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DELTA REPORT

10-Q

SKILLZ INC.

10-Q - MARCH 31, 2023 COMPARED TO 10-Q - SEPTEMBER 30, 2022

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TOTAL DELTAS 1574

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended **September 30, 2022** **March 31, 2023**

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: 001-39243

SKILLZ INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

84-4478274

(I.R.S. Employer Identification No.)

PO Box 445

San Francisco, California

(Address of Principal Executive Offices)

94104

(Zip Code)

(415) 762-0511

Registrant's telephone number, including area code

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, par value \$0.0001 per share	SKLZ	New York Stock Exchange

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, a 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of November 1, 2022 May 1, 2023, the registrant had outstanding 351,585,881 354,022,244 shares of Class A common stock and 68,717,138 68,601,268 shares of Class B common stock.

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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, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, about Skillz Inc. ("we," "us," "our," or the "Company") and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this report, including statements regarding guidance, our future results of operations or financial condition, business strategy and plans, user growth and engagement, product initiatives, and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "going to," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "will," or "would" or the negative of these words or other similar terms or expressions. We caution you that the foregoing may not include all of the forward-looking statements made in this report.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects. These forward-looking statements are subject to risks, uncertainties, and other factors described in Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 December 31, 2022, as supplemented by our other Securities and Exchange Commission filings, including among other things:

- The success of our business Our future growth depends on our ability to attract and retain end-users, and do so in a cost-effective manner; manner;
- It is becoming increasingly difficult and more expensive Our business could be harmed if we fail to attract and retain players for the games on manage our platform, and we may not achieve a positive return on our user acquisition and retention efforts. growth effectively;
- We have a history of losses and we may be unable to achieve profitability. profitability;
- We rely on our third-party developer partners to continue to offer a competitive experience in existing and new games on our platform. platform;
- A limited number of games account for a substantial portion of our revenue. revenue;

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- We rely on third-party service providers including cloud computing services, payment processors, and infrastructure service providers, and if we cannot manage our relationships with such providers or lose access to such services, our business, financial condition, results of operations and prospects could be adversely affected, affected;
- Failure to maintain our brand and reputation could harm our business, financial condition and results of operations, operations;
- The broader entertainment industry is highly competitive and our existing and potential users may be attracted to competing forms of entertainment, entertainment;
- Our business is subject to a variety of U.S. and foreign laws, which are subject to change and could adversely affect our business, business;
- Failure to obtain, maintain, protect or enforce our intellectual property rights could harm our business, results of operations and financial condition, condition;
- Economic downturns and political and market conditions beyond our control could adversely affect our business, financial condition and results of operations, operations;
- The occurrence of a data breach or other failure of our cybersecurity, cybersecurity;
- Failure to properly contain COVID-19 or another global pandemic in a timely manner could materially affect how we and our business partners are operating, operating;
- Failure to timely and effectively remediate the material weaknesses in our internal controls over financial reporting could adversely affect investor confidence or additional material weaknesses or other deficiencies in us the future; and adversely affect our business and financial condition.
- Continued growth Failure to mitigate the commercial, reputational and success will depend on the performance regulatory risks to our business that may arise as a consequence of the current and future employees of Skillz, including certain key employees, our need to restate our financial statements.

These statements are based on our historical performance and on our current plans, estimates and projections in light of information currently available to us, and therefore you should not place undue reliance on them. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Forward-looking statements made in this Quarterly Report on Form 10-Q speak only as of the date on which such statements are made, and we undertake no obligation to update them in light of new information or future events, except as required by law.

You should carefully consider the above factors, as well as the factors discussed in other risks described in Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 December 31, 2022, as supplemented by our other Securities and Exchange Commission filings. The factors identified above should not be construed as an exhaustive list of factors that could affect our future results and should be read in conjunction with the other cautionary statements that are included in this Quarterly Report on Form 10-Q. Furthermore, new risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. If any of these trends, risks or uncertainties actually occurs or continues, our business, revenue and financial results could be harmed, the trading price of our Class A common stock could decline and you could lose all or part of your investment.

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(Unaudited, in thousands, except for number of shares and par value per share amounts)

Assets	Assets	September 30,		December 31,		March 31,		December 31,	
		2022	2021	2021	2020	2023	2022	2023	2022
Assets	Assets								
Current assets:	Current assets:								
Cash and cash equivalents	Cash and cash equivalents	\$ 239,852	\$ 241,332			\$ 415,329	\$ 362,516		
Marketable securities, current	Marketable securities, current	225,126	319,055			88,779	127,268		
Accounts receivable, net	Accounts receivable, net	9,001	13,497			9,544	7,177		

Prepaid expenses and other current assets	Prepaid expenses and other current assets	18,467	16,704	Prepaid expenses and other current assets	7,920	4,722
Total current assets	Total current assets	492,446	590,588	Total current assets	521,572	501,683
Property and equipment, net	Property and equipment, net	7,247	9,988	Property and equipment, net	13,981	2,991
Operating lease right-of-use assets, net	Operating lease right-of-use assets, net	13,366	14,511	Operating lease right-of-use assets, net	321	472
Marketable securities, non-current	Marketable securities, non-current	93,256	182,629	Marketable securities, non-current	16,790	56,728
Non-marketable equity securities	Non-marketable equity securities	55,649	55,649	Non-marketable equity securities	55,649	55,649
Intangible assets, net		20,289	79,137			
Goodwill		86,436	86,845			
Other long-term assets	Other long-term assets	3,725	3,478	Other long-term assets	3,849	3,772
Total assets	Total assets	\$ 772,414	\$ 1,022,825	Total assets	\$ 612,162	\$ 621,295
Liabilities and stockholders' equity						
Liabilities and stockholders' equity				Liabilities and stockholders' equity		
Current liabilities:	Current liabilities:			Current liabilities:		
Accounts payable	Accounts payable	\$ 4,898	\$ 19,753	Accounts payable	\$ 4,682	\$ 1,696
Operating lease liabilities, current	Operating lease liabilities, current	2,434	2,110	Operating lease liabilities, current	2,018	2,133
Other current liabilities	Other current liabilities	45,890	64,969	Other current liabilities	64,579	45,666
Total current liabilities	Total current liabilities	53,222	86,832	Total current liabilities	71,279	49,495
Operating lease liabilities, non-current	Operating lease liabilities, non-current	12,348	13,567	Operating lease liabilities, non-current	11,512	11,942
Common stock warrant liabilities, non-current	Common stock warrant liabilities, non-current	888	6,293	Common stock warrant liabilities, non-current	290	289
Long-term debt, non-current	Long-term debt, non-current	271,968	278,889	Long-term debt, non-current	273,617	272,781
Other long-term liabilities	Other long-term liabilities	1,687	13,544	Other long-term liabilities	1,078	8,387
Total liabilities	Total liabilities	340,113	399,125	Total liabilities	357,776	342,894
Commitments and contingencies (Note 11)						
Commitments and contingencies (Note 7)				Commitments and contingencies (Note 7)		
Stockholders' equity:	Stockholders' equity:			Stockholders' equity:		
Preferred stock \$0.0001 par value; 10 million shares authorized — 0 issued and outstanding as of September 30, 2022 and December 31, 2021		—	—			
Common stock \$0.0001 par value; 625 million shares authorized; Class A common stock – 500 million shares authorized; 351 million and 340 million shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively; Class B common stock – 125 million shares authorized; 69 million shares issued and outstanding as of September 30, 2022 and December 31, 2021		41	40			

Preferred stock \$0.0001 par value; 10 million shares authorized — 0 issued and outstanding as of March 31, 2023 and December 31, 2022	Preferred stock \$0.0001 par value; 10 million shares authorized — 0 issued and outstanding as of March 31, 2023 and December 31, 2022	—	—
Common stock \$0.0001 par value; 625 million shares authorized; Class A common stock – 500 million shares authorized; 354 million and 353 million shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively; Class B common stock – 125 million shares authorized; 69 million shares issued and outstanding as of March 31, 2023 and December 31, 2022	Common stock \$0.0001 par value; 625 million shares authorized; Class A common stock – 500 million shares authorized; 354 million and 353 million shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively; Class B common stock – 125 million shares authorized; 69 million shares issued and outstanding as of March 31, 2023 and December 31, 2022	41	41
Additional paid-in capital	Additional paid-in capital	1,141,955	1,043,600
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(2,732)	(248)
Accumulated deficit	Accumulated deficit	(706,963)	(419,692)
Total stockholders' equity	Total stockholders' equity	432,301	623,700
Total liabilities and stockholders' equity	\$ 772,414	\$ 1,022,825	
Total liabilities and stockholders' equity			Total liabilities and stockholders' equity \$ 612,162 \$ 621,295

See accompanying Notes to the Condensed Consolidated Financial Statements.

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SKILLZ INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited, in thousands, except for number of shares and per share amounts)

	Revenue	Three Months Ended September 30,		Nine Months Ended September 30,		Revenue	Three Months Ended March 31,	
		2022	2021	2022	2021		2023	2022
Revenue	Revenue	\$ 60,255	\$ 102,072	\$ 227,028	\$ 275,240	\$ 44,383	\$ 91,864	
Costs and expenses:	Costs and expenses:					Costs and expenses:		
Cost of revenue	Cost of revenue	7,555	7,647	25,840	16,289	Cost of revenue	4,582	9,200
Research and development	Research and development	8,354	13,162	45,536	30,584	Research and development	8,881	18,650
Sales and marketing	Sales and marketing	51,773	114,531	242,290	310,377	Sales and marketing	34,918	117,345

General and administrative	General and administrative	20,280	48,376	139,784	101,092	General and administrative	28,070	92,723
Impairment of intangible assets		47,581	—	47,581	—			
Total costs and expenses	Total costs and expenses	135,543	183,716	501,031	458,342	Total costs and expenses	76,451	237,918
Loss from operations	Loss from operations	(75,288)	(81,644)	(274,003)	(183,102)	Loss from operations	(32,068)	(146,054)
Interest expense, net	Interest expense, net	(3,807)	(87)	(19,560)	(136)	Interest expense, net	(3,494)	(8,157)
Change in fair value of common stock warrant liabilities	Change in fair value of common stock warrant liabilities	(80)	113,601	5,405	81,898	Change in fair value of common stock warrant liabilities	(1)	4,462
Other income (expense), net	Other income (expense), net	508	(22)	399	108	Other income (expense), net	39	(28)
Income (loss) before income taxes		(78,667)	31,848	(287,759)	(101,232)			
Benefit from income taxes		(120)	(18,933)	(488)	(18,826)			
Net income (loss)	\$	(78,547)	\$	50,781	\$	(287,271)	\$	(82,406)
Net income (loss) per share attributable to common stockholders:								
Basic	\$	(0.19)	\$	0.13	\$	(0.70)	\$	(0.22)
Diluted	\$	(0.19)	\$	(0.16)	\$	(0.70)	\$	(0.43)
Loss before income taxes						Loss before income taxes		
Provision (benefit) from income taxes						(35,524)		(149,777)
Net loss						Provision (benefit) from income taxes	69	(213)
Net loss per share attributable to common stockholders:						Net loss	\$ (35,593)	\$ (149,564)
Basic and diluted						Net loss per share attributable to common stockholders:		
Weighted average shares outstanding:	Weighted average shares outstanding:					Basic and diluted	\$ (0.09)	\$ (0.37)
Basic		413,834,082		395,053,445		Weighted average shares outstanding:		
Diluted		413,834,082		396,030,131		Basic and diluted	417,665,863	401,653,954
Basic and diluted						Other comprehensive income (loss):		
Other comprehensive income (loss):	Other comprehensive income (loss):					Other comprehensive income (loss):		
Change in unrealized loss on available-for-sale investments, net of tax	Change in unrealized loss on available-for-sale investments, net of tax	139	—	(2,484)	—	Change in unrealized loss on available-for-sale investments, net of tax	997	(2,046)
Total other comprehensive income (loss):	Total other comprehensive income (loss):	139	—	(2,484)	—	Total other comprehensive income (loss):	997	(2,046)
Comprehensive income (loss)	Comprehensive income (loss)	\$ (78,408)	\$ 50,781	\$ (289,755)	\$ (82,406)	Comprehensive income (loss)	\$ (34,596)	\$ (151,610)

See accompanying Notes to the Condensed Consolidated Financial Statements.

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SKILLZ INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in thousands, except for number of shares)

	Accumulated										Preferred				Accumulated				
	Preferred stock		Common stock		Additional paid-in capital		other comprehensive loss		Total		stock		Common stock		Additional paid-in capital		other comprehensive loss		
	Shares	Amount																	
Balance at December 31, 2020	—	\$ —	369,797,524	\$ 37	295,065	\$ —	—	\$ (238,315)	\$ 56,787	—	—	—	—	—	—	—	—	—	
Issuance of common stock upon exercise of stock options and release of restricted stock units	—	—	268,426	—	12	—	—	—	12	—	—	—	—	—	—	—	—	—	
Issuance of common stock upon exercise of warrants and other, net	—	—	8,741,863	—	172,519	—	—	—	172,519	—	—	—	—	—	—	—	—	—	
Net cash contributions from follow-on offering	—	—	17,000,000	2	402,238	—	—	—	402,240	—	—	—	—	—	—	—	—	—	
Stock-based compensation	—	—	—	—	10,945	—	—	—	10,945	—	—	—	—	—	—	—	—	—	
Net loss	—	—	—	—	—	—	—	(53,592)	(53,592)	—	—	—	—	—	—	—	—	—	
Balance at March 31, 2021	—	—	395,807,813	39	880,779	—	—	(291,907)	588,911	—	—	—	—	—	—	—	—	—	
Issuance of common stock upon exercise of stock options	—	—	235,054	—	97	—	—	—	97	—	—	—	—	—	—	—	—	—	
Issuance of common stock upon exercise of warrants and other, net	—	—	628,576	—	9,625	—	—	—	9,625	—	—	—	—	—	—	—	—	—	
Stock-based compensation	—	—	—	—	15,774	—	—	—	15,774	—	—	—	—	—	—	—	—	—	
Net loss	—	—	—	—	—	—	—	(79,595)	(79,595)	—	—	—	—	—	—	—	—	—	
Balance at June 30, 2021	—	\$ —	396,671,443	\$ 39	906,275	\$ —	—	\$ (371,502)	\$ 534,812	—	—	—	—	—	—	—	—	—	
Issuance of common stock upon exercise of stock options	—	—	4,393,149	—	3,056	—	—	—	3,056	—	—	—	—	—	—	—	—	—	
Issuance of common stock upon exercise of warrants and other, net	—	—	2,236,383	1	32,967	—	—	—	32,968	—	—	—	—	—	—	—	—	—	
Issuance of common stock for business combination	—	—	4,401,633	—	66,907	—	—	—	66,907	—	—	—	—	—	—	—	—	—	
Stock-based compensation	—	—	—	—	15,812	—	—	—	15,812	—	—	—	—	—	—	—	—	—	
Net income	—	—	—	—	—	—	—	50,781	50,781	—	—	—	—	—	—	—	—	—	
Balance at September 30, 2021	—	\$ —	407,702,608	\$ 40	\$ 1,025,017	\$ —	—	\$ (320,721)	\$ 704,336	—	—	—	—	—	—	—	—	—	
Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	Balance at December 31, 2021	
Issuance of common stock upon exercise of stock options and release of restricted stock units	—	—	408,753,837	40	\$ 1,043,600	\$ (248)	\$ (419,692)	\$ 623,700	2021	—	—	408,753,837	\$ 40	\$ 1,043,600	\$ (248)	\$ (434,233)	\$ 609,159	—	
Stock-based compensation	—	—	—	—	77,925	—	—	—	77,925	Stock-based compensation	—	—	77,925	—	—	—	—	—	77,879

Other	Other							Other											
comprehensive	comprehensive							comprehensive											
loss	loss	—	—	—	—	—	(2,046)	—	(2,046)	loss	—	—	—	—	(2,046)	—	(2,046)		
Other, net	Other, net	—	—	—	—	(64)	—	—	(64)	Other, net	—	—	—	(64)	—	(1)	(65)		
Net loss	Net loss	—	—	—	—	—	—	(148,113)	(148,113)	Net loss	—	—	—	—	—	(149,564)	(149,564)		
Balance at	Balance at							Balance at											
March 31, 2022	March 31, 2022	—	—	409,633,773	40	1,121,697	(2,294)	(567,805)	551,638	March 31, 2022	—	\$	—	409,633,773	\$ 40	\$ 1,121,651	\$ (2,294)	\$ (583,798)	\$ 535,599
Issuance of common stock upon exercise of stock options and release of restricted stock units	—	—	9,499,536	1	616	—	—	—	617	Issuance of common stock upon exercise of stock options and release of restricted stock units	—	—	—	—	—	—	—	—	
Stock-based compensation	—	—	—	—	13,820	—	—	—	13,820	Stock-based compensation	—	—	—	—	—	—	—	—	
Other comprehensive loss	—	—	—	—	—	(577)	—	—	(577)	Other comprehensive loss	—	—	—	—	—	—	—	—	
Net loss	—	—	—	—	—	—	—	(60,611)	(60,611)	Net loss	—	—	—	—	—	—	—	—	
Balance at June 30, 2022	—	\$	—	419,133,309	\$ 41	\$ 1,136,133	\$ (2,871)	\$ (628,416)	\$ 504,887	Balance at									
Balance at							Balance at												
December 31,							December 31,												
2022							2022	—	\$	—	421,373,930	\$ 41	\$ 1,153,031	\$ (1,563)	\$ (873,108)	\$ 278,401			
Issuance of common stock upon exercise of stock options and release of restricted stock units	—	—	1,030,733	—	—	—	—	—	—	Issuance of common stock upon exercise of stock options and release of restricted stock units	—	—	1,222,484	—	33	—	—	33	
Stock-based compensation	Stock-based compensation	—	—	—	—	5,822	—	—	5,822	Stock-based compensation	—	—	—	—	10,548	—	—	10,548	
Other comprehensive income	Other comprehensive income	—	—	—	—	—	139	—	139	Other comprehensive income	—	—	—	—	—	997	—	997	
Net loss	Net loss	—	—	—	—	—	—	(78,547)	(78,547)	Net loss	—	—	—	—	—	(35,593)	(35,593)		
Balance at September 30, 2022	—	\$	—	420,164,042	\$ 41	\$ 1,141,955	\$ (2,732)	\$ (706,963)	\$ 432,301	Balance at									
Balance at							March 31, 2023	—	\$	—	422,596,414	\$ 41	\$ 1,163,612	\$ (566)	\$ (908,701)	\$ 254,386			

See accompanying Notes to the Condensed Consolidated Financial Statements.

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SKILLZ INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited, in thousands)

	Operating Activities	Nine Months Ended September 30,				Operating Activities	Three Months Ended March 31,			
		2022		2021			2023		2022	
Operating Activities	Operating Activities					Operating Activities				
Net loss	Net loss	\$	(287,271)	\$	(82,406)	Net loss	\$	(35,593)	\$	(149,564)
Adjustment to reconcile net loss to net cash used in operating activities:	Adjustment to reconcile net loss to net cash used in operating activities:					Adjustment to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	Depreciation and amortization		15,971		6,093	Depreciation and amortization		626		5,539

Stock-based compensation	Stock-based compensation	97,567	42,531	Stock-based compensation	10,548	77,879
Gain on extinguishment of debt		(2,553)	—			
Accretion of unamortized debt discount and amortization of debt issuance costs	Accretion of unamortized debt discount and amortization of debt issuance costs	2,930	28	Accretion of unamortized debt discount and amortization of debt issuance costs	837	824
Amortization of premium (accretion of discount) for marketable securities	Amortization of premium (accretion of discount) for marketable securities	2,819	—	Amortization of premium (accretion of discount) for marketable securities	53	984
Deferred income taxes	Deferred income taxes	(479)	(18,825)	Deferred income taxes	—	(318)
Change in fair value of common stock warrant liabilities	Change in fair value of common stock warrant liabilities	(5,405)	(81,898)	Change in fair value of common stock warrant liabilities	1	(4,462)
Impairment of intangible assets		47,581	—			
Changes in operating assets and liabilities:	Changes in operating assets and liabilities:			Changes in operating assets and liabilities:		
Accounts receivable, net	Accounts receivable, net	4,496	975	Accounts receivable, net	(2,367)	(158)
Prepaid expenses and other assets	Prepaid expenses and other assets	(2,247)	(7,217)	Prepaid expenses and other assets	(3,276)	(5,676)
Operating lease right-of-use assets	Operating lease right-of-use assets	1,145	(15,045)	Operating lease right-of-use assets	151	534
Accounts payable	Accounts payable	(14,020)	(3,445)	Accounts payable	2,986	(5,613)
Loss contingency accrual		(4,605)	11,557			
Operating lease liabilities	Operating lease liabilities	(895)	16,118	Operating lease liabilities	(545)	(473)
Other accruals and liabilities	Other accruals and liabilities	(21,818)	28,208	Other accruals and liabilities	11,880	(2,946)
Net cash used in operating activities	Net cash used in operating activities	(166,784)	(103,326)	Net cash used in operating activities	(14,699)	(83,450)
Investing Activities	Investing Activities			Investing Activities		
Purchases of property and equipment, including internal-use software	Purchases of property and equipment, including internal-use software	(1,957)	(2,068)	Purchases of property and equipment, including internal-use software	(11,608)	(107)
Investment in non-marketable equity securities		—	(54,748)			
Purchases of marketable securities	Purchases of marketable securities	(432,873)	—	Purchases of marketable securities	—	(149,495)
Proceeds from maturities of marketable securities	Proceeds from maturities of marketable securities	485,565	—	Proceeds from maturities of marketable securities	37,640	25,593
Proceeds from sales of marketable securities	Proceeds from sales of marketable securities	125,306	—	Proceeds from sales of marketable securities	41,729	83,265
Business combination, net of cash acquired		—	(83,987)			

Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities	176,041	(140,803)	Net cash provided by (used in) investing activities	67,761	(40,744)
Financing Activities	Financing Activities			Financing Activities		
Principal payments on finance leases obligations	Principal payments on finance leases obligations	(2,044)	(946)	Principal payments on finance leases obligations	(282)	(840)
Payments for debt issuance costs	Payments for debt issuance costs	(2,005)	—	Payments for debt issuance costs	—	(1,976)
Payments for extinguishment of debt		(7,540)	—			
Proceeds from issuance of common stock in follow-on offering, net of underwriting commissions, and offering costs		—	402,139			
Payments made towards deferred offering costs		—	(13,221)			
Net proceeds from exercise of stock options and issuance of common stock	Net proceeds from exercise of stock options and issuance of common stock	852	3,166	Net proceeds from exercise of stock options and issuance of common stock	33	236
Proceeds from exercise of common stock warrants, net of redemptions		—	130,571			
Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities	(10,737)	521,709	Net cash provided by (used in) financing activities	(249)	(2,580)
Net change in cash, cash equivalents and restricted cash	Net change in cash, cash equivalents and restricted cash	(1,480)	277,580	Net change in cash, cash equivalents and restricted cash	52,813	(126,774)
Cash, cash equivalents and restricted cash – beginning of year	Cash, cash equivalents and restricted cash – beginning of year	244,252	265,648	Cash, cash equivalents and restricted cash – beginning of year	365,436	244,252
Cash, cash equivalents and restricted cash – end of period	Cash, cash equivalents and restricted cash – end of period	\$ 242,772	\$ 543,228	Cash, cash equivalents and restricted cash – end of period	\$ 418,249	\$ 117,478
Supplemental cash flow data:						
Cash paid during the period for:						
Interest		\$ 15,420	\$ 161			
Noncash investing and financing activities:						
Issuance for common stock for business combination		\$ —	\$ 67,051			
Warrant liability reclassified to additional paid-in capital		\$ —	\$ 84,016			

See accompanying Notes to the Condensed Consolidated Financial Statements.

