the penalties for violations of our policies. We enforce these policies through the use of human and machine reviews as well as penalties for merchants if a violation of the policies is discovered. However, we do not control merchants or their business practices and cannot ensure their compliance with our policies.

If merchants on our platform engage in illegal or unethical business practices or are perceived to do so, we may receive negative publicity and our brand and reputation may be harmed.

Additionally, while we do not control merchants and cannot ensure their compliance with applicable law, we nevertheless frequently receive and respond to inquiries and demands from regulators and law-enforcement agencies around the globe, and we expect to continue to receive more inquiries and demands in the future. If our policies are violated by merchants, or if our policies and practices or responses to such conduct are perceived as or found to be inadequate by regulators or law-enforcement agencies, it could subject us to government inquiries, investigations, or enforcement actions, as well as potential civil or criminal liabilities, or requiring changes to our policies and practices with respect to illegal or unethical business practices that could lower our revenue, increase our costs, make our platform less user-friendly, or otherwise adversely impact our business. This has been the case in France, where regulators are trying to hold Wish accountable and responsible for the purportedly illegal or hazardous listings created by merchants; we are currently responding to and challenging these claims in French courts. Separately, during the initial outbreak of COVID-19, a small number of merchants created listings of personal protective equipment and other health-related products that regulators deemed to violate consumer protections related to pricing and advertising. Though these listings were posted by merchants in violation of our policies, Wish has received and may continue to receive inquiries and demands from regulators regarding these listings.

Our merchants are subject to regulation by the U.S. Consumer Product Safety Commission and similar state and international regulatory authorities in the United States and abroad, and their products sold on our platform could be subject to involuntary recalls, takedown notices, and other actions by these authorities. Concerns about product safety, including concerns about the safety of products manufactured in developing countries, could lead to recalls of selected products sold on our platform. Recall and government or user concerns about product safety could harm our reputation and reduce sales, either of which could have a material adverse effect on our business, results of operations, financial condition, and prospects.

Proposed laws in Europe, the United States, and other jurisdictions and/or novel interpretations or enforcement of existing law may change the scope of platform liability, and ongoing case law developments may unpredictably increase our liability as a platform for merchant activity or for activities adjacent to the marketplace, such as logistics, or otherwise constrain or impede our ability to do business in a given jurisdiction. In that event, we may be held directly or secondarily liable for the intellectual property infringement, product compliance deficiencies, consumer protection deficiencies, privacy and data protection incidents, or regulatory issues of our merchants, including potentially for their conduct over which we have no control or influence. Moreover, we may be subject to product liability claims where merchants lack sufficient assets or are not reachable, which could be costly to defend in the aggregate. Regardless of the validity of any claims made against us, we may incur significant costs and efforts to defend against or settle them. We expect to continue to receive inquiries or demands from regulators and law enforcement regarding intellectual property, product compliance, and product safety. This could lead to government investigations, inquiries, and/or the imposition of penalties, fines and/or criminal liability in certain jurisdictions and, consequently, would be costly, time consuming, and would adversely impact our business.

Merchants on our platform have in the past, and may in the future, engage in fictitious transactions or collaborate with third parties in order to artificially inflate their sales records and search results rankings. Such activity may frustrate other merchants by enabling the perpetrating merchants to be favored over legitimate merchants, may harm users by misleading them to believe that a merchant is more reliable or trustworthy than the merchant actually is, and may impact key performance metrics. Although we have implemented policies and practices to detect and penalize merchants who engage in fraudulent activities on our platform, there can be no assurance that such policies and practices will be effective in preventing fraudulent transactions. Any of these activities may adversely affect our brand, reputation, and business. If a governmental authority determines that we have aided and abetted the infringement or sale of counterfeit goods or if legal changes result in us potentially being liable for actions by merchants on our platform, we could face regulatory, civil, or criminal penalties. Successful claims by third-party rights owners could require us to pay substantial damages or refrain from permitting any further listing of the relevant items. These types of claims could force us to modify our business practices, which could lower our revenue, increase our costs, or make our platform less user friendly. Moreover, public perception that counterfeit or other unauthorized items are common in our platform, even if factually incorrect, could result in negative publicity and damage to our reputation and brand.

***Our merchants rely on third-party carriers and transportation providers as part of the fulfillment process, and these third parties may fail to adequately serve our users and comply with shipping and related regulations, which could adversely affect our service offerings and results of operations.***

We rely on merchants to properly and promptly prepare products ordered by our users for shipment and our logistics program relies on third-party carriers and logistics providers to deliver products as well as third parties to consolidate packages for shipping. Any failure by merchants to timely prepare such products for shipment or any delay by third-party carriers to deliver the products will have an adverse effect on the fulfillment of user orders, which could negatively affect the user experience and harm our business and results of operations. Any increase in shipping costs, any significant shipping difficulties, disruptions or delays, or any failure by merchants on our platform to deliver products in a timely manner or to otherwise adequately serve our users, could damage our reputation and brand, and may harm our business. For example, due to abrupt new VAT regulations in Colombia (and related evolving interpretations of the same by local regulatory enforcement agencies), the *de minimis* threshold exception to remitting VAT for certain low-value declared parcels was removed, subjecting any and all parcels (regardless of import value) to VAT payment obligations. Further, there was industry-wide confusion as to whether the exemption from VAT liability applied to items "shipped from" or "originating in" countries with which Colombia has a Free Trade Agreement ("FTA"). This caused certain parcels shipped by Wish merchants to be held up at Colombia customs, causing delays and increasing charges for consumers. Also, in the first quarter of 2018, PostNord, the postal service in Sweden, suspended delivery of packages coming from outside the European Union as it evaluated imposing processing fees and collection of taxes, which resulted in a decrease in sales in Sweden. In addition, during the initial outbreak of COVID-19, our cross-border logistics function was severely impacted in terms of both disrupted processing capabilities and increased costs, which resulted in a decrease in sales due to higher logistics costs and higher refund rates due to poor performance. Our merchants based in China also experienced supply interruptions and delivery delays during the initial outbreak of COVID-19 and have continued to experience such interruptions and delays, which may continue to have an adverse effect on our users' experience on our platform.

Historically, our merchants in China have benefitted from lower shipping costs due to the Universal Postal Union Treaty (“UPU”). Certain expected changes to UPU postal rates that went into effect in July 2020 and other expected changes that will be implemented in the future are likely to increase the shipping rates our merchants incur to ship products from China. Further, the European Commission is considering a legislative proposal from trade industry associations to eliminate de minimis thresholds for customs entry, which if later enacted, would limit packages from several countries from qualifying for tariff-free entry into the EU-27 under existing de minimis laws, thus making importing goods from any country to the European Union more complicated and expensive. The actions we have taken in our logistics program to mitigate these increased costs may not be successful over the long term. If there are increases in shipping costs, including rising oil and gas prices, the sales price of products on our platform could increase, which could reduce the volume of transaction activity on our platform to decrease and may consequently have a negative impact on our results of operations.

***We generate a portion of our revenue from merchant advertising on our platform. A reduction in advertising spend by merchants could harm our business.\****

We have implemented new features on our platform, such as ProductBoost and the Merchant Promotions Platform, which allow merchants to promote their listings to our users. In addition to generating revenue from merchants, these features may also result in increased purchases by users. However, not all merchants on our platform may agree with us on the value of these new features and may not use ProductBoost or the Merchant Promotions Platform, and some of our merchants could react negatively to these new features. During the initial outbreak of COVID-19, merchant advertising declined due to the shutdown of business activity in China. If we are unable to monetize existing and new features for merchants, it could have a significant impact on our business, financial condition, and prospects.

***Our continued efforts to improve our logistics programs and enable faster and more reliable delivery in order to help grow our business and generate revenue may not be effective.***

We have worked to improve our logistics programs and to streamline our processes in order to provide a more consistent and reliable experience for our users through programs such as Wish Express and Wish Local. However, we still rely on third-party carriers for delivery and we are still in the process of establishing reliable long-term agreements with such carriers both in the United States and worldwide. If we are not able to negotiate acceptable pricing, service level requirements, and other terms with these carriers, or these carriers experience capacity or performance problems or other issues, it could negatively impact our results of operations and our users’ experience. For example, due to COVID-19 and related supply chain issues, global logistics has experienced longer delivery times.

We have also developed and experimented with different logistics offerings in order to monetize our logistics platform. This is a relatively new business initiative for us. If we are unable to consistently generate revenue from our logistics platform or offer logistics services that are appealing to merchants and users, or if changes in carrier policies and pricing, shortage of low-cost carriers, and fluctuation of oil and gas prices result in higher logistics costs, it could have a material impact on our business, financial condition, and prospects.

***Building out our Wish Local program may be costly and time intensive and we may not receive the expected benefits.***

In 2019, we introduced Wish Local, a program that develops partnerships with local brick-and-mortar stores that can serve as local pickup and delivery locations for users’ orders. In addition, we are in the process of expanding the Wish Local program to partner with collection point network providers in some countries to provide additional local pickup and dropoff locations for user’s orders. The process of reaching out to and entering into relationships with these retailers can be time intensive and costly because we must evaluate and approve each retailer individually prior to them becoming part of the Wish Local program. Therefore, growing Wish Local may be more expensive and time consuming than we have estimated. Also, users may not use the Wish Local program as much as we expect, which would delay or prevent any expected benefits. For example, users have curtailed their use of Wish Local due to health concerns regarding COVID-19, which has slowed the growth of this program.

Our terms of service require Wish Local retailers to meet certain service level requirements with respect to holding and delivering Wish orders to users. If these retailers do not comply with these service level requirements, our reputation may be harmed. Additionally, we may need to implement monitoring systems to confirm that the Wish Local retailers are complying with service level requirements and to prevent fraudulent activities by these retailers. Implementing these systems may prove to be costly and time intensive.

***The market in which we operate is rapidly evolving and we face intense competition; if we do not compete effectively, our results of operations and financial condition could be harmed.***

Our market is highly competitive and characterized by rapid changes in technology and consumer sentiment. Competition in our industry has intensified, and we expect this trend to continue as the list of our competitors grows. This competition, among other things, affects our ability to attract new users and engage our existing users.

We compete with ecommerce platforms and other retailers for merchants on our platform and merchants can list their goods on a number of ecommerce platforms, such as Amazon.com, Alibaba, Shein, and Shopify.

There are various factors that affect how merchants engage with our platform, including:

- the number and engagement of users on our platform;
- our fees;
- our brand awareness;
- our reputation;
- the quality of our services; and
- the functionality of our platform.

We also compete with retailers for the attention of users. A user has the choice of shopping with any online or offline retailer, whether large marketplaces, such as Amazon.com, Alibaba, Shein, and Shopify, as well as more traditional discount retailers, such as Walmart and Target, and discount retailers that offer heavily discounted and off-season merchandise, such as Dollar General and TJ Maxx, or local stores or other venues or marketplaces. Many of these competitors offer low-cost or free shipping, fast shipping times, favorable return policies, and other features that may be difficult or impossible for our merchants to match.

There are various factors that affect how users engage with our platform, including:

- our brand awareness and recognition;
- our reputation;
- the prices of goods sold on our platform;
- the functionality of our platform;
- ease of payment;
- shipping terms; and
- the breadth of the products sold on our platform.

Some of our competitors have, and potential competitors may have, longer operating histories, greater financial, technical, marketing, institutional and other resources, faster shipping times, lower-cost shipping, larger databases, greater name and brand recognition, or a larger base of users or merchants than we do. For example, Google or Facebook could enter the ecommerce space and they have significantly more resources and users than we do. They may devote greater resources to the development, marketing, and promotion of their services than we do, and they may offer lower pricing or free shipping to the users on their platforms. These factors may allow our competitors to derive greater revenue and profits from their existing user and merchant bases, acquire users at lower costs or respond more quickly than we can to new or emerging technologies and changes in trends and consumer shopping behavior. If we are unable to compete successfully, or if competing successfully requires us to expend greater resources, our financial condition and results of operations could be adversely affected.

***We have a history of operating losses and we may not achieve or maintain profitability in the future.***

Since our inception in 2010, we have incurred net losses each year. We incurred net losses of \$361 million, \$745 million, and \$129 million for the years ended December 31, 2021, 2020, and 2019, respectively, and incurred a net loss of \$274 million for the nine months ended September 30, 2022. As of September 30, 2022, we had an accumulated deficit of approximately \$2.8 billion. We may not achieve or maintain profitability in the future. Our operating expenses may continue to increase in the future as we increase our efforts to expand our user base, continue to invest in the research and development of our technologies and service offerings and continue to operate as a public company. These efforts may be more costly than we expect and we may not be able to increase our revenue to offset our operating expenses. Our revenue growth slowed for the year ended December 31, 2021 and may slow again, or our revenue may decline for a number of other possible reasons, including increased competition, a decrease in the growth or reduction in size of our overall market, or if we fail for any reason to capitalize on growth opportunities.

***Our company is evolving, and we are in the process of executing on new business strategies and restructuring efforts; if we fail to successfully execute on these strategies, our business, financial condition, and operating results could be harmed.\****

Our business is undergoing significant changes and our business strategy is constantly evolving. Our success depends on our ability to adapt our business model to changing market conditions and consumer spending habits. For example, in 2021, we made a number of strategic decisions in an effort to improve our business operations and our marketplace offerings in response to the headwinds of reduced retention and new buyer conversion and a rise in digital advertising costs. Nevertheless, certain elements of this shift in strategy, or any future changes to our strategy that we may make could be disruptive to our business and our employees if we do not manage the changes properly. Furthermore, continuing changes in macroeconomic trends, shifting consumer priorities, and the COVID-19 pandemic may hamper and delay our efforts by, for example, making our assumptions regarding our strategies incorrect or subject to change or causing our strategies to not have the effect and outcomes that we anticipate. The slowing of consumer discretionary spending due to macroeconomic factors could impede our turnaround efforts.

***We may not successfully execute or achieve the expected benefits of our restructuring and turnaround initiatives, which could adversely affect our business.***

We recently announced a turnaround and restructuring strategy which focuses on narrowing our business focus, reducing our headcount and outside spend, reviewing our real estate footprint, and a number of other cost saving measures. These restructuring initiatives are intended to focus the business on operational efficiency and right-sizing our expenses for 2022 and beyond. Although we believe these initiatives address the needs of our business and its long-term objectives, our strategy is based on certain assumptions and forecasts, which are subject to risks and uncertainties, including whether we have accurately identified the issues, whether we targeted the appropriate cost saving measures, and whether our right-sizing efforts are executed at the appropriate scale and scope. Consequently, the implementation of these restructuring initiatives may not be successful in yielding the intended results. Moreover, implementation of these initiatives may be costly and disruptive to our business, with the intended impact falling short or resulting in an overcorrection. Our cost cutting initiatives may negatively affect employee morale, which could result in personnel losses beyond the planned workforce reduction, diminished productivity, loss of institutional knowledge, and difficulty attracting highly skilled employees. The intended results of our turnaround effort may also be impacted by negative publicity about the Company and/or our restructuring initiatives, resulting in reputational harm, diminished investor confidence, and consumer backlash. These new initiatives have and may continue to require a significant amount of executive management's time and focus, which may divert attention from other areas of our business. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations— February 2022 Restructuring Plan" and Notes to Consolidated Financial Statements, Note 12. Restructuring Costs, for further discussion of our restructuring plan.

