

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _ to _
Commission File Number: 001-39775

ContextLogic Inc.

(Exact Name of Registrant as Specified in its Charter)

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

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

94104
(Zip Code)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of April 30, 2022, the number of shares of the registrant's Class A common stock outstanding was 599 million and the number of shares of the registrant's Class B common stock outstanding was 66 million.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	As of March 31, 2022 (Unaudited)	As of December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 760	\$ 1,009
Marketable securities	260	150
Funds receivable	14	17
Prepaid expenses and other current assets	45	48
Total current assets	1,079	1,224
Property and equipment, net	15	17
Right-of-use assets	14	18
Marketable securities	9	17
Other assets	4	7
Total assets	\$ 1,121	\$ 1,283
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 40	\$ 67
Merchants payable	150	185
Refunds liability	12	23
Accrued liabilities	150	174
Total current liabilities	352	449
Lease liabilities, non-current	14	16
Total liabilities	366	465
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value: 100 shares authorized as of March 31, 2022 and December 31, 2021; No shares issued and outstanding as of March 31, 2022 and December 31, 2021	—	—
Common stock, \$0.0001 par value: 3,500 (3,000 Class A, 500 Class B) shares authorized as of March 31, 2022 and December 31, 2021; 664 (598 Class A, 66 Class B) and 658 (593 Class A, 65 Class B) shares issued and outstanding as of March 31, 2022 and December 31, 2021, respectively	—	—
Additional paid-in capital	3,358	3,360
Accumulated other comprehensive income	2	3
Accumulated deficit	(2,605)	(2,545)
Total stockholders' equity	755	818
Total liabilities and stockholders' equity	\$ 1,121	\$ 1,283

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

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

	Three Months Ended March 31,	
	2022	2021
Revenue	\$ 189	\$ 772
Cost of revenue	125	335
Gross profit	64	437
Operating expenses:		
Sales and marketing	45	470
Product development	66	51
General and administrative	15	42
Total operating expenses	126	563
Loss from operations	(62)	(126)
Other income, net:		
Interest and other income, net	2	—
Loss before provision for income taxes	(60)	(126)
Provision for income taxes	—	2
Net loss	(60)	(128)
Net loss per share, basic and diluted	\$ (0.09)	\$ (0.21)
Weighted-average shares used in computing net loss per share, basic and diluted	661	619

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

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

	Three Months Ended	
	March 31,	
	2022	2021
Net loss	\$ (60)	\$ (128)
Other comprehensive loss:		
Net unrealized holding losses on derivatives and marketable securities	(1)	(2)
Comprehensive loss	<u>\$ (61)</u>	<u>\$ (130)</u>

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

CONTEXTLOGIC INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in millions)
(Unaudited)

	Three Months Ended March 31, 2022					
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Total Stockholders' Equity
	Shares	Amount		Accumulated Deficit		
Balances as of December 31, 2021	658	\$ —	\$ 3,360	\$ 3	\$ (2,545)	\$ 818
Issuance of common stock upon exercise of options for cash	1	—	—	—	—	—
Issuance of common stock upon settlement of restricted stock units	5	—	—	—	—	—
Stock-based compensation	—	—	(2)	—	—	(2)
Other comprehensive loss, net	—	—	—	(1)	—	(1)
Net loss	—	—	—	—	(60)	(60)
Balances as of March 31, 2022	<u>664</u>	<u>\$ —</u>	<u>\$ 3,358</u>	<u>\$ 2</u>	<u>\$ (2,605)</u>	<u>\$ 755</u>

	Three Months Ended March 31, 2021					
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)		Total Stockholders' Equity
	Shares	Amount		Accumulated Deficit		
Balances as of December 31, 2020	587	\$ —	\$ 3,210	\$ 1	\$ (2,184)	\$ 1,027
Issuance of common stock upon exercise of options for cash	2	—	1	—	—	1
Issuance of common stock upon settlement of restricted stock units	29	—	(5)	—	—	(5)
Stock-based compensation	—	—	37	—	—	37
Other comprehensive loss, net	—	—	—	(2)	—	(2)
Net loss	—	—	—	—	(128)	(128)
Balances as of March 31, 2021	<u>618</u>	<u>\$ —</u>	<u>\$ 3,243</u>	<u>\$ (1)</u>	<u>\$ (2,312)</u>	<u>\$ 930</u>