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SKILLZ INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, amounts in tables are in thousands, unless otherwise noted)

1. Description of the Business and Basis of Presentation

Business

Skillz (the "Company" or "Skillz") operates a competitive mobile eSports gaming platform, driving the future of entertainment by accelerating the convergence of sports, video games and media. The Company's principal activities are to develop and support a proprietary online-hosted technology platform that enables independent game developers to host tournaments and provide competitive gaming activity ("Competitions") to end-users worldwide.

Basis of Presentation

The Company's condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") as determined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") and pursuant to the regulations of the U.S. Securities and Exchange Commission ("SEC").

Unaudited Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and in accordance with the rules and regulations of the SEC. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of the Company's management, necessary for the fair presentation of the results of operations for the interim periods. Operating results for the three and nine months ended **September 30, 2022** **March 31, 2023** are not necessarily indicative of the results that may be expected for the year ending **December 31, 2022** **December 31, 2023**. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended **December 31, 2021** **December 31, 2022**, as filed with the SEC on **March 1, 2022** **March 31, 2023**.

Restatement of Previously Issued Consolidated Financial Statements

The Company restated the consolidated financial statements and amended certain information for the years ended December 31, 2021 and 2020 presented in its Annual Report on Form 10-K for the year ended December 31, 2022, necessary to correct for the following errors: (i) an understatement of end-user liability, (ii) an understatement of reserves for potential indirect tax liabilities, (iii) an understatement of impairment of long-lived assets, (iv) other adjustments and (v) income tax adjustments due to the aforementioned errors. In addition, the Company restated its unaudited quarterly financial data for the periods ended September 30, 2022, 2021 and 2020, June 30, 2022, 2021 and 2020, and March 31, 2022, 2021 and 2020. Such restated and unaudited quarterly financial data and related impacted amounts were presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

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SKILLZ INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, amounts in tables are in thousands, unless otherwise noted)

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the **condensed** consolidated financial statements, as well as the reported amounts of revenues and expenses during the periods presented. Estimates are used in several areas including, but not limited to, stock-based compensation, valuation of common stock warrants, the fair values of goodwill and intangible assets and the useful lives of the Company's intangible assets, indirect tax liabilities. The Company bases these estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities. Actual results could differ materially from these estimates.

Revenue Recognition

The Company generates substantially all its revenues by providing a service to the game developers aimed at improving the monetization of their game content. The monetization service provided by Skillz allows developers to offer multi-player competition to their end-users which increases end-user retention and engagement. Skillz provides developers with a software development kit ("SDK") that they can download and integrate with their existing games. The SDK serves as a data interface between Skillz and the game developers that enables Skillz to provide monetization services to the developer.

The Company recognizes revenue for its services in accordance with the FASB **ASC Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers** ("ASC 606").

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, amounts in tables are in thousands, unless otherwise noted)

Revenues from Contracts with Customers

The Company applies the five-step model to achieve the core principle of ASC 606. The Company determined that its customer in the provision of its technology platform and services is the game developer. The Company's ordinary activities consist of providing game developers services through access to its technology platform using the Skillz SDK. The SDK acts as an application programming interface enabling communication of data between Skillz and the game developers, which when integrated with the developer's game content, facilitates end-user registration into Competitions, competitions, managing and hosting end-user Competition competition accounts, matching players of similar

skill levels, collecting end-user entry fees, distributing end-user prizes, resolving end-user disputes pertaining to their participation in Competitions, competitions, and running third-party marketing campaigns ("Monetization Services").

The Company provides Monetization Services to game developers enabling them to offer competitive games to their end-users. These activities are not distinct from each other as the Company provides an integrated service enabling the game developers to provide the competitive game service to the end-users, and as a result, they do not represent separate performance obligations. The Company is entitled to a revenue share based on total entry fees for paid Competitions, competitions, regardless of how they are paid, net of end-user prizes (i.e., winnings from the Competitions, competitions) and other costs to provide the Monetization Services. Entry fees used to enter paid competitions can include net cash deposits, cash from prior winnings, and end-user incentives. The game developers' revenue share however, is calculated solely based upon entry fees paid by from monthly net cash deposits received from end-users, end-users, calculated based on paid entry fees attributable to their games as a percentage of total entry fees. End-user incentives are not paid for by game developers. In addition, the Company reduces revenue accounts for end-user incentives which are treated either as a reduction of revenue, revenue or as sales and marketing expense as noted below.

The Company collects the entry fees and related charges from end-users on behalf of game developers using the end-user's pre-authorized credit card or PayPal account and withholds its fees before making the remaining disbursement to the game developer; thus, the game developer's ability and intent to pay the amounts withheld by the Company is not subject to significant judgment. Certain of the Company's larger developer agreements provide the Company with the right to receive additional consideration from the game developer related to user acquisition costs incurred by the Company to provide its Monetization Services. The amount and timing of the additional consideration the Company expects to receive is uncertain and based on the future performance of the respective developer's games. The Company has not included these amounts of additional consideration in the transaction price related to its Monetization Services as it is not probable that a significant reversal of cumulative revenue recognized related to these amounts will not occur.

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Revenue is recognized at the time the performance obligation is satisfied by transferring control of the promised service in an amount that reflects the consideration that the Company expects to receive in exchange for the Monetization Services. The Company recognizes revenue upon completion of a game, which is when its performance obligation to the game developer is satisfied. The Company does not have recognize contract assets or contract liabilities as the payment of the transaction price is concurrent with the fulfillment of the services. At the time of game completion, the Company has the right to receive payment for the services rendered. The Company's agreements with game developers can generally be terminated for convenience by either party upon thirty days prior written notice, and in certain of the Company's larger developer agreements, the developer, if required by the Company, must continue to make its games available on the platform for a period of up to twelve months. As the Company is able to terminate the developer agreements at its convenience, the Company has concluded the contract term for revenue recognition does not extend beyond the contractual notification period. The Company did not have any transaction price allocated to performance obligations that are unsatisfied (or partially satisfied) as of September 30, 2022, March 31, 2023 and 2021, 2022.

Games provided by two developer partners each accounted for 40% 36% and 44% of the Company's revenue from Monetization Services in the three months ended September 30, 2022, 38% March 31, 2023 and 41% for the nine months ended September 30, 2022, respectively. Games provided by two developer partners accounted for 43% and 37% 38% in the three months ended September 30, 2021, respectively, and 43% and 39% in the nine months ended September 30, 2021, respectively, March 31, 2022.

End-User Incentive Programs

To drive traffic to the platform, the Company provides promotions and incentives to end-users in various forms. Evaluating whether a promotion or incentive is a payment to a customer may require significant judgment. Promotions and incentives which are consideration payable to a customer are recognized as a reduction of revenue at the later of when revenue is recognized or when the Company pays or promises to pay the incentive. Promotions and incentives recorded as sales and marketing expenses expense are recognized when the related cost is incurred by the Company. In either case, the promotions

The Company's primary end-user incentive is Bonus Cash, which is a promotional incentive that cannot be withdrawn and incentives are recognized when they are can only be used by end-users to enter into paid-entry fee contests. Bonus Cash used as entry fees for paid competitions can include newly issued Bonus Cash and/or Bonus Cash that had been returned from prior winnings to an end-user. The Company recognizes the entire cost of Bonus Cash as a sales and marketing expense or a reduction of revenue (as discussed below) only when the Bonus Cash is lost in a competition, as that is the point at which the Company incurs the cost of the Bonus Cash and when revenue is recognized from such Bonus Cash. When Bonus Cash used as entry fees for a paid Competition, competition is returned to an end-user as winnings, the Company does not record a sales and marketing expense or a reduction of revenue for such Bonus Cash. Further, if the Bonus Cash is returned to an end-user and is used to enter subsequent competitions and the end-user continues to win, the Company does not record any sales and marketing expense or a reduction of revenue each time the Bonus Cash is returned to the winning end-user.

- *Marketing promotions and discounts accounted for as a reduction of revenue.* These promotions are typically pricing actions in the form of discounts that reduce the end-user entry fees and are offered on behalf of the game developers. Although not required based on the Company's agreement with its developers, the Company considers that the game developers have a valid expectation that certain incentives will be offered to end-users. The determination of a valid expectation is based on the evaluation of all information reasonably available to the game developers regarding the Company's customary business practices, published policies and specific statements.

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An example of an incentive for which the game developer has a valid expectation is Ticketz, which are a virtual currency earned for every competition played based on the amount of the entry fee ("Ticketz"). Ticketz can be redeemed for prizes, including bonus cash prizes, a promotional incentive that cannot be withdrawn and can only be used by end-users to enter into paid entry fee contests ("Bonus Cash"). Cash prizes. Another example is initial deposit Bonus Cash which is a promotional incentive that can be earned in fixed amounts when an end-user makes an initial deposit on the Skillz platform. Bonus Cash can only be used by end-users to enter into future paid entry paid-entry fee competitions and cannot be withdrawn until it is won by end-users another end-user.

For the three months ended September 30, 2022 March 31, 2023 and 2021, 2022, the Company recognized a reduction of revenue of \$10.8 million \$8.0 million and \$18.7 million, respectively, related to these end-user incentives. For the nine months ended September 30, 2022 and 2021, the Company recognized a reduction of revenue of \$40.2 million and \$54.9 million \$16.4 million, respectively, related to these end-user incentives.

- Marketing promotions accounted for as sales and marketing expense. When the Company concludes that the game developers do not have a valid expectation that the rewards and awards incentive will be offered, to end-users to engage on the platform, the Company records the engagement marketing expenses related cost as sales and marketing expenses. expense. The Company's assessment is based on an evaluation of all information reasonably available to the game developers regarding the Company's customary business practices, published policies and

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(Unaudited, amounts in tables are in thousands, unless otherwise noted)

specific statements. These promotions are offered to end-users to draw, re-engage, or generally increase end-users' use of the Company's platform.

An example of this type of incentive is limited-time Bonus Cash offers, which are targeted to specific end-users, typically those who deposit more frequently or have not made a deposit recently, via email or in-app promotions. The Company targets groups of end-users differently, offering specific promotions it thinks will best stimulate engagement. Similar to Bonus Cash earned from a redemption of Ticketz or an initial deposit, limited-time Bonus Cash can only be used by end-users to enter into future paid entry fee competitions and cannot be withdrawn by end-users. The Company also hosts engagement marketing leagues run over a period of days or weeks, which award league prizes in the form of cash or luxury goods to end-users with the most medals at the end of the league. End-users accumulate medals by winning Skillz enabled paid entry fee competitions. Skillz determines whether or not to run a league, what prizes should be awarded, over what time period the league should run, and to which end-users the prizes should be paid, all at its discretion. The league parameters vary from one league to the next and are not reasonably known to the game developers. League prizes in the form of cash can be withdrawn or used by end-users to enter into future paid entry paid-entry fee competitions.

For the three months ended September 30, 2022 March 31, 2023 and 2021, 2022, the Company recognized sales and marketing expense of \$21.9 million \$16.7 million and \$47.0 million, respectively, related to these end-user incentives. For the nine months ended September 30, 2022 and 2021, the Company recognized sales and marketing expense of \$85.4 million and \$122.6 million \$38.1 million, respectively, related to these end-user incentives.

From time to time, the Company issues credits or refunds to end-users that are unsatisfied by the level of service provided by the game developer. There is no contractual obligation for the Company to refund such end-users nor is there a valid expectation by the game developers for the Company to issue such credits or refunds to end-users on their behalf. The Company accounts for credits or refunds, which are not recoverable from the game developer, as sales and marketing expenses when incurred.

Total engagement marketing accounted for as sales and marketing expense recognized in the three months ended September 30, 2022 March 31, 2023 and 2021 2022 was \$23.8 million \$17.6 million and \$50.0 million, respectively. Total engagement marketing accounted for as sales and marketing expenses recognized in the nine months ended September 30, 2022 and 2021 was \$96.3 million and \$130.9 million \$42.6 million, respectively.

Cost of Revenue

Cost of revenue primarily comprises of third-party payment processing fees, server costs, amortization of developed technology, personnel expenses, direct software costs, amortization of internal use software, hosting expenses, and allocation of shared facility and other costs.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash, commercial paper, money market funds and U.S government agency securities with maturities of three months or less when purchased.

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Restricted cash maintained under an agreement that legally restricts the use of such funds is not included within cash and cash equivalents and is reported within other long-term assets. Restricted cash is comprised of \$2.9 million, which is pledged in the form of a letter of credit for the Company's headquarters in San Francisco.

A reconciliation of the Company's cash and cash equivalents in the condensed consolidated balance sheets to cash, cash equivalents and restricted cash in the condensed consolidated statement of cash flows is as follows:

	March 31,		December 31,	
	2023	2022	2023	2022
Cash and cash equivalents	\$ 415,329	\$ 362,516		
Restricted cash included in other long-term assets	2,920	2,920		
Cash, cash equivalents and restricted cash	\$ 418,249	\$ 365,436		

	September 30,		December 31,	
	2022	2021	2022	2021
Cash and cash equivalents	\$ 239,852	\$ 241,332		
Restricted cash included in other long-term assets	2,920	2,920		
Cash, cash equivalents and restricted cash	\$ 242,772	\$ 244,252		

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Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash, cash equivalents, restricted cash, and marketable securities. Although the Company deposits its cash with multiple well-established financial institutions, the deposits, at times, may exceed federally insured limits. The Company has not experienced any losses on its deposits of cash and cash equivalents. Marketable securities primarily consist of U.S government, corporate debt securities, asset backed securities commercial paper, and debt instruments issued by foreign governments. The Company limits the amount of credit exposure to any one issuer. Management believes that the institutions are financially stable and, accordingly, minimal credit risk exists.

Accounts Receivable, Net

Accounts receivable, net, is comprised of trade accounts receivable recorded at the invoiced amounts for programmatic media campaigns, net of an allowance for credit losses. The allowance for credit losses is recorded as an offset to accounts receivable and changes in such are classified as general and administrative expense in the condensed consolidated statements of operations and comprehensive loss. The Company assesses collectability by reviewing accounts receivable on a collective basis where similar characteristics exist and on an individual basis when there are specific customers with known disputes or collectability issues. In determining the amount of the allowance for credit losses, the Company considers historical collectability based on past due status and makes judgments about the creditworthiness of customers based on ongoing credit evaluations. The Company also considers customer-specific information, current market conditions and reasonable and supportable forecasts of future economic conditions to inform adjustments to historical loss data. At September 30, 2022 March 31, 2023, the Company's allowance for credit losses on accounts receivable was not significant to the condensed consolidated financial statements.

Fair Value Measurement

The Company applies fair value accounting for financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the condensed consolidated financial statements on a recurring basis. The Company defines fair value 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. When determining fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which it would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

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- Level 2 — Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 — Unobservable inputs reflecting management's estimate of assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Certain financial instruments, including debt, are not measured at fair value on a recurring basis in the consolidated balance sheets. The fair value of debt was estimated using primarily level 2 inputs, including quoted market prices or present value of future payments discounted by the market interest rates or the fixed rates based on current rates offered to the Company for debt with similar terms and maturities.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is tested for impairment at the reporting unit level, which is the same or one level below the operating segment. The Company has one operating segment and a single reporting unit. The Company identifies its reporting unit by assessing whether there are components of its operating segment which constitute businesses for which discrete financial information is available and reviewed regularly by the segment manager. The Company tests goodwill for impairment at least annually during the fourth fiscal quarter, or more frequently if indicators of impairment exist during the fiscal year. Events or circumstances which could trigger an impairment review include a significant adverse change in legal factors or in the business climate, loss of key customers, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends or significant underperformance relative to expected historical or projected future results of operations. When testing goodwill for impairment, the Company first performs a qualitative assessment. If the Company determines it is not more likely than not that a reporting unit's fair value is less than its carrying amount, then no further analysis is necessary. If the Company determines it is more likely than not that a reporting unit's fair value is less than its carrying amount, then the Company compares the estimated fair value of the reporting unit with its carrying amount, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired. If, however, the fair value of the reporting unit is less than its carrying amount, the difference between the carrying value and the fair value would be recorded as an impairment loss. Any impairment loss is limited to the carrying amount of goodwill allocated to the reporting unit.

The Company performs its goodwill impairment evaluation annually, during the fourth quarter, or sooner if triggering events are identified. The Company observed continued market volatility including significant declines in its market capitalization and revised its financial outlook during the three months ended September 30, 2022, which was identified as a triggering event. As a result, the Company performed an interim quantitative goodwill impairment evaluation during the three months ended September 30, 2022, and determined the fair value of its reporting unit was greater than its carrying value and did not record a goodwill impairment charge. See Note 5, Goodwill and Intangible Assets, for further details.

Long-Lived Assets

Long-lived assets consist of property, plant equipment and intangible assets with estimable useful lives subject to depreciation and amortization. Intangible assets consist of purchased intangible assets, including developed technology, customer relationships, trademarks and tradenames, and are amortized over their useful lives ranging from one to eight years using the straight-line method of amortization. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of an asset or asset group to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of the asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group.

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value of future payments discounted by the market interest rates or the fixed rates based on current rates offered to the Company for debt with similar terms and maturities.

Long-Lived Assets

Long-lived assets consist of property and equipment with estimable useful lives subject to depreciation and amortization. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. When impairment indicators are identified, the Company assesses its long-lived assets for impairment. Recoverability of an asset or asset group to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of the asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group.

In the third quarter of 2022, On March 15, 2023, the Company revised its financial outlook, resulting completed the purchase of an office building in lower projected user acquisition spend and a slower than expected migration of that spend to the Aarki technology-driven marketing platform, resulting in unrealized cost-saving synergies. Las Vegas, Nevada for \$11.5 million. The Company determined that this constituted a triggering event for one of intends to use the building as the Company's held and used long-lived asset groups, primarily consisting future headquarters. The building will be depreciated on a straight-line basis over its estimated useful life of 20 years. The land is not subject to depreciation.

During the three months ended March 31, 2022, the Company recognized \$4.1 million of amortization expense associated with finite-lived intangible assets, including developed technology, customer relationships, trademarks and customer relationship tradenames, in the condensed consolidated statements of operations and comprehensive loss. As these finite-lived intangible assets were fully impaired and written off as of December 31, 2022, the Company determined the fair value of the long-lived asset group was lower than its carrying value and recorded an intangible asset impairment charge of \$47.6 million did not recognize amortization expense during the three months ended September 30, 2022 March 31, 2023. See Note 5, Goodwill and Intangible Assets, for further details.

Investments

The Company considers all highly liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. The fair values of these investments approximate their carrying values. In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year are classified as non-current marketable securities. Dividend and interest income are recognized when earned.

Marketable securities are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in fair value, excluding credit losses and impairments, are recorded in other comprehensive income (loss) in the consolidated statement of operations and comprehensive loss. Fair value is calculated based on publicly available market information or other estimates determined by management. If the cost of an investment exceeds its fair value, the Company evaluates, among other factors, general market conditions, credit quality of debt instrument issuers, and the extent to which the fair value is less than cost. To determine credit losses, the Company employs a systematic methodology that considers available quantitative and qualitative evidence. In addition, the Company considers specific adverse conditions related to the financial health of, and business outlook for, the investee. If the Company plans to sell the security or it is more likely than not that the Company will be required to sell the security before recovery, then a decline in fair value below cost is recorded as an impairment charge in other (expense) income (expense), net in the condensed consolidated statement of operations and comprehensive loss and a new cost basis in the investment is established. If market, industry, and/or investee conditions deteriorate, the Company may incur future impairments.

The Company has elected to measure its existing investments in non-marketable equity securities at cost, less impairments, with remeasurements to fair value only upon the occurrence of observable price changes in orderly transactions for the identical or similar securities of the same issuer ("measurement alternative"). This election is reassessed each reporting period to determine whether non-marketable equity securities have a readily determinable fair value, in which case they would no longer be eligible for this election and would be measured at fair value. The Company evaluates its non-marketable equity securities for impairment at each reporting period based on a qualitative assessment that considers various potential impairment indicators. Impairment indicators might include, but would not necessarily be limited to, a significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee, a significant adverse change in the regulatory, economic, or technological environment of the investee, a bona fide offer to purchase, an offer by the investee to sell, or a completed auction process for the same or similar securities for an amount less than the carrying amount of the investments in those securities. If an impairment exists, a loss is recognized in the condensed consolidated statements of

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operations and comprehensive loss for the amount by which the carrying value exceeds the fair value of the investment. Gains and losses resulting from the remeasurement of non-marketable equity securities, including impairment, are recorded through other income (expense) income, net in the condensed consolidated statement of operations and comprehensive loss. The Company separately presents investments in non-marketable equity securities within long-term assets on the condensed consolidated balance sheets.

Advertising and Promotional Expense

Advertising and promotional expenses are included in sales and marketing expenses within the condensed consolidated statements of operations and comprehensive loss and are expensed when incurred. Excluding marketing promotions related to the Company's end-user incentive programs, advertising expenses were \$18.6 million \$8.8 million and \$55.2 million \$60.2 million for the three months

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ended September 30, 2022 March 31, 2023 and 2021, respectively, and \$109.0 million and \$156.6 million for the nine months ended September 30, 2022 and 2021, 2022, respectively.

Public and Private Common Stock Warrant Liabilities

As part of the Company's initial public offering, it issued to third party investors 69.0 million units, consisting of one share of Class A common stock and one-fourth of one warrant, at a price of \$10.00 per unit. Each whole warrant entitled the holder to purchase one share of Class A common stock at an exercise price of \$11.50 per share (the "Public Warrants"). Simultaneously, the Company completed the private sale of 10,033,333 warrants at a purchase price of \$1.50 per warrant (the "Private Warrants") of which 5,016,666 Private Warrants were subsequently forfeited. Each Private Warrant allows the holder to purchase one share of Class A common stock at \$11.50 per share. There were zero Public Warrants and 4,535,728 Private Warrants outstanding as of September 30, 2022.

The Private Warrants and the shares of common stock issuable upon the exercise of the Private Warrants are not transferable, assignable or salable, subject to certain limited exceptions. Additionally, the Private Warrants are exercisable for cash or on a cashless basis and are non-redeemable so long as they are held by the initial purchasers or their permitted transferees. If the Private Warrants are held by someone other than the initial purchasers or their permitted transferees, the Private Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants.

The Company evaluated the Public and Private Warrants under ASC 815-40, *Derivatives and Hedging—Contracts in Entity's Own Equity*, ("ASC 815-40"), and concluded that they do not meet the criteria to be classified in stockholders' equity. Specifically, the exercise of the Public and Private Warrants may be settled in cash upon the occurrence of a tender offer or exchange that involves 50% or more of the Company's Class A stockholders. As there are two classes of common stock, not all of the stockholders need to participate in such tender offer or exchange to trigger the potential cash settlement and the Company does not control the occurrence of such an event, the Company concluded that the Public Warrants and Private Warrants do not meet the conditions to be classified in equity. Since the Public and Private Common Stock Warrants meet the definition of a derivative under ASC 815, the Company recorded these warrants as liabilities on the balance sheet at fair value, with subsequent changes in their respective fair values recognized in the condensed consolidated statement of operations and comprehensive loss at each reporting date. Because the Public Warrants were publicly traded and thus had an observable market price in an active market, they were valued based on their trading price as of each reporting date.