***Use of social media, emails, and text messages may adversely impact our reputation or subject us to fines or other penalties.***

We use social media, emails, and text messages as part of our omnichannel approach to marketing. As laws and regulations rapidly evolve to govern the use of these channels, the failure by us, our employees or third parties acting on our behalf or at our direction to abide by applicable laws and regulations in the use of these channels could adversely affect our reputation or subject us to fines, other penalties, or lawsuits. Although we continue to update our practices as these laws change over time, we may be subject to lawsuits alleging our failure to comply with such laws. In addition, our employees or third parties acting on our behalf or at our direction may knowingly or inadvertently use social media, including through advertisements, in ways that could lead to the loss or infringement of intellectual property, as well as the public disclosure of proprietary, confidential, or sensitive personal information of our business, employees, users, merchants, or others. Any such inappropriate use of social media, emails, and text messages could also cause reputational damage.

Moreover, changes in advertising and tracking policies of mobile device operating systems and platforms (e.g., Apple and Android) may limit or prevent the collection and use of certain data elements for certain purposes, such as ad targeting, and the use of such data elements may subject us to fines or other penalties.

Our users may engage with us online through social media platforms, including Facebook, Instagram, and Twitter, by providing feedback and public commentary about all aspects of our business. Information concerning us or our merchants, whether accurate or not, may be posted on social media platforms at any time and may have a disproportionately adverse impact on our brand, reputation, or business. The harm may be immediate without affording us an opportunity for redress or correction and could have a material adverse effect on our business, results of operations, financial condition, and prospects.

***We are subject to payment-related risks.***

Our users can pay for purchases using a variety of methods, including through credit cards or Buy Now, Pay Later solutions through various third-party payment providers, and we pay our merchants through a variety of methods. If these service providers do not perform adequately or if our relationships with these service providers were to terminate, our users' ability to place orders, and our merchants' ability to receive orders or payment could be adversely affected and our business could be harmed. For example, in 2014, PayPal temporarily suspended processing payments on our platform as a result of concerns related to products listed on our platform. If a third-party payment provider suspends service or has significant outages in the future and we do not have alternative payment providers in place or are unable to provide our own solution, our business could be harmed. Likewise, if our third-party payment providers experience a security breach or fraud attack, our merchants and users could be adversely impacted. In addition, if our third-party providers increase the fees they charge us, our operating expenses could increase. If we respond by increasing the fees we charge to our merchants, some merchants may increase the price of their products, stop listing new items for sale or even close their accounts altogether.

The laws and regulations related to payments are complex, evolving, subject to change and vary across different jurisdictions in the United States and globally. Any failure or claim of our failure to comply, or any failure by our third-party payment processors to comply, could cost us substantial resources and could result in liabilities. Further, through our agreements with our third-party payment processors, we are indirectly subject to payment card association operating rules, and certification requirements, including the Payment Card Industry Data Security Standard and Visa Network Rules, which are subject to change. Failure to comply with these rules and certification requirements could impact our ability to meet our contractual obligations with our third-party payment processors and could result in potential fines. We are also subject to rules governing electronic funds transfers. Any change in these rules and requirements could make it difficult or impossible for us to comply. In addition, similar to a potential increase in costs from third-party providers described above, any increased costs associated with compliance with payment card association rules could lead to increased fees for our merchants, which may negatively impact our marketplaces.



***We track certain performance metrics with internal tools and do not independently verify such metrics. Certain of our performance metrics are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.***

We calculate and track performance metrics with internal tools, which are not independently verified by any third-party. While we believe our metrics are reasonable estimates of our user or merchant base for the applicable period of measurement, the methodologies used to measure these metrics require significant judgment and may be susceptible to algorithm or other technical errors. For example, user accounts are based on email addresses, and a user could use multiple email addresses to establish multiple accounts, and merchants in many instances will have multiple accounts. As a result, the data we report may not be accurate. Our internal tools and processes we use to identify multiple accounts or fraudulent accounts have a number of limitations, and our methodologies for tracking key metrics may change over time, which could result in unexpected changes to our metrics, including historical metrics. Our ability to recalculate our historical metrics may be impacted by data limitations or other factors that require us to apply different methodologies for such adjustments and we generally do not intend to update previously disclosed metrics for any such changes. Though we regularly review our processes for calculating metrics and may adjust our processes for calculating metrics to improve their accuracy, limitations or errors with respect to how we measure data (or the data that we measure) may affect our understanding of certain details of our business, which could affect our longer term strategies. If our performance metrics are not accurate representations of our business, user or merchant base, or traffic levels; if we discover material inaccuracies in our metrics; or if the metrics we rely on to track our performance do not provide an accurate measurement of our business, user or merchant base or traffic levels, we may not be able to effectively implement our business strategy, our reputation may be harmed, and our operating and financial results could be adversely affected.

Our merchants, platform partners, and investors rely on our key metrics as a representation of our performance. If these third parties do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and merchants may be less willing to sell on our platform, which could negatively affect our business, financial condition, or results of operations.

***We must develop new offerings to respond to our users' and merchants' changing needs.***

Our industry is characterized by rapidly changing technology, new service and product introductions, and changing user and merchant demands.

Our users and merchants may not be satisfied with our new platform offerings or perceive that the new offerings do not respond to their needs. Developing new offerings is complex, and the timetable for commercial release is difficult to predict and may vary from our historical experience. As a result, the introduction of new offerings may occur after anticipated or announced release dates. In addition, new offerings could require us to comply with additional governmental regulations. Our new offerings also may bring us more directly into competition with companies that are better established or have greater resources than we do.

If we do not continue to cost-effectively develop new offerings that satisfy our users or merchants, then our competitive position and growth prospects may be harmed. In addition, new offerings may have lower margins than existing offerings and our revenue may not grow enough as a result of the new offerings to offset the cost of developing them.

***If we fail to maintain, expand, and diversify our relationships with merchants, our revenue and results of operations will be harmed.***

We rely on our merchants to offer products that appeal to our existing and potential users at attractive prices. Our ability to provide popular products on our platform at attractive prices depends on our ability to develop mutually beneficial relationships with our merchants. For example, we rely on our merchants, most of whom are based in China, to make available sufficient inventory and fulfill large volumes of orders in an efficient and timely manner to ensure a positive user experience. Merchants can leave our platform at any time, so we may experience merchant attrition in the ordinary course of business resulting from several factors, such as losses to competitors, perception that marketing on our platform is ineffective, reduction in our or merchants' marketing budgets, and the penalties we impose on merchants for failing to comply with our policies. We have had, and may continue to have, disputes with merchants with respect to their compliance with our delivery requirements, quality control policies and measures, and the penalties imposed by us for violation of these policies or measures, which may cause them to be dissatisfied with our platform or to legally challenge the enforceability of our terms. If we experience significant merchant attrition, or if we are unable to attract new and geographically-diverse merchants, our revenue and results of operations may be materially and adversely affected. For example, during the initial outbreak of COVID-19, many of our merchants based in China were adversely impacted, which had a negative impact on the supply of inventory on our marketplace and our merchants based in China continue to be adversely impacted. In addition, our agreements with merchants also typically do not restrict them from establishing or maintaining business relationships with our competitors. Furthermore, the European Commission is considering a legislative proposal from trade industry associations to eliminate de minimis thresholds for customs entry. If the European Commission were to adopt these recommendations, it would bar or limit packages from numerous countries from qualifying for tariff-free entry into the EU-27 under existing de minimis laws, and make importing goods from any country to the European Union more complicated and expensive, potentially adversely affecting our business.

***Failure to deal effectively with fraudulent activities on our platform would increase our loss rate and harm our business, and could severely diminish merchant and user confidence in and use of our services.***

We have in the past incurred and may in the future incur losses from various types of fraud, including stolen credit card numbers, claims that a user did not authorize a purchase, merchant fraud, and users who have closed bank accounts or have insufficient funds in open bank accounts to satisfy payments. We face risks with respect to fraudulent activities on our platform and periodically receive complaints from users who may not have received the products that they had contracted to purchase. In some jurisdictions, users may also have the right to cancel a sale made by a merchant within a specified time period and for any reason. Although we have implemented measures to detect and reduce the occurrence of fraudulent activities, combat bad user experiences, and increase user satisfaction, including evaluating merchants on the basis of their transaction history and restricting or suspending their activity, there can be no assurance that these measures will be effective in combating fraudulent transactions or improving overall satisfaction among merchants, users, and other participants. Additional measures to address fraud could negatively affect the attractiveness of our services to users or merchants, resulting in a reduction in our ability to attract new users or continue to engage current users, damage to our reputation, or a diminution in the value of our brand.

Additionally, under current credit card practices, we are liable for fraudulent credit card transactions because we do not obtain a cardholder's signature, which results in chargebacks made to our users that we are not able to collect from our merchants. We do not currently carry insurance against this risk. We face the risk of significant losses from this type of fraud as our net sales increase and as we continue to expand globally. Our failure to adequately control fraudulent credit card transactions could damage our reputation and brand and substantially harm our business, results of operations, financial condition, and prospects.

We also accept payments for many of our sales through credit and debit card transactions, which are handled through third-party payment processors. As a result, we are subject to a number of risks related to credit and debit card payments, including that we pay interchange and other fees, which may increase over time and could require us to absorb or pass along an increase in our costs and expenses. In addition, as part of payment processing, our users' credit and debit card information is transmitted to our third-party credit card payment processors. We may in the future become subject to lawsuits or other proceedings for purportedly fraudulent transactions arising out of the actual or alleged theft of our users' credit or debit card information if the security of our third-party credit card payment processors is breached. We and our third-party credit card payment processors are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we or our third-party credit card payment processors fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our users in addition to the consequences that could arise from such action or inaction violating applicable privacy, data protection, data

security and other laws as outlined above, and there may be an adverse impact on our business, results of operations, financial condition, and prospects.

***The COVID-19 pandemic may continue to adversely affect our business and results of operations.***

In March 2020, the World Health Organization declared COVID-19 to be a pandemic. In an effort to contain and mitigate the spread of COVID-19, many countries, including the United States, imposed unprecedented restrictions on travel and business operations, and there were business closures and a substantial reduction in economic activity in countries that had significant outbreaks of COVID-19. While many of the restrictions have been lifted, we cannot be certain that such restrictions will not be reinstated in the future.

Our operations and performance depend significantly on global and regional economic conditions, and the outbreak of COVID-19 has had a significant negative effect on global and regional economies. Further, the ability of our merchants to offer products and make available sufficient inventory in an efficient manner may be adversely affected by the health impacts, travel restrictions, required social distancing, and other governmental mandates due to COVID-19 that continue to remain in place, which could negatively impact our users' experience and cause our revenue and reputation to decline. Additionally, due to the continuing economic impacts caused by COVID-19, consumer discretionary spending has been adversely affected, which may cause the demand for the products available on our platform to be reduced and our revenue to decline.

We were conducting business with substantial restrictions, such as remote working and limited employee travel, among other modifications and some of those restrictions continue to remain in place. While our business occurs over an online platform, which allows us to support our merchants and users virtually, we cannot be certain that our ability to service our merchants and users will not be adversely affected by COVID-19. We also continue to see disruption in the supply chain that is affecting delivery times.

At the beginning of the COVID-19 pandemic, we benefited from greater mobile usage and less competition from physical retail as a result of shelter-in-place mandates. We also benefited from increased user spending due to U.S. government stimulus programs.

The extent to which the COVID-19 pandemic may continue to impact our business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the pandemic, the lifting of, or reinstatement of, travel restrictions, changes to consumer ecommerce activity in response to evolving governmental mandates that impact brick-and-mortar stores, supply chain and logistical challenges, global unemployment rates, shifting priorities of regulatory agencies in response to the pandemic, the development and distribution of vaccines, and the effectiveness of actions taken in the United States and other countries to prevent, contain, and treat the disease and its variants. The pandemic may have the effect of heightening or exacerbating many of the other risks described in this "Risk Factors" section. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of the COVID-19 Pandemic" for a further discussion of the impact of the COVID-19 pandemic on our business.

***Our pricing strategies may not meet users' price expectations or result in net income (loss), and laws and regulations could negatively impact the effectiveness of our model.***

Our pricing strategies have had, and may continue to have, a significant impact on our revenue and net income (loss). In addition to offering discounted prices and shipping as a means of attracting users and encouraging repeat purchases, we use dynamic pricing, where pricing varies depending on factors such as user location and demand, which is intended to optimize revenue and volume and allows us to offer a variety of promotions and discounts. Such offers and discounts, however, may reduce our revenue and margins. In the future, laws applicable to data protection, consumer protection, and artificial intelligence may change in a manner that limits our ability to employ dynamic pricing. In addition, our competitors' pricing and marketing strategies are beyond our control and can significantly affect the results of our pricing strategies. If our pricing strategies, which may evolve over time, fail to meet our users' price expectations or fail to result in increased margins, or if we are unable to compete effectively with our competitors if they engage in aggressive pricing strategies or other competitive activities, it could have a material adverse effect on our business.

***Our refund policies may adversely affect our results of operations.***

We have adopted user-friendly refund policies that make it convenient and easy for users to receive a refund after completing purchases. These policies are designed to improve users' shopping experience and promote user loyalty, which in turn help us acquire and engage our existing users. However, these policies also subject us to additional costs and expenses which we may not recoup through increased revenue. We may also be required by law to adopt new or amend existing refund policies from time to time. These policies also make us more susceptible to misuse and if our refund policy is misused by a significant number of users, our costs may increase significantly, and our results of operations may be materially and adversely affected. If we revise these policies to reduce our costs and expenses, our users may be dissatisfied, which may result in loss of existing users or failure to acquire new users at a desirable pace or cost, which may materially and adversely affect our results of operations.

***Our ability to recruit and retain employees is important to our success.***

Our future performance depends on our employees, including key engineering and product development personnel. Competition for key personnel is intense, especially in the San Francisco Bay area where our corporate headquarters are located, and we may be unable to successfully attract, integrate, or retain sufficiently qualified key personnel. In making employment decisions, particularly in the Internet and high-technology industries, job candidates often consider the value of the equity awards they would receive in connection with their employment and fluctuations in and negative pressure on our stock price may make it more difficult to attract, retain, and motivate employees.