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

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

	Three Months Ended March 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (60)	\$ (128)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash inventory write-downs	3	—
Depreciation and amortization	2	2
Noncash lease expense	2	4
Impairment of lease assets and property and equipment	4	—
Stock-based compensation expense	(2)	37
Other	2	(3)
Changes in operating assets and liabilities:		
Funds receivable	3	18
Prepaid expenses, other current and noncurrent assets	(1)	16
Accounts payable	(27)	(143)
Merchants payable	(35)	(73)
Accrued and refund liabilities	(33)	(69)
Lease liabilities	(2)	(4)
Other current and noncurrent liabilities	(2)	(11)
Net cash used in operating activities	<u>(146)</u>	<u>(354)</u>
Cash flows from investing activities:		
Purchases of property and equipment and development of internal-use software	(2)	—
Purchases of marketable securities	(153)	(53)
Maturities of marketable securities	50	67
Net cash (used in) provided by investing activities	<u>(105)</u>	<u>14</u>
Cash flows from financing activities:		
Payment of taxes related to RSU settlement	—	(5)
Net cash used in financing activities	<u>—</u>	<u>(5)</u>
Net decrease in cash, cash equivalents and restricted cash	(251)	(345)
Cash, cash equivalents and restricted cash at beginning of period	1,018	1,965
Cash, cash equivalents and restricted cash at end of period	<u>\$ 767</u>	<u>\$ 1,620</u>
Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets:		
Cash and cash equivalents	\$ 760	\$ 1,620
Restricted cash included within prepaid expenses and other current assets in the condensed consolidated balance sheets	7	—
Total cash, cash equivalents and restricted cash	<u>\$ 767</u>	<u>\$ 1,620</u>
Supplemental cash flow disclosures:		
Cash paid for income taxes, net of refunds	\$ 3	\$ 2

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

CONTEXTLOGIC INC.
Notes to Unaudited Condensed Consolidated Financial Statements

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

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

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

Basis of Presentation and Consolidation

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

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates form the basis for judgments the Company makes about the carrying values of its assets and liabilities that are not readily available from other sources. These estimates include, but are not limited to, fair value of financial instruments, useful lives of long-lived assets, fair value of derivative instruments, incremental borrowing rate applied to lease accounting, contingent liabilities, redemption probabilities associated with Wish Cash, allowances for refunds and chargebacks and uncertain tax positions. As of March 31, 2022, the effects of the ongoing COVID-19 pandemic on the Company’s business, results of operations, and financial condition continue to evolve. As a result, many of the Company’s estimates and assumptions required increased judgment and these estimates may change materially in future periods.

Segments

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

Concentrations of Risk

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

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

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

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

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

	March 31, 2022	December 31, 2021
PSP 1	64%	62%
PSP 2	25%	32%

Services Risk — The Company serves all of its users using third-party data center and hosting providers. The Company has disaster recovery protocols at the third-party service providers. Even with these procedures for disaster recovery in place, access to the Company's service could be significantly interrupted, resulting in an adverse effect on its operating results and financial position. No significant interruptions of service were known to have occurred during the three months ended March 31, 2022 and 2021.

Summary of Significant Accounting Policies

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

Accounting Pronouncements

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

NOTE 2. DISAGGREGATION OF REVENUE

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

Marketplace Revenue

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

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

Logistics Revenue

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

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

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

	Three Months Ended March 31,	
	2022	2021
	(in millions)	
Core marketplace revenue	\$ 90	\$ 477
ProductBoost revenue	14	50
Marketplace revenue	104	527
Logistics revenue	85	245
Revenue	\$ 189	\$ 772

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

NOTE 3. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

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

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

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

	March 31, 2022			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Financial assets:				
Cash equivalents:				
Money market funds	\$ 10	\$ 10	\$ —	\$ —
Marketable securities:				
U.S. Treasury bills	\$ 195	\$ —	\$ 195	\$ —
Commercial paper	21	—	21	—
Corporate bonds	41	—	41	—
Certificates of deposit	3	—	3	—
Non-U.S. government	9	—	9	—
Total marketable securities	\$ 269	\$ —	\$ 269	\$ —
Prepaid and other current assets:				
Derivative assets	\$ 4	\$ —	\$ 4	\$ —
Total financial assets	\$ 283	\$ 10	\$ 273	\$ —
Financial liabilities:				
Accrued liabilities:				
Derivative liabilities	\$ 2	\$ —	\$ 2	\$ —
Total financial liabilities	\$ 2	\$ —	\$ 2	\$ —

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

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

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

	March 31, 2022		December 31, 2021	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in millions)			
Due within one year	\$ 260	\$ 260	\$ 150	\$ 150
Due after one year through five years	9	9	17	17
Total marketable securities	<u>\$ 269</u>	<u>\$ 269</u>	<u>\$ 167</u>	<u>\$ 167</u>

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

NOTE 4. BALANCE SHEET COMPONENTS

Accrued Liabilities

Accrued liabilities consist of the following:

	March 31, 2022	December 31, 2021(1)
	(in millions)	
Logistics costs(2)	\$ 43	\$ 56
Deferred revenue and customer deposits	22	25
Wish Cash liability(3)	19	20
Sales and indirect taxes(4)	20	26
Others	46	47
Total accrued liabilities	<u>\$ 150</u>	<u>\$ 174</u>

- (1) The amounts previously disclosed in the Company's 2021 Form 10-K were realigned to ensure consistency with the amounts reflected as of March 31, 2022.
- (2) Logistics costs decreased by \$13 million or 23% primarily due to lower shipping volumes during the first quarter of 2022 compared to the fourth quarter of 2021.
- (3) While the Company will continue to honor all Wish Cash presented for payment, it may determine the likelihood of redemption to be remote for certain Wish Cash liability balances due to, among other things, long periods of inactivity. In these circumstances, to the extent the Company determines there is no requirement for remitting Wish Cash balances to government agencies under unclaimed property laws, the portion of Wish Cash liability balances not expected to be redeemed are recognized in core marketplace revenue. The Company recognized approximately \$1 and \$3 million of Wish Cash liability breakage in core marketplace revenue during the first quarter of 2022 and the fourth quarter of 2021, respectively.
- (4) Sales and indirect taxes decreased by \$6 million or 23% primarily due to less taxes collected in connection with lower order volumes during the first quarter of 2022 compared to the fourth quarter of 2021.

NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Volume of Derivative Activity

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

	March 31, 2022	December 31, 2021
	(in millions)	
Cash flow hedges	\$ 310	\$ 320
Non-designated hedges	(26)	54
Total	<u>\$ 284</u>	<u>\$ 374</u>

Fair Value of Derivative Financial Instruments

	March 31, 2022		December 31, 2021	
	Assets(1)	Liabilities(2)	Assets(1)	Liabilities(2)
	(in millions)			
Derivative designated as hedging instruments				
Cash flow hedges	\$ 1	\$ —	\$ 2	\$ —
Derivative not designated as hedging instruments				
Foreign currency forward contracts	\$ 3	\$ 2	\$ 2	\$ 1
Total derivatives	\$ 4	\$ 2	\$ 4	\$ 1

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

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

Derivatives in Cash Flow Hedging Relationships

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

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

The Company recognizes changes in fair value of the cash flow hedges of foreign currency denominated merchants payable in accumulated other comprehensive loss in its condensed consolidated balance sheets until the forecasted transaction occurs. When the forecasted transaction affects earnings, the Company reclassifies the related gain or loss on the cash flow hedge to core marketplace revenue. All amounts in other comprehensive income at period end are expected to be reclassified to earnings within 12 months. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the Company reclassifies the gain or loss on the related cash flow hedge from accumulated other comprehensive loss to core marketplace revenue. For the three months ended March 31, 2022 and 2021, there were no net gains or losses recognized in core marketplace revenue relating to hedges of forecasted transactions that did not occur.

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

Derivatives Not Designated as Hedging Instruments

The net gains on the change in fair value of the Company's foreign exchange forward contracts not designated as hedging instruments were approximately \$1 and \$4 million for the three months ended March 31, 2022 and 2021, respectively, and were recognized in other income, net in the condensed consolidated statements of operations.

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

NOTE 6. OPERATING LEASES

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

Total operating lease cost was \$2 million and \$4 million for the three months ended March 31, 2022 and 2021, respectively. Short-term lease costs and variable lease costs and sublease income were not material.

In February 2022, the Company's Board of Directors approved a restructuring plan, which included exiting various office leases. As a result, the Company ceased using certain office spaces. As the carrying value of the related right-of-use assets and leasehold improvements exceeded the estimated fair value, the Company recognized an impairment loss of \$4 million, which is included as part of general and administrative expenses in its condensed consolidated financial statements for the three months ended March 31, 2022. Of the \$4 million total impairment loss, approximately \$2 million related to the impairment of operating right-of-use assets and approximately \$2 million primarily relates to impairment of leasehold improvements. See Note 12. Restructuring Costs for more information about the Company's restructuring plan.

As of March 31, 2022 and December 31, 2021, the Company's condensed consolidated balance sheets included right-of-use assets in the amount of \$14 million and \$18 million, respectively, and current lease liabilities in the amount of \$9 million in accrued liabilities as of both periods, and \$14 million and \$16 million in lease liabilities, non-current, respectively.

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

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

	Three months ended	
	March 31,	
	2022	2021
	(in millions)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 3	\$ 4

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

Year ending December 31,	March 31,
	2022
	(in millions)
2022 (remaining nine months)	7
2023	8
2024	7
2025	3
Total lease payments	25
Less: imputed interest	(2)
Present value of lease liabilities	\$ 23

NOTE 7. COMMITMENTS AND CONTINGENCIES

Revolving Credit Facility

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

The Revolving Credit Facility contains customary conditions to borrowing, events of default and covenants, including covenants that restrict the Company's ability (and the ability of certain of the Company's subsidiaries) to incur indebtedness, grant liens, make certain fundamental changes and asset sales, make distributions to stockholders, make investments or engage in transactions with affiliates. It also contains a minimum liquidity financial covenant of \$350 million, which includes unrestricted cash and any available borrowing capacity under the Revolving Credit Facility. The obligations under the Revolving Credit Facility are secured by liens on substantially all of the Company's domestic assets and are guaranteed by any material domestic subsidiaries, subject to customary exceptions. A standby letter of credit in the amount of approximately \$7 million has been issued under the Revolving Credit Facility in conjunction with the lease of the Company's headquarters in San Francisco, California. As of March 31, 2022, the Company had not made any borrowings under the Revolving Credit Facility and