The Private Warrants are valued using the Black-Scholes-Merton Option ("BSM") pricing model that is based on the individual characteristics of the warrants on the valuation date, which include the Company's stock price and assumptions for expected volatility, expected life and risk-free interest rate, as well as the present value of the minimum cash payment component of the instrument for the warrants, when applicable. Changes in the assumptions used could have a material impact on the resulting fair value of each warrant. The primary inputs affecting the value of the warrant liability are the Company's stock price and volatility in the Company's stock price, as well as assumptions about the probability and timing of certain events, such as a change in control or future equity offerings. Increases in the fair value of the underlying stock or increases in the volatility of the stock price generally result in a corresponding increase in the fair value of the warrant liability; conversely, decreases in the fair value of the underlying stock or decreases in the volatility of the stock price generally result in a corresponding decrease in the fair value of the warrant liability.

Stock-Based Compensation

The Company measures and recognizes compensation expense for all stock-based awards based on estimated grant-date fair values recognized over the requisite service period. For awards that vest solely based on a service condition, the Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period. The compensation expense related to awards with performance conditions is recognized over the requisite service period when the performance conditions are probable of being achieved. The compensation expense related to awards with market conditions is recognized on an accelerated attribution basis over the requisite service period identified as the derived service period over which the market conditions are expected to be achieved and is not reversed if the market condition is not satisfied. See Note 14, 10, Stock-Based Compensation, for more information. The Company accounts for forfeitures as they occur. If an employee stock-based award is canceled without the concurrent grant or offer of a replacement award, the cancellation should be treated as a

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settlement for no consideration and any previously unrecognized compensation cost shall be recognized at the cancellation date. Stock-based awards granted to employees are primarily stock options and restricted stock units.

The Company has primarily granted restricted stock units ("RSUs"), which have a service-based (and in certain circumstances, performance-based) vesting condition over a four-year period, to its employees and members of the Board of Directors since the start of 2021. The Board of Directors determines the fair value of each share of underlying common stock based on the closing price of the Company's common stock on the date of the grant.

For awards with market conditions, the Company determines the grant date fair value utilizing a Monte Carlo valuation model, which incorporates various assumptions including expected stock price volatility, expected term, risk-free interest rates, expected date of a qualifying event, expected capital raise percentage and market capitalization milestones. Given the Company's limited market trading history, it has estimated the volatility of its common stock on the date of grant of awards with market conditions based on the weighted average historical stock price volatility of comparable publicly-traded companies in its industry group. The Company estimated the expected term of its awards with market conditions based on various exercise scenarios, as these awards are not considered "plain vanilla." The Company utilized a risk-free interest rate based on the U.S. Treasury yield curve in effect at the time of grant. The Company estimated the expected date of a qualifying event, the expected capital raise percentage and the expected achievement date of market capitalization milestones based on management's expectations at the time of measurement of the award's value.

Segments

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Segments

Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. During the three and nine months ended September 30,

2022 March 31, 2023, the Company continued to operate as a single operating and reportable segment as the CODM reviews financial information presented on a consolidated basis for the purposes of making operating decisions, allocation of resources, and evaluating financial performance.

Recently Issued Accounting Pronouncements Not Yet Adopted

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which requires entities to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, Revenue from Contracts with Customers, instead of fair value at the acquisition date in accordance with Topic 805. The amendments in ASU 2021-08 will result in the acquirer recording acquired contract assets and liabilities on the same basis that would have been recorded by the acquiree before the acquisition under ASC Topic 606. The amendments in ASU 2021-08 are effective for fiscal years beginning after December 15, 2022, with early adoption permitted. The Company is evaluating adopted this guidance effective January 1, 2023 and it did not have an impact on the Company's financial position, results of operations including per-share amounts, or cash flow statements.

Other recent accounting pronouncement issued, not yet effective, are not expected to be applicable to the Company or have a material effect of adopting this new accounting guidance, on the consolidated statements upon future adoption.

3. Business Combinations

Acquisition of Aarki, Inc.

On July 16, 2021, the Company completed the acquisition of Aarki, Inc. ("Aarki") and acquired 100% of the outstanding equity and voting interest of Aarki under the terms of the Agreement and Plan of Merger. The Company transferred \$162.3 million in consideration comprised of \$95.3 million in cash and the remaining \$67.1 million comprised of 4.4 million shares of Skillz Class A common stock to the existing Aarki stockholders. The addition of Aarki's technology-driven marketing platform is expected to result in significant efficiencies in user-acquisition costs, which can be reinvested to acquire more users to accelerate growth and provide a broader product offering, including media buying capabilities to better serve game developers.

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The following table summarizes the fair value of the purchase price to acquire Aarki:

Description	Amount
Cash	\$ 95,296
Common stock issued ⁽¹⁾	67,051
Total purchase price	\$ 162,347

⁽¹⁾ The fair value of the Skillz Class A Common Stock issued in the merger was based on 4,401,663 shares issued on the July 16, 2021 acquisition date at the closing price of the Company's common stock on such date of \$15.23 per share.

The following is an allocation of the purchase price as of July 16, 2021, the acquisition closing date, based on an estimate of the fair value of the assets acquired and liabilities assumed by the Company in the acquisition:

Description	Amount
Cash and cash equivalents	\$ 11,309
Accounts receivable, net	13,700
Prepaid expenses and other current assets	356
Property, plant and equipment, net	5,075
Intangible assets, net	86,800
Accounts payable	(445)
Accrued professional fees	(3,145)
Other current liabilities	(16,471)
Deferred tax liabilities	(20,075)
Other long-term liabilities	(1,693)
Identifiable net assets acquired	75,502
Goodwill	86,845
Total purchase price	\$ 162,347

The following is a summary of identifiable intangible assets acquired and their expected lives as of the acquisition closing date:

Type	Weighted-average useful life (in years)	Fair Value
Developed technology	8	\$ 60,400
Customer relationships	3	26,200
Trademark and trade name	0.3	200
Total identifiable intangible assets acquired		\$ 86,800

During the first quarter of 2022, the Company recorded a measurement period adjustment of \$0.4 million to increase the carrying value of the identifiable net assets acquired, with a corresponding decrease to goodwill. The adjustment is related to a subsequent adjustment to Aark's federal and state tax payable as of the acquisition closing date.

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4. Balance Sheet Components

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following as of September 30, 2022 March 31, 2023 and December 31, 2021 December 31, 2022:

	September 30,		December 31,		March 31,		December 31,	
	2022		2021		2023		2022	
Credit card processing reserve	Credit card processing reserve	\$ 11,913	\$ 9,527	Credit card processing reserve	\$ 1,000	\$ 1,000		
Prepaid expenses	Prepaid expenses	5,350	5,681	Prepaid expenses	5,537		2,234	
Other current assets	Other current assets	1,204	1,496	Other current assets	1,383		1,488	
Prepaid expenses and other current assets	Prepaid expenses and other current assets	\$ 18,467	\$ 16,704	Prepaid expenses and other current assets	\$ 7,920	\$ 4,722		

Other Current Liabilities

Other current liabilities consisted of the following as of September 30, 2022 March 31, 2023 and December 31, 2021 December 31, 2022:

	September 30,		December 31,	
	2022		2021	
Accrued sales and marketing expenses		\$ 4,181	\$ 28,895	
Accrued compensation		9,016	12,108	
Accrued publisher fees		5,735	3,912	
End-user liability, net		18	4,118	
Accrued developer revenue share		970	1,655	
Short-term lease obligation		1,904	2,447	
Accrued legal expenses		9,714	5,126	
Accrued interest expense		8,637	956	
Other accrued expenses		5,715	5,752	
Other current liabilities		\$ 45,890	\$ 64,969	

5. Goodwill and Intangible Assets

Goodwill

The Company performs its goodwill impairment evaluation annually, during the fourth quarter, or sooner if triggering events are identified. The Company observed continued market volatility including significant declines in its market capitalization and revised its financial outlook during the three months ended September 30, 2022, which was identified as a triggering event.

Accordingly, the Company performed a quantitative goodwill impairment test and estimated the fair value of its single reporting unit based on the combination of an income approach (estimates of future discounted cash flows) and a market approach (market multiples for similar companies). Significant unobservable inputs and assumptions inherent in the valuation methodologies, which represented Level 3 inputs under the fair value hierarchy, were employed and included, but were not limited to, prospective financial information, terminal value assumptions, discount rates, and multiples from comparable publicly traded companies in the Company's industry.

	March 31,		December 31,	
	2023		2022	
	\$		\$	
Accrued sales and marketing expenses	\$	2,993	\$	4,409
Accrued compensation		6,198		4,991
Accrued publisher fees		3,967		4,442
End-user liability, net		7,637		8,984
Accrued developer revenue share		1,654		2,017
Short-term lease obligation		1,263		1,525
Accrued legal expenses		9,815		1,984
Accrued interest expense		8,655		1,236
Indirect tax liabilities		11,393		10,909
Other accrued expenses		11,004		5,169
Other current liabilities	\$	64,579	\$	45,666

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The income approach consisted of a discounted cash flow ("DCF") method that utilized the present value of cash flows to estimate the fair value of the Company's reporting unit. The future cash flows for the reporting unit were projected primarily based upon the Company's estimates of future revenue and operating income. As part of the DCF analysis, the Company projected revenue and operating profits, and a long-term revenue growth rate in the terminal year. The market approach utilized multiples of revenues and earnings before interest expense, taxes, depreciation and amortization ("EBITDA") to estimate the fair value of the Company's reporting unit. The market multiples used for the Company's single reporting unit were based on a group of comparable companies' market multiples applied to the Company's projected revenue. As part of its analysis, the Company reconciled the estimated fair value of its single reporting unit derived from the combination of the income and market approaches to its market capitalization as of the measurement date, adjusted to reflect an estimated control premium.

During the three and nine months ended September 30, 2022, the Company determined its goodwill was not impaired as the fair value of its reporting unit was higher than its carrying value.

The following table presents details of changes to the Company's goodwill balance for the nine months ended September 30, 2022:

	Goodwill
Balance at December 31, 2021	\$ 86,845
Goodwill adjustment (1)	(409)
Balance as of September 30, 2022	\$ 86,436

(1) During the first quarter of 2022, the Company recorded a measurement period adjustment to increase the carrying value of the identifiable net assets acquired as a result of the Aarki acquisition, with a corresponding decrease to goodwill. See Note 3, Business Combinations, for more details.

Intangible Assets, Net

In the third quarter of 2022, the Company revised its financial outlook, resulting in lower projected user acquisition spend and a slower than expected migration of that spend to the Aarki technology-driven marketing platform, resulting in unrealized cost-saving synergies. The Company determined that this constituted a triggering event for one

of the Company's held and used long-lived asset groups, primarily consisting of developed technology and customer relationship intangible assets. The Company reviewed the undiscounted future cash flows for the identified long-lived asset group, and the results of the analysis indicated the carrying amount for the long-lived asset group was not expected to be recovered. As a result, the Company performed an analysis to estimate the fair value of the long-lived asset group, comprising the intangible assets acquired as part of the Aarki acquisition.

The fair value of the identified intangible assets was estimated using an income approach. Under the income approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. Indications of value are developed by discounting future net cash flows to their present value at market-based rates of return. Significant factors considered in the calculation of the fair value of the long-lived asset group were projected revenue, gross margins, maintenance level operating expenses, the remaining economic life of the overall long-lived asset group based on the primary asset of the group, which was determined to be the developed technology, along with the discount rates used to derive the estimated present values of future cash flows. The Company applied judgment which involved the use of significant assumptions with respect to its income forecast such as the level and timing of future cash flows. The Company believes the level and timing of expected future cash flows appropriately reflects market participant assumptions.

The Company determined the fair value of the long-lived asset group was lower than its carrying value and recorded an intangible asset impairment charge of \$47.6 million during the three months ended September 30, 2022, of which \$36.2 million and \$11.4 million related to the Company's developed technology and customer relationships, respectively. This non-cash charge was recorded to impairment of intangible assets on the unaudited condensed consolidated statements of operations and comprehensive loss.

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The components of intangible assets consisted of the following as of September 30, 2022:

	Weighted Average Remaining Useful Life (in years)	Accumulated Amortization			Impairment	Net Carrying Amount
		Gross Carrying Amount				
Developed technology	6.8	\$ 60,400	\$ (8,684)	\$ (8,684)	\$ (36,170)	\$ 15,546
Customer relationships	1.8	26,200	(10,046)	(10,046)	(11,411)	4,743
Trademark and trade name	0.0	200	(200)	(200)	—	—
Intangible assets, net		\$ 86,800	\$ (18,930)	\$ (18,930)	\$ (47,581)	\$ 20,289

The following table sets forth the activity related to finite-lived intangible assets:

		Nine Months Ended September 30,	2022
Beginning balance at December 31, 2021		\$ 79,137	
Amortization		(11,267)	
Impairment		(47,581)	
Ending balance at September 30, 2022		\$ 20,289	

The following table summarizes amortization expense associated with finite-lived intangible assets recognized in the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2022 as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	\$ 1,449	\$ 1,573	\$ 5,224	\$ 1,573
Sales and marketing	1,676	1,819	6,043	1,819
General and administrative	—	167	—	167
Total amortization expense	\$ 3,125	\$ 3,559	\$ 11,267	\$ 3,559

The following table outlines the estimated future amortization expense related to finite intangible assets as of September 30, 2022:

2022 (excluding the nine months ended September 30, 2022)	\$ 1,234
2023	4,936
2024	3,723
2025	2,289
2026	2,289

Thereafter	5,818
Total	\$ 20,289

6. Restructuring

In the second and third quarters of 2022, the Company approved and implemented restructuring plans to realign resources and reduce operating costs. As a result, during the three and nine months ended September 30, 2022, the Company recorded restructuring charges of \$1.9 million and \$4.5 million, respectively, primarily consisting of severance and continuation of health insurance benefits. The Company does not expect to incur restructuring charges in fourth quarter of fiscal year 2022.

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The table below summarizes the restructuring charges recognized on the condensed consolidated statement of operations and comprehensive loss for the three and nine months ended September 30, 2022 as follows:

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2022	2022	2022	2022
Research and development		\$ 1,075	\$ 1,905	
Sales and marketing		160	947	
General and administrative		625	1,673	
Total		\$ 1,860	\$ 4,525	

The table below summarizes the activity and balance of accrued restructuring, which is included in "Other current liabilities" in the condensed consolidated balance sheet:

	Restructuring Accrual
Employee termination benefits	\$ 4,830
Cash payments	(4,203)
Restructuring liability as of September 30, 2022	\$ 627

7.4. Fair Value Measurements

As of **September 30, 2022** **March 31, 2023** and **December 31, 2021** **December 31, 2022**, the recorded values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate their respective fair values due to the short-term nature of the instruments.

Cash and cash equivalents held by the Company as of **September 30, 2022** **March 31, 2023** and **December 31, 2021** **December 31, 2022** were **\$239.9 million** **\$415.3 million** and **\$241.3 million** **\$362.5 million**, respectively, and were comprised of cash on hand, money market funds, and highly liquid investments with original contractual maturity dates of three months or less. Cash and money market funds are classified within Level 1 of the fair value hierarchy. Highly liquid investments such as commercial papers and corporate bonds are classified within Level 2 of the fair value hierarchy.

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as of **September 30, 2022** **March 31, 2023** and **December 31, 2021** **December 31, 2022**:

Assets:	Assets:	As of September 30, 2022				As of March 31, 2023			
		Level 1		Level 2		Level 3		Level 1	
		Total		Total		Total		Total	
Available-for-Sale Investments	Available-for-Sale Investments								
Asset backed securities		\$ —	\$ 89,528	\$ —	\$ 89,528				
Asset-backed securities						Asset-backed securities	\$ —	\$ 16,790	\$ —
Corporate notes and bonds	Corporate notes and bonds	—	135,534	—	135,534	Corporate notes and bonds	—	88,779	—
									88,779

Commercial paper	—	131,122	—	131,122					
Foreign government securities	—	15,012	—	15,012					
US Government Securities	9,983	86,529	—	96,512					
Total assets	Total assets	\$ 9,983	\$ 457,725	\$ —	\$ 467,708	Total assets	\$ —	\$ 105,569	\$ —
Liabilities:	Liabilities:					Liabilities:			
Private Common Stock Warrants	Private Common Stock Warrants	\$ —	\$ —	\$ 888	\$ 888	Private Common Stock Warrants	\$ —	\$ —	\$ 290
Total liabilities	Total liabilities	\$ —	\$ —	\$ 888	\$ 888	Total liabilities	\$ —	\$ —	\$ 290

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		As of December 31, 2021				As of December 31, 2022			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:	Assets:					Assets:			
Available-for-Sale Investments	Available-for-Sale Investments					Available-for-Sale Investments			
Asset backed securities	\$ —	\$ 111,552	\$ —	\$ 111,552		Asset-backed securities	\$ —	\$ 58,192	\$ —
Certificates of deposits	—	6,002	—	6,002					
Asset-backed securities						Asset-backed securities	\$ —	\$ 58,192	\$ —
Corporate notes and bonds	Corporate notes and bonds	—	206,989	—	206,989	Corporate notes and bonds	—	110,298	—
Commercial paper	Commercial paper	—	109,391	—	109,391	Commercial paper	—	10,479	—
Foreign government securities	Foreign government securities	—	8,181	—	8,181	Foreign government securities	—	5,027	—
US government securities	US government securities	86,787	—	—	86,787	US government and agency securities	86,898	—	—
US government and agency securities						US government and agency securities	86,898	—	—
Total assets	Total assets	\$ 86,787	\$ 442,115	\$ —	\$ 528,902	Total assets	\$ 86,898	\$ 183,996	\$ —
Liabilities:	Liabilities:					Liabilities:			
Common Stock Warrants	Common Stock Warrants					Common Stock Warrants			
Private Common Stock Warrants	Private Common Stock Warrants	\$ —	\$ —	\$ 6,293	\$ 6,293	Private Common Stock Warrants	\$ —	\$ —	\$ 289
Total liabilities	Total liabilities	\$ —	\$ —	\$ 6,293	\$ 6,293	Total liabilities	\$ —	\$ —	\$ 289

Available-for-Sale Investments

Available-for-sale investments were classified within Level 1 or Level 2 because the Company's use quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value. The market values of Level 2 investments are determined based on observable inputs for the securities other than quoted prices,

such as interest rates, yield curves, and credit spreads, or quoted prices for identical or similar securities in markets that are not considered active. There were no transfers between levels during the periods presented.

Private Common Stock Warrants

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The Private Warrants were classified within Level 3 as they were valued based on a BSM pricing model, which involved the use of certain unobservable inputs, such as expected volatility estimated based on the average historical stock price volatility of comparable companies.

The following sets forth the activity for Private Warrants:

	Private Warrants
Balance at December 31, 2021	\$ 6,293,289
Fair market value adjustment	(5,405) 1
Balance at September 30, 2022	\$ 888,290

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8.5. Investments

Investment Components

The components of investments were as follows:

	As of September 30, 2022											
	Adjusted Cost		Unrealized Gains		Unrealized Losses		Fair Value		Cash and Cash Equivalents		Marketable Securities - Current	Marketable Securities - Non-current
	Basis											
Asset backed securities	\$ 89,912	\$ 1	\$ (385)	\$ 89,528	\$ —	\$ 1,014	\$ 88,514					
Corporate notes and bonds	137,701	—	(2,166)	135,535	—	130,793	4,742					
Commercial paper	131,159	3	(40)	131,122	62,798	68,324	—					
Money market funds	30,974	—	—	30,974	30,974	—	—					
Foreign government securities	15,148	—	(136)	15,012	—	15,012	—					
US government and agency securities	96,520	6	(15)	96,511	86,528	9,983	—					
Total investments	\$ 501,414	\$ 10	\$ (2,742)	\$ 498,682	\$ 180,300	\$ 225,126	\$ 93,256					

	As of March 31, 2023											
	Adjusted Cost		Unrealized Gains		Unrealized Losses		Fair Value		Cash and Cash Equivalents		Marketable Securities - Current	Marketable Securities - Non-current
	Basis											
Asset-backed securities	\$ 16,895	\$ —	\$ (105)	\$ 16,790	\$ —	\$ —	\$ 16,790	\$ —	\$ —	\$ 16,790	\$ —	
Corporate notes and bonds	89,240	—	(461)	88,779	—	—	88,779	—	88,779	—	—	
Money market funds	391,667	—	—	391,667	391,667	—	391,667	—	—	—	—	
Total investments	\$ 497,802	\$ —	\$ (566)	\$ 497,236	\$ 391,667	\$ 391,667	\$ 391,667	\$ 88,779	\$ 88,779	\$ 16,790	\$ 16,790	

As of December 31, 2022								
	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities - Current	Marketable Securities - Non-current	
Asset-backed securities	\$ 58,455	\$ 1	\$ (264)	\$ 58,192	\$ —	\$ 1,464	\$ 56,728	
Corporate notes and bonds	111,592	—	(1,294)	110,298	—	110,298	—	
Commercial paper	10,477	2	—	10,479	—	10,479	—	
Money market funds	232,448	—	—	232,448	232,448	—	—	
Foreign government securities	5,064	—	(37)	5,027	—	5,027	—	
US government and agency securities	86,869	29	—	86,898	86,898	—	—	
Total investments	\$ 504,905	\$ 32	\$ (1,595)	\$ 503,342	\$ 319,346	\$ 127,268	\$ 56,728	

As of December 31, 2021								
	Adjusted Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities - Current	Marketable Securities - Non-current	
Asset backed securities	\$ 111,619	\$ 1	\$ (68)	\$ 111,552	\$ —	\$ 5,372	\$ 106,180	
Certificates of deposits	6,002	—	—	6,002	—	6,002	—	
Corporate notes and bonds	207,169	21	(201)	206,990	3,026	132,688	71,276	
Commercial paper	109,391	—	—	109,391	24,193	85,198	—	
Money market funds	51,768	—	—	51,768	51,768	—	—	
Foreign government securities	8,186	—	(5)	8,181	—	3,008	5,173	
US government securities	86,783	4	—	86,787	—	86,787	—	
Total investments	\$ 580,918	\$ 26	\$ (274)	\$ 580,671	\$ 78,987	\$ 319,055	\$ 182,629	

Non-marketable equity securities are investments in privately held companies without readily determinable fair values. The carrying value of the Company's investments without readily determinable fair values was \$55.6 million as of **September 30, 2022** **March 31, 2023** and **December 31, 2021** **December 31, 2022** and was classified within "Investments in non-marketable equity securities" in the condensed consolidated balance sheets. The Company did not record any adjustments to the carrying value of its non-marketable equity securities accounted for under the measurement alternative and did not recognize any gains or losses related to the sale of non-marketable equity securities in the three and nine months ended **September 30, 2022** **March 31, 2023**.