***Our forecasts of market opportunity and market growth may prove to be inaccurate, and, even if these forecasts materialize, we cannot assure you our business will grow at similar rates, if at all.***

Estimates of market opportunity and forecasts of market growth are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate, including due to the impacts from COVID-19. Any estimates of the size of the markets that we may be able to address and any forecasts relating to the expected growth in ecommerce and other markets are subject to many assumptions and may prove to be inaccurate. These markets may not grow at the rates that we forecast. We may not grow our business at similar rates, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. Accordingly, any estimates of market opportunity and forecasts of market growth, including any in this report, should not be taken as indicative of our future growth.

***We rely on consumer discretionary spending and may be adversely affected by economic downturns and other macroeconomic conditions or trends.***

Macroeconomic conditions may adversely affect our business. If general economic conditions deteriorate globally or in specific markets where we operate, consumer discretionary spending may decline and demand for products available in our platform may be reduced. Recently, there have been some indications of deteriorating economic conditions both globally and in the markets we operate. A decrease in consumer discretionary spending would cause sales in our platform to decline and adversely impact our business. If the Company's costs were to become subject to significant inflationary pressures, including recent inflationary pressures, the Company may not be able to fully offset such higher costs through increases in revenue as increases in core inflation rates are affecting consumers' willingness to make discretionary purchases on our platforms. The Company's inability or failure to do so could harm the Company's business, financial condition, and results of operations. As the world moves into new phases of the pandemic, with new variants emerging, and inflation on the rise, macroeconomic conditions may continue to trend downward for a more prolonged period than expected.

***Unfavorable changes or failure by us to comply with evolving internet and ecommerce regulations could substantially harm our business and operating results.***

We are subject to general business regulations and laws as well as regulations and laws specifically governing the internet and ecommerce. These regulations and laws may involve taxes, privacy and data security, consumer protection, the ability to collect and/or share necessary information that allows us to conduct business on the internet, marketing communications and advertising, content protection, electronic contracts, or gift cards. Furthermore, the regulatory landscape impacting internet and ecommerce businesses is constantly evolving. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, a loss in business and proceedings, or actions against us by governmental entities or others, which could impact our operating results.

***Our business could suffer if we are unsuccessful in making, integrating, and maintaining any future acquisitions and investments.***

We may acquire businesses or technologies in the future. Integrating an acquired business or technology is difficult and can be risky. These potential and completed transactions create risks such as:

- disruption of our ongoing businesses, including loss of management focus on existing businesses;
- the difficulty of integrating new businesses and technologies into our infrastructure; and
- the risks associated with assuming liabilities related to the activities of the acquired business before and after the acquisition, including liabilities for violations of laws and regulations, commercial disputes, cyberattacks, taxes, and other matters.

Moreover, acquisitions may divert management's time and focus from operating our business. Acquisitions also may require us to spend a substantial portion of our available cash, issue stock, incur debt or other liabilities, amortize expenses related to intangible assets, or incur write-offs of goodwill or other assets. Finally, acquisitions could be viewed negatively by analysts, investors, merchants, or our users.

***We may be involved in litigation matters or other legal proceedings that are expensive and time consuming.***

We may become involved in litigation matters, including class action lawsuits, relating to intellectual property, product liability, and consumer practices, whether for our own products or those offered by merchants, as well as other commercial disputes. Any lawsuit to which we are a party, with or without merit, may result in an unfavorable judgment. We also may decide to settle lawsuits on unfavorable terms. Any such negative outcome could result in payments of substantial damages or fines, damage to our reputation, loss of rights, or adverse changes to our offerings or business practices. Any of these results could adversely affect our business. In addition, defending claims is costly and can impose a significant burden on our management.

Additionally, the market price of our Class A common stock has been and may continue to be volatile. As a result, we have been named in lawsuits, and may be subject to both ongoing litigation and other requests related to our stock price/performance and/or Board performance and independence. In 2021, we were named as defendants in various securities litigations: (1) In May 2021, four putative class action lawsuits were filed in U.S. federal court against the Company, its directors, certain of its officers and the underwriters named in its initial public offering ("IPO") registration statement alleging violations of securities laws based on statements made in its registration statement on Form S-1 filed with the SEC in connection with its IPO and seeking monetary damages ("IPO cases"). One of these four cases was dismissed, leaving three pending cases against the Company, which have since been related and consolidated before one judge. The lead case is *Hoang v. ContextLogic, Inc.*, and (2) in August 2021, a shareholder derivative action purportedly brought on behalf of the Company, *Patel v. Szulczewski*, was filed in the U.S. federal court alleging that the Company's directors and officers made or caused the Company to make false and/or misleading statements about the Company's business operations and financial prospects in various public filings. This matter is stayed pending certain motion practice in the IPO cases. We are also subject to other securities litigation, a derivative action *Aviv v. Szulczewski*, discussed elsewhere herein. We may continue to be the target of securities litigations, and/or may receive other civil and regulator inquiries and requests, in the future. Securities litigation or inquiries or investigations against us could result in substantial costs and divert our management's attention from other business concerns, which could adversely affect our business.

From time to time, we are subject to investigations, demands, litigation and other proceedings involving consumer protection, product safety, and data protection authorities or other regulatory agencies, including, in particular, in Denmark, France, Hungary, Italy, the Netherlands, and the United States. These proceedings can result in civil and/or criminal penalties, large fines, other penalties, and/or remediation efforts and/or injunctive relief that could limit or restrict our ability to do business either in a given jurisdiction within a product class. For example, in France we are facing (1) civil litigation over product safety and merchant listings which the regulator deems to be unsafe or of poor quality; and (2) charges from the French authorities relating to the previous policies enabling merchants to utilize strike-through pricing, previous practices regarding non-translation of product listings on the Wish app and website, and allegations relating to anti-counterfeiting practices and policies. Separately, at the initial outbreak of COVID-19, consumer protection authorities demanded rapid and decisive changes in the way that we screen and handle product listings that potentially violate various laws, including emergency price caps on certain items. Implementing these requests or defending against any associated fines could prove expensive and time consuming and negatively affect our results of operations and financial condition. While we may dispute the charges or cases, novel interpretations of the law or enforcement efforts could subject us to litigation and/or time consuming and costly remediation measures or otherwise impair business operations in a jurisdiction.

***We have identified material weaknesses in our internal control over financial reporting and may identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, which may result in material misstatements of our consolidated financial statements or cause us to fail to meet our periodic reporting obligations.***

During the preparation and the audit of our consolidated financial statements for the year ended December 31, 2021, we and our independent registered public accounting firm identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In addition, given our reliance on information technology (“IT”) systems to synthesize both financial and nonfinancial information, any material weaknesses in our IT controls may result in errors in not only our consolidated financial statements but our nonfinancial metrics as well.

The material weaknesses that we identified occurred because (i) the processes and controls over our IT systems relevant to the preparation of our consolidated financial statements were inadequate and (ii) the current processes in place were insufficient to allow us to complete the testing and assessment of the design and operating effectiveness of internal controls over financial reporting in a timely manner.

We cannot guarantee that our efforts will remediate these deficiencies in internal control over financial reporting or that additional material weaknesses in our internal control over financial reporting will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in errors in our consolidated financial statements that could result in a restatement of our financial statements and could cause us to fail to meet our reporting obligations, any of which could diminish investor confidence and cause a decline in the price of our Class A common stock. See Item 4. “Controls and Procedures” for further discussions of the identified material weaknesses.

***Our management is required to evaluate the effectiveness of our disclosure controls and internal control over financial reporting. If we are unable to maintain effective disclosure controls and internal control over financial reporting, investors may lose confidence in the accuracy of our financial reports.***

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting. Additionally, our independent registered public accounting firm is required to deliver an attestation report on the effectiveness of our internal control over financial reporting. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming, costly, and place significant strain on our personnel, systems, and resources.

We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we will file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. While we continue to improve our internal control over financial reporting by hiring additional accounting, engineering, and business intelligence personnel and implementing process level and management review controls to identify and address emerging risks, we cannot guarantee that these changes will remediate future deficiencies or that additional material weaknesses in our internal control over financial reporting will not be identified in the future.

In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight. If any of these new or improved controls and systems do not perform as expected, we may experience further deficiencies in our controls.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business, some of which may arise from our restructuring and turnaround initiatives. We and our independent registered public accounting firm identified weaknesses in our internal control over financial reporting and additional weaknesses may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our results of operations, cause us to fail to meet our reporting obligations, and adversely affect the results of periodic management evaluations and our independent registered public accounting firm’s attestation reports required by the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could diminish investor confidence, negatively affect the price of our Class A common stock, and could result in our delisting on Nasdaq. As noted previously, see Item 4. “Controls and Procedures” for further discussions of the identified material weaknesses.

## **Risks Related to our International Operations**

***Economic tension between the United States and China, or between other countries, may intensify and the United States, China, or other countries may adopt drastic measures in the future that impact our business.\****

Our merchants source a large percentage of the products we list on our platform from China and other countries outside the United States and Europe. Additionally, most of our merchants, and some of our operations, are located in China, making the price and availability of products on our platform susceptible to international trade risks and other international economic conditions.

If the U.S. government or other governments impose tariffs or other economic measures that directly or indirectly increase the price of products it imports and that we list on our platform, the increased prices could have a material adverse effect on our financial results and business. The effects of the imposed and proposed tariffs are uncertain because of the dynamic nature of governmental action, relations and responses. Further escalation of trade, economic and geo-political tensions between the United States and its trading partners, especially China, could result in long-term changes to global trade, including retaliatory trade restrictions that restrict the international flow of products. For example, the European Commission is considering a legislative proposal from trade industry associations to eliminate de minimis thresholds for customs entry. If the European Commission were to adopt these recommendations, it would bar or limit packages from numerous countries from qualifying for tariff-free entry into the EU-27 under existing de minimis laws, and make importing goods from any country to the European Union more complicated and expensive, potentially adversely affecting our business. We also cannot predict what actions may ultimately be taken with respect to tariffs or trade relations between the United States and China or other countries, what products may be subject to such actions, or what actions may be taken by the other countries in retaliation. Any alterations to our business strategy or operations made in order to adapt to or comply with any such changes would be time-consuming and expensive, and certain of our competitors may be better suited to withstand or react to these changes.

Additionally, certain jurisdictions may attempt to restrict the operation and access of certain China-based companies, such as TikTok, WeChat and Alipay in the United States. In response, government authorities in China, or elsewhere, may seek to restrict access and operation of U.S. companies. Most of our merchants and some of our operations are located in China; if our operations or our merchant's activities were restricted in China, our platform, our business, financial condition, and results of operations would be adversely affected.

We are not able to predict future economic policy of the United States, China, or of any foreign countries in which we operate. The adoption and expansion of restrictions, including restrictions on access to apps and other platforms, cross-border data transfers, tariffs, or other governmental action related to economic policies, has the potential to adversely impact our business, operational results and financial position.

***Certain aspects of our business relating to the provision of financial services are subject to government regulation and oversight.***

Many jurisdictions in which we operate have laws that govern financial services activities. Regulators in certain jurisdictions may determine that certain aspects of our business are subject to these laws and could require us to obtain licenses to continue to operate in such jurisdictions. For example, if we are deemed to be a money transmitter as defined by applicable regulation, we could be subject to certain laws, rules and regulations enforced by multiple authorities and governing bodies in the United States and abroad. If we are found to be a money transmitter or lender under any applicable regulation and we are not in compliance with such regulations, we may be subject to fines or other penalties in one or more jurisdictions levied by federal or state or local regulators, including state Attorneys General, as well as those levied by foreign regulators. In addition to fines, penalties for failing to comply with applicable rules and regulations could include criminal and civil proceedings or other enforcement actions. We could also be required to make changes to our business practices or compliance programs as a result of regulatory scrutiny.

One of our subsidiaries, ContextLogic B.V., received a payments institution license in 2021 from its regulatory authority, De Nederlandsche Bank. This license permits ContextLogic B.V. to operate as a payment service provider (including acquiring and executing payment transactions, as referred to in the Revised Payment Services Directive ("2015/2366/EU") in the Netherlands. In addition, ContextLogic B.V. can offer its payment services in all other countries of the European Economic Area ("EEA") on the basis of a European passport. As a regulated financial institution, ContextLogic B.V. is in compliance and will continue to comply with financial services regulations within the European Union, including those relating to anti-money laundering, combating the financing of terrorism, bribery, forced labor, human trafficking, slavery, and sanctioned or prohibited persons or regions.

We continue to evaluate our options for seeking additional licenses and/or subsidiaries in several other jurisdictions to optimize our payment solutions, interchange fees, and to support the future growth of our business. We could be denied such licenses, have existing licenses revoked, or be required to make significant changes to our business operations before being granted such licenses. If we are denied licenses or such licenses are revoked, we may be forced to cease or limit business operations in certain jurisdictions, including in the EEA, and even if we are able to obtain such licenses, we could be subject to fines or other enforcement action, or stripped of such licenses, if we are found to violate the requirements of such licenses. Such regulatory actions, or the need to obtain regulatory approvals, could impose significant costs and involve substantial delay in payments we make in certain local markets, any of which could adversely affect our business, financial condition, or operating results.

In addition, laws related to money transmission and online payments are evolving, and changes in such laws could affect our ability to provide payment processing on our platform in the same form and on the same terms as we have historically, or at all. As we evolve our business or make changes to our business structure, we may be subject to additional laws or requirements related to money transmission, lending, online payments and financial regulation. These laws govern, among other things, money transmission, prepaid access instruments, lending, electronic funds transfers, anti-money laundering, combating the financing of terrorism, banking, systematic integrity risk assessments, cyber security of payment processes, sanctions and import and export restrictions. Our business operations may not always comply with these financial laws and regulations. Historical or future non-compliance with these laws or regulations could result in significant criminal and civil lawsuits, penalties, forfeiture of significant assets or other enforcement actions. Costs associated with fines and enforcement actions, as well as reputational harm, changes in compliance requirements or limits on our ability to expand our product offerings, could harm our business.

Further, our payment system is susceptible to illegal and improper uses, including money laundering, terrorist financing, fraud and payments to sanctioned parties. We have invested and will need to continue to invest substantial resources to comply with applicable financial services legislation, including anti-money laundering, combating the financing of terrorism, and sanctions laws. Government authorities may seek to bring legal action against us if we fail to prevent or detect that our payment system is used for improper or illegal purposes or if our enterprise risk management or controls are not adequately assessed, updated, or implemented, and any such action could result in financial or reputational harm to our business.

Additionally, some of our merchants use applications, such as WeChat, for transmitting payments and communicating with us. If any of these payment applications were limited or banned by governmental authorities, certain payments could be delayed or our communications with merchants could be adversely impacted.

***Certain aspects of our business are subject to global trade customs regulations and government oversight.***

We are also within the scope of certain customs enquiries and subject to international trade law enforcement, that could require us to incur an increase in costs and/or impacting the supply and delivery-times of products from merchants to consumers, potentially causing us to experience damage in reputation and/or restricting our rate of global growth.

Our business is conducted worldwide, with goods imported from and exported to a substantial number of countries. The vast majority of products sold on our platform are shipped internationally. We are subject to numerous regulations, including customs and international trade laws that govern the importation, exportation, and sale of goods. For example, due to abrupt new VAT regulations in Colombia (and related evolving interpretations of the same by local regulatory enforcement agencies), the de minimis threshold exception to remitting VAT for certain low-value declared parcels was removed, subjecting any and all parcels (regardless of import value) to VAT payment obligations. Further, there was industry-wide confusion as to whether the exemption from VAT liability applied to items "shipped from" or "originating in" countries with which Colombia has a Free Trade Agreement ("FTA"). This caused certain parcels shipped by Wish merchants to be held up at Colombia customs, causing delays and increasing charges for consumers. Also, in the first quarter of 2018, PostNord, the postal service in Sweden, suspended delivery of packages coming from outside the European Union as it evaluated imposing processing fees and collection of taxes, which resulted in a decrease in sales in Sweden. In addition, during the initial outbreak of COVID-19, our cross-border logistics function was severely impacted in terms of both disrupted processing capabilities and increased costs, which resulted in a decrease in sales due to higher logistics costs and higher refund rates due to poor performance.



In addition, we face risks associated with trade protection laws, policies and measures and other regulatory requirements affecting trade and investment, including loss or modification of exemptions for taxes and tariffs, imposition of new tariffs and duties, and import and export licensing requirements in the countries in which we operate. If these laws or regulations were to change or were violated by our management, employees or merchants, we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational harm, which could reduce demand for our services and negatively impact our results of operations.

Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effects on our operations. We may be required to make significant expenditures to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business. In addition, changes to legal requirements can create delays in the introduction and sale of our products and services, or in some cases, prevent the export or import of our products and services to certain countries, governments, or persons altogether.

We rely on the free flow of goods through open and operational ports worldwide. Labor disputes or other disruptions at ports create significant risks for our business, particularly if work slowdowns, lockouts, strikes, or other disruptions occur. Any of these factors could result in reduced sales or canceled orders, which may limit our growth and damage our reputation and may have a material adverse effect on our business, results of operations, financial condition, and prospects.

***We may see a significant loss of revenue in France or from users in France as a result of French regulator enforcement actions.\****

In November 2021, France's Directorate General for Competition, Consumer Affairs and Repression of Fraud ("DGCCRF") issued an injunction delisting the Wish "App" from Google Play and the Apple App Store, and blocking Wish from appearing in Google, Bing and Qwant search results on the premise that unsafe products or products of poor quality are available for purchase on Wish. The DGCCRF is relying on an untested interpretation and enforcement of Europe's Market Surveillance Regulation ("MSR") to support its position that Wish is responsible as a distributor for products sold by merchants on the platform, and regarding the role of Wish in platform liability and immunity. In addition to the delisting and blocking, the injunction could also expose Wish to fines and penalties. As far as we know, this is a case of first impression in Europe; we are the first e-commerce company that we are aware of in the EU that has faced any such delisting/blocking, and the first of its kind in France. We took immediate measures to challenge the injunction, and to suspend and lift it. We are in the process of the legal challenge.

We have since challenged the injunction in French Administrative Courts and Appellate Courts. While the courts have upheld the injunction, we continue to pursue other legal challenges available to us.

Meanwhile, the injunction has had significant effects on our revenues from France as we are unable to acquire new users on the App, old users may be precluded from upgrading or updating their app, and mobile or web users are unable to find us or navigate to us from the main search engines in France. In addition, we have ceased ad spend in France as a direct and proximate result of the injunction as there is no return on such an investment nor would we recoup any revenue from ad spending. We anticipate that in 2022 we may lose as much as 80-85% of our marketplace revenue in France as a result of the injunction if the delisting injunction is not ended, lifted or otherwise overruled.

This injunction and the legal proceedings challenging it could also subject the Company to substantial costs, divert resources and the attention of management from the Company's business, and harm the Company's business and financial results. We may also be subject to additional civil and criminal litigation and/or penalties from the DGCCRF relating to any purported or perceived moderation of the platform and/or merchant activity on the platform.

The injunction may also expose us to risk in the EU generally, should other regulators take a similar approach or interpretation to the MSR, and we may be the subject of additional requests for information, document requests or information in the EU.

Separately, in late December 2021, authorities in France charged ContextLogic with legal violations relating to the Company's former policy permitting merchants to use strikethrough pricing in France, the Company's previous failure to translate into French listings and product details on the Company's app and website, and the Company's anti-counterfeiting policies and practices. The Company disputes the charges and is preparing to defend itself at a hearing that is currently scheduled for March 2023. Any adverse outcome could result in payment of substantial fines, payments to allegedly impacted consumer groups, harm to our reputation, loss of rights, or adverse changes to our offerings or business practices in France. Any of these results could adversely affect our business. In addition, defending claims may be costly and may impose a significant burden on our management.

***Our international operations are subject to increased risks.***

There are inherent risks in doing business internationally, including:

- expenses associated with localizing our products and services and user data, including offering our users and merchants the ability to transact business in the local currency and language, and adapting our platform to local preferences;
- challenges to enforceability in some foreign jurisdictions of so-called “clickwrap” contracts with our customers, merchants and Wish Local retailers;
- trade barriers and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- credit risk and higher levels of payment fraud;
- laws or regulations related to the import or export of goods alleged to violate third-party intellectual property rights;
- political or social unrest, economic instability, repression, or human rights issues;
- geopolitical events, including natural disasters, public health issues, acts of war, and terrorism;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act and foreign laws prohibiting corruption, U.S. and foreign economic and trade sanctions laws, and U.S. and foreign laws designed to combat money laundering and the financing of terrorist activities;
- antitrust and competition regulations;
- potentially adverse tax developments and consequences;
- economic uncertainties related to sovereign debt and other debt;
- different, uncertain, or more stringent user protection, data protection, data collection, privacy, payments, advertising, pricing, and other laws;
- limitations by governmental authorities on transmission of privacy information and other data between countries, whether from the United States or other jurisdictions;
- restrictions on sales or distribution of certain products or services and uncertainty regarding liability for products, services, content, including uncertainty as a result of less internet-friendly legal systems, local laws, lack of legal precedent, and varying rules, regulations, and practices;
- risks related to other government regulation or required compliance with local laws;
- national or regional differences in macroeconomic growth rates; and
- local licensing and reporting obligations.

Violations of the complex foreign and U.S. laws and regulations that apply to our international operations may result in litigation, fines, criminal actions, or sanctions against us, our officers, or our employees; restrictions on the operations of our business; and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors, or agents will not violate our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and could harm our business.

***We face exposure to foreign currency exchange rate fluctuations.***

Our user pricing and payments are denominated in the local currencies of the users, primarily in U.S. dollars and Euros, and we make a majority of our payments in Renminbi (“RMB”) to the merchants in China for products sold on the Wish platform, which creates exposure to currency rate fluctuations. Additionally, our operating expenses are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in RMB. As part of our currency hedging strategy, we use financial instruments such as forward contracts to hedge our foreign currency exposure in order to reduce the frequency that we need to adjust local currency pricing as well as reduce the short-term impact of foreign currency rate fluctuations on our operating results.

***Any factors that reduce cross-border trade or make such trade more difficult could harm our business.***

Cross-border trade is an important source of revenue for us. The shipping of goods across national borders is often more expensive and complicated than domestic shipping. Customs and duty procedures and reviews, including duty-free thresholds in various key markets, the interaction of national postal systems, and security related governmental processes at international borders, may increase costs, discourage cross-border purchases, delay transit, and create shipping uncertainties. Any factors that increase the costs of cross-border trade or restrict, delay, or make cross-border trade more difficult or impractical, including any delays or other factors caused by the current conflict between Russia and Ukraine arising from the invasion of Ukraine by Russia, would lower our revenue and profits and could harm our business.

***Changes in China’s economic, political or social conditions or government policies could have a material adverse effect on our business and operations.***

Most of our merchants, and some of our operations, are located in China. Accordingly, our business, financial condition, results of operations, and prospects may be influenced to a significant degree by political, economic and social conditions in China generally. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, and growth rate. The Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China’s economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

***Uncertainties with respect to the People’s Republic of China’s (“PRC”) legal system and changes in laws and regulations in China could adversely affect us.***

Our operations in China are governed by PRC laws and regulations. Our Chinese subsidiaries are subject to laws and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value. In addition, any new or changes in PRC laws and regulations related to foreign investment in China could affect the business environment and our ability to operate our business in China.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory provisions and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business and results of operations.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations.

***We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.***

The Chinese government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

Because our business may be subject to governmental supervision and regulation by the relevant Chinese governmental authorities in many aspects of the operation of online retailing, we may be required to hold a number of licenses and permits in connection with our business operation. New laws and regulations may be adopted from time to time to require additional licenses and permits other than those we currently have. As a result, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to online retail businesses. If the Chinese government considers that we were operating without the proper approvals, licenses or permits, or promulgates new laws and regulations that require additional approvals or licenses or impose additional restrictions on the operation of any part of our business, it has the power, among other actions, to levy fines, confiscate our income, revoke our business licenses, or require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these or other regulatory actions by the Chinese governmental authorities, including issuance of official notices, change of policies, promulgation of regulations and imposition of sanctions, may adversely affect our business and have a material and adverse effect on our results of operations.

### **Risks Related to Network and Infrastructure**

***Any significant disruption in service on our platform or in our computer systems, some of which are currently hosted by third-party providers, could damage our reputation and result in a loss of users, which would harm our business and results of operations.***

Our brand, reputation and ability to deliver a positive user experience depends upon the reliability of our infrastructure. We have experienced interruptions in these systems in the past, including server failures that temporarily slowed down or interfered with the performance of our websites and apps, or particular features of our websites and apps, and we may experience interruptions in the future. For example, in June 2020, we experienced a full platform outage for more than one hour due to the release of a software update that did not follow proper internal protocols. We have since updated our processes for following such protocols. Interruptions, whether due to system failures, human errors, computer viruses, physical or electronic break-ins, denial-of-service attacks, and capacity limitations, could prevent or inhibit the ability of merchants to access, or users from completing purchases on, our websites and apps. Volume of traffic and activity on our platform spikes on certain days, and any such interruption would be particularly problematic if it were to occur at such a high-volume time. Problems with the reliability of our systems could prevent us from earning revenue and could harm our reputation. Damage to our reputation, any resulting loss of user confidence and the cost of remedying these problems could negatively affect our business, results of operations, financial condition, and prospects.

We either lease or own our servers and have service agreements with data center providers. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, terrorist attacks, acts of war, electronic and physical break-ins, computer viruses, earthquakes, and similar events. The occurrence of any of the foregoing events could result in damage to our systems and hardware or could cause them to fail completely, and our insurance may not cover such events or may be insufficient to compensate us for losses that may occur. Our systems are not completely redundant, so a system failure at one site could result in reduced platform functionality for our users, and a total failure of our systems could cause our websites or apps to be inaccessible by some or all of our users. A significant portion of our data storage, data processing and other computing services and systems is hosted by Amazon Web Services ("AWS"). AWS provides us with computing and storage capacity pursuant to an agreement that continues until terminated by either party. Problems with our third-party service providers, including AWS, or with their network providers or with the systems allocating capacity among their users, including us, could adversely affect our users' experience. Our third-party service providers could decide to close their facilities without adequate notice. Any financial difficulties, such as bankruptcy or reorganization, faced by our third-party service providers or any of the service providers with whom they contract may have negative effects on our business, the nature and extent of which are difficult to predict. If our third-party service providers are unable to keep up with our needs for capacity, this could have an adverse effect on our business. In the event that our agreement with AWS, or other third-party service providers, is terminated, or we add additional cloud infrastructure service providers, we may experience significant costs or downtime in connection with the transfer to, or the addition of, new cloud infrastructure service providers. Any of the above circumstances or events may harm our reputation and brand, reduce the availability or usage of our platform, lead to a significant short-term loss of revenue, increase our costs, and impair our ability to attract new users or merchants, any of which could adversely affect our business, financial condition, and results of operations.

***Our failure or the failure of third parties to protect our sites, networks and systems against security breaches, or otherwise to protect our confidential information, could damage our reputation and brand and substantially harm our business and operating results.***

We collect, maintain, transmit, and store data about our users, merchants and others, including personally identifiable information and personal data, as well as other confidential information.

We also engage third parties that store, process, and transmit these types of information on our behalf. We rely on technology licensed from third parties in an effort to securely transmit confidential and sensitive information, including credit card numbers. Advances in computer capabilities, new technological discoveries, or other developments may result in the whole or partial failure of this technology to protect transaction data or other confidential and sensitive information from being breached or compromised. In addition, ecommerce websites are often attacked through compromised credentials, including those obtained through phishing, credential stuffing, and password spraying. Our security measures, and those of our third-party service providers, may not detect or prevent all attempts to breach our systems, viruses, malicious software, break-ins, phishing attacks, accidental actions or omissions to act that create vulnerabilities, social engineering, security breaches, or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by our websites, networks and systems or that we or such third parties otherwise maintain, including payment card systems, which may subject us to fines or higher transaction fees or limit or terminate our access to certain payment methods. We and such third parties may not be able to anticipate or prevent all types of attacks, and we may not detect such attacks until after they have already been launched. Further, techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers. In addition, security breaches can also occur as a result of non-technical issues, including intentional or inadvertent actions by our employees or by third parties. These risks may increase over time as the complexity and number of technical systems and applications we use also increases.

Cyber security incidents or breaches of our security measures or those of our third-party service providers or cyber security incidents could result in unauthorized access to our websites, networks and systems; unauthorized access to and misappropriation of our data, including user information, personally identifiable information, or other confidential or proprietary information of ours or of third parties; viruses, worms, spyware, or other malware being served from our websites, networks, or systems; deletion or modification of content or the display of unauthorized content on our sites; interruption, disruption, or malfunction of operations; costs relating to breach remediation, deployment of additional personnel and protection technologies, response to governmental investigations and media inquiries and coverage; engagement of third-party experts and consultants; litigation, regulatory action and other potential liabilities. Further, due to the political uncertainty involving Russia and Ukraine, there is an increased likelihood that escalation of tensions could result in cyber attacks that could either directly or indirectly impact our operations. Social engineering, phishing, malware, and similar attacks and threats of denial-of-service attacks could have a material adverse effect on our operations. Additionally, from time to time, our merchants' and users' accounts have been subject to unauthorized access by third parties, including through illicit purchase of usernames and passwords by bad actors. If any of these breaches of security should occur, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such breaches, and we could be exposed to a risk of loss, litigation or regulatory action and possible liability. We cannot guarantee that recovery protocols and backup systems will be sufficient to prevent data loss. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. In addition, any party who is able to illicitly obtain a user or merchant password could access the user or merchant's transaction data or personal information, resulting in the perception that our systems are insecure.