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Unrealized Losses on Marketable Securities

The Company did not have any marketable **Marketable** securities with continuous unrealized losses for more less than 12 months. Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. months and 12 months or more and their related fair values were as follows:

	As of March 31, 2023					
	Less than 12 Months		12 Months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Asset-backed securities	\$ 13,413	\$ (82)	\$ 3,377	\$ (24)	\$ 16,790	\$ (106)
Corporate notes and bonds	28,848	(187)	56,894	(273)	85,742	(460)
Foreign government securities	—	—	—	—	—	—
Total investments	\$ 42,261	\$ (269)	\$ 60,271	\$ (297)	\$ 102,532	\$ (566)

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	As of December 31, 2022					
	Less than 12 Months		12 Months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Asset-backed securities	\$ 52,412	\$ (229)	\$ 4,656	\$ (35)	\$ 57,068	\$ (264)
Corporate notes and bonds	55,864	(571)	54,434	(723)	110,298	(1,294)
Foreign government securities	—	—	5,027	(37)	5,027	(37)
Total investments	\$ 108,276	\$ (800)	\$ 64,117	\$ (795)	\$ 172,393	\$ (1,595)

Marketable Securities Maturities

	Adjusted Cost Basis	Estimated Fair Value		Adjusted Cost Basis	Estimated Fair Value
September 30, 2022					
March 31, 2023					
Due in one year or less	Due in one year or less	\$ 227,352	\$ 225,126	Due in one year or less	\$ 89,240
Due after one year through five years	Due after one year through five years	93,750	93,256	Due after one year through five years	16,896
Total	Total	\$ 321,102	\$ 318,382	Total	\$ 106,136
					\$ 105,569

9.6. Long-Term Debt

Components of long-term debt were as follows as of **September 30, 2022** **March 31, 2023** and **December 31, 2021** **December 31, 2022**:

	September 30,		December 31,	
	2022	2021	2022	2021
2021 Senior Secured Notes	\$ 289,500	\$ 300,000	\$ 289,500	\$ 300,000
Unamortized discount and issuance costs	(17,532)	(21,111)	(15,883)	(16,719)
Long-term debt, non-current	\$ 271,968	\$ 278,889	\$ 273,617	\$ 272,781

	March 31,		December 31,	
	2023	2022	2023	2022
2021 Senior Secured Notes, non-current	\$ 289,500	\$ 289,500	\$ 289,500	\$ 289,500
Unamortized discount and issuance costs	(15,883)	(16,719)	(15,883)	(16,719)
Long-term debt, non-current	\$ 273,617	\$ 272,781	\$ 273,617	\$ 272,781

2021 Senior Secured Notes

In December 2021, the Company entered into a \$300 million 10.25% secured notes in a private placement to certain institutional buyers. The interest is payable semiannually on June 15 and December 15 of each year, beginning on June 15, 2022. At issuance, the effective interest rate on the notes was 12.14%. The notes will mature on December 15, 2026, unless repurchased or redeemed earlier. On September 1, 2022, the Company redeemed \$10.5 million of the principal amount of the 2021 Senior Secured Notes which resulted in a gain on extinguishment of debt of \$2.6 million as the notes were redeemed for total consideration below par value of the notes. The redemption price was equal to 69.5% of the aggregate principal amount plus accrued and unpaid interest. The redemption also resulted in a decrease of the effective interest rate to 12.09%. The

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secured notes contain customary covenants restricting the Company's ability to incur debt, incur liens, make distributions to stockholders, make certain transactions with our affiliates, as well as certain other financial covenants. The Company was in compliance with all covenants as of **September 30, 2022** **March 31, 2023**.

In accounting for the senior secured notes, unamortized discount and issuance costs were deducted from the carrying value in the condensed consolidated balance sheet. Issuance costs will be recognized as interest expense over the five-year term of the senior secured notes. The senior secured notes are classified as Level 2 financial instruments, and its fair value is presented for disclosure purposes only. The Company determined the fair value of the notes is **\$198 million** was **\$200 million** as of **September 30, 2022** **March 31, 2023** based on secondary market quotes.

Interest is paid semi-annually. Accrued interest as of **September 30, 2022** **March 31, 2023** was **\$8.6 million** and was recorded within other current liabilities in the Company's condensed consolidated balance sheets. As of **September 30, 2022**, **\$14.9 million** sheet. No cash has been paid for interest.

The Company is aware that its outstanding debt securities are currently trading at substantial discounts to their respective principal amounts. In order to reduce future cash interest payments, as well as future amounts due at maturity or upon redemption, the Company may, from time to time, as it did during the third quarter of 2022, continue to seek to retire or purchase our outstanding debt through cash purchases, in open-market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will be upon such terms and at such prices as we may determine, and will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. On September 1, 2022, the Company redeemed \$10.5 million principal amount of the 2021 senior secured notes which resulted in a gain on extinguishment of debt of \$2.6 million as the notes were redeemed for total consideration below par value of the notes. The redemption price was equal to 69.5% of the aggregate principal amount plus accrued and unpaid interest. The redemption also resulted in a decrease of the effective interest rate to 12.09%. The gain is reflected in the interest expense, net line item of the Company's condensed consolidated statement of operations for the three and nine months quarter ended **September 30, 2022** **March 31, 2023**.

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The following table outlines maturities of the principle related to the Company's long-term debt as of **September 30, 2022** **March 31, 2023**:

		Amount		Amount
2022 (excluding the nine months ended September 30, 2022)		\$ —		
2023		—		
2023 (excluding the three months ended March 31, 2023)			2023 (excluding the three months ended March 31, 2023)	—
2024	2024	—	2024	—
2025	2025	—	2025	—
2026	2026	289,500	2026	289,500
Total	Total	\$ 289,500	Total	\$ 289,500

10. Leases

The Company is a party to various non-cancelable operating lease agreements for certain of its offices. The Company is a party to various non-cancelable finance lease agreements for certain network equipment. The leases have original lease periods expiring between 2022 to 2030. Some leases include one or more options to renew. The Company does not assume renewals in its determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement. The lease agreements generally do not contain any material residual value guarantees or material restrictive covenants.

The Company adopted Accounting Standards Update 2016-02, Leases ("ASC 842"), which supersedes the guidance in ASC 840, Leases ("ASC 840"), effective January 1, 2021. As the Company elected the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the Jumpstart Our Business Startups Act of 2012, ASU 842 was not adopted until the fourth quarter of 2021. The comparative information for the three and nine months ended September 30, 2021 have been adjusted to reflect impact of the adoption of ASC 842 as of January 1, 2021. The adoption did not impact the Company's prior year consolidated statements of operations and comprehensive loss and statements of stockholders' equity for the three and nine-month periods ended September 30, 2021. There was no impact on the Company's prior year total cash used in operating activities in the Company's condensed consolidated statement of cash flows; however, the Company has adjusted the operating lease right-of-use assets (\$15.0 million decrease), operating lease liabilities (\$16.1 million increase) and other accruals and liabilities (\$1.1 million decrease) line items within changes in operating assets and liabilities in our condensed consolidated statement of cash flows for the nine months ended September 30, 2022 included herein.

As of September 30, 2022, the Company does not have additional operating and finance leases not yet commenced.

11.7. Commitments and Contingencies

Purchase Commitments

In September 2022, the Company entered into non-cancellable agreement to purchase cloud hosting services in the amount of \$13 million over a two year term, commencing in the fourth quarter of 2022, in exchange for discounts on such services. If the spend does not meet the minimum annual commitment each year or at the end of the term, the Company is obligated to make a commitment shortfall payment. The Company expects to meet the annual commitments.

Legal Matters

The Company is a party to certain claims, suits, and proceedings which arise in the ordinary course and conduct of its business and has certain unresolved claims pending, the outcomes of which are not determinable at this time. The Company records a liability when it believes that it is probable that a loss will be incurred and the amount can be reasonably estimated. If the Company determines that a loss is reasonably possible and the loss or range of loss can be reasonably estimated, the Company discloses the possible loss or range of loss. In the Company's opinion, resolution of pending matters, other than as disclosed herein, is not expected to have a material adverse impact on the results of operations, cash flows, or the Company's financial position, as of **September 30, 2022** **March 31, 2023**. Given the unpredictable nature of legal proceedings, there is a reasonable possibility that an unfavorable resolution of one or more such proceedings could in the future materially affect the results of operations, cash flows, or financial position in a particular period. However, based on the information known by the Company, except as set forth herein, any such amount is either immaterial or it is not possible to provide an estimated range of any such possible loss.

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On May 15, 2019, a former employee of the Company filed a suit against the Company in the San Francisco Superior Court in California for claims including breach of contract, retaliation and wrongful termination. The case was tried in August and September 2021. The jury found in favor of the former employee and rendered a verdict against the Company for \$11.6 million in compensatory damages, and the Company recorded a loss contingency accrual and corresponding general and administrative expenses in such amount in the third quarter of 2021. In April 2022, the judge in the case determined, in light of the Company's post-verdict motions, that the instructions given to the jury at trial were defective. Accordingly, the judge ordered a new trial on damages or, alternatively, permitted the plaintiff accept a reduced verdict in the amount of \$4.35 million, which the plaintiff subsequently levied from the Company's bank account. On May 25, 2022, the Company filed an appeal from the judgment seeking, in part, entry of judgment in the Company's favor notwithstanding the verdict. The plaintiff accepted the reduced verdict, and filed an appeal from the judgment on June 7, 2022, seeking in part, to reinstate the jury's original verdict.

Indirect Taxes

The Company verdict and challenge the trial court's conclusion that stock options are not "wages," which was the basis for dismissing his wrongful termination and retaliation claims. Management believes the most likely outcome is subject that this will go back to indirect taxation in various states and foreign jurisdictions in trial which it conducts business. The Company records a liability when it believes that it is probable that a loss will be incurred and resolved during the amount of loss or range of loss can be reasonably estimated. The Company does not record a liability when it believes the liability is reasonably possible but not estimable. As of September 30, 2022, the Company has determined that a material loss related to indirect taxation is reasonably possible but not estimable, calendar year 2024.

12. Common Stock Warrants

As of September 30, 2022, the Company had zero Public Warrants and 4,535,728 Private Warrants outstanding. During the nine months ended September 30, 2022, there were no Private Warrants exercised.

As part of the initial public offering by Flying Eagle Acquisition Corporation, a Delaware corporation ("FEAC"), 17,250,000 Public Warrants were sold. The Public Warrants entitled the holder thereof to purchase one share of Class A common stock at a price of \$11.50 per share, subject to adjustments. The Public Warrants were only exercisable for a whole number of shares of Class A common stock. No fractional shares were issued upon exercise of the warrants. The Public Warrants had an expiration date of 5:00 p.m. New York City time on December 16, 2025, or earlier upon redemption or liquidation. The Public Warrants were listed on the NYSE under the symbol "SKLZ.WS."

The Company was permitted to call the Public Warrants for redemption starting anytime, in whole and not in part, at a price of \$0.01 per warrant, so long as the Company provides not less than 30 days' prior written notice of redemption to each warrant holder, and if, and only if, the reported last sale price of Class A common stock equaled or exceeded \$18.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date the Company sent the notice of redemption to the warrant holders, provided there was an effective registration statement covering the shares of Class A common stock issuable upon exercise of the warrants at such time.

On July 16, 2021, the Company announced the redemption of all Public Warrants that remained outstanding on August 16, 2021. On August 16, 2021, 5,888,294 Public Warrants remained unexercised at 5pm New York City time, and such warrants expired and were no longer exercisable, and the holders of those Public Warrants were entitled to receive only the redemption price of \$0.01 per warrant.

Simultaneously with FEAC's initial public offering, FEAC consummated a private placement of 10,033,333 Private Placement Warrants with FEAC's sponsor. In connection with the FEAC Business Combination, FEAC's sponsor agreed to forfeit 5,016,666 private placement warrants. Each outstanding Private Placement Warrant is exercisable for one share of Class A common stock at a price of \$11.50 per share, subject to adjustment.

The Private Warrants are identical to the Public Warrants, except that the Private Warrants and the shares of Class A common stock issuable upon exercise of the Private Warrants will not be transferable, assignable or salable until 30 days after the completion of the FEAC business combination, subject to certain limited exceptions. Additionally, the Private Warrants will be non-redeemable so long as they are held by the initial purchasers or such purchasers' permitted transferees. If the Private Warrants are held by someone other than their initial purchasers or their permitted transferees, the Private Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants.

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13.8. Stockholders' Equity

Common Stock

The Company's amended and restated certificate of incorporation authorizes the issuance of Class A common stock and Class B common stock. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Holders of Class A common stock are entitled to one vote per share and holders of Class B common stock are entitled to 20 votes per share. Shares of Class B common stock are convertible into an equivalent number of shares of Class A common stock and generally convert into shares of Class A common stock upon transfer. Any dividends paid to the holders of Class A common stock and Class B common stock will be paid on a pro rata basis. On a liquidation event, any distribution to common stockholders is made on a pro rata basis to the holders of the Class A common stock and Class B common stock.

As of **September 30, 2022** **March 31, 2023**, the Company has authorized a total of 635 million shares, consisting of (i) 625 million shares of common stock, par value \$0.0001 per share ("common stock"), including 500 million shares of Class A common stock, par value \$0.0001 per share ("Class A common stock"), 125 million shares of Class B common stock, par value \$0.0001 per share ("Class B common stock"), and (ii) 10 million shares of preferred stock, par value \$0.0001 per share ("preferred stock").

In March 2021, the Company completed an underwritten public offering of its Class A common stock and issued 17,000,000 shares of Class A common stock, for an aggregate purchase price of \$408.0 million, before issuance costs of \$5.9 million. In connection with the public offering, certain stockholders of the Company sold an aggregate of 19.8 million shares, including the full exercise of the underwriters' option to purchase an additional 4.8 million additional shares. The purchase price per share, net of the underwriter discount, was \$23.34. The Company incurred transaction costs of \$6.8 million in connection with this sale of shares by certain stockholders, which was recorded as a general and administrative expense during the quarter.

14.9. Stock-Based Compensation

The following table summarizes stock-based compensation expense recognized for the three and nine months ended **September 30, 2022** **March 31, 2023** and **2021** **2022** as follows:

		Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
		2022	2021	2022	2021	2023	2022
Research and development	Research and development	\$ (1,953)	\$ 1,814	\$ 3,557	\$ 5,237	Research and development	\$ 1,206
Sales and marketing	Sales and marketing	2,143	1,637	6,664	6,025	Sales and marketing	1,904
General and administrative	General and administrative	5,632	12,361	87,346	31,269	General and administrative	7,438
Total stock-based compensation expense	Total stock-based compensation expense	\$ 5,822	\$ 15,812	\$ 97,567	\$ 42,531	Total stock-based compensation expense	\$ 10,548
							\$ 77,879

Equity Incentive Plans

Skillz Inc. 2020 Omnibus Incentive Plan

In December 2020, the Board of Directors of the Company adopted the Skillz Inc. 2020 Omnibus Incentive Plan (the "2020 Plan"). The 2020 Plan became effective upon consummation of the **FEAC** Flying Eagle Acquisition Corporation, a Delaware corporation ("FEAC") business combination and succeeds the Company's legacy equity incentive plans. Under the 2020 Plan, the Company may grant stock-based awards to purchase or directly issue shares of common stock to employees, directors and consultants. Options are granted at a price per share equal to the fair market value of the underlying common stock at the date of grant. Options granted are exercisable over a maximum term of 10 years from the date of grant. **Restricted stock units ("RSUs")** RSUs are also granted under the 2020 Plan. These awards typically have a cliff vesting period of one year and continue to vest quarterly thereafter. The 2020 Plan also permits the Company to grant stock-based awards with performance or market conditions. In connection with the closing of the FEAC business combination, the Company entered into certain option agreements that include vesting conditions contingent upon the attainment of volume weighted average price targets related to the Company's Class A common stock on the NYSE.

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The 2020 Plan permits the Company to deliver up to 86,771,777 107,840,472 shares of common stock pursuant to awards issued under the 2020 Plan, consisting of 15,000,000 shares which may be of Class A and/or Class B common stock, 56,264,600 73,897,439 shares of Class A common stock and 15,507,177 18,943,033 shares of Class B common stock. The total number of shares of Class A common stock and Class B common stock that will be reserved and that may be issued under the 2020 Plan will automatically increase on the first trading day of each calendar year, beginning with calendar year 2021, by a number of shares equal to 5% of the total number of shares of Class A common stock and Class B common stock, respectively, outstanding on the last day of the prior calendar year.

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Stock Options and Restricted Stock Units

Stock option and RSU activity during the **nine** **three** months ended **September 30, 2022** **March 31, 2023** is as follows (in thousands, except for share, per share, and contractual term data):

	Options Outstanding					Restricted Stock Units		
	Number of Shares Available for Issuance Under the Plan	Number of Shares Outstanding Under the Plan	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number of Plan shares outstanding	Weighted-Average Grant Date Fair Value per share	
	Shares	Shares	Price	Term (Years)	Value	shares outstanding	Value	
Balance at December 31, 2021	51,437,898	27,727,088	\$ 7.79	7.04	\$ 113,110	7,600,097	\$ 13.17	
Additional shares authorized	20,437,691	—	—					
Options and restricted stock units granted	(13,189,895)	—	—			13,189,895	2.28	
Options exercised and restricted stock units released	—	(10,045,056)	0.12			(1,137,714)	14.15	
Options and restricted stock units canceled	11,181,333	(1,041,670)	0.98			(10,139,663)	7.21	
Balance at September 30, 2022	69,867,027	16,640,362	\$ 12.85	7.40	\$ 3,300	9,512,615	\$ 4.30	
Exercisable at December 31, 2021		13,157,036	\$ 0.15	5.17	\$ 95,946			
Exercisable at September 30, 2022		4,194,487	0.31	5.10	3,171			
Unvested at December 31, 2021		14,570,052	14.69	8.72	17,164			
Unvested at September 30, 2022		12,445,875	17.08	8.18	129			

	Options Outstanding					Restricted Stock Units		
	Number of Shares Available for Issuance Under the Plan	Number of Shares Outstanding Under the Plan	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number of Plan shares outstanding	Weighted-Average Grant Date Fair Value per share	
	Shares	Shares	Price	Term (Years)	Value	shares outstanding	Value	
Balance at December 31, 2022	28,457,514	16,245,862	\$ 13.15	7.27	\$ 1,145	50,106,562	\$ 1.23	
Additional shares authorized	21,068,695	—	—					
Options and restricted stock units granted	(4,292,467)	—	—			4,292,467	0.62	
Options exercised and restricted stock units released	—	(77,822)	0.43			(1,260,532)	3.18	
Options and restricted stock units canceled	183,037	(50,913)	1.56			(132,124)	18.58	
Balance at March 31, 2023	45,416,779	16,117,127	\$ 13.25	7.02	\$ 1,453	53,006,373	\$ 1.09	
Exercisable at December 31, 2022		3,930,317	\$ 0.29	5.17	\$ 1,132			

Exercisable at March 31, 2023	3,875,241	0.29	4.89	1,436
Unvested at December 31, 2022	12,315,545	17.25	7.94	14
Unvested at March 31, 2023	12,241,886	17.35	7.70	17

The number of unvested stock options as of **September 30, 2022** **March 31, 2023** and **December 31, 2021** **December 31, 2022** does not include **5.4 million** **3.7 million** and **8.2 million** **4.5 million** shares of restricted common stock, respectively, previously issued upon the early exercise of grants by certain executives.

The number of RSUs granted and outstanding does not include **3.3 million** **19.0 million** performance-based RSUs which the Company issued as of **September 30, 2022** **March 31, 2023**, as the performance-based RSUs are not deemed granted for accounting purposes. Additionally, the stock option and RSU activity presented in the table above does not include activity related to the 2022 CFO Restricted Stock Unit and Performance award, 2022 CEO Restricted Stock Unit and Performance Award, 2021 CEO Performance Award and Founders' Option Agreements, described below.

As of **September 30, 2022** **March 31, 2023**, unrecognized stock-based compensation expense related to unvested stock options, restricted common stock, RSUs, performance-based RSUs and performance stock units was **\$100.1** **\$102.1** million. The weighted-average period over which such compensation expense will be recognized is **3.29** **3.2** years.

The aggregate intrinsic value of options exercised was **\$0.7 million** **\$0.01 million** and **\$47.8 million** **\$2.6 million** during the three months ended **September 30, 2022** **March 31, 2023** and **2021**, respectively, and **\$15.9 million** and **\$59.6 million** during the nine months ended **September 30, 2022** and **2021, 2022**, respectively.

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2022 CFO Restricted Stock Unit and Performance Award

The Company granted the Company's President and Chief Financial Officer ("CFO") a restricted stock unit award covering shares of the Company's Class A common stock with a grant date value equal to \$15.0 million, comprised of 10.4 million restricted stock units. Such grant vests 25% on the first anniversary of CFO's start date and the remainder vests in 12 substantially equal quarterly installments, in each case subject to continuous service with the Company through each applicable vesting date, provided that the grant vests in full if the CFO is terminated without cause following a change of control of the Company. On September 30, 2022, the restricted stock unit award was re-measured based on the fair value of an underlying share of the Class A common stock, which was equal to \$10.7 million, and the Company then reclassified the liability classified award to

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additional paid-in capital as the number of shares became fixed. During the three months ended March 31, 2023, the Company recognized \$0.7 million in compensation expense related to this grant. As of March 31, 2023, the unrecognized stock-based compensation cost related to the non-vested CFO restricted stock unit award was \$8.9 million. The Company expects this cost to be recognized over a remaining weighted-average period of approximately 3.5 years.

In addition, the Company issued to the CFO a performance stock unit award covering shares of the Company's Class A common stock with a fair value of \$5.0 million as of the issuance date, comprised of 3.5 million performance stock units. Such award vests over four one-year periods, with pro-rata vesting for the first and last performance periods, in each case subject to continuous service with the Company through each applicable vesting date and the attainment of certain corporate performance goals. As of March 31, 2023, the award was not considered granted for accounting purposes as the Company had not established the performance conditions for this award, and the unrecognized stock-based compensation cost for this CFO performance stock unit award was \$5.0 million.

2022 CEO Restricted Stock Unit and Performance Award

The Company granted the Company's Chief Executive Officer ("CEO") a restricted stock unit award covering shares of the Class A common stock with a grant date value equal to \$25.9 million, comprised of 29.0 million restricted stock units. Such grant vests 25% on the first anniversary of January 1, 2023 and the remainder vests in 12 substantially equal quarterly installments, in each case subject to continuous service with the Company through each applicable vesting date, provided that the grant vests in full if the CEO is terminated without cause following a change of control of the Company. During the three months ended March 31, 2023, the Company recognized \$0.9 million in compensation expense related to this grant. As of March 31, 2023, the unrecognized stock-based compensation cost related to the non-vested CEO restricted stock unit award was \$13.4 million. The Company expects this cost to be recognized over a remaining weighted-average period of approximately 3.7 years.

In addition, the Company issued to the CEO a performance stock unit award covering shares of the Class A common stock with a fair value of \$8.6 million as of the issuance date, comprised of 9.7 million performance stock units. Such award vests over four one-year periods, in each case subject to continuous service with the Company through each applicable vesting date and the attainment of certain corporate performance goals. As of March 31, 2023, the award was not considered granted for accounting purposes as the

Company had not established the performance conditions for this award, and the unrecognized stock-based compensation cost for this CEO performance stock unit award was \$8.6 million.

2021 CEO Performance Award

In September 2021, the Company granted the Company's Chief Executive Officer ("CEO"), CEO, an award of up to 16.1 million performance stock units (the "CEO Performance Award") under the Company's 2020 Plan, pursuant to which the CEO may earn one share of the Company's Class A Common Stock common stock for each performance stock unit that vests based on the achievement of certain Market Capitalization Milestones (as defined in the award agreement for the CEO Performance Award). The performance stock units were divided into four tranches, with each tranche corresponding to a Market Capitalization Milestone ranging from two to five times the Company's market capitalization baseline. Each tranche vested if and when the Company's market capitalization equals or exceeds the corresponding Market Capitalization Milestone at any point during the seven-year performance period following the grant date (the "Performance Period"). For purposes of determining achievement of the Market Capitalization Milestones, the Company's market capitalization was calculated based on the trailing 60-trading day volume weighted average price per share ("VWAP") of the Company's Class A common stock and the average number of outstanding shares during such period. The Company's market capitalization baseline was calculated using the trailing 30-trading day VWAP of the Company's Class A common stock on the grant date and the average number of outstanding shares during such period.

The \$70.8 million grant date fair value of the CEO Performance Award was estimated using a model based on multiple stock price paths developed through the use of a Monte Carlo simulation that incorporates into the valuation the possibility that the market condition targets may not be satisfied.

On March 14, 2022 ("cancellation date"), the Board of Directors of Skillz and the CEO, entered into an agreement to cancel this CEO Performance Award. The Company determined that the cancellation of the CEO Performance Award was a settlement for no consideration and not accompanied by a concurrent grant (or offer to grant) of a replacement award. As a result, the

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(Unaudited, amounts in tables are in thousands, unless otherwise noted)

Company recorded the remaining unrecognized compensation costs related to the CEO Performance Award of \$65.1 million during three months ended March 31, 2022.

Founders' Option Agreements

In December 2020, the Company entered into option agreements with each of the CEO and CRO Chief Strategy Officer ("CSO") (the "Option Agreements") awarding options to purchase (i) 9,960,000 shares of New Skillz Class B common stock to the CEO and (ii) 2,040,000 shares of Class A common stock to the CRO, CSO. The options will vest in three equal increments as follows (i) one-third (1/3) of the options shall vest and become exercisable as of the date, following the grant date, that the volume weighted average price on the NYSE over a ten (10) trading day period of underlying Skillz Class A common stock ("VWAP") equals or exceeds 3.0x the VWAP of the shares as of the Closing Date (as defined in the Options Agreements), (ii) one-third (1/3) of the options shall vest and become exercisable as of the date, following the grant date, that the VWAP of the shares equals or exceeds 4.0x the VWAP of the shares as of the Closing Date; and (iii) one-third (1/3) of the options shall vest and become exercisable as of the date, following the grant date, that the VWAP of the shares equals or exceeds 5.0x the VWAP of the shares as of the Closing Date. The \$93.4 million grant date fair value of the Founders' Options was estimated using a model based on multiple

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stock price paths developed through the use of a Monte Carlo simulation that incorporates into the valuation the possibility that the market condition targets may not be satisfied. The significant inputs to the valuation included the Company's Class A stock price and the risk-free interest rate as of the grant date, as well as the estimated volatility of the Company's Class A common stock. For the three ended March 31, 2023 and nine months ended September 30, 2022 and 2021, 2022, the Company recognized \$4.9 million and \$14.5 million \$4.8 million, respectively, in compensation expense related to these grants. As of September 30, 2022 March 31, 2023, the unrecognized stock-based compensation cost related to Founders' the Option Agreements was \$58.6 million \$49.0 million.

15. 10. Income Taxes

The Company's provision and benefit from income taxes was \$120 thousand \$0.1 million and \$18.9 million \$0.2 million for the three months ended September 30, 2022 March 31, 2023 and 2021, 2022, respectively. This represents an effective tax rate for the respective periods of 0.15% (0.19)% and (59.45)%. The Company's benefit from income taxes was \$488 thousand and \$18.8 million for the nine months ended September 30, 2022 and 2021, respectively. This represents an effective tax rate for the respective periods of 0.17% and 18.60% 0.14%. The Company has historically been in an overall loss position and is only subject to state and foreign taxes. The Company maintains a valuation allowance for substantially all of its net deferred tax assets. The effective tax rate differs from the federal statutory rate due to the valuation allowance, as well as due to foreign taxes and state taxes.

16. 11. Related-Party Transactions

The Company did not have any material related party transactions in the three and nine months ended **September 30, 2022** **March 31, 2023** and **2021**.

17. 12. Net Income (Loss) Per Share

The Company computes net income (loss) per share of the Class A common stock and Class B common stock using the two-class method required for participating securities. Basic and diluted loss per share are the same for each class of common stock because they are entitled to the same liquidation and dividend rights. The effect of potentially dilutive common shares is reflected in diluted earnings per share by application of the treasury stock method.

The following table sets forth the computation of basic and diluted loss per Class A common stock and Class B common stock (in thousands, except for share and per share data):

	Three Months Ended March 31,	
	2023	2022
Numerator:		
Net loss – basic and diluted	\$ (35,593)	\$ (149,564)
Denominator:		
Weighted average common shares outstanding – basic and diluted	417,665,863	401,653,954
Net loss per share attributable to common stockholders – basic and diluted	\$ (0.09)	\$ (0.37)

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Numerator:				
Net income (loss) – basic	\$ (78,547)	\$ 50,781	\$ (287,271)	\$ (82,406)
Denominator:				
Weighted average common shares outstanding – basic	413,834,082	395,053,445	407,926,348	379,450,553
Net income (loss) per share attributable to common stockholders – basic	\$ (0.19)	\$ 0.13	\$ (0.70)	\$ (0.22)
Numerator:				
Net income (loss) – basic	\$ (78,547)	\$ 50,781	\$ (287,271)	\$ (82,406)
Decrease in fair value of public and private common stock warrant liabilities	—	(113,601)	—	(81,898)
Net loss – diluted	\$ (78,547)	\$ (62,820)	\$ (287,271)	\$ (164,304)
Denominator:				
Weighted average common shares outstanding – basic	413,834,082	395,053,445	407,926,348	379,450,553
Incremental common shares from assumed exercise of public and private common stock warrants	—	976,686	—	6,001,253
Weighted average common shares outstanding – diluted	413,834,082	396,030,131	407,926,348	385,451,806
Net loss per share attributable to common stockholders – diluted	\$ (0.19)	\$ (0.16)	\$ (0.70)	\$ (0.43)

The following outstanding common stock equivalents were considered antidilutive, and therefore, excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented (share numbers are not in thousands).

	As of September 30,		As of March 31,			
	2022	2021	2023	2022		
Common stock warrants	Common stock warrants	4,535,728	—	Common stock warrants	4,535,728	4,535,728
Common stock options	Common stock options	22,040,951	39,273,376	Common stock options	19,859,079	33,999,568

Performance stock units		—	16,146,630		
Restricted stock units	Restricted stock units	9,512,615	3,651,447	Restricted stock units	53,007,190
Total	Total	36,089,294	59,071,453	Total	77,401,997
					44,597,384

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18. 13. Geographical Information

No sales to a country other than the United States accounted for more than 10% of revenue for the three and nine months ended September 30, 2022 March 31, 2023 or 2021. Revenue, classified by the major geographic areas where the end users were located when they entered paid competitions, was as follows:

		Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
		2022		2021		2022	
		United States	Other countries	United States	Other countries	United States	Other countries
United States	United States	\$ 47,813	\$ 84,005	\$ 171,865	\$ 232,385	\$ 37,439	\$ 70,568
Other countries	Other countries	12,442	18,067	55,163	42,855	6,944	21,296
Total	Total	\$ 60,255	\$ 102,072	\$ 227,028	\$ 275,240	\$ 44,383	\$ 91,864

Property and equipment, net and operating lease right-of-use assets by geography was as follows:

		September 30,		December 31,		March 31,		December 31,	
		2022		2021		2023		2022	
		United States	Other countries						
United States	United States	\$ 17,014		\$ 20,997		\$ 13,904		\$ 3,058	
Other countries	Other countries	3,599		3,502		398		405	
Total	Total	\$ 20,613		\$ 24,499		\$ 14,302		\$ 3,463	

14. Subsequent Events

On April 13, 2023, the Company redeemed \$159.8 million principal amount of the 2021 senior secured notes which resulted in a gain on extinguishment of 15.2 million, as the notes were redeemed for total consideration below par value of the notes. The redemption price was equal to 85% of the aggregate principal amount plus accrued and unpaid interest.

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

Forward-Looking Statements

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of operations and financial condition of Skillz Inc. (for purposes of this section, "Skillz," "we," "us" and "our"). MD&A is provided as a supplement to, and should be read in conjunction with, our Annual Report on Form 10-K for the year ended December 31, 2021 December 31, 2022 (the "Annual Report"), and our financial statements and the accompanying Notes to Financial Statements (Part I, Item 1 of this Form 10-Q). This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in Part I, Item 1A, "Risk Factors" in our Annual Report and Part II, Item 1A, "Risk Factors." Actual results may differ materially from those contained in any forward-looking statements. Our historical results are not necessarily indicative of the results that may be expected for any period in the future.

The Company restated the consolidated financial statements and amended certain information for the years ended December 31, 2021 and 2020 presented in its Annual Report. In addition, the Company restated its unaudited quarterly financial data for the periods ended September 30, 2022, 2021 and 2020, June 30, 2022, 2021 and 2020, and March 31, 2022.

2021 and 2020. Such restated unaudited quarterly financial data and related impacted amounts were presented in the Company's Annual Report. The following discussion gives effect to the restatement of our unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022. See the related discussion in Note 1, Description of the Business and Basis of Presentation.

Overview

We operate a marketplace that connects the world through competition, serving both developers and users. Our platform enables fair, fun and competitive gaming experiences and the trust we foster with users is the foundation upon which our community is built. We believe our marketplace benefits from a powerful network effect: compelling content attracts users to our platform, while the increasing size of our audience attracts more developers to create new interactive experiences on our platform.

Skillz was founded in 2012 by Andrew Paradise and Casey Chafkin with the vision to make eSports accessible to everyone possible. As of September 30, 2022 March 31, 2023, the platform had 1.71.2 million monthly active users ("MAUs") and hosts an average of over 2 million 1.3 million daily tournaments, including 0.95 million 0.72 million paid entry daily tournaments, offering over \$97 \$74 million in prizes each month. Since our inception in 2012, over 10,000 16,000 registered game developers have launched a game integration on our platform. As of September 30, 2022 March 31, 2023, over 300 600 developers had a game on our platform with at least one installed user.

Our culture is built upon a set of values established by our founders, aligning the company Company and its employees in a common vision. Our seven values are: Honor; Mission; Collaboration; Productivity; Willingness; Frugality; and Balance. Our approach has focused on trust and fairness for users enabling game developers to focus on what they do best: build great content.

Our technology capabilities are industry-leading and provide the tools necessary for developers to compete with the largest and most sophisticated mobile game developers in the world. Our easy-to-integrate software development kit ("SDK") and developer console allow our developers to monitor, integrate and update their games seamlessly over the air. We ingest and analyze over 300 data points from each game play session, enhancing our data-driven algorithms and LiveOps systems. Moreover, we have developed a robust platform enabling fun, fair and meaningful competitive gameplay.

Historically, our top games and related developers have accounted for a substantial portion of our revenue earned from the Skillz platform. For the three months ended September 30, 2022 March 31, 2023 and 2021, 2022, the games Solitaire Cube, 21 Blitz (each developed by Tether Studios, LLC ("Tether")) and Blackout Bingo (developed by Big Run Studios Inc. ("Big Run")) combined accounted for 72% 70% and 71% of our revenue, earned from the Skillz platform, respectively. For the three months ended September 30, 2022 March 31, 2023 and 2021 2022, Tether accounted for 40% 44% and 43% 38% of our revenue, earned from the Skillz platform, respectively. For the three months ended September 30, 2022 March 31, 2023 and 2021 2022, Big Run accounted for 40% 36% and 37% 41% of our revenue, earned from the Skillz platform, respectively. For the nine months ended September 30, 2022 and 2021, Solitaire Cube, 21 Blitz, and Blackout Bingo accounted for 71% and 73% of our revenue earned from the Skillz platform, respectively. For the nine months ended September 30, 2022 and 2021 Tether accounted for 38% and 43% of our revenue earned from the Skillz platform, respectively. For the nine months ended September 30, 2022 and 2021 Big Run accounted for 41% and 39% of our revenue earned from the Skillz platform, respectively.

Our top titles rotate over time as more games generate success on the Skillz platform. In the nine three months ended September 30, 2022 March 31, 2023, the number of games that generated over \$1 million of annualized Gross Marketplace Volume ("GMV") increased 7% decreased 23% to 48 33 from 45 43 in the nine three months ended September 30, 2021 March 31, 2022.

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The following supplemental financial information table summarizes key operating metrics for the three and nine months ended September 20, 2022 March 31, 2023 and 2021 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Gross marketplace volume ("GMV") (000s) ⁽¹⁾	\$ 360,364	\$ 610,935	\$ 1,344,707	\$ 1,786,118
Paying monthly active users ("PMAUs") (000s) ⁽²⁾	320	509	437	480
Monthly active users ("MAUs") (000s) ⁽³⁾	1,665	2,985	2,376	2,692
Average GMV per paying monthly active user ⁽⁴⁾	\$ 375.6	\$ 399.8	\$ 342.1	\$ 413.6
Average GMV per monthly active user ⁽⁵⁾	\$ 72.1	\$ 68.2	\$ 62.9	\$ 73.7
Average revenue per paying monthly active user ("ARPPU") ⁽⁶⁾	\$ 62.8	\$ 66.8	\$ 58.5	\$ 63.6
Average revenue per monthly active user ("ARPU") ⁽⁷⁾	\$ 12.1	\$ 11.4	\$ 10.9	\$ 11.4
Paying MAU to MAU ratio	19 %	17 %	19 %	18 %
Average end-user incentives, included as sales and marketing expense, per paying monthly active user ⁽⁸⁾	\$ 24.83	\$ 32.71	\$ 24.51	\$ 30.31
Average end-user incentives, included as sales and marketing expense, per playing monthly active user ⁽⁹⁾	\$ 4.77	\$ 5.58	\$ 4.50	\$ 5.40

	Three Months Ended March 31,	
	2023	2022
Gross marketplace volume ("GMV") (000s) ⁽¹⁾	\$ 277,632	\$ 552,134

Paying monthly active users ("PMAUs") (000s) ⁽²⁾	214	569
Monthly active users ("MAUs") (000s) ⁽³⁾	1,176	3,229
Average GMV per paying monthly active user ⁽⁴⁾	\$ 432.4	\$ 323.4
Average GMV per monthly active user ⁽⁵⁾	\$ 78.7	\$ 57.0
Average revenue per paying monthly active user ("ARPPU") ⁽⁶⁾	\$ 69.1	\$ 53.8
Average revenue per monthly active user ("ARPU") ⁽⁷⁾	\$ 12.6	\$ 9.5
Paying MAU to MAU ratio	18%	18%
Average end-user incentives, included as sales and marketing expense, per paying active user ⁽⁸⁾	\$ 27.40	\$ 24.97
Average end-user incentives, included as sales and marketing expense, per playing active user ⁽⁹⁾	\$ 4.98	\$ 4.40

(1) "GMV" or "Gross Marketplace Volume" means the total entry fees paid by users for contests hosted on Skillz's platform. Total entry fees include entry fees paid by end-users using cash deposits, prior winnings from end-users' accounts that have not been withdrawn, and end-user incentives used to enter paid entry fee contests.

(2) "Paying Monthly Active Users" or "PMAUs" means the number of end-users who entered into a paid contest hosted on Skillz's platform at least once in a month, averaged over each month in the period.

(3) "Monthly Active Users" or "MAUs" means the number of playing end-users who entered into a paid or free contest hosted on Skillz's platform at least once in a month, averaged over each month in the period.

(4) "Average GMV Per Paying Monthly Active User" means the average GMV in a given month divided by Paying MAUs in that month, averaged over the period.

(5) "Average GMV Per Monthly Active User" means the average GMV in a given month divided by MAUs in that month, averaged over the period.

(6) "Average Revenue Per Paying Monthly Active User" or "ARPPU" means the average revenue in a given month divided by Paying MAUs in that month, averaged over the period and does not include a deduction for end-user incentives that are included in sales and marketing expense.

(7) "Average Revenue Per Monthly Active User" or "ARPU" means the average revenue in a given month divided by MAUs in that month, averaged over the period and does not include a deduction for end-user incentives that are included in sales and marketing expense.

(8) Amount reflects the average end-user incentives included in sales and marketing expense in a given month divided by PMAUs in that month, averaged over the period.

(9) Amount reflects the average end-user incentives included in sales and marketing expense in a given month divided by MAUs in that month, averaged over the period.

Engagement marketing is a sales and marketing expense representing rewards and awards that developers do not have a valid expectation of being offered to end-users to engage on the platform. Decreases in engagement marketing could result in lower revenue as paying users no longer receive those end-user incentives, which include Bonus Cash which can only be used to enter into paid contests.

User acquisition ("UA") marketing is a sales and marketing expense to acquire new paying users to the platform. Assuming acquisition cost per user is constant, decreases in UA marketing typically result in lower revenue as a result of having fewer new paying users. The reduction in UA marketing and engagement marketing expenses could during fiscal year 2022 and the first quarter of 2023 has resulted in a substantial reduction in revenue and is expected to continue to result in a reduction in expected revenue. The Company is We are currently unable to reasonably estimate the precise degree to which expected quantitative impact, or range of impact, that reductions to in UA marketing and engagement marketing will impact revenue. In addition, have on forward-looking revenue as a result of the number of other interrelated factors impact, or have the potential to impact, revenue. These factors include, impacting revenue, including, but are not limited to, the retention of existing users on the platform, ARPPU, efficacy of various engagement marketing programs on existing users, elasticity of the digital advertising supply curve, and average monthly revenue per paying user. impact of varying levels of player liquidity on the existing user ecosystem.

Over the course of 2022 and during the first quarter of 2023, our plan has been to focus was on driving higher efficiency from our marketing investment by (1) reducing spend on low-return engagement marketing programs, which we expect will result in lowering lower engagement marketing as a percentage of revenue and (2) driving UA efficiency by optimizing spend across networks and driving higher organic traffic, and migrating a greater proportion of UA marketing spend to Aarki, Inc. ("Aarki"), which we expect, over the long term, will result in reducing the total UA spending in 2022 and 2023 relative to 2021, and to significantly reduce the average costs to acquire a new paying user ("user acquisition costs" or "UAC") with shorter payback periods by the end of 2024. The Company still expects to continue the migration to Aarki over time and realize synergies from the acquisition, albeit over a longer period of time compared to that originally forecasted. To the extent we reduce engagement marketing spend, we expect to reduce our Bonus Cash end-user incentives in proportion to such overall engagement marketing reduction.

On July 16, 2021, the Company completed the acquisition of Aarki and acquired 100% of the outstanding equity and voting interest of Aarki under the terms of the Agreement and Plan of Merger. The Company paid \$162.3 million in consideration comprised of \$95.3 million in cash and the remaining \$67.1 million comprised of 4.4 million shares of Skillz Class A common stock to the existing Aarki stockholders. The Company expects Aarki's technology-driven marketing platform to result in significant efficiencies in user-acquisition costs over the long term, which can be reinvested to acquire more users to

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accelerate growth and provide a broader product offering, including media buying capabilities to better serve game developers. The financial results of Aarki have been included in the Company's condensed consolidated financial statements since the date of the acquisition. As previously disclosed, we recorded certain goodwill and intangible assets in connection with our acquisition of Aarki. The Company's policy is to evaluate goodwill and intangible assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In the third quarter of 2022, the Company revised its financial outlook, resulting in lower projected user acquisition spend and a slower than expected migration of that spend to the Aarki technology-driven marketing platform, which will result in unrealized cost-saving synergies. The Company determined that this constituted a triggering event for one of the Company's held and used long-lived asset groups, primarily consisting of developed technology and customer relationship intangible assets. As a result of our impairment evaluation, we recorded a non-cash intangible asset impairment charge of \$47.6 million in the condensed consolidated statement of operations and comprehensive loss. See Note 5, Goodwill and Intangible Assets, for further details.

Our Financial Model

Skillz's financial model aligns the interests of gamers and developers, driving value for our stockholders. By monetizing through competition, our system eliminates friction that exists in traditional monetization models between the developer and the gamer. The more gamers enjoy our platform, the longer they play, creating more value for Skillz and our developers. By generating higher player to payor conversion, retention and engagement, we are able to monetize users at higher rates than what our developers would generate through advertisements or in-game purchases.

Our platform allows users to participate in fair competition, while rewarding developers who create games that keep players engaged. We generate revenue by receiving a percentage of player entry fees in paid (cash or Bonus Cash) contests, after deducting end-user prize money prizes (i.e., winnings from the Competitions) competitions, end-user incentives accounted for as reduction of revenue and the profit share paid to developers (the "Take Rate"). GMV represents entry fees that may be paid using cash deposits, prior winnings that have not been withdrawn, (which includes Bonus Cash previously won and returned as winnings), and end-user incentives.

incentives (which includes Bonus Cash that has been lost during the period). We offer incentives to end-users to drive traffic to the Skillz platform. End-user incentives that are offered on behalf of game developers, such as Ticketz (which can be redeemed for Bonus Cash) and initial deposit Bonus Cash, are accounted for as a reduction of revenue. End-user incentives for which game developers do not have a valid expectation of being offered to end-users to engage on the platform, such as limited-time Bonus Cash offers, are accounted for as a sales and marketing expense. Refer to Note 2, Summary of Significant Accounting Policies, of our condensed consolidated financial statements for further information.

The following table summarizes additional components of GMV, including average GMV per active user and average GMV per paying active user for the three and nine months ended September 30, 2022 March 31, 2023 and 2021: 2022:

	Three Months Ended March 31,	
	2023	2022
As a percentage of GMV(%)		
Prior winnings (1)	81%	81%
Cash deposits (2)	12%	11%
End user incentives (3)	7%	8%
As components of average GMV per paying monthly active user (\$)		
Prior winnings	\$ 349.2	\$ 260.6
Cash deposits	\$ 53.1	\$ 37.8
End user incentives	\$ 30.1	\$ 25.0
As components of average GMV per monthly active user (\$)		
Prior winnings	\$ 63.5	\$ 45.9
Cash deposits	\$ 9.7	\$ 6.7
End user incentives	\$ 5.5	\$ 4.4

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
As a percentage of GMV (%)				
Prior winnings	81 %	80 %	81 %	81 %
Cash deposits	12 %	10 %	12 %	10 %
End user incentives	7 %	10 %	7 %	9 %
As components of average GMV per paying monthly active user (\$)				
Prior winnings	\$ 302.7	\$ 321.4	\$ 275.8	\$ 335.7
Cash deposits	\$ 46.7	\$ 43.6	\$ 41.3	\$ 44.9
End user incentives	\$ 26.2	\$ 34.8	\$ 25.0	\$ 32.9
As components of average GMV per monthly active user (\$)				
Prior winnings	\$ 58.2	\$ 54.8	\$ 50.7	\$ 59.8
Cash deposits	\$ 9.0	\$ 7.4	\$ 7.6	\$ 8.0
End user incentives	\$ 5.0	\$ 5.9	\$ 4.6	\$ 5.9

(1) 'Prior winnings' include cash and Bonus Cash that are in the end-user's account as a result of winnings from competitions. For the three months ended March 31, 2023, prior winnings from cash and Bonus Cash were 92% and 8%, respectively. For the three months ended March 31, 2022, prior winnings from cash and Bonus Cash were 91% and 9%, respectively.