Any compromise or breach of our security measures, or those of our third-party service providers, could violate applicable privacy, data protection, data security, network and information systems security and other laws and cause significant legal and financial exposure (including costs for technical teams to investigate and remediate such incidents), adverse publicity and a loss of confidence in our security measures, which could have a material adverse effect on our business, results of operations, financial condition, and prospects. We devote significant resources to protect against security breaches and we may need to devote more resources in the future to address problems caused by breaches, including notifying affected users and responding to any resulting litigation, which in turn, diverts resources from the growth and expansion of our business.

***We are subject to governmental regulation and other legal obligations related to privacy, data protection, information security, and consumer protection. If we are unable to comply with these, we may be subject to governmental enforcement actions, litigation, fines and penalties, or adverse publicity.***

We collect personally identifiable information and other data from users and prospective users. We use this information to provide services and relevant products to our users, to support, expand and improve our business, and to tailor our marketing and advertising efforts. We may also share users' personal data with certain third parties as authorized by the user or as described in our privacy policy.

As a result, we are subject to governmental regulation and other legal obligations related to the protection of confidential and sensitive data (including personally identifiable information and personal data), privacy, information security and consumer protection in certain countries where we do business and there has been and will continue to be a significant increase globally in such laws that restrict or control the use of personal data.

In Europe, where the data privacy and information security regime underwent a significant change in 2018, the legal environment related to personal data continues to evolve and companies like us that process personal data from large numbers of individuals are subject to increasing regulatory scrutiny. The General Data Protection Regulation ("GDPR") implemented more stringent operational requirements for our use of personal data. These more stringent requirements include expanded disclosures to tell our users about how we may use their personal data, increased controls on profiling users and increased rights for users to access, control and delete their personal data. In addition, there are mandatory data breach notification requirements and significantly increased penalties of the greater of €20 million or 4% of global turnover for the preceding financial year.

Although there are legal mechanisms to allow for the transfer of personal data from the United Kingdom, EEA and Switzerland to the United States, uncertainty about compliance with such data protection laws remains and such mechanisms may not be available or applicable with respect to the personal data processing activities necessary to research, develop and market our products and services. For example, legal challenges in Europe to the mechanisms allowing companies to transfer personal data from the EEA to the United States could result in further limitations on the ability to transfer personal data across borders, particularly if governments are unable or unwilling to reach new or maintain existing agreements that support cross-border data transfers, such as the EU-U.S. and Swiss-U.S. Privacy Shield Frameworks. Specifically, on July 16, 2020, the Court of Justice of the European Union invalidated Decision 2016/1250 on the adequacy of the protection provided by the EU-U.S. Privacy Shield Framework (“Schrems II” decision). To the extent that we or our service providers were to rely on the EU-U.S. Privacy Shield Framework, we may not be able to do so in the future, which could increase our costs and limit our ability to process personal data from the European Union. The Schrems II decision also cast doubt on the ability to use one of the primary alternatives to the Privacy Shield, namely, the European Commission’s Standard Contractual Clauses, to lawfully transfer personal data from Europe to the United States and most other countries. In November 2020, the European Commission released a draft of revised Standard Contractual Clauses, and, in January 2021, the European Data Protection Board and the European Data Protection Supervisor issued a joint opinion regarding these revised Standard Contractual Clauses. These revised Standard Contractual Clauses and related developments, opinions, and guidance from European regulators may significantly increase our liability under, and compliance costs related to, cross-border data transfers and the GDPR, and may impact our ability to operate and deliver services in the European Economic Area.

Following its exit from the European Union in January 2020, the United Kingdom implemented legislation referred to as the “UK-GDPR” which substantially aligns with requirements and penalties under the EU GDPR. We may face similar costs, risks, and operational impacts in complying with the UK-GDPR as we face in complying with the EU GDPR.

In recent years, U.S. and European lawmakers and regulators have expressed concern over the use of third-party cookies and similar technologies for online behavioral advertising, and laws in this area are also under reform. In the European Union, current national laws that implement the ePrivacy Directive will be replaced by an EU regulation known as the ePrivacy Regulation. The draft ePrivacy Regulation retains existing informed consent conditions and also imposes the strict opt-in marketing rules on direct marketing that is “presented” on a web page rather than sent by email, alters rules on third-party cookies and similar technology and significantly increases penalties for breach of the rules. Regulation of cookies and similar technologies may lead to broader restrictions on our marketing and personalization activities and may negatively impact the effectiveness of our marketing. Such regulations may also increase regulatory scrutiny and increase potential civil liability under data protection or consumer protection laws. The ePrivacy Regulations draft also advocates the development of browsers that block cookies by default. These developments could impair our ability to collect user information, including personal data and usage information, that helps us provide more targeted advertising to our current and prospective users, which could adversely affect our business, given our use of cookies and similar technologies to target our marketing and personalize the user experience. We may incur liabilities, expenses, costs, and other operational losses under GDPR and applicable EU Member States and the U.K. privacy laws in connection with any measures we take to comply with them.

As interpretation of both the ePrivacy Regulation and GDPR develop, we could incur substantial costs to comply with these regulations. The changes could require significant systems changes, limit the effectiveness of our marketing activities, adversely affect our margins, increase costs and subject us to additional liabilities.

In the United States, federal and various state governments have adopted or are considering, laws, guidelines or rules for the collection, distribution, use and storage of information collected from or about users or their devices. For example, California passed the California Consumer Privacy Act (the “CCPA”), which became effective on January 1, 2020 and introduced substantial changes to privacy law for businesses that collect personal information from California residents. The CCPA creates individual privacy rights for California consumers and increases the privacy and security obligations of entities handling certain personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. And on November 3, 2020, California passed the California Privacy Rights Act (the “CPRA”). The CPRA, which will not be fully in effect until January 1, 2023, amends and expands the CCPA, including the introduction of sensitive personal information as a new regulated dataset in California that is subject to new disclosure and purpose limitation requirements. Additionally, the Virginia Consumer Data Protection Act (the “VCDPA”) will become effective on January 1, 2023. The Colorado Privacy Act and the Connecticut Data Privacy Act will become effective on July 1, 2023, and the Utah Consumer Privacy Act will become effective on December 31, 2023. Other states may decide to adopt similar laws in the future. Additionally, the U.S. Federal Trade Commission and many state attorneys general are applying federal and state consumer protection laws, to impose standards for the online collection, use and dissemination of data. Furthermore, these obligations may be interpreted and applied inconsistently from one jurisdiction to another and may conflict with other requirements or our practices.

In September 2021 and November 2021, the People’s Republic of China made effective its new Data Security Law and Personal Information Protection Law, respectively. While there are many aspects of these laws that are still yet-to-be-defined, they impose complex and far-reaching requirements related to cybersecurity and the processing of personal data, both within China and extraterritorially. Potential penalties under the Personal Information Protection Law are severe, at up to the greater of 5% of global revenue or \$7.7 million. The precise scope and impact of these laws is still unclear but they could significantly increase our compliance costs, cause us to suffer monetary penalties, or otherwise adversely impact our business and operations.

Many data protection regimes apply based on where a user is located, and as we expand our platform and new laws are enacted or existing laws change, we may be subject to new laws, regulations or standards or new interpretations of existing laws, regulations or standards, including those in the areas of data security, data privacy and regulation of email providers and those that require localization of certain data, which could require us to incur additional costs and restrict our business operations. Any failure or perceived failure by us to comply with rapidly evolving privacy or security laws policies (including our own stated privacy policies), legal obligations or industry standards or any security incident that results in the unauthorized release or transfer of personally identifiable information or other user data may result in governmental enforcement actions, litigation (including user class actions), fines and penalties or adverse publicity and could cause our users to lose trust in us, which could have a material adverse effect on our business, results of operations, financial condition, and prospects.

***A failure to comply with current laws, rules and regulations or changes to such laws, rules and regulations and other legal uncertainties may adversely affect our business, financial performance, results of operations or business growth.\****

Our business and financial performance could be adversely affected by unfavorable changes in or interpretations of existing laws, rules, and regulations or the promulgation of new laws, rules, and regulations applicable to us and our business, including those relating to the internet and ecommerce, internet advertising and price display, consumer protection, anti-corruption, economic and trade sanctions, tax, payments, banking, data security, network and information systems security, data protection and privacy. As a result, regulatory authorities could prevent or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us if our practices were found not to comply with applicable regulatory or licensing requirements or any binding interpretation of such requirements. Unfavorable changes or interpretations could decrease demand for our services, limit marketing methods and capabilities, affect our margins, increase costs or subject us to additional liabilities. For example, as a result of the initial outbreak of COVID-19, consumer protection authorities demanded rapid and decisive changes in the way that Wish screens and handles product listings that potentially violate various laws, including emergency price caps on certain items. We believe we have legal grounds to satisfy current requests or prevail against associated fines and penalties, and we intend to vigorously defend such fines and penalties.



Additionally, there are, and will likely continue to be, an increasing number of laws and regulations pertaining to the internet and ecommerce that may relate to liability for information retrieved from or transmitted over the internet, display of certain taxes and fees, online editorial and user-generated content, user privacy, data security, network and information systems security, behavioral targeting and online advertising, taxation, liability for third-party activities, quality of services and consumer protection. For example, the European Digital Services Act (DSA) which is expected to take effect in or about early 2024, intends to impose new legal obligations on online marketplaces operating in Europe in terms of both verifying and ensuring the accuracy and disclosure of required information, as well as the safety and authenticity of products posted by third-party merchants. The DSA also updates the responsibilities and liabilities of digital online services, such as the rules on illegal content, notice-and-takedown, and online targeted advertising, bringing new powers to fine in-scope eligible companies up to 6% of their global annual turnover. In addition, the European Union's Market Surveillance Regulation, which took effect in July 2021, placed new obligations on online marketplaces that perform certain "fulfilment service provider" activities in Europe and was designed to reduce the availability of non-compliant products in Europe when offered by sellers outside of the region that either had or did not have an appointed authorized product compliance representative in Europe. Denmark has passed a law placing new burdens on marketplaces and giving its regulators the right to request fines and shutdowns where marketplaces are consistently unsuccessful in screening products that are unsafe or unlawful. Furthermore, the growth and development of ecommerce may prompt calls for more stringent consumer protection laws and more aggressive enforcement efforts, which may impose additional burdens on online businesses generally. For instance, based upon the results of the EU-wide screening of online reviews that triggered doubts about the validity of the reviews, amendments to the EU's Unfair Commercial Practices Directive that took effect on May 28, 2022 mandated additional obligations on online platforms and marketplaces that host user-customer reviews regarding third-party products. Such new obligations created greater disclosure, transparency, reactionary reporting, and policy enforcement requirements on online platforms and marketplaces in the area of user reviews, designed to prevent the risks of the reviews being fake, false, or misleading.

Likewise, the Securities and Exchange Commission (the "SEC"), the U.S. Department of Justice, the U.S. Treasury Department's Office of Foreign Assets Controls, the U.S. Department of State, as well as other foreign regulatory authorities continue to enforce economic and trade regulations and anti-corruption laws, across industries as well as certain regions. U.S. trade sanctions relate to transactions with designated foreign countries and territories, including Cuba, Iran, North Korea, Syria, the Crimea and recently annexed Luhansk and Donetsk regions of Ukraine, as well as specifically targeted individuals and entities that are identified on United States' and other blacklists, and those owned by them or those acting on their behalf. Further, In February 2022, following Russia's invasion of Ukraine, the U.S. and other countries announced sanctions against Russia. The U.S. and other countries could impose wider sanctions and take other actions should the conflict further escalate. While it is difficult to anticipate the impact the sanctions announced to date may have on the Company, any further sanctions imposed or actions taken by the U.S. or other countries, and any retaliatory measures by Russia in response, could have an adverse effect on our business. We have established a trade and screening compliance program designed to increase our compliance with these economic and trade restrictions, as well as export and import control regimes. However, these laws and regulations are complex and subject to frequent change, including with respect to jurisdictional reach and the lists of countries, entities, individuals and technologies subject to sanctions and other regulatory controls, including direct and indirect obligations around Know-Your-Customer and Know-Your-Business type screening for online marketplace platforms. For example, on June 21, 2022, the Uyghur Forced Labor Prevention Act (UFLPA) went into effect in the US. This law, among other things, establishes a rebuttable presumption that the importation of any goods, wares, articles, and merchandise mined, produced, or manufactured wholly or in part in the Xinjiang Uyghur Autonomous Region of the People's Republic of China, or produced by certain entities, is prohibited by Section 307 of the Tariff Act of 1930 and that such goods, wares, articles, and merchandise are not entitled to entry to the United States. We may incur significant costs related to current, new or changing sanctions, embargoes, export controls programs or other restrictions and disclosure requirements, as well as negative publicity, investigations, fines, fees or settlements, which may be difficult to predict. We also could face increased compliance costs and risks as our merchant-base and logistics offerings expand globally and into additional business areas, such as within South East Asia.

Anti-corruption laws, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, generally prohibit direct or indirect corrupt payments to government officials and, under certain laws, to private persons to obtain or retain business or an improper business advantage. Similarly, global anti-money laundering laws and regulations generally prohibit exchanging money or assets that were obtained criminally for money or other assets that are clean, including money that is used to fund terrorism, howsoever obtained. Although we have policies and procedures in place designed to promote compliance with these laws and regulations, our employees, partners, or agents could take actions in contravention of our policies and procedures or violate applicable laws or regulations. In the event our controls should fail, or we are found to be not in compliance for other reasons, we could be subject to monetary damages, civil and criminal monetary penalties, withdrawal of business licenses or permits, litigation and damage to our reputation and the value of our brand.

Additionally, the law relating to liability of online service providers is currently unsettled at both a national and global level. Lawmakers and governmental agencies have in the past and could in the future require changes in the way our business is conducted, including with explicit obligations to inspect and screen content and products or implicit obligations that might stem from increased legal liability for online service providers, including online marking and labeling requirements. Unfavorable regulations, laws, decisions, or interpretations by government or regulatory authorities applying those laws and regulations, or inquiries, investigations, or enforcement actions threatened or initiated by them, could cause us to incur substantial costs, expose us to unanticipated civil and criminal liability or penalties (including substantial monetary fines), increase our cost of doing business, require us to change our business practices in a manner materially adverse to our business, damage our reputation, impede our growth, or otherwise have a material effect on our operations.