(2) 'Cash deposits' represents currency deposits into the end-user's Skillz account during the respective period.

(3) 'End user incentives' is based on amounts recorded as a reduction of revenue or sales and marketing expense during the respective period. End-user incentives primarily consist of (i) Bonus Cash, (ii) Ticketz (which can be redeemed for Bonus Cash) and (iii) promotional offers. Bonus Cash relates to all Bonus Cash that has been lost during the

period (i.e., when the related cost has been incurred by the Company). Refer to Note 2 of our condensed consolidated financial statements for further information.

Prizes include cash, **bonus cash**, **Bonus Cash**, physical merchandise and items sponsored by third-parties. Prizes for the **nine** **three** months ended **September 30, 2022** **March 31, 2023** consisted of approximately **7%** **92%** **Cash** and **8%** **Bonus Cash** returned to the winning player from their entry fees. Prizes for the **three** months ended **March 31, 2022**, consisted of approximately **91%** **cash**, **9%** **Bonus Cash** returned to the winning player from their entry fees **12%** **cash** and less than **1%** **physical merchandise**. For the **nine** months ended **September 30, 2021**, prizes consisted of approximately **8%** **Bonus Cash** returned to the winning player from their entry fees, **10%** **cash** and less than **1%** **physical merchandise**. For the periods presented, the amount paid in prizes sponsored by third-parties, including goods, was immaterial.

Our model has allowed us to grow users, developers and revenue steadily while driving meaningful operating leverage.

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The following are key elements of our financial model:

- **The scale, growth and engagement of the users** — As we continue to acquire users, our ability to match comparable players, on both skill level and tournament template, in a fair and timely manner improves. Better matching leads to stronger engagement and the ability to create larger tournaments with more profitable take rates. This creates a stickier,

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more engaging, and continuously improving experience for our players, which in turn attracts more players to our platform, creating a positively reinforcing cycle leading to ever-improving gaming experiences.

- **The scale, growth and partnership of our developers** — We have created a platform that drives economic success for our developers. Our end-to-end platform allows developers to focus on creating games by automating and optimizing integral parts of their businesses — from user acquisition and monetization to game optimization. Our built-in payments, analytics, customer support, and live operations platform enables our developers to consistently learn, grow, earn and share in our success.
- **Product-first philosophy and data science capabilities** — We have built a culture that puts product first, driving our impact with users and developers and then scaling marketing investment. For the **three** and **nine** months ended **September 30, 2022** **March 31, 2023**, **44%** and **46%** **35%** of our salary costs were spent on product **development**, respectively. **development**. Our easy-to-integrate SDK contains over 200 features in a less than 16-MB package which allows for over-the-air upgrades. Our intuitive Developer Console dashboard enables our developers to rapidly integrate and monitor the performance of their games. Our LiveOps system enables us to manage and optimize the user experience across the thousands of games on our platform. We collect over 300 data points during each gameplay session to feed our big data assets which augment all elements of our platform. Our key data science technologies drive our player rating and matching, anti-cheat and anti-fraud, and user experience personalization engine.
- **Our unit economics** — Our proprietary and highly scalable software platform produces revenue at a low direct cost (i.e. direct software and server costs), contributing to our gross margins. Once acquired, each user cohort contributes **predictably** to revenue over its **life**, **life** such that at **three** months, approximately **20%** of users in a cohort continue to be paying users and the balance of PMAUs have churned. Thereafter, our retention curve continues to flatten with a limited portion of users continuing to contribute to revenue in each cohort for subsequent years. A cohort is all the users acquired in the period presented. A user is considered part of a cohort based on the first time they make a deposit and enter a paid tournament. Once a user is considered part of a cohort, they are always counted in that cohort. During the **three** months ended **March 31, 2023**, we experienced lower than average user retention driven by reduced user incentives, product feature changes and macroeconomic conditions, which is a continuation of the trend observed in 2022.

Key Components of Results of Operations

Revenue

Skillz provides a service to the game developers aimed at improving the monetization of their game content. The monetization service provided by Skillz allows developers to offer multi-player competition to their end-users which increases end-user retention and engagement.

By utilizing the Skillz monetization services, game developers can enhance the player experience by enabling them to compete in head-to-head matches, live tournaments, leagues, and charity tournaments and increase player retention through referral bonus programs, loyalty perks, on-system achievements and **bonus cash**. **Bonus Cash**. Skillz provides developers with **an** **a** SDK that they can download and integrate with their existing games. The SDK serves as a data interface between Skillz and the game developers that enables Skillz to provide monetization services to the developer. Specifically, these monetization services include end-user registration services, player matching, fraud and fair play monitoring, and billing and settlement services. The SDK and Skillz monetization services provide the following key benefits to the developers:

- Streamlined game and tournament management allowing players to register with the developer to compete in games for prizes while earning Skillz loyalty perks;
- Fair play in each tournament via the Skillz suite of fairness tools, including skill-based player matching and fraud monitoring;

- Improved end-user retention by rewarding the most loyal players with Ticketz which can be redeemed in the Skillz virtual store and are earned in every match and can be redeemed for prizes or credits to be used towards future paid entry fee tournaments;
- Marketing campaigns through main-stream online advertising networks and social media platforms to drive end-user traffic to developers' games within the Skillz ecosystem;

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- Systematic calls to end-user action via push notifications to users with game results, promotional offers, and time-sensitive actions; and
- Process end-user payments, billings and settlements on behalf of the developer to enable players to connect their preferred payment method to deposit and enter into the game developers' multi-player competitions for cash prizes.

Generally, end-users are required to deposit funds into their Skillz account in order to be eligible to participate in games for prizes. As part of its monetization services, Skillz is responsible for processing all end-user payments, billings and settlements on behalf of the game developer, such that the game developer does not have to collect directly from or make payments directly to the end-users. When the end-users enter into cash games, the end-users pay an entry fee using cash deposits, prior winnings in the end-users' accounts that have not been withdrawn, and end-user incentives (specifically Bonus Cash). Skillz **recognizes** is entitled to a revenue related to each game share based on total entry fees for paid competitions, regardless of how entry fees they are paid, net of end-user prizes (i.e., winnings from the competitions) and other costs to provide monetization services. Revenue related to Bonus Cash is recognized only once when the Bonus Cash is lost. Skillz does not recognize the cost of Bonus Cash when it is responsible for distributing the prize money returned to the winner on behalf of user who won the game developer's competition.

Skillz typically withholds 16% to 20% of the total

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entry fees when distributing the prize money as a commission. That commission is shared between Skillz and the game developers; however, the game developers' share is calculated solely based upon entry fees paid by net cash deposits received from end-users, adjusted for certain costs incurred by Skillz to provide monetization services.

Costs and Expenses

Cost of Revenue

Our cost of revenue consists of variable costs. These include mainly (i) payment processing fees, (ii) customer support costs, (iii) direct software costs, (iv) amortization of internal use software and (v) server costs.

We incur payment processing costs on user deposits. We also incur costs directly related to servicing end-user support tickets on behalf of the game developer that are logged by users directly within the Skillz SDK. These support costs include an allocation of the facilities expense, such as rent, maintenance and utilities costs according to headcount, needed to service these tickets. We use a third party as our cloud computing service; we incur server and software costs as a direct result of running our SDK in our developers' games. We also incur costs related to the amortization of intangible assets which include developed technology.

Research and Development

Research and development expenses consist of software development costs, comprised mainly of product and platform development, server and software costs that support research and development activities, and to a lesser extent, allocation of rent, maintenance and utilities costs according to headcount. Personnel related expenses consist of salaries, benefits, stock-based compensation and restructuring charges. We expect research and development expenses will fluctuate both in terms of absolute dollars and as a percentage of revenue in the future.

Sales and Marketing

Sales and marketing expenses consist primarily of direct advertising costs, engagement marketing expenses that are not recorded as a reduction of revenue, UA marketing expenses and amortization of intangible assets which include customer relationships. Sales and marketing expenses also include allocations of rent, maintenance and utilities costs according to headcount. Personnel related expenses consist of salaries, benefits, stock-based compensation and restructuring charges. We expect sales and marketing expenses will fluctuate both in terms of absolute dollars and as a percentage of revenue in the future.

General and Administrative

General and administrative expenses consist of personnel-related expenses for our corporate, executive, finance, and other administrative functions, expenses for outside professional services, and allocation of rent, maintenance and utilities costs according to headcount. Personnel related expenses consist of salaries, benefits, stock-based compensation and restructuring charges. General and administrative expenses also include expenses related to a loss contingency accrual.

We expect our general and administrative expenses **excluding impact of the CEO award cancellation of performance stock units to stock based compensation expenses**, to decrease for the foreseeable future as we reposition the Company for profitability. We do not anticipate that we will grow headcount significantly **during the rest of the year** and expect to reduce certain general and administrative expenses including professional service expenses, investor relations activities, and other administrative services.

Intangible Asset Impairment Charge

In the third quarter of 2022, we revised our financial outlook, resulting in lower projected user acquisition spend and a slower than expected migration of that spend to the Aarki technology-driven marketing platform, which will result in unrealized cost-saving synergies. We determined that this constituted a triggering event for one of our held and used long-lived asset groups, primarily consisting of developed technology and customer relationship intangible assets. As a result of our impairment evaluation, we recorded a non-cash intangible asset impairment charge of \$47.6 million in the condensed consolidated statement of operations and comprehensive loss. See Note 5, Goodwill and Intangible Assets, for further details.

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Results of Operations

The following table sets forth a summary of our results of operations for the periods indicated.

		Three Months Ended September 30,		Nine Months Ended September 30,			Three Months Ended March 31,	
		2022	2021	2022	2021		2023	2022
Revenue	Revenue	\$ 60,255	\$ 102,072	\$ 227,028	\$ 275,240	Revenue	\$ 44,383	\$ 91,864
Costs and expenses:	Costs and expenses:					Costs and expenses:		
Cost of revenue	Cost of revenue	7,555	7,647	25,840	16,289	Cost of revenue	4,582	9,200
Research and development	Research and development	8,354	13,162	45,536	30,584	Research and development	8,881	18,650
Sales and marketing	Sales and marketing	51,773	114,531	242,290	310,377	Sales and marketing	34,918	117,345
General and administrative	General and administrative	20,280	48,376	139,784	101,092	General and administrative	28,070	92,723
Impairment of intangible assets		47,581	—	47,581	—			
Total costs and expenses	Total costs and expenses	135,543	183,716	501,031	458,342	Total costs and expenses	76,451	237,918
Loss from operations	Loss from operations	(75,288)	(81,644)	(274,003)	(183,102)	Loss from operations	(32,068)	(146,054)
Interest expense, net	Interest expense, net	(3,807)	(87)	(19,560)	(136)	Interest expense, net	(3,494)	(8,157)
Change in fair value of common stock warrant liabilities	Change in fair value of common stock warrant liabilities	(80)	113,601	5,405	81,898	Change in fair value of common stock warrant liabilities	(1)	4,462
Other income (expense), net	Other income (expense), net	508	(22)	399	108	Other income (expense), net	39	(28)
Income (loss) before income taxes		(78,667)	31,848	(287,759)	(101,232)			
Benefit from income taxes		(120)	(18,933)	(488)	(18,826)			
Net income (loss)		\$ (78,547)	\$ 50,781	\$ (287,271)	\$ (82,406)			
Net income (loss) per share attributable to common stockholders:								
Basic		\$ (0.19)	\$ 0.13	\$ (0.70)	\$ (0.22)			
Diluted		\$ (0.19)	\$ (0.16)	\$ (0.70)	\$ (0.43)			
Loss before income taxes						Loss before income taxes	(35,524)	(149,777)

Provision (benefit) from income taxes				Provision (benefit) from income taxes		
Net loss				69		(213)
Net loss per share attributable to common stockholders:				Net loss	\$ (35,593)	\$ (149,564)
Basic and diluted				Net loss per share attributable to common stockholders:		
Weighted average shares outstanding:	Weighted average shares outstanding:			Basic and diluted	\$ (0.09)	\$ (0.37)
Basic	413,834,082	395,053,445	407,926,348	Weighted average shares outstanding:		
Diluted	413,834,082	396,030,131	407,926,348	Basic and diluted	417,665,863	401,653,954
Basic and diluted						

Three Months Ended

Revenue decreased by \$41.8 million \$47.5 million, or 41% 52%, to \$60.3 million \$44.4 million in the three months ended September 30, 2022 March 31, 2023 from \$102.1 million \$91.9 million in the three months ended September 30, 2021 March 31, 2022. The decrease was attributable primarily to lower retention from existing user cohorts driven by a combination of factors, including past product changes, which together have had a negative impact on overall user experience. Furthermore, there were \$36.6 million \$50.8 million, or 66% 86%, and \$26.2 million \$25.0 million, or 52% 59%, decreases in spend to acquire new paying users and engagement marketing spend, respectively, as the Company scaled back to achieve better user acquisition efficiency and eliminated low-return engagement marketing programs. ARPU increased 28% over the same period.

Our year-over-year revenue growth rate Revenue for the three months ended September 30, 2022 was (41)% March 31, 2023 declined 52%, which was down from compared to our year-over-year revenue growth rate for the three months ended September 30, 2021 March 31, 2022 of 70% 11%. The decrease in revenue growth rate compared to the previous period is primarily due to transitioning our focus from revenue growth to promoting profitable growth and efficiency. The transition to profitable growth focus on improving profitability and efficiency led the Company to reduce the rate of investment in Engagement Marketing engagement marketing and UA marketing. Our year-over-year growth rate trends for the three months ended September 30, 2022 March 31, 2023 for Engagement Marketing engagement marketing and UA marketing was (52)% were declines of 59% and (66)% 86%, respectively, and was down from compared to our year-over-year growth rate for the three months ended September 30, 2021 March 31, 2022 for Engagement Marketing engagement marketing and UA marketing of 88% 18% and 27% 12%, respectively.

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Nine Months Ended

Revenue decreased by \$48.2 million, or 18%, to \$227.0 million in the nine months ended September 30, 2022 from \$275.2 million in the nine months ended September 30, 2021. The decrease was attributable primarily to lower retention from existing user cohorts driven by a combination of factors, including past product changes, which together have had a negative impact on overall user experience. Furthermore, there were \$47.6 million, or 30%, and \$34.6 million, or 26%, decreases in user acquisition and engagement marketing, respectively, as the Company scaled back to achieve better user acquisition efficiency and eliminated certain low-return engagement marketing programs.

Our year-over-year revenue growth rate for the nine months ended September 30, 2022 was (18)%, which was down from our year-over-year revenue growth rate of the nine months ended September 30, 2021 of 69%. The decrease in revenue growth rate compared to the previous period is primarily due to transitioning our focus from revenue growth to promoting profitable growth and efficiency. The transition to profitable growth and efficiency led the Company to reduce the rate of investment in Engagement Marketing and UA marketing. Our year-over-year growth rate for the nine months ended September 30, 2022 for Engagement Marketing and UA marketing was (26)% and (30)%.

respectively, and was down from our year-over-year growth rate for the nine months ended September 30, 2021 for Engagement Marketing and UA marketing of 97% and 71%, respectively.

Cost of Revenue

(In thousands, except percentages)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Cost of revenue	\$ 7,555	\$ 7,647	(1)%	\$ 25,840	\$ 16,289	59 %

Three Months Ended

(In thousands, except percentages)	Three Months Ended March 31,		% Change
	2023	2022	
Cost of revenue	\$ 4,582	\$ 9,200	(50)%

Cost of revenue remained flat at \$7.6 million decreased by \$4.6 million, or 50%, to \$4.6 million for the three months ended September 30, 2022 March 31, 2023 from \$9.2 million in the three months ended March 31, 2022. The decrease in cost of revenue was primarily driven by a reduction in amortization and depreciation due to the write off of long-lived assets in the second half of the fiscal year-ended December 31, 2022, a reduction of payment processing costs, and reductions in customer support personnel costs. Cost of revenue as a percentage of revenue increased to 13% remained flat at 10% in the three months ended September 30, 2022 compared to 7% in the three months ended September 30, 2021.

Nine Months Ended

Cost of revenue increased by \$9.6 million, or 59%, to \$25.8 million in the nine months ended September 30, 2022 from \$16.3 million in the nine months ended September 30, 2021. The increase in cost of revenue was primarily driven by server expense attributed to the acquisition of Aarki March 31, 2023 and the amortization of acquired developed technology intangible assets. Cost of revenue as a percentage of revenue increased to 11% in the nine months ended September 30, 2022 compared to 6% in the nine months ended September 30, 2021, 2022, respectively.

Research and Development

(In thousands, except percentages)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Research and development	\$ 8,354	\$ 13,162	(37)%	\$ 45,536	\$ 30,584	49 %

Three Months Ended

(In thousands, except percentages)	Three Months Ended March 31,		% Change
	2023	2022	
Research and development	\$ 8,881	\$ 18,650	(52)%

Research and development costs decreased by \$4.8 million \$9.8 million, or 37% 52%, to \$8.4 million \$8.9 million in the three months ended September 30, 2022 March 31, 2023 from \$13.2 million \$18.7 million in the three months ended September 30, 2021 March 31, 2022. The decrease was primarily driven by a decrease of \$3.7 million related to stock-based compensation, \$2.5 million in professional fees, and a \$0.2 \$10.6 million decrease in headcount costs. These decreases were partially offset by a \$0.5 million increase related to equipment and software expense, \$0.1 million in facility and office-related expenses, and \$1.1 million of restructuring charges. Research and development expenses accounted for 14% of revenue in the three months ended September 30, 2022 compared to 13% in the three months ended September 30, 2021.

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Nine Months Ended

Research and development costs increased by \$15.0 million, or 49%, to \$45.5 million in the nine months ended September 30, 2022 from \$30.6 million in the nine months ended September 30, 2021. The increase was primarily driven by a \$15.8 million increase in research and development headcount costs, of which \$14.0 million \$8.4 million is related to salaries and bonuses due to an increase a reduction in headcount from restructuring in the acquisition of Aarki, a \$1.7 million increase related to equipment prior year and software expense, \$0.2 million \$1.1 million in facility and office-related expenses, and \$1.9 million of restructuring charges, stock compensation expense. These increases decreases were partially offset by decreases increases of \$1.6 million related to stock-based compensation and \$3.4 \$1.0 million in professional fees. Research and development expenses accounted for 20% as a percentage of revenue remained flat at 20% in the nine three months ended September 30, 2022 compared to 11% in the nine months ended September 30, 2021, March 31, 2023 and 2022, respectively.

Sales and Marketing

<i>(In thousands, except percentages)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Sales and marketing	\$ 51,773	\$ 114,531	(55)%	\$ 242,290	\$ 310,377	(22)%

Three Months Ended

<i>(In thousands, except percentages)</i>	Three Months Ended March 31,		% Change
	2023	2022	
Sales and marketing	\$ 34,918	\$ 117,345	(70)%

Sales and marketing costs decreased by **\$62.8 million** **\$82.4 million**, or **55% 70%**, to **\$51.8 million** **\$34.9 million** in the three months ended September 30, 2022 March 31, 2023 from **\$114.5 million** **\$117.3 million** in the three months ended September 30, 2021 March 31, 2022. The decrease was attributable primarily to **66% 86%** and **52% 59%** decreases in UA and engagement marketing spend, respectively. UA marketing expenses were **\$18.6** **\$8.4 million** and **\$55.2** **\$59.2 million** in three months ended September 30, 2022 March 31, 2023 and 2021, 2022, respectively. Engagement marketing expenses were **\$23.8** **\$17.6 million** and **\$50.0** **\$42.6 million** in the three months ended September 30, 2022 March 31, 2023 and 2021, 2022, respectively. Engagement marketing as a percentage of revenue decreased to 40% in the three months ended September 30, 2022 March 31, 2023 from 49% 46% in the three months ended September 30, 2021, respectively. March 31, 2022. This decrease reflects a reduced investment in low-return marketing programs that resulted in a decrease in our engagement marketing expense per user in the three months ended September 30, 2022 March 31, 2023 compared to the three months ended September 30, 2021.

Nine Months Ended

Sales and marketing costs decreased by **\$68.1 million**, or 22%, to **\$242.3 million** in the nine months ended September 30, 2022 from **\$310.4 million** in the nine months ended September 30, 2021. The decrease was attributable primarily to 30% and 26% decreases in UA and engagement marketing spend, respectively. UA marketing expenses were **\$109.0 million** and **\$156.6 million** in nine months ended September 30, 2022 and 2021, respectively. Engagement marketing expenses were **\$96.3 million** and **\$130.9 million** in the nine months ended September 30, 2022 and 2021, respectively. Engagement marketing as a percentage of revenue decreased to 42% in the nine months ended September 30, 2022 from 48% in the nine months ended September 30, 2021, respectively. This decrease reflects reduced investments in low-return marketing programs that resulted in a decrease in our engagement marketing expense per user in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 March 31, 2022.

General and Administrative

<i>(In thousands, except percentages)</i>	Three Months Ended September 30,			Nine Months Ended September 30,			Three Months Ended March 31,				
	(In thousands, except percentages)	2022	2021	% Change	(In thousands, except percentages)	2021	% Change	(In thousands, except percentages)	2023	2022	% Change
General and administrative	General and administrative	\$ 20,280	\$ 48,376	(58)%	\$ 139,784	\$ 101,092	38%	General and administrative	\$ 28,070	\$ 92,723	(70)%

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Three Months Ended

General and administrative costs decreased by **\$28.1 million** **\$64.7 million**, or **58% 70%**, to **\$20.3 million** **\$28.1 million** in the three months ended September 30, 2022 March 31, 2023 from **\$48.4 million** **\$92.7 million** in the three months ended September 30, 2021 March 31, 2022. The decrease was primarily driven by a **\$6.7** **\$69.8 million** decrease in general and administrative headcount costs, of which **\$4.3 million** is related salaries and bonuses due to a reduction in headcount from restructuring in the prior year and **\$65.1 million** of stock-based compensation expense **\$8.7 million** decrease in professional fees, a **\$1.4 million** decrease in bonus and commission expenses, a **\$0.1 million** decrease in equipment and software expense, a **\$0.3 million** decrease in office-related expenses, and a **\$11.6 million** decrease in litigation charges. These decreases were offset by a **\$0.2 million** increase in payroll expenses related to salaries and payroll taxes, a **\$0.6 million** increase in restructuring charges and a **\$0.4 million** increase in facilities expenses. General and administrative expenses accounted for 34% of revenue **recognized** in the three months ended September 30, 2022 compared to 47% in the three months ended September 30, 2021.