### **Risks Related to Our Intellectual Property**

#### ***We may be unable to protect our intellectual property adequately.***

Our intellectual property is an essential asset of our business, and our success is dependent, in part, upon protecting our intellectual property. To establish and protect our intellectual property rights, we rely on a combination of trade secret, copyright, trademark and, to a lesser extent, patent laws, as well as confidentiality protection procedures and contractual provisions. The efforts we have taken to protect our intellectual property may not be sufficient or effective. We generally do not elect to register our copyrights, relying instead on the laws protecting unregistered intellectual property, which may not be sufficient. We rely on both registered and unregistered trademarks, which may not always be comprehensive in scope. In addition, our copyrights and trademarks, whether or not registered, and patents may be held invalid or unenforceable if challenged and may be of limited territorial reach. Moreover, effective trademark, copyright, patent and trade secret protection may not be available or commercially feasible in every country in which we conduct business. Further, intellectual property law, including statutory and case law, particularly in the United States, is constantly developing, and any changes in the law could make it harder for us to enforce our rights. While we have obtained or applied for patent protection with respect to some of our intellectual property, we generally do not rely on patents as a principal means of protecting intellectual property. We make business decisions about when to seek patent protection for a particular technology and when to rely upon trade secret protection, and the approach we select may ultimately prove to be inadequate. To the extent we do seek patent protection, any U.S. or other patents issued to us may not be sufficiently broad to protect our proprietary technologies.

#### ***We may be subject to claims that items listed on our platform are counterfeit, infringing or illegal, which may harm our business.***

We frequently receive communications alleging that items listed on our platform infringe third-party copyrights, trademarks, or other intellectual property rights. We have intellectual property complaint and take-down procedures in place to address these communications, and we believe such procedures are important to promote confidence in our platform and provide users reassurance in the products they are purchasing. We follow these procedures to review complaints and relevant facts to determine the appropriate action, which may include removal of the item from our platform and, in certain cases, prohibiting merchants from participating in our platform who repeatedly violate our policies.

Our procedures may not effectively reduce or eliminate our liability. In particular, we may be subject to civil or criminal liability for activities carried out by merchants on our platform, especially outside the United States where laws may offer less protection for intermediaries and platforms than the United States. Under current U.S. copyright law, we may benefit from statutory safe harbor provisions that protect us from copyright liability for content posted on our platform by our merchants and users. However, trademark and patent laws do not include similar statutory provisions, and liability for these forms of intellectual property is often determined by court decisions. These safe harbors and court rulings may change unfavorably. In that event, we may be held secondarily liable for the intellectual property infringement of merchants on our platform. We may also be directly liable for the inventory we purchase ourselves that we sell on our platform.

In addition, allegations of infringement of intellectual property rights, including but not limited to counterfeit items, have resulted in actual litigation from time to time by rights owners against merchants. These and similar suits have resulted in the freezing of merchant accounts or the shutdown of merchant storefronts on our platform, which can adversely impact revenue in the short-term, and may require us to spend substantial resources to comply with court orders. We may also incur costs responding to subpoenas from governmental authorities regarding illegal or counterfeit products listed for sale on our platform. In addition, we may receive media attention relating to the listing or sale of illegal or counterfeit goods, which could damage our reputation, diminish the value of our brand, and make users and merchants reluctant to use our platform.

Regardless of the validity of any claims made against us, we may incur significant costs and efforts to defend against or settle them.

Under our standard form agreements, we require our merchants to indemnify us for any losses we suffer or any costs that we incur due to any products sold by these merchants. However, we may not be able to successfully enforce our contractual rights and may need to initiate costly and lengthy legal proceedings to protect our rights.

***We may be subject to intellectual property claims, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies in the future.***

Companies in the internet and technology industries are frequently subject to litigation based on allegations of infringement or other violations of intellectual property rights. We periodically receive communications that claim we have infringed, misappropriated or misused others' intellectual property rights. To the extent we gain greater public recognition, we may face a higher risk of being the subject of intellectual property claims. Third parties may have intellectual property rights that cover significant aspects of our technologies or business methods and prevent us from expanding our offerings. Any intellectual property claim against us, with or without merit, could be time consuming and expensive to settle or litigate and could divert the attention of our management. Litigation regarding intellectual property rights is inherently uncertain due to the complex issues involved, and we may not be successful in defending ourselves in such matters.

In addition, some of our competitors have extensive portfolios of issued patents. In a patent infringement claim against us, we may assert, as a defense, that we do not infringe the relevant patent claims, that the patent is invalid, or both. The strength of our defenses will depend on the patents asserted, the interpretation of these patents, and our ability to invalidate the asserted patents. However, we could be unsuccessful in advancing non-infringement and/or invalidity arguments in our defense. In the United States, issued patents enjoy a presumption of validity, and the party challenging the validity of a patent claim must present clear and convincing evidence of invalidity, which is a high burden of proof. Conversely, the patent owner need only prove infringement by a preponderance of the evidence, which is a lower burden of proof. We may be unaware of the intellectual property rights that others may claim cover some or all of our technology or services. Because patent applications can take years to issue and are often afforded confidentiality for some period of time, there may currently be pending applications, unknown to us, that later result in issued patents that could cover one or more of our products.

Many potential litigants, including some of our competitors and patent holding companies, have the ability to dedicate substantial resources to enforcing their intellectual property rights. Moreover, our patents may provide little or no deterrence in litigation involving patent holding companies or other adverse patent owners that have no relevant product revenue. Any claims successfully brought against us could subject us to significant liability for damages and we may be required to stop using technology or other intellectual property alleged to be in violation of a third-party's rights in jurisdictions where we do business. We also might be required to enter into costly settlement agreements or seek a license for third-party intellectual property. Even if a license is available, we could be required to pay significant royalties or submit to unreasonable terms, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, which could require significant time and expense. If we cannot license or develop technology for any allegedly infringing aspect of our business, we would be forced to limit our service and may be unable to compete effectively. Any of these results could harm our business.

***Our software is highly complex and may contain undetected errors.***

The software and code underlying our platform is highly interconnected and complex and may contain undetected errors or vulnerabilities, some of which may only be discovered after the code has been released. We typically release software code daily and this practice may result in the more frequent introduction of errors or vulnerabilities into the software underlying our platform, which can impact the user and merchant experience on our platform. Additionally, due to the interconnected nature of the software underlying our platform, updates to certain parts of our code, including changes to our website or mobile app or third-party APIs on which our website and mobile app rely, could have an unintended impact on other sections of our code, which may result in errors or vulnerabilities to our platform. Any errors or vulnerabilities discovered in our code after release could result in damage to our reputation, loss of our merchants or users, loss of revenue, or liability for damages, any of which could adversely affect our growth prospects and our business.

***Our use of open source software may pose particular risks to our proprietary software and systems.***

We use open source software in our proprietary software and systems and will use open source software in the future. The licenses applicable to our use of open source software may require that source code that is developed using open source software be made available to the public and that any modifications or derivative works to certain open source software continue to be licensed under open source licenses. From time to time, we may face claims from third parties claiming infringement of their intellectual property rights, or demanding the release or license of the open source software or derivative works that we developed using such software (which could include our proprietary source code) or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to purchase a costly license, publicly release the affected portions of our source code, be limited in or cease using the implicated software unless and until we can re-engineer such software to avoid infringement or change the use of, or remove, the implicated open source software. Our use of open source software may also present additional security risks because the source code for open source software is publicly available, which may make it easier for hackers and other third parties to determine how to breach our website and systems that rely on open source software. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could have a material adverse effect on our business, results of operations, financial condition, and prospects.

**Risks Related to Our Taxes and Financial Position**

***Our business and our merchants and users may be subject to sales and other taxes and these taxes may negatively impact our revenue and growth.***

The application of indirect taxes, such as sales and use tax, value-added tax, provincial taxes, goods and services tax, business tax and gross receipt tax to our business and to our merchants is a complex and evolving issue. In addition, governments are increasingly looking for ways to increase revenue, which has resulted in discussions about new legislative action to increase tax revenue, including through indirect taxes.

Significant judgment and expertise is required to evaluate applicable tax obligations. As a result, amounts recognized may be subject to adjustments by the relevant tax authorities. In many cases, the ultimate tax determination is uncertain because it is not clear how new and existing statutes might apply to our business or to the businesses of our merchants. One or more states, the federal government or other countries may seek to impose additional reporting, recordkeeping or indirect tax collection obligations on businesses like ours that facilitate ecommerce.

State and local taxing authorities in the United States have identified ecommerce platforms as a means to calculate, collect and remit indirect taxes for transactions taking place over the internet. U.S. states began enacting related legislation with effective dates in early 2018 and in June 2018, the U.S. Supreme Court held in *South Dakota v. Wayfair* that a U.S. state may require an ecommerce platform to collect sales taxes imposed by the state in which the buyer is located, even if the retailer has no physical presence in that state, thus permitting a wider enforcement of such sales tax collection requirements. All U.S. states have since followed suit in enacting similar legislation.

Outside of the United States, the application of value added tax or other indirect taxes on ecommerce providers continues to evolve. An increasing number of jurisdictions are legislating or have adopted laws that impose new taxes, including revenue-based taxes that target ecommerce and the remote selling of goods. These laws include new obligations to collect sales, consumption, value added, or similar taxes on ecommerce platform and remote sellers, or other requirements that may result in liability for third-party obligations. As a result of Brexit, the U.K. began imposing value added tax on ecommerce platform effective January 2021, and the European Union abolished its low value goods exemption effective July 2021 and require online marketplace facilitators to collect and remit value added tax. Our business could be adversely affected by additional taxes that focus on marketplace service revenue.

Additionally, existing and new tax laws and legislation could require us or our merchants to incur substantial costs in order to comply, including costs associated with legal advice, tax calculation, collection, remittance and audit requirements, which could make selling in such markets less attractive and could adversely affect our business. Further, these laws can be applied prospectively or retroactively. Noncompliance with new laws may result in fines or penalties. It is possible we may not have sufficient notice to create and adopt processes to properly comply with new reporting or collection obligations by the effective date.

Our results of operations and cash flows could be adversely affected by additional taxes or increasing taxes of this nature imposed on us prospectively or retroactively, or additional taxes or penalties resulting from the failure to comply with any collection obligations or failure to provide information about our users, merchants or other third parties for tax reporting purposes to various government agencies.

***We may experience fluctuations in various tax related obligations.***

We are subject to various taxes in the United States and in many other jurisdictions. We record these taxes based on current tax payment calculations and estimates of tax liabilities, which may include estimates of probable settlements of tax audits. The determination of these liabilities requires estimation and significant judgment and the ultimate determination is uncertain. At any time, multiple tax years could be subject to audit by various taxing jurisdictions. As a result, we could be subject to higher than anticipated tax liabilities as well as ongoing variability in our quarterly tax rates related to potential audits and as exposures are re-evaluated. While we have estimated accruals that we believe are reasonable to cover potential exposures, the reserves may ultimately not be sufficient and additional cash outflows may result. Fluctuations in our tax obligations could adversely affect our business.

***We may not be able to utilize a significant portion of our net operating loss carryforwards, and other tax attributes, which could adversely affect our profitability.***

As of December 31, 2021, we had federal net operating loss carryforwards (“NOLs”) available to reduce future taxable income, if any, of \$886 million that begin to expire in 2030 and continue to expire through 2037 and \$1.3 billion that have an unlimited carryover period. As of December 31, 2021, we had state NOLs available to reduce future taxable income, if any, of \$4.3 billion that begin to expire in 2026 and continue to expire through 2041 and \$1.3 billion that have an unlimited carryover period. Under legislation enacted in 2017, informally titled the Tax Cuts and Jobs Act (the “Tax Act”), as modified by the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), unused U.S. federal NOLs generated in tax years beginning after December 31, 2017, will not expire and may be carried forward indefinitely, but the deductibility of such federal NOLs in tax years beginning after December 31, 2021, is limited to 80% of taxable income. It is uncertain if and to what extent various states will conform to the Tax Act or the CARES Act. In addition, the utilization of NOLs and other tax attributes to offset future taxable income or taxes may be subject to limitations under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “Code”), and similar state statutes as a result of ownership changes that have occurred or could occur in the future. Additionally, portions of these NOLs could expire unused and be unavailable to offset future income tax liabilities. In addition, at the state level, there may be periods during which the use of net operating losses is suspended or otherwise limited. For example, California recently imposed limits on the usability of California state NOLs to offset taxable income in tax years beginning after 2019 and before 2023. As a result, even if we attain profitability, we may be unable to use a material portion of our NOLs and other tax attributes, which could adversely affect our future cash flows, which could adversely affect our profitability.

***We may need additional capital, which may not be available to us on acceptable terms or at all.***

We believe that our existing cash, cash equivalents and marketable securities, together with cash generated from our operations, will be enough to meet our anticipated cash needs for at least the next 12 months. However, we may require additional cash resources due to changes in business conditions or other developments, such as acquisitions or investments we may decide to pursue. Any debt financing that we may secure in the future could result in additional operating and financial covenants that would limit or restrict our ability to take certain actions, such as incurring additional debt, making capital expenditures or declaring dividends. It is also possible that financing may not be available to us in amounts or on terms acceptable to us, if at all.

### **Risks Related to Our Class A Common Stock**

***We may not be able to comply with all applicable listing requirements or standards of the Nasdaq Global Select Market and Nasdaq could delist our common stock.\****

Our common stock is listed on the Nasdaq Global Select Market and, in order to maintain that listing, we must satisfy minimum financial and other continued listing requirements and standards. On October 28, 2022, we received written notice (the “Notice”) from The Nasdaq Stock Market LLC (“Nasdaq”) indicating that, for the last 30 consecutive business days, the bid price of our common stock closed below the \$1.00 per share minimum bid price requirement for continued listing on the Nasdaq Global Select Market pursuant to Nasdaq Listing Rule 5450(a)(1) (the “Minimum Bid Price Requirement”).

In accordance with Nasdaq Listing Rule 5810(c)(3)(A), if during the 180 calendar day period following the date of the Notice the closing bid price of our common stock is at or above \$1.00 for a minimum of 10 consecutive business days, we will regain compliance with the Minimum Bid Price Requirement and our common stock will continue to be eligible for listing on the Nasdaq Global Select Market.

If we do not regain compliance within the 180 calendar day period, we may qualify for an additional 180 calendar day compliance period if we transfer the listing of our common stock to the Nasdaq Capital Market and meet certain requirements. If we do not qualify for, or fail to regain, compliance during the second compliance period, then our common stock will be subject to delisting, at which point we may appeal Nasdaq’s delisting determination to a Nasdaq Listing Qualifications Hearings Panel.

In the event that our common stock is not eligible for continued listing on Nasdaq or another national securities exchange, it could become more difficult to dispose of, or obtain accurate price quotations for, our common stock, and there would likely also be a reduction in our coverage by security analysts and the news media, which could cause the price of our common stock to decline further.