Nine Months Ended

General and administrative costs increased by **\$38.7 million**, or 38%, to **\$139.8 million** in the nine months ended September 30, 2022 from **\$101.1 million** in the nine months ended September 30, 2021. The increase was primarily driven by **March 31, 2022** as a **\$56.1 million** increase in stock-based compensation expense, which includes **\$65.1 million** related to result of the cancellation of performance stock units previously granted to the CEO without the concurrent grant or offer of a replacement award, a **\$7.5 million** increase decrease of **\$0.4 million** in payroll other expenses related to salaries including public company costs and payroll taxes, an increase of **\$0.4 million** in equipment and software expense, a **\$1.7 million** increase in restructuring charges penalties, and a **\$1.0 million** increase **\$0.9 million** decrease in facilities expenses, insurance expense. These increases decreases were partially offset by a **\$13.8** **\$6.6 million** decrease increase in professional fees, a **\$1.7 million** decrease in bonus and commission expenses, a decrease of **\$0.3 million** in office-related expenses, and a **\$11.6 million** decrease in litigation charges. fees. General and administrative expenses accounted for 62% as a percentage of revenue decreased to 63% in the **nine** **three** months ended September 30, 2022 compared to 37% March 31, 2023 from 101% in the **nine** **three** months ended September 30, 2021 March 31, 2022.

Impairment of Intangible Assets

(In thousands, except percentages)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022		2021	% Change		2021
	Impairment of intangible assets	\$ 47,581	\$ —	NM	\$ 47,581	\$ —

Three and Nine Months Ended

During the three and nine months ended September 30, 2022, we recorded an impairment of intangible assets of \$47.6 million. In the third quarter, we revised our financial outlook, resulting in lower projected user acquisition spend and a slower than expected migration of that spend to the Aarki technology-driven marketing platform, which will result in unrealized cost-saving synergies. We determined that this constituted a triggering event for one of our held and used long-lived asset groups, primarily consisting of developed technology and customer relationship intangible assets. As a result of our impairment evaluation, we recorded a non-cash intangible asset impairment charge of \$47.6 million in the condensed consolidated statement of operations and comprehensive loss. See Note 5, Goodwill and Intangible Assets, for further details.

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Interest expense, net

(In thousands, except percentages)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022		2021	% Change		2021
	Interest expense, net	\$ (3,807)	\$ (87)	NM	\$ (19,560)	\$ (136)

Three Months Ended

(In thousands, except percentages)	Three Months Ended March 31,			
	2023		2022	% Change
	Interest expense, net	\$ (3,494)	\$ (8,157)	(57)%
Interest expense, net increased decreased by \$3.7 million \$4.7 million to \$3.8 million \$3.5 million in the three months ended September 30, 2022 March 31, 2023 from \$87 thousand \$8.2 million in the three months ended September 30, 2021 March 31, 2022. The increase decrease was due to a decrease in interest expense related to our senior secured notes issued in 2021. This increase was income from the maturation of investment securities partially offset by a gain on extinguishment decrease in interest expense as a result of debt related to the redemption of a debt repurchase portion of our senior secured notes issued in December 2021.				

Nine Months Ended

Interest expense, net increased by \$19.4 million to \$19.6 million the principal amount of the 2021 Senior Secured Notes in the nine months ended September 30, 2022 from \$136 thousand in the nine months ended September 30, 2021. The increase was due to interest expense related to our senior secured notes issued in 2021. This increase was partially offset by a gain on extinguishment third quarter of debt related to a debt repurchase of our 2021 secured notes in July 2022.

Change in fair value common stock of warrant liabilities

(In thousands, except percentages)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022		2021	% Change		2021
	Change in fair value of common stock warrant liabilities	\$ (80)	\$ 113,601	NM	\$ 5,405	\$ 81,898

Three Months Ended

(In thousands, except percentages)	Three Months Ended March 31,			
	2023		2022	% Change
	Interest expense, net	\$ (3,494)	\$ (8,157)	(57)%
Interest expense, net increased decreased by \$3.7 million \$4.7 million to \$3.8 million \$3.5 million in the three months ended September 30, 2022 March 31, 2023 from \$87 thousand \$8.2 million in the three months ended September 30, 2021 March 31, 2022. The increase decrease was due to a decrease in interest expense related to our senior secured notes issued in 2021. This increase was income from the maturation of investment securities partially offset by a gain on extinguishment decrease in interest expense as a result of debt related to the redemption of a debt repurchase portion of our senior secured notes issued in December 2021.				

Change in fair value of common stock warrant liabilities	\$	(1)	\$	4,462	NM
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The change in fair value of warrant liabilities decreased by \$113.7 million \$4.5 million to \$(0.1) million \$(1) thousand in the three months ended September 30, 2022 March 31, 2023 from \$113.6 million \$4.5 million in the three months ended September 30, 2021 March 31, 2022. Refer to Note 12, Common Stock Warrants, of the notes to the consolidated financial statements for further discussion.

Nine Months Ended

The change in fair value of warrant liabilities decreased by \$76.5 million to \$5.4 million in the nine months ended September 30, 2022 from \$81.9 million in the nine months ended September 30, 2021. Refer to Note 12, Common Stock Warrants, of the notes to the condensed consolidated financial statements for further discussion.

Other income (expense), net

(In thousands, except percentages)	Three Months Ended September 30,		% Change	Nine Months Ended September 30,		
	2022	2021		2022	2021	% Change
Other (expense) income, net	\$ 508	\$ (22)	NM	\$ 399	\$ 108	NM

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Three Months Ended

(In thousands, except percentages)	Three Months Ended March 31,		% Change
	2023	2022	
Other (expense) income, net	\$ 39	\$ (28)	NM

Other income (expense), net increased by \$530 \$67 thousand, to \$508 \$39 thousand in the three months ended September 30, 2022 March 31, 2023 from \$(22) \$(28) thousand in the three months ended September 30, 2021 March 31, 2022. The increase was primarily driven by \$0.5 million of other income due to the receipt of a refund of amounts previously held changes in escrow related to our acquisition of Aarki in the three months ended September 30, 2022.

Nine Months Ended

Other income, net increased by \$291 thousand, to \$399 thousand in the nine months ended September 30, 2022 from \$108 thousand in the nine months ended September 30, 2021. The increase was primarily driven by \$0.5 million of other income due to the receipt of a refund of amounts previously held in escrow related to our acquisition of Aarki in the nine months ended September 30, 2022, foreign currency rates.

Benefit from income taxes

(In thousands, except percentages)	Three Months Ended September 30,			Nine Months Ended September 30,			Three Months Ended March 31,		
	2022	2021	% Change	2022	2021	% Change	2023	2022	% Change
Benefit from income taxes	\$ (120)	\$ (18,933)	NM	\$ (488)	\$ (18,826)	NM			
Provision (benefit) from income taxes							Provision (benefit) from income taxes	\$ 69	\$ (213) NM

Three Months Ended

Benefit Provision (benefit) from income taxes decreased by \$18.8 million \$0.3 million to \$0.1 million in the three months ended September 30, 2022 March 31, 2023 from a benefit from income taxes of \$18.9 million \$0.2 million in the three months ended September 30, 2021 March 31, 2022. The decrease was primarily driven by the reversal of net deferred tax liabilities related to the acquisition of Aarki in the prior period.

Nine Months Ended

Benefit from income taxes decreased by \$18.3 million to \$0.5 million in the nine months ended September 30, 2022 from a benefit from income taxes of \$18.8 million in the nine months ended September 30, 2021. The decrease was primarily driven by the reversal of net deferred tax liabilities related to the acquisition of Aarki in the prior period.

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Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we believe the following non-GAAP measure is useful in evaluating our operational performance. We use the following non-GAAP financial information to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively with GAAP financial information, may be helpful to investors in assessing our operating performance. These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP.

Adjusted EBITDA

"Adjusted EBITDA" is defined as net income (loss), loss, excluding interest income (expense); expense, net; change in fair value of common stock warrant liabilities; other (expense) income (expense), net; (benefit from) provision (benefit) for income tax; taxes; depreciation and amortization; stock-based compensation expense and related payroll tax expense; and certain other non-cash or non-recurring items impacting net income (loss) loss from time to time, including, but not limited to acquisition related expenses for transaction costs, impairment charges, loss contingency accruals, restructuring charges and impairment charges, one-time nonrecurring expenses, as they are not indicative of business operations. Adjusted EBITDA is intended as a supplemental measure of our performance that is neither required by, nor presented in accordance with, GAAP. We believe that the use of The Company's management believes Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing its operating results performance and trends is a similar measure reported by publicly-listed U.S. competitors, and regularly used by security analysts, institutional investors, and other interested parties in comparing analyzing operating performance and prospects. By providing this non-GAAP measure, the Company's financial measures management intends to provide investors with those a meaningful, consistent comparison of comparable companies, which may present similar non-GAAP financial measures to investors, the Company's profitability for the periods presented. However, you

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should be aware that when evaluating Adjusted EBITDA, we may incur future expenses similar to those excluded when calculating this measure. In addition, our presentation of this measure should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate Adjusted EBITDA in the same fashion.

Because of these limitations, Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA on a supplemental basis. You should review the reconciliation of net loss to Adjusted EBITDA below and not rely on any single financial measure to evaluate our business.

The following table reconciles net loss to Adjusted EBITDA for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ (78,547)	\$ 50,781	\$ (287,271)	\$ (82,406)
Interest expense, net ⁽⁵⁾	3,807	87	19,560	136
Stock-based compensation ⁽³⁾	5,822	15,812	97,567	42,531
Change in fair value of common stock warrant liabilities	80	(113,601)	(5,405)	(81,898)
Benefit from income taxes	(120)	(18,933)	(488)	(18,826)
Depreciation and amortization	4,587	4,991	15,971	6,093
Other expense (income), net	(508)	22	(399)	(108)
Acquisition related expenses ⁽⁸⁾	—	6,039	—	6,999
Loss contingency accrual ⁽⁷⁾	—	11,557	—	11,557
Restructuring charges ⁽⁴⁾	1,897	—	4,830	—
Impairment of intangible assets ⁽⁶⁾	47,581	—	47,581	—
One-time nonrecurring expenses ⁽¹⁾⁽²⁾	—	1,504	26	11,930
Adjusted EBITDA	\$ (15,401)	\$ (41,741)	\$ (108,028)	\$ (103,992)

	Three Months Ended March 31,	
	2023	2022
Net loss	\$ (35,593)	\$ (149,564)
Interest expense, net	3,494	8,157
Stock-based compensation ⁽²⁾	10,548	77,879
Change in fair value of common stock warrant liabilities	1	(4,462)
Provision (benefit) from income taxes	69	(213)
Depreciation and amortization	627	5,539
Other expense (income), net	(39)	28

One-time nonrecurring expenses ⁽¹⁾	—	119
Adjusted EBITDA	\$ (20,893)	\$ (62,517)

(1) For the **nine three** months ended **September 30, 2022** **March 31, 2022**, amounts represent one-time nonrecurring expenses related to IPO bonuses for certain employees, net of amounts forfeited by terminated employees.

(2) For the **three and nine** months ended **September 30, 2021**, amounts represent one-time nonrecurring expenses related to the follow-on offering, Aarki acquisition, and executive severance expense.

(3) For the **nine months ended September 30, 2022** **March 31, 2022**, amount includes stock-based compensation recognized for the cancellation of the Chief Executive Officer Officers' award of 16,119,540 performance share units granted on September 14, 2021 (the "CEO Performance Stock Units").

(4) For the **three and nine months ended September 30, 2022**, amount includes restructuring charges related to employee termination benefits.

(5) For the **three and nine months ended September 30, 2022**, amount includes \$2.6 million gain on extinguishment of debt for our 2021 senior secured notes. Please refer to Note 9, Long-Term Debt, for more details.

(6) For the **three and nine months ended September 30, 2022**, amount includes impairment of intangible assets related to the developed technology and customer relationships for our Aarki acquisition. Please refer to Note 5, Goodwill and Intangible Assets, for more details.

(7) For the **three and nine months ended September 30, 2021**, amount represents a loss contingency accrual related to a litigation matter relating to a former employee.

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(8) For the **three and nine months ended September 30, 2021**, amounts represent acquisition related expenses for our Aarki acquisition.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily from the sales of capital stock. As of **September 30, 2022** **March 31, 2023**, our principal sources of liquidity were our cash and cash equivalents in the amount of **\$239.9 million** **\$415.3 million**, which are primarily invested in money market funds and marketable securities with maturities of less than three months, and marketable securities in the amount of **\$318.4 million** **\$105.6 million**.

As of **September 30, 2022** **March 31, 2023**, the Company had 4,535,728 Private Warrants outstanding. During the **nine three** months ended **September 30, 2022** **March 31, 2023**, there was no exercise of any Private Warrants.

In December 2021, the Company offered \$300 million in aggregate principal senior secured notes due 2026 in a private offering. The notes were sold in a private placement to qualified institutional buyers. Annual interest started to accrue from December 20, 2021 at a stated rate of 10.25% and will be payable semiannually on June 15 and December 15 of each year, beginning on June 15, 2022. The notes will mature on December 15, 2026. We intend to use used the net proceeds from the offering for general corporate purposes, which may include potential included investments in or marketable securities classified as available-for-sale. We may also use the proceeds for potential acquisitions of other companies, products, or technologies that we may identify in the future. The notes contain customary covenants restricting our and certain of our subsidiaries' ability to incur debt, incur liens, make distributions to holders of our stock, make certain transactions with our affiliates, as well as certain financial covenants specified in the indentures. We were in compliance with all covenants applicable to the notes as of **September 30, 2022**.

We are aware that our outstanding debt securities are currently trading at substantial discounts to their respective principal amounts. In order to reduce future cash interest payments, as well as future amounts due at maturity or upon redemption, we may, from time to time, as we did during the third quarter of 2022, continue to seek to retire or purchase our outstanding debt through cash purchases, in open-market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will be upon such terms and at such prices as we may determine, and will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

On September 1, 2022, the Company redeemed \$10.5 million principal amount of the 2021 senior secured notes which resulted in a gain on extinguishment of debt of \$2.6 million as the notes were redeemed for total consideration below par value of the notes. The redemption price was equal to 69.5% of the aggregate principal amount plus accrued and unpaid interest. The gain is reflected in the interest expense, net line item of the Company's condensed consolidated statement of operations for the three and nine months ended **September 30, 2022** **March 31, 2023**.

Our existing liquidity resources are sufficient to continue operating activities for at least one year past the issuance date of the condensed consolidated financial statements. Our future cash requirements will depend on many factors, including our rate of revenue growth and the level expansion of cash necessary to fund our operations, including our sales and marketing activities. We also may require sources of liquidity to invest in or acquire complementary businesses, applications or technologies.

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The following table provides a summary of cash flow data (in thousands):

Nine Months Ended September 30,		Three Months Ended March 31,	
2022	2021	2023	2022

Net cash used in operating activities	Net cash used in operating activities	Net cash used in operating activities
	\$ (166,784)	\$ (103,326)
Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities
	\$ 176,041	\$ (140,803)
Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities
	\$ (10,737)	\$ 521,709
Net cash used in financing activities	Net cash used in financing activities	Net cash used in financing activities
	\$ (249)	\$ (2,580)

Cash Flows from Operating Activities

Our cash flows from operating activities are significantly affected by the growth of our business primarily related to research and development, sales and marketing, and general and administrative activities. Our operating cash flows are also affected by our working capital needs to support growth in personnel-related expenditures and fluctuations in accounts payable and other current assets and liabilities.

Net cash used in operating activities was \$166.8 million \$14.7 million for the nine three months ended September 30, 2022 March 31, 2023. The most significant component of our cash used during this period was a net loss of \$287.3 million \$35.6 million, which included non-cash expenses of \$97.6 million \$10.5 million related to stock-based compensation including \$65.1 million related to the cancellation of performance stock

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units granted to our CEO, non-cash intangible asset impairment charge of \$47.6 million, non-cash income of \$5.4 million for the change in fair value related to Private Common Stock Warrants, \$16.0 million related to depreciation and amortization, a gain on extinguishment of debt for \$2.6 million, and net cash outflows of \$37.9 million from changes in operating assets and liabilities. The net cash outflows from changes of operating assets and liabilities were primarily the result of decreases in other liabilities of \$21.8 million, accounts payable of \$14.0 million, loss contingency accrual of \$4.6 million and an increase in prepaid expense and other assets of \$2.2 million. These net cash outflows were slightly which was partially offset by a decrease in accounts receivable of \$4.5 million.

Net cash used in operating activities was \$103.3 million for the nine months ended September 30, 2021. The most significant component of our cash used during this period was a net loss of \$82.4 million, which included non-cash income and expenses of \$81.9 million for the change in fair value related to Public and Private Common Stock Warrants, \$42.5 million related to stock-based compensation, \$6.1 million related to depreciation and amortization, accretion of unamortized discounts and amortization of issuance costs, and net cash inflows of \$31.2 million \$8.8 million from changes in operating assets and liabilities. The net cash inflows from changes of operating assets and liabilities were primarily the result of an increase increases in other liabilities of \$15.9 million, primarily related to an increase \$11.9 million and accounts payable of \$3.0 million. These cash inflows were slightly offset by increases in accrued sales accounts receivable of \$2.4 million and marketing costs of \$3.3 million in prepaid expenses and other assets, respectively.

Cash Flows from Investing Activities

Net cash provided by investing activities was \$176.0 million \$67.8 million for the nine three months ended September 30, 2022 March 31, 2023. The net cash provided by investing activities included \$432.9 million for purchases of marketable securities, partially offset by \$125.3 million \$41.7 million in proceeds from sales of marketable securities and \$485.6 million \$37.6 million in proceeds from maturities of marketable securities.

Net cash used in investing activities was \$140.8 million for the nine months ended September 30, 2021. The net cash used in investing activities included the \$84.0 million acquisition of Aarki, net of cash acquired, \$54.7 million investment in non-marketable equity securities and \$2.1 million in which were slightly offset by purchases of property and equipment including internal-use software of \$11.6 million.

Cash Flows from Financing Activities

Net cash used in financing activities was \$10.7 million \$0.2 million for nine three months ended September 30, 2022 March 31, 2023, which was primarily due to the \$7.5 million payment for redemption of senior secured notes, \$2.0 million in payments for debt issuance costs and \$2.0 million in principal payments on finance lease obligations.

Net cash provided by financing activities was \$521.7 million for nine months ended September 30, 2021, which was primarily due to \$402.1 million in net proceeds from the issuance of common stock in connection with the Company's follow-on offering and \$130.6 million of proceeds from the exercise of common stock warrants, partially offset by \$13.2 million in payments made towards offering costs.

Contractual Obligations and Commitments

Our material cash requirements include the following contractual and other obligations.

Purchase Commitments

In September 2022, we entered into a non-cancellable agreement to purchase cloud hosting services in the amount of \$13 million over a two year term, commencing in the fourth quarter of 2022, in exchange for discounts on such services. See Note 11, Commitments and Contingencies, for more details.

Leases

We have operating lease arrangements for office space, and finance lease agreements for certain network equipment. As of **September 30, 2022** **March 31, 2023**, we had lease payment obligations of **\$22.8 million** **\$21.8 million**, of which **\$5.7 million** **\$4.9 million** is payable within 12 months.

Secured Notes and Term Loan

Refer to "Liquidity and Capital Resources" under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Form 10-Q for more information.

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Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet financing arrangements or any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

See critical accounting policies and estimates in our **Form 10-K filed March 1, 2022** **Annual Report** as there have been no material changes except for the following:

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is tested for impairment at the reporting unit level, which is the same or one level below the operating segment. We have one operating segment and a single reporting unit. We identified our reporting unit by assessing whether there are components of our operating segment which constitute businesses for which discrete financial information is available and reviewed regularly by the segment manager. We test goodwill for impairment at least annually during the fourth fiscal quarter, or more frequently if indicators of impairment exist during the fiscal year. Events or circumstances which could trigger an impairment review include a significant adverse change in legal factors or in the business climate, loss of key customers, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends or significant underperformance relative to expected historical or projected future results of operations. When testing goodwill for impairment, we first perform a qualitative assessment. If we determine it is not more likely than not that a reporting unit's fair value is less than its carrying amount, then no further analysis is necessary. If we determine it is more likely than not that a reporting unit's fair value is less than its carrying amount, then we compare the estimated fair value of the reporting unit with its carrying amount, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired. If, however, the fair value of the reporting unit is less than its carrying amount, the difference between the carrying value and the fair value would be recorded as an impairment loss. Any impairment loss is limited to the carrying amount of goodwill allocated to the reporting unit.

We perform goodwill impairment evaluations annually, during the fourth quarter, or sooner if triggering events are identified. We observed continued market volatility including significant declines in our market capitalization and revised our financial outlook during the three months ended September 30, 2022, which was identified as a triggering event. As a result, we performed an interim quantitative goodwill impairment evaluation during the three months ended September 30, 2022, and determined the fair value of our reporting unit was greater than the carrying value and did not record a goodwill impairment charge. See Note 5, Goodwill and Intangible Assets, for further details.

Long-Lived Assets

Long-lived assets consist of property, plant equipment and intangible assets with estimable useful lives subject to depreciation and amortization. Intangible assets consist of purchased intangible assets including developed technology, customer relationships, trademarks and tradenames, and are amortized over their useful lives ranging from one to eight years using the straight-line method of amortization. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of an asset or asset group to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of the asset or asset group

exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group.

In the third quarter of 2022, we observed significant declines in user acquisition spend and a slower than expected migration of that spend to the Aarki technology-driven marketing platform, resulting in unrealized cost-saving synergies. We determined that this constituted a triggering event for one of our held and used long-lived asset groups, primarily consisting of developed technology and customer relationship intangible assets. We determined the fair value of the long-lived asset group was lower than its carrying value and recorded an intangible asset impairment charge of \$47.6 million during the three months ended September 30, 2022. See Note 5, Goodwill and Intangible Assets, for further details.

changes.

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Recent Accounting Pronouncements

See Note 2, Summary of Significant Accounting Policies, to our condensed consolidated financial statements for more information about recent accounting pronouncements, the timing of their adoption, and our assessment, to the extent we have made one, of their potential impact on our financial condition and our results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of market and other risks, including the effects of changes in interest rates, inflation, as well as risks to the availability of funding sources.

Interest Rate Risk

The market risk inherent in our financial instruments and our financial position represents the potential loss arising from adverse changes in interest rates. As of **September 30, 2022** **March 31, 2023**, we had cash and cash equivalents of **\$239.9 million** **\$415.3 million**, which consisted of money market fund accounts and commercial papers for which the fair market value would be affected by changes in the general level of U.S. interest rates. As of **September 30, 2022** **March 31, 2023**, we had marketable securities of **\$318.4 million** **\$105.6 million**, which primarily consisted of **U.S. government, corporate debt securities, and asset backed securities, commercial paper, and debt instruments issued by foreign governments**, for which the fair market value would be affected by changes in the general level of interest rates. We limit the amount of credit exposure to any one issuer. Our investments carry a degree of interest rate risk. However, due to the low-risk profile of our investments, an immediate 10% change in interest rates would not have a material effect on the fair market value of our cash and cash equivalents and marketable securities.

Foreign Currency Risk

There was no material foreign currency risk for the **nine** **three** months ended **September 30, 2022** **March 31, 2023** and **2021** **2022**.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of **September 30, 2022** **March 31, 2023**, the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of such date, our disclosure controls and procedures were not effective as a result of previously disclosed material weaknesses in our internal control over financial reporting as described below.

Notwithstanding the material weaknesses, 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 presented in this Form 10-Q, in conformity with GAAP.

Material Weaknesses

As previously disclosed in our management's report on internal control over financial reporting within the Form 10-K for the year ended December 31, 2021, then Annual Report we identified material weaknesses in our internal control over financial reporting with respect to the following:

- 1. Risk assessment
- 2. Information technology general controls
- 3. Internal control over accounting processes

[Risk Assessment](#)

We were unable to maintain an effective risk assessment process based on the criteria established in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. The Company's risk assessment process did not adequately identify financial statement risks related to the Company's exposure to indirect taxes that impacted the indirect tax liability in our December 31, 2022 consolidated balance sheet and resulted in a restatement of our previously issued consolidated financial statements. In addition, we did not timely identify third party service organizations on which we rely that were not planning to issue System Organization Controls (SOC) reports, or issued SOC reports with qualified opinions. Consequently, we did not implement mitigating internal controls to adequately respond to the related financial statement risks.

Information Technology General Controls (ITGCs)

ITGCs in the areas of access and program change over information technology (IT) systems that support the Company's financial reporting processes were not designed and/or operating effectively. Specifically, the Company did not maintain sufficient: (a) 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; (b) program change management controls to ensure that IT program and data changes affecting financial information technology applications and underlying records are identified, tested, authorized, and implemented appropriately. As a result, the Company's related IT dependent manual and application controls that rely upon the affected ITGCs, or information coming from IT systems with affected ITGCs were also deemed ineffective.

Internal Controls Over Accounting Processes

Controls designed to properly evaluate certain accounting processes, including where management review was involved, did not operate effectively due to the lack of sufficient documentation or evidence retained to demonstrate management's review.

A material weakness is a deficiency, or a combination of deficiencies, review across accounting processes. In addition, as noted in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Risk Assessment section above, we were unable to design and implement controls to prevent and detect misstatements across several accounting processes, including related to the Company's annual or interim accounting for its end-user liability balance in our December 31, 2022 balance sheet, and resulted in a restatement of our previously issued consolidated financial statements will not be prevented or detected on a timely basis.

Remediation of Material Weaknesses

During In 2023, our remediation efforts will include the three months ended September 30, 2022 following:

- Creation of a Steering Committee that will oversee a material weaknesses remediation working group, establish organizational priorities and identify and allocate resources needed for the remediation of control deficiencies underlying the material weaknesses discussed above.
- Appointment of a Project Management Director (PMD), we continued and identification of members of a working team who, together with the PMD, will report to the Steering Committee and will evaluate remediation efforts started by the

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Company in 2022, create detailed project plans with control owners to address control deficiencies underlying material weaknesses, identify resource needs, and monitor execution of detailed remediation tasks by control owners established in the project plan.

- Augmentation of personnel and resources involved in the design and implement internal control measures to improve our performance of internal control over financial reporting as deemed necessary by the working group and remediate by the material weaknesses. Our efforts included a number of actions:

Steering Committee.

- ITGC: Redesign controls around end-user liability and implement additional controls around indirect taxes. Specifically:
 - Our existing controls around end-user liability did not reconcile the balance between our general ledger system and subledger system that tracks player activity. We will alter the design of our controls to ensure we reconcile the player liability balance between the two systems, and that all differences are continuing understood and/or recorded accurately.
 - We will implement additional controls to design ensure we have regular communication with our tax service providers to ensure any tax exposure that could be material to the financial statements is understood, calculated, and implement recorded in a timely manner.
- Continuation of internal control enhancements started in 2022 related to ITGCs and Internal Controls over Accounting Processes:
 - ITGC: renew emphasis on designing and implementing improved processes and controls for requesting, authorizing, and reviewing user access to key information systems which impact our financial reporting. This includes will include the addition of new control activities associated with user access provisioning within our key applications, as well as certain controls which review user access and activity logs. Additionally, we are redesigning our permissions associated with role-based access to our the general ledger as well as designing and implementing compensating controls. We will also are designing design and implementing implement improved processes and controls over program changes within our key information systems which impact our financial reporting.
 - Management Review Controls: We continue to reinforce Internal Controls over Accounting Processes; reinforcing management review control training for our the accounting department to strengthen documentation and retention of evidence to be commensurate with risks associated with accounting processes involving complexity, subjectivity, and estimation uncertainties for specific transactions.

While these actions and planned actions are subject to ongoing management evaluation and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles, we We believe that these remediation actions, when fully implemented, will remediate the material weaknesses we have identified and strengthen our internal control over financial reporting. 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. We are committed to the continuous improvement of our internal

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control over financial reporting. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies, or we may modify, or, in appropriate circumstances, not complete certain of the remediation work described above.

Changes in Internal Control over Financial Reporting

We have experienced turnover in certain control owners and financial reporting oversight roles Except as a result of Company restructuring efforts and select attrition during the third quarter of 2022. However, such changes have not had a material impact on our internal control over financial reporting. We are continually monitoring these changes to minimize the impact to our processes and controls.

Accordingly, other than the significant changes noted above associated with the material weaknesses and corresponding remediation procedures as described above, there was no change in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15b-15(d) of the Exchange Act during the third first quarter of 2022 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Our management, including our principal executive officer and principal financial officer, do 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.

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PART II

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 11, 7, "Contingencies and Commitments," in this Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021 December 31, 2022.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description	Form	Exhibit	Filing Date
10.1	Letter Agreement, by and between the Company and Vatsal Bhardwaj, dated as of October 14, 2022			
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its 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 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 (formatted as Inline XBRL and contained in Exhibit 101).			

Exhibit No.	Exhibit Description	Form	Exhibit	Filing Date
10.1	Separation Agreement, dated March 31, 2023, between Skillz Inc. and Stanley Mbugua	8-K	10.1	4/3/2023
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its 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 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 (formatted as Inline XBRL and contained in Exhibit 101).			

*Filed herewith.

**Submitted electronically with the report.

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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, in the City of New York, State of New York, on the [fourth tenth](#) day of [November, 2022, May, 2023](#).

SKILLZ INC.

By: /s/ Andrew Paradise

Name: Andrew Paradise

Title: Chief Executive Officer and Chairman

By: /s/ Jason Roswig

Name: Jason Roswig

Title: President and Chief Financial Officer



October 14, 2022

PERSONAL AND CONFIDENTIAL

Vatsal Bhardwaj

Dear Vatsal,

This letter (the "Agreement") confirms the agreement between you and Skillz Inc. (the "Company") regarding the end of your employment with the Company as Chief Product Officer and the resolution of any disputes between us.

1. Separation. Your employment with the Company ended effective August 5, 2022 (the "Separation Date"). Since the Separation Date, you agree that you have not, and from and following your execution of this Agreement you agree that you will not, (a) represent to anyone that you are serving as an employee of the Company, or (b) say or do anything purporting to bind the Company or any of its affiliates.

2. Advisory Arrangement. Commencing as of the Effective Date through December 31, 2022 (such date, the "Advisory Period"), at such times and places as may be mutually agreed, you will provide to the Company advisory services (the "Services") within the scope of your expertise as the Company's former Chief Product Officer. All of the Services will be determined by mutual agreement on the instruction of the Company as delivered through one or more Executives (or their designees) of the Company. During the Advisory Period, you will be an independent contractor of the Company, and this Agreement shall not be construed to create any association, partnership, joint venture, employment, or agency relationship between you and the Company for any purpose. In your capacity as an independent contractor performing services under this Agreement, you have no authority (and shall not hold yourself out as having authority) to bind the Company and you shall not make any agreements or representations on the Company's behalf without the Company's prior written consent. Without limiting the prior two sentences, during the Advisory Period, you will not be eligible to participate in any vacation, group medical or life insurance, disability, profit sharing or retirement benefits, or any other fringe benefits or benefit plans offered by the Company to its employees, and the Company will not be responsible for withholding or paying any income, payroll, Social Security, or other federal, state, or local taxes, making any insurance contributions, including for unemployment or disability, or obtaining workers' compensation insurance on your behalf. You shall be responsible for all such taxes or contributions, including penalties and interest. Any persons employed or engaged by you in connection with the performance of the Services shall be your employees or contractors and you shall be fully responsible for them and any claims made by or on behalf of any such employee or contractor.

3. Equity. Schedule A hereto sets forth restricted stock units ("RSUs"), granted to you under the Skillz Inc. 2020 Omnibus Incentive Plan (the "Plan") and, with respect thereto, the number of RSUs vested/vesting as of the Separation Date and the Effective Date (as defined below), respectively. The RSUs and any shares acquired pursuant to the vesting of the RSUs will remain subject to the terms and conditions of the respective Restricted Stock Unit Award Agreement pertaining thereto and to the Plan (collectively, the "Equity Documents"), including the termination provisions set forth therein. You acknowledge and agree that, other than the vested portion of any RSUs described in this paragraph, you do not have any right, title, claim or interest in or to any other Company securities, including, without limitation, any shares of the Company's capital stock or any other options, restricted stock awards, restricted stock unit awards, other stock- or equity- related rights or other equity incentives or bonuses not expressly set forth in this Agreement; *except to the extent you have purchased shares of the Company's Class A Common Stock through a brokerage account unrelated to your employment with the Company or through the Company's Employee Stock Purchase Plan.*

4. Waiver of Clawback; Severance. Subject to, and in consideration for, your execution and non- revocation of this Agreement, and provided you comply with all of the terms and conditions of this Agreement, the CIIA (as defined below in Section 10) and all applicable Company policies, upon the Effective Date (as defined below in Section 8) (collectively the "Conditions"):

- (a) the Company will waive your obligation to repay the \$750,000 signing bonus awarded to you pursuant to your offer letter, dated October 7, 2021 ("Waiver of Clawback").
- (b) the Company will pay you \$467,500, less all applicable withholdings and deductions, which will be paid to you in a lump-sum payment on the Company's next regularly scheduled pay date after the Effective Date, and

(c) if you were enrolled in a Company health plan on the Separation Date and timely elect to receive Consolidated Omnibus Budget Reconciliation Act (COBRA) benefits, the Company will pay your monthly premiums on your behalf for nine (9) months.

The payments described in clause (b) of this Section 4 (the "Separation Pay") shall be made by direct deposit as used for payroll payments during your tenure as Chief Product Officer.

5. No Other Monies Owed. You acknowledge and agree that: (a) you have been timely paid all of your wages earned through the Separation Date; (b) you are not entitled to receive any further payments or benefits, including incentive compensation, from the Company not identified in this Agreement; (c) you have no unreimbursed business expenses; and (d) you did not suffer an injury covered by workers' compensation in the course and scope of your employment with the Company.

6. Your General Release. In consideration of the promises set forth in this Agreement and the Separation Pay, as of the Effective Date, you waive and release to the maximum extent permitted by applicable law any and all claims or causes of action, whether known or unknown, against the Company and/or its divisions, predecessors, successors, past, present or future subsidiaries, affiliated companies, investors, branches or related entities (collectively, including the Company, the "Entities") and/or the Entities' respective past, present or future insurers, officers, directors, agents, attorneys, employees, stockholders, assigns and employee benefit plans (collectively with the Entities, the "Released Parties"), with respect to any matter, including, without limitation, any matter related to your employment with the Company or the termination of that employment relationship, through the date you sign this Agreement, excluding benefits, rights and terms under this Agreement.

This waiver and release includes, without limitation, claims under the Employee Retirement Income Security Act (ERISA); WARN Act claims; claims for attorneys' fees or costs; any and all claims for stock, stock options, restricted stock units or other equity securities of the Company; penalties claims; wage and hour claims; statutory claims; tort claims; contract claims; claims of wrongful discharge, constructive discharge, emotional distress, defamation, invasion of privacy, fraud, breach of contract, and breach of the covenant of good faith and fair dealing; claims for retaliation; claims related to discrimination or harassment based on any protected basis, under Title VII of the Civil Rights Act, the California Fair Employment and Housing Act, the Americans with Disabilities Act, the Age Discrimination in Employment Act or any other federal, state, or local law prohibiting discrimination, harassment or retaliation; and claims under the California Labor Code, the California Business and Professions Code, and all other federal, state and local laws, ordinances and regulations.

You covenant not to sue the Released Parties for any of the claims released above, agree not to participate in any class, collective, representative, or group action that may include any of the claims released above, and will affirmatively opt out of any such class, collective, representative or group action. Further, you agree not to participate in, seek to recover in, or assist in any litigation or investigation by other persons or entities against the Released Parties, except as required by law.

You waive any right to bring a lawsuit against the Released Parties and any right to individual monetary recovery. However, nothing in this Agreement precludes you from filing a charge with, communicating with, or participating in any investigation or proceeding before any government agency or body and you do not need to provide notice to or obtain authorization from the Company to do so. Further, nothing in this Agreement (a) is intended to impede your ability to report possible securities law violations to the government or to receive a monetary award from a government administered whistleblower-award program, or (b) waives your right to testify or prohibits you from testifying in an administrative, legislative, or judicial proceeding concerning alleged criminal conduct or alleged sexual harassment, when you have been required or requested to attend the proceeding pursuant to a court order, subpoena or written

request from an administrative agency or the California state legislature.

This waiver and release covers only those claims that arose prior to your execution of this Agreement. The waiver and release does not apply to any claim which, as a matter of law, cannot be released by private agreement. If any provision of the waiver and release is found to be unenforceable, it shall not affect the enforceability of the remaining provisions and all remaining provisions shall be enforceable to the fullest extent permitted by law.

For the avoidance of doubt, this waiver and release is not effective until your receipt of the Separation Pay.

7. Waiver of Unknown Claims. You (a) understand and acknowledge that you are releasing potentially unknown claims, and that you may have limited knowledge with respect to some of the claims being released; (b) acknowledge that there is a risk that, after you sign this Agreement, you may learn information that might have affected your decision to enter into this Agreement; (c) assume this risk and all other risks of any mistake in entering into this Agreement; (d) agree that this Agreement is fairly and knowingly made; and (e) expressly waive and release any and all rights and benefits under Section 1542 of the Civil Code of the State of California (or any analogous law of any other state), which reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

8. ADEA Waiver. You acknowledge that you are knowingly and voluntarily waiving and releasing any rights you may have under the federal Age Discrimination in Employment Act ("ADEA Waiver") and that the consideration given for the ADEA Waiver is in addition to anything of value to which you are already entitled. You further acknowledge that: (a) your ADEA Waiver does not apply to any claims that may arise after you sign this Agreement; (b) you should consult with an attorney prior to executing this Agreement; (c) you have 21 calendar days from the date of this Agreement within which to consider this Agreement (although you may choose to execute this Agreement earlier) (the "Deadline"); (d) you have 7 calendar days following your execution of the Agreement to revoke this Agreement; and (e) the Agreement will not be effective until the eighth day after you sign this Agreement, provided that you have not revoked it (the "Effective Date"). You agree that any modifications, material or otherwise, made to this Agreement do not restart or affect in any manner the original 21-day consideration period provided in this paragraph. To revoke the Agreement, you must email to Charlotte Edelman a written notice of revocation at legal@skillz.com, prior to the end of the 7-day period. You acknowledge that your consent to this Agreement is knowing and voluntary. The severance offer will be automatically withdrawn if you do not sign the Agreement within the 21-day consideration period.

9. No Admission. Nothing contained in this Agreement shall constitute or be treated as an admission by the Company of any liability, wrongdoing, or violation of law.

10. Continuing Obligations. At all times in the future, you will remain bound by your Confidential Information and Invention Assignment Agreement, which is attached as **Attachment A** (your "CIIA").

11. Return of Company Property. If you have not already done so, on or prior to the Effective Date, you must return to the Company, at the Company expense, any and all Company property in your possession or control, including, without limitation, equipment, documents (in paper and electronic form), and credit cards, and that you have returned and/or destroyed all Company property that you stored in electronic form or media (including, but not limited to, any Company property stored in your personal computer, USB drives or in a cloud environment). You further agree to sign the Termination Certification prior to the Deadline, which is attached as Exhibit C to your CIIA.

12. Requests for References. All external requests for references should be sent to HR@skillz.com, and you understand that the Company will confirm only your job title and dates of employment. Any employee of the Company is free, but not obligated, to provide a job reference beyond titles and dates of employment.

13. Non-Disparagement. You agree that you will not disparage or encourage or induce others

to disparage the Company or any of the Released Parties. For the purpose of this Agreement, "disparage" includes, without limitation, making comments or statements on social media or the internet, or to any person or entity including, but not limited to, the press and/or media, current or former employees, partners or principals of the Company or any entity with whom the Company has a business relationship, that would adversely affect in any manner (a) the conduct of the business of the Company or any of the Released Parties (including, but not limited to, any business plans or prospects) or (b) the reputation of the Company or any of the Released Parties. The Company agrees to instruct its current executive officers and members of the Board of Directors, during the term of their engagement with the Company, not to disparage you (as that term is defined in this paragraph). You and the Company agree that a breach of this provision will be deemed a material breach of this Agreement. In addition, a breach of this provision will be deemed to be a material breach of this Agreement and will entitle the Company or you to recover liquidated damages in the amount of \$5,000.00 for each occurrence of a breach. You and the Company expressly agree that this provision is reasonable under the circumstances that exist at the time this Agreement is made. Nothing in this Agreement (including this paragraph) shall prohibit you from (a) providing truthful information as required by law in a legal proceeding or a government investigation (b) discussing or disclosing information about unlawful acts in the workplace, such as harassment or discrimination or any other conduct that you have reason to believe is unlawful, or (c) otherwise exercising your protected rights that cannot be waived as a matter of law.

14. Cooperation. You agree to fully cooperate with the Company and its counsel in connection with any investigation, administrative proceeding or litigation relating to any matter in which you were involved or of which you may have knowledge as a result of your employment by the Company. Cooperation includes, for example, interviews, review of documents, attendance at meetings, trial or administrative proceedings, providing testimony, or providing documents to the Company. The Company will promptly reimburse you for any reasonable and necessary out of pocket costs incurred by you consistent with this paragraph.

15. Arbitration Agreement. You and the Company agree that any and all claims or disputes arising out of or relating to this Agreement shall be resolved by final, binding and confidential arbitration before a single arbitrator in San Francisco, CA (or another mutually agreeable location) conducted under the Judicial Arbitration and Mediation Services (JAMS) Streamlined Arbitration Rules & Procedures, which can be reviewed at <http://www.jamsadr.com/rules-streamlined-arbitration/>. Before engaging in arbitration, you and the Company agree to first attempt to resolve the dispute informally or with the assistance of a neutral third-party mediator. You and the Company each acknowledge that by agreeing to this arbitration procedure, you and the Company waive the right to resolve any such dispute, claim or demand through a trial by jury or judge or by administrative proceeding. The arbitrator, and not a court, shall also be authorized

to determine arbitrability, except as provided herein. The arbitrator may in his or her discretion award attorneys' fees to the prevailing party. All claims or disputes must be submitted to arbitration on an individual basis and not as a representative, class and/or collective action proceeding on behalf of other individuals. Any issue concerning the validity of this representative, class and/or collective action waiver must be decided by a Court and if for any reason it is found to be unenforceable, the representative, class and/or collective action claim may only be heard in Court and may not be arbitrated. Claims will be governed by applicable statutes of limitations. This arbitration agreement does not cover any action seeking only emergency, temporary or preliminary injunctive relief (including a temporary restraining order) in a court of competent jurisdiction in accordance with applicable law to protect a party's confidential or trade secret information. This arbitration agreement shall be construed and interpreted in accordance with the Federal Arbitration Act.

16. **Entire Agreement.** You agree that except for the CIIA and the Equity Documents, and except as otherwise expressly provided in this Agreement, this Agreement renders null and void any and all prior or contemporaneous negotiations, agreements, understandings, or representations between you and the Company, including but not limited to your offer letter from the Company. You and the Company agree that this Agreement constitutes the entire agreement between you and the Company regarding the subject matter of this Agreement, and that this Agreement may be modified only in a written document signed by you and a duly authorized officer of the Company.

17. **Governing Law.** Except as to the Arbitration Agreement (above), this Agreement shall be construed and interpreted in accordance with the laws of the State of California.

18. **Severability.** The provisions of this Agreement are severable. If any provision of this Agreement is held invalid or unenforceable, such provision shall be deemed deleted from this Agreement and such invalidity or unenforceability shall not affect any other provision of this Agreement, the balance of which will remain in and have its intended full force and effect; provided, however that if such invalid

or unenforceable provision may be modified so as to be valid and enforceable as a matter of law, such provision shall be deemed to have been modified so as to be valid and enforceable to the maximum extent permitted by law.

19. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be an original, but all of which together shall constitute one agreement. Execution via DocuSign or a similar service, or of a facsimile copy or scanned image shall have the same force and effect as execution of an original, and an electronic or facsimile signature or scanned image of a signature shall be deemed an original and valid signature.

To accept this Agreement, please sign and date this Agreement and return it to me no later than 5:00p.m. PT on the Deadline (i.e., November 4, 2022).

Sincerely, SKILLZ INC.

/s/ Charlotte Edelman

Charlotte Edelman, General Counsel

My agreement with the terms and conditions of this Agreement is signified by my signature below. I acknowledge and agree that I am not eligible for the Separation Pay until the Effective Date. Furthermore, I acknowledge that I have read and understand this Agreement and that I sign this release of all claims voluntarily, with full appreciation that at no time in the future may I pursue any of the rights I have waived in this Agreement.

By: /s/ Vatsal Bhardwaj
Vatsal Bhardwaj

Date: 10/16/2022

Schedule A: Equity
Attachment A: Confidential Information and Invention Assignment Agreement

SCHEDULE A: EQUITY

<u>GRANT NUMBER</u>	<u>TOTAL SUBJECT TO GRANT</u>	<u>VESTING as of Separation Date</u>	<u>Vesting as of Effective Date</u>
RSU2020-0464	1,583,949	0	0
RSU2020-0708	1,295,038	0	0
PRSU2020-061	431,679	0	0
PRSU2020-039	527,983	0	0
To be granted in respect of advisory Services	395,988	0	395,988
To be granted in respect of advisory Services	323,760	0	323,760

ATTACHMENT A

CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT



CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT

Employee Name: Vatsal Bhardwaj

Effective Date: August 6, 2021

[intentionally omitted]



EXHIBIT A

LIST OF PRIOR INVENTIONS

AND ORIGINAL WORKS OF AUTHORSHIP

EXCLUDED UNDER SECTION 4(a) AND CONFLICTING AGREEMENTS DISCLOSED UNDER SECTION 10(b)

[intentionally omitted]

EXHIBIT B

Section 2870 of the California Labor Code is as follows:

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

EXHIBIT C

TERMINATION CERTIFICATION

[intentionally omitted]

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Exhibit 31.1

Certification of Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Andrew Paradise, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Skillz 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 4, 2022 May 10, 2023

/s/ Andrew Paradise

Andrew Paradise
Chief Executive Officer and Chairman
(Principal Executive Officer)

Exhibit 31.2

**Certification of Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jason Roswig, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Skillz 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 4, 2022** **May 10, 2023**

/s/ Jason Roswig

Jason Roswig

President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Exhibit 32.1

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

In connection with this Quarterly Report on Form 10-Q of Skillz Inc. (the "Company") for the three and **nine** three months ended **September 30, 2022** **March 31, 2023**, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Executive Officer and Chairman of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: **November 4, 2022** **May 10, 2023**

Signed:

/s/ Andrew Paradise

Andrew Paradise

Chief Executive Officer and Chairman

Exhibit 32.2

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

In connection with this Quarterly Report on Form 10-Q of Skillz Inc. (the "Company") for the three and **nine** **three** months ended **September 30, 2022** **March 31, 2023**, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: **November 4, 2022** **May 10, 2023**

Signed: /s/ Jason Roswig

Jason Roswig

President and Chief Financial Officer

DISCLAIMER

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