We intend to actively monitor the closing bid price of our common stock and will consider all available options to regain compliance with the Minimum Bid Price Requirement, which may include seeking stockholder approval to effect a reverse stock split. However, there can be no assurance that the reverse stock split would be approved by our shareholders. Additionally, there can be no assurance that the market price per new share of our common stock after the reverse stock split will remain unchanged or increase in proportion to the reduction in the number of old shares of our common stock outstanding before the reverse stock split. Further, even if the reverse stock split is approved by our shareholders, there can be no assurance that the Company will be able to regain compliance with the Minimum Bid Price Requirement or will otherwise be in compliance with other Nasdaq listing rules.

***The price of our Class A common stock has been and continues to be volatile. Declines in the price of our Class A common stock has resulted in and could subject us to future litigation.***

Prior to our IPO in December 2020, there was no public market for our Class A common stock. If trading in our Class A common stock is not active, investors and other stockholders may not be able to sell their shares quickly, at the market price or at all. In addition, the market price of our Class A common stock has fluctuated and declined and may continue to fluctuate or decline substantially. Further, the trading prices of the securities of technology companies have historically been highly volatile. Accordingly, the price of our Class A common stock has been subject to wide fluctuations and could continue to be subject to wide fluctuations for many reasons, many of which are beyond our control, including those described in this “Risk Factors” section and others such as:

- variations in our operating results and other financial and operational metrics, including the key financial and operating metrics disclosed in this report, as well as how those results and metrics compare to analyst and investor expectations;
- speculation about our operating results in the absence of our own financial projections;
- failure of analysts to initiate or maintain coverage of our company, changes in their estimates of our operating results or changes in recommendations by analysts that follow our Class A common stock;
- announcements of new services or enhancements, strategic alliances or significant agreements or other developments by us or our competitors;
- announcements by us or our competitors of mergers or acquisitions or rumors of such transactions involving us or our competitors;
- changes in our senior management or other key personnel;
- disruptions in our platform due to hardware, software or network problems, security breaches or other issues;
- the strength of the global economy or the economy in the jurisdictions in which we operate, and market conditions in our industry and those affecting our merchants and users;
- trading activity by our principal stockholders and other market participants, in whom ownership of our Class A common stock may be concentrated following our IPO;
- changes in legal or regulatory requirements relating to our business;
- litigation or other claims against us;
- the conversion and subsequent sale of Class B common stock held by our founder
- the number of shares of our Class A common stock that are available for public trading; and
- any other factors discussed in this report.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the price of our Class A common stock could decline for reasons unrelated to our business, results of operations or financial condition. The price of our Class A common stock might also decline in reaction to events that affect other companies, even if those events do not directly affect us. We have been named in lawsuits and may be subject to both ongoing litigation and other requests related to our stock price/performance and/or Board performance and independence. This could result in securities litigation. If we are the subject of additional securities class actions, it could result in substantial costs and could divert our management’s attention and resources, which could adversely affect our business. Additionally, the price of our Class A common stock may be volatile and may decline regardless of our operating performance and you may lose all or part of your investment.

***Our actual operating results may differ significantly from our outlook.***

From time to time, we release outlook (or guidance) in our quarterly earnings conference calls, quarterly earnings releases, or otherwise, regarding our future financial performance that represents our management's estimates as of the date of release. This outlook, which includes forward-looking statements, is based on projections prepared by our management. This outlook is not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants (AICPA) regarding projections or the SEC regarding forward-looking statements, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the projections. Accordingly, no such person will express any opinion or any other form of assurance with respect to the projections.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, industry, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. The principal reason that we release outlook is to provide a basis for our management to discuss our business expectations with analysts and investors. We do not accept any responsibility for any projections or reports published by any such third parties.

Outlook is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the outlook furnished by us will not materialize or will vary significantly from actual results. Accordingly, our outlook is only an estimate of what management believes is realizable as of the date of release. Actual results may vary and the variations may be material. We expressly disclaim any obligations to update or revise any outlook, whether as a result of new information, future events or otherwise, except as required by law. In light of the foregoing, investors are urged to put the outlook in context and not place undue reliance on it.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this "Risk Factors" section in this Form 10-K could result in the actual operating results being different from our outlook, and the differences may be adverse and material.

***Our directors, executive officers and principal stockholders beneficially own a substantial percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.***

Following the conversion as noted in Note 13 of Part I, Item 1 of this Quarterly Report on Form 10-Q, our directors, executive officers, greater than 5% stockholders and their respective affiliates held in the aggregate approximately 32% of the voting power of our outstanding capital stock as of August 9, 2022. Therefore, these stockholders will continue to have the ability to influence us through their ownership position, which may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that other stockholders may feel are in their best interests.\*

***Future sales and issuances of our Class A common stock or rights to purchase Class A common stock could result in additional dilution to our stockholders and could cause the price of our Class A common stock to decline.***

We may issue additional Class A common stock, convertible securities or other equity. We also expect to issue Class A common stock to our employees, directors and other service providers pursuant to our equity incentive plans. Such issuances could be dilutive to investors and could cause the price of our Class A common stock to decline. New investors in such issuances could also receive rights senior to those of holders of our Class A common stock.

The price of our Class A common stock could decline if there are substantial sales of our Class A common stock, particularly sales by our directors, executive officers, employees, and significant stockholders, or when there is a large number of shares of our Class A common stock available for sale.

The market price of the shares of our Class A common stock could decline as a result of the sale of a substantial number of our shares of common stock in the public market or the perception in the market that the holders of a large number of shares intend to sell their shares.



***Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, could limit attempts to make changes in our management and could depress the price of our Class A common stock.\****

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change in control of our company or limiting changes in our management. In August 2022, Piotr Szulczewski, our founder and member of our Board of Directors until his resignation in August 2022, converted all shares of Class B common stock he held into the same number of shares of Class A common stock. Immediately following such conversion, Mr. Szulczewski's voting power decreased to approximately 8% of the voting power of our outstanding common stock (not including outstanding options that are immediately exercisable). Additionally, following such conversion the outstanding shares of our Class B common stock constituted less than 1% of our outstanding shares of our common stock. This resulted in all other shares of Class B common stock converting automatically into the same number of shares of Class A common stock. Among other things, the provisions in our certificate of incorporation and bylaws provide:

- in connection with the conversion noted above, our Board of Directors became classified into three classes of directors with staggered three-year terms;
- in connection with the conversion noted above, directors are now able to be removed only for cause and only by the affirmative vote of the holders of at least two-thirds of the voting power of our common stock. Vacancies on our Board of Directors will be able to be filled only by our Board of Directors and not by stockholders;
- certain amendments to our certificate of incorporation or bylaws will require the approval of two-thirds of our common stock;
- authorization of the issuance of "blank check" preferred stock that our Board of Directors could use to implement a stockholder rights plan;
- in connection with the conversion noted above, our stockholders are now only able to take action at a meeting of stockholders and not by written consent;
- stockholders may not call special meetings of the stockholders;
- our Board of Directors is expressly authorized to amend or repeal any provision of our bylaws;
- that the forum for certain litigation against us must be Delaware or the U.S. federal district courts; and
- advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

These provisions may delay or prevent attempts by our stockholders to replace members of our management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management. In addition, Section 203 of the Delaware General Corporation Law (the "DGCL") may delay or prevent a change in control of our company. Section 203 imposes certain restrictions on mergers, business combinations and other transactions between us and holders of 15% or more of our common stock. Anti-takeover provisions could depress the price of our common stock by acting to delay or prevent a change in control of our company.

***Our certificate of incorporation provides that the Court of Chancery of the State of Delaware and the federal district courts of the United States of America are the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.***

Our certificate of incorporation provides that the Court of Chancery of the State of Delaware and the federal district courts of the United States of America are the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees. Our certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for: (i) any derivative action or proceeding brought on behalf of us; (ii) any action asserting a claim of breach of a fiduciary duty; (iii) any action arising pursuant to any provision of the DGCL, our certificate of incorporation or bylaws (as either may be amended from time to time); (iv) any action to interpret, apply, enforce or determine the validity of our certificate of incorporation or our bylaws; or (v) any action asserting a claim against us that is governed by the internal affairs doctrine.

This provision does not apply to suits brought to enforce a duty or liability created by the Exchange Act. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our certificate of incorporation further provides that the U.S. federal district courts are the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees. If a court were to find either exclusive forum provision of our certificate of incorporation to be inapplicable to or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could seriously harm our business.

***We do not intend to pay dividends on our capital stock, so any returns will be limited to increases in the value of our Class A common stock.***

We have never declared or paid any cash dividends on our capital stock. We currently anticipate that we will retain future earnings for the operation and expansion of our business. Accordingly, we do not anticipate declaring or paying any cash dividends for the foreseeable future. In addition, the terms of our Revolving Credit Facility contain, and any future credit facility or financing we obtain may contain, terms prohibiting or limiting the amount of dividends that may be declared or paid on our common stock. Any return to stockholders will therefore be limited to increases in the price of our Class A common stock, if any.

## **General Risk Factors**

### ***Our quarterly and annual operating results may fluctuate, which could cause our stock price to decline.***

Our quarterly and annual operating results may fluctuate for a variety of reasons, many of which are beyond our control. These reasons include those described in this “Risk Factors” section as well as the following:

- the amount and timing of our sales and marketing costs;
- our user acquisition strategies;
- traffic on our platform;
- selling prices on our platform and the percentage of revenue we retain from the sale of products;
- mix of products listed on our platform;
- fraud, including the sale of counterfeit goods, and refunds, including our response to these areas;
- continued impact from COVID-19, including the effects of phasing out of governmental measures, decreased online activity, and phasing out of government stimulus programs;
- the level of merchant advertising on our platform;
- disruptions in supply or shipment of products listed on our platform, especially from China where most of our merchants are currently located;
- the actions of app stores and advertising platforms such as Facebook and Google;
- seasonality;
- fluctuations in exchange rates;
- the amount and timing of our other operating expenses;
- the expiration of expiration of contractual lock-up agreements and market standoff agreements;
- the impact of competitive developments and our response to those developments;
- changes in carrier policies and pricing and resulting higher logistics costs;
- actual or perceived disruptions or defects in our platform, such as data security breaches or outages;
- changes in laws and regulations that impact our business;
- changes in tax laws in the jurisdictions in which we operate; and
- general political, economic, and market conditions, particularly those affecting our industry.

Fluctuations in our quarterly and annual operating results may cause those results to fall below the expectations of analysts or investors, which could cause the price of our Class A common stock to decline. Fluctuations in our results could also cause a number of other problems. For example, analysts or investors might change their models for valuing our Class A common stock, we could experience short-term liquidity issues, our ability to retain or attract key personnel may diminish, and other unanticipated issues may arise.

In addition, we believe that our quarterly and annual operating results may vary in the future and that period-to-period comparisons of our operating results may not be meaningful. For example, our historical growth may have overshadowed the seasonal effects on our historical operating results. These seasonal effects may become more pronounced over time, which could also cause our operating results to fluctuate. You should not rely on the results of one quarter or one year as an indication of future performance.

***Seasonality may cause fluctuations in our operating results.***

Our operating results are seasonal in nature because our transaction volume is affected by traditional retail selling periods that impact sales on our platform. Our historical growth may have reduced or outweighed seasonal effects on our past financial results. However, seasonal effects may become more pronounced over time, which could cause fluctuations in our financial results. For example, sales on our platform have historically peaked in the fall and user activity begins to slow down in December as it may be too late to place orders for holiday delivery. Additionally, we have historically experienced some slowdown in merchant activity in late January or early February due to our China-based merchants celebrating the Chinese New Year holiday.

***Catastrophic events may disrupt our business.***

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce, and the global economy, and thus could harm our business. In the event of a major earthquake, hurricane or catastrophic event such as fire, power loss, telecommunications failure, cyber-attack, war, or terrorist attack, pandemic or epidemic, we may be unable to continue our operations and may endure reputational harm, delays in developing our platform and solutions breaches of data security and loss of critical data, all of which could harm our business, results of operations, and financial condition.

Additionally, we rely on our network and third-party infrastructure and applications, internal technology systems, and our websites for our development, marketing, operational support, hosted services, and marketing activities. If these systems were to fail or be negatively impacted as a result of a natural disaster or other event, our ability to deliver a positive user and merchant experience would be impaired.

As we grow our business, the need for business continuity planning and disaster recovery plans will grow in significance. If we are unable to develop adequate plans to ensure that our business functions continue to operate during and after a disaster, and successfully execute on those plans in the event of a disaster or emergency, our business and reputation would be harmed.

***We may be subject to tax related controversies.***

We may also be subject to tax controversies in the United States and in foreign jurisdictions that can result in tax assessments against us. Developments in an audit, investigation, or other tax controversy can have a material effect on our operating results or cash flows. We regularly assess the likelihood of an adverse outcome resulting from these proceedings to determine the adequacy of our tax accruals and while we believe our tax estimates are reasonable, the final outcome of audits, investigations, and any other tax controversies could be materially different from our historical tax accruals.

***Operating as a public company requires us to incur substantial costs and requires substantial management attention. In addition, our management team has limited experience managing a public company and the requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain additional executive management and qualified board members.***

As a public company, we incur substantial legal, accounting, and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Securities Exchange Act of 1934 as amended (the "Exchange Act"), the applicable requirements of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations of the SEC. The rules and regulations of Nasdaq also apply to us. As part of the new requirements, we need to establish and maintain effective disclosure and financial controls and we have made changes to our corporate governance practices. We expect that compliance with these requirements will increase our legal and financial compliance costs and will make some activities more time-consuming or costly and increase demand on our systems and resources.

Many members of our management and other key personnel have little experience managing a public company and preparing public filings. In addition, as a public company, our management and other key personnel must divert attention from other business matters to devote substantial time to the reporting and other requirements of being a public company. In particular, we incur significant expense and devote substantial management effort to complying with the requirements of Section 404 of the Sarbanes-Oxley Act. We will need to continue to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge.

As a result of disclosure of information in this report and in filings required of a public company, our business and financial condition will become more visible, which may result in threatened or actual litigation, including by stockholders and competitors. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

In addition, as a result of our disclosure obligations as a public company, we have reduced flexibility and are under pressure to focus on short-term results, which may adversely affect our ability to achieve long-term profitability.

***If our estimates or judgments relating to our critical accounting policies prove to be incorrect or financial reporting standards or interpretations change, our operating results could be adversely affected.***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments, and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity as of the date of the financial statements, and the amount of revenue and expenses, during the periods presented, that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to the fair value of financial instruments, useful lives of long-lived assets, fair value of common stock prior to IPO, fair value of derivative instruments, fair value of redeemable convertible preferred stock and related redeemable convertible preferred stock warrant and equity awards and other equity issuances prior to IPO, incremental borrowing rate applied to lease accounting, contingent liabilities, allowances for refunds and chargebacks and uncertain tax positions. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of industry or financial analysts and investors, resulting in a decline in the trading price of our Class A common stock.

***If analysts do not publish research about our business or if they publish inaccurate or unfavorable research, our stock price and trading volume could decline.***

The trading market for our Class A common stock will depend in part on the research and reports that analysts publish about our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, the price of our Class A common stock would likely decline. If few analysts cover us, demand for our Class A common stock could decrease and our Class A common stock price and trading volume may decline. Similar results may occur if one or more of these analysts stop covering us in the future or fail to publish reports on us regularly.

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
3.1*	<a href="#">Certificate of Retirement of the Class B Common Stock.</a>
10.1*	<a href="#">Offer letter, dated September 8, 2022, between the Registrant and Jun Yan.</a>
31.1*	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1**	<a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2**	<a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* Filed herewith.

\*\* Furnished herewith.

**SIGNATURES**

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.

Date: November 9, 2022

ContextLogic Inc.

By: \_\_\_\_\_ /s/ Jun Yan

**Jun Yan**  
Interim Chief Executive Officer  
(Principal Executive Officer)

By: \_\_\_\_\_ /s/ Vivian Liu

**Vivian Liu**  
Chief Financial Officer and Chief Operating Officer  
(Principal Financial Officer)

**CERTIFICATE OF RETIREMENT  
OF CLASS B COMMON STOCK  
OF  
CONTEXTLOGIC INC.**

Pursuant to Section 243(b) of the General Corporation Law of the State of Delaware, ContextLogic Inc., a corporation organized and existing under the laws of the State of Delaware (the "**Corporation**"), HEREBY CERTIFIES as follows:

1. Section 1.1 of Article IV of the Restated Certificate of Incorporation of the Corporation filed with the Secretary of State of the State of Delaware on December 17, 2020 (the "**Restated Certificate**") provides that the total number of shares of capital stock that the Corporation shall have authority to issue is 3,600,000,000 shares, consisting of (i) 3,000,000,000 shares of Class A Common Stock, \$0.0001 par value per share ("**Class A Common Stock**") (ii) 500,000,000 shares of Class B Common Stock, par value \$0.0001 per share ("**Class B Common Stock**"), and (iii) 100,000,000 shares of Preferred Stock, par value \$0.0001 per share.

2. All outstanding shares of Class B Common Stock have been converted (the "**Conversion**") into shares of Class A Common Stock of the Corporation pursuant to the provisions of Article V of the Restated Certificate.

3. Section 6 of Article V of the Restated Certificate provides that following the Conversion, the shares of Class B Common Stock that have been converted shall be retired and may not be reissued and Section 9 provides that following the Conversion, no additional shares of Class B Common Stock shall be issued.

5. Upon the effectiveness of this Certificate of Retirement, all references to the Class B Common Stock shall be removed from the Restated Certificate.

IN WITNESS WHEREOF, ContextLogic Inc. has caused this Certificate of Retirement to be executed, acknowledged and filed by its duly authorized officer as of August 10, 2022.

**CONTEXTLOGIC INC.**

By: /s/ Vijay Talwar  
Name: Vijay Talwar  
Title: Chief Executive Officer



September 7, 2022

VIA EMAIL  
Jun (Joe) Yan

Dear Joe:

ContextLogic Inc. (the “Company” or “Wish”) is pleased to offer you employment in our San Francisco office, on the following terms:

1. **Position and Start Date.** Your title will be Interim Chief Executive Officer. In this role, you will report to the Company’s Board of Directors and you will be expected to perform such duties and exercise such responsibilities as are assigned from time-to-time. In carrying out these duties and responsibilities, you shall comply with all policies, procedures, rules and regulations, both written and oral, as are provided by the Company from time-to-time, and carry out said duties and responsibilities in a diligent, faithful and honest manner. Your employment start date with the Company will be a date as may be mutually agreed upon by you and the Company which is subsequent to your satisfaction of the employment contingencies set forth herein (“Start Date”).
  2. **Compensation.** The Company will pay you a starting base salary of **\$550,000** per year, payable in accordance with the Company’s standard payroll schedule. This salary will be subject to adjustment pursuant to the Company’s employee compensation policies and procedures in effect from time to time.
  3. **Relocation Bonus.** This offer includes a relocation bonus in the amount of \$200,000, which will be paid to you within ten (10) business days of your Start Date, and is intended to cover your relocation to the San Francisco Bay Area and all associated expenses. If you are terminated for cause by the Company before the one-year anniversary of your Start Date, you agree to repay the Company the full net amount of the relocation bonus within 30 days of your separation date. For purposes of the relocation bonus, “cause” shall mean (i) your willful and intentional unauthorized use or disclosure of the Company’s confidential information or trade secrets, which use or disclosure causes material harm to the Company, (ii) your material breach of any agreement with the Company, (iii) your material failure to comply with the Company’s written policies or rules, (iv) your conviction of, or plea of “guilty” or “no contest” to, a felony under the laws of the United States or any State, (v) your gross negligence or willful misconduct which results in material harm to the Company, (vi) your continuing failure to perform assigned duties after receiving written notification from the Company’s Board of Directors (other than as a result of having a disability that prevents you from performing the material duties required of a person holding the position with the Company for a period of at least 120 days) or (vii) your failure to cooperate in good faith with a governmental or internal investigation of the Company or its directors, officers or employees, if the Company has requested such cooperation. In the case of clauses (ii), (iii) and (vii), the Company will not terminate your employment for cause without first giving you written notification of the acts or omissions constituting cause and a reasonable cure period of not less than 10 days following such notice to the extent such events are curable (as determined by the Company).
  4. **Employee Benefits.** As a regular employee of the Company, you will be eligible to participate in a number of Company-sponsored benefits, including our group health insurance plan, in accordance with the applicable plan documents and policies. The Company reserves the right to modify or discontinue such benefit plans in its sole discretion. In addition, you will be eligible to participate in the Company’s paid time off policy, as in effect from time to time. A copy of the current paid time off policy will be provided to you upon hire and any subsequent versions will be posted on the Company’s wiki/intranet.
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5. **Restricted Stock Units.** Subject to the approval of the Company's Board of Directors or its Compensation Committee, you will be granted an award of Restricted Stock Units ("RSUs") for that number of shares of the Company's Common Stock equal to \$3,000,000 divided by the average closing price of a share of the Company's Common Stock as reported on Nasdaq during the full calendar month prior to your Start Date, rounded down to the nearest whole share. The RSUs will vest over time based on your continuous service with the Company, with 50% of the RSUs vesting on the first Company Vesting Date following your completion of 6 months of continuous service; provided, however, that if the Company terminates your employment, you do not remain the Company's Interim Chief Executive Officer or become the Company's Chief Executive Officer, in each case prior to your completion of 6 months of employment with the Company, such RSUs will accelerate and vest and settle on the first Company Vesting Date thereafter. The remaining 50% of the RSUs will vest on the Company Vesting Date following your completion of 12 months of continuous service. For the avoidance of doubt, "service" for purposes of the RSUs shall include service as an employee, consultant or director. A "Company Vesting Date" means February 15th, May 15th, August 15th, or November 15th. The Company intends to grant the RSU award as an "inducement grant" (within the meaning of Nasdaq Marketplace Rule 5635(c)(4)) pursuant to the Company's 2022 New Employee Equity Incentive Plan (the "Plan"), and the RSU award will be subject to the terms and conditions of the Plan as well as the applicable Notice of Restricted Stock Unit Award and Restricted Stock Unit Agreement.
  6. **Stock Options.** Subject to the approval of the Company's Board of Directors or its Compensation Committee, you will be granted an option to purchase that number of shares of the Company's Class A Common Stock equal to \$3,000,000 divided by the average closing price of a share of the Company's Common Stock as reported on Nasdaq during the full calendar month prior to your Start Date, rounded down to the nearest whole share (the "Option"). The exercise price per share of the Option will be equal to the fair market value of the Company's Class A Common Stock on the date of grant, which is your Start Date. The Option will vest and become exercisable over time based on your continuous service with the Company, with 50% of the Option shares vesting on the 6 month anniversary of your Start Date; provided, however, that if the Company terminates your employment, you do not remain the Company's Interim Chief Executive Officer or become the Company's Chief Executive Officer, in each case prior to your completion of 6 months of continuous employment with the Company, such Option shares will accelerate and immediately vest, and remain exercisable in accordance with their terms thereafter. The remaining 50% of the Option shares will vest on the 12 month anniversary of your Start Date, provided that you remain in continuous service through such date. For the avoidance of doubt, "service" for purposes of the Option shall include service as an employee, consultant or director. The Company intends to grant the Option as an "inducement grant" (within the meaning of Nasdaq Marketplace Rule 5635(c)(4)) pursuant to the Plan, and the Option will be subject to the terms and conditions of the Plan as well as the applicable Notice of Stock Option Grant and Stock Option Agreement.
  7. **Confidential Information and Invention Assignment Agreement.** Like all Company employees, you will be required, as a condition of your employment with the Company, to sign the Company's standard Confidential Information and Invention Assignment Agreement, a copy of which is attached hereto as Exhibit A. We also want to make clear that we do not want you to, and we hereby direct you not to, bring with you any confidential or proprietary information of any former employer or other entity or to violate any other obligations you may have to any former employer or other entity. By signing this agreement, you confirm to the Company that you have no contractual commitments or other legal obligations that would prevent you from performing your duties for the Company.
  8. **Conflicts of Interest.** During your employment, you agree not to engage in any employment, business, or activity that is in any way competitive with the business or proposed business of the Company, which materially interferes with the performance of your job duties, or creates a conflict of interest (this includes any other full-time employment arrangements); provided, however, that you may continue to provide services and/or continue to engage in the current business activities that you list on Exhibit B hereto during your employment with the Company. During your employment with the Company, you may request (and submit to Wish for approval) an Outside Activity Disclosure Form from hr@wish.com to disclose any other outside employment, business, or activity in which you intend to engage during employment with Wish. Failure to make disclosures is considered a material representation that you are not engaged or associated with any such outside activities at the beginning of employment. You will be responsible for complying with Wish's Conflict of Interest Policy, including updated disclosures of such outside activities, at all times during employment.
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9. **Employment Relationship.** Employment with the Company is at-will. This means that you have the right to resign and the Company has the right to terminate your employment at any time, for any or no reason, with or without cause, and with or without notice. Any contrary representations that may have been made to you are superseded by this letter agreement. This, along with the Confidential Information and Invention Assignment Agreement, is the full and complete agreement between you and the Company on this term. Although your job duties, title, responsibilities, compensation and benefits, as well as the Company's personnel policies and procedures, may change from time to time, the "at will" nature of your employment may only be changed in an express written agreement signed by you and the Board of Directors of the Company. At the sole discretion of the Company, you agree to serve, without additional compensation, as a director, officer, or member of the board of directors (collectively, "officer positions") of any of the Company's subsidiaries, partnerships, joint ventures or other affiliates. If your employment with the Company is terminated for any reason, whether such termination is voluntary or involuntary, you agree to take all necessary actions, as reasonably requested by the Company, to resign from all officer positions.
10. **Tax Matters.**
- (a) **Withholding.** All forms of compensation referred to in this letter agreement are subject to reduction to reflect applicable withholding and payroll taxes and other deductions required by law.
- (b) **Tax Advice.** You are encouraged to obtain your own tax advice regarding your compensation from the Company. You agree that the Company does not have a duty to design its compensation policies in a manner that minimizes your tax liabilities, and you will not make any claim against the Company or its Board of Directors related to tax liabilities arising from your compensation.
11. **Interpretation, Amendment and Enforcement.** This letter agreement and the accompanying exhibits, including the Confidential Information and Invention Assignment Agreement, along with documents related to your equity grants, constitute the complete agreement between you and the Company, contain all of the terms of your employment with the Company and supersede any prior between you and the Company. This letter agreement may only be amended by an authorized officer of the Company.
12. **Arbitration of Disputes.** The Company and I mutually consent to the resolution by arbitration, under the applicable rules of JAMS (which are available at [jamsadr.com](http://jamsadr.com), or from the Company upon my request), of all claims (common law or statutory) that the Company might have against me, or that I may have against the Company, its affiliated companies, the directors, employees or agents of any such company, and all successors and assigns of any of them. The Company and I waive the right to have a court or jury trial on any arbitrable claim. The Federal Arbitration Act shall govern this arbitration agreement, or if for any reason the FAA does not apply, the arbitration law of the state in which I rendered services to the Company. Notwithstanding any provision of the JAMS Rules, arbitration shall occur on an individual basis only, and a court of competent jurisdiction (and not an arbitrator) shall resolve any dispute about the formation, validity, or enforceability of any provision of this arbitration agreement. I waive the right to initiate, participate in, or recover through, any class or collective action. To the maximum extent permitted by law, the arbitrator shall award the prevailing party its costs and reasonable attorney's fees; provided, however, that the arbitrator at all times shall apply the law for the shifting of costs and fees that a court would apply to the claim(s) asserted. Nothing in this arbitration agreement prevents me from filing or recovering pursuant to a complaint, charge, or other communication with any federal, state or local governmental or law enforcement agency. This arbitration agreement shall remain in effect notwithstanding the termination of my association with the Company. To opt-out of this paragraph, you must complete an opt-out form prior to your Start Date. Please email [hr@wish.com](mailto:hr@wish.com) for the form.
13. **Contingencies.** This offer is contingent upon proof of identity and eligibility to work (including by way of an O-1 visa being granted to you) in the United States, which proof must be submitted to the Company. Your continued employment with the Company is contingent upon you remaining authorized to work in the United States for Wish. The Company reserves the right to conduct background, credit and/or reference checks on all of its potential employees. Your job offer, therefore, is contingent upon clearance of such background, credit and/or reference checks, including satisfactory responses to a D&O questionnaire.
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We hope that you will accept our offer to join the Company. You may indicate your agreement with these terms and accept this offer by signing and dating this letter agreement and the enclosed exhibit, and returning them to me. This offer, if not accepted, will expire at the end of day on **September 8, 2022**.

Very truly yours,

CONTEXTLOGIC INC.

/s/ Tanzeen Syed

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Tanzeen Syed  
Chair of the Board of Directors

**Enclosures**

I have read and accept this employment offer:

Jun (Joe) Yan  
Name

/s/ Jun Yan  
Signature

September 7, 2022  
Date (MM/DD/YYYY)

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

I, Jun Yan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ContextLogic 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (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 9, 2022

By: \_\_\_\_\_ /s/ Jun Yan

**Jun Yan**  
Interim Chief Executive Officer  
(Principal Executive Officer)

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

I, Vivian Liu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ContextLogic 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (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 9, 2022

By: \_\_\_\_\_ /s/ Vivian Liu  
**Vivian Liu**  
Chief Financial Officer and Chief Operating Officer  
(Principal Financial Officer)

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

In connection with the Quarterly Report of ContextLogic Inc. (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company for the period presented therein.

Date: November 9, 2022

By: \_\_\_\_\_ /s/ Jun Yan  
**Jun Yan**  
Interim Chief Executive Officer  
(Principal Executive Officer)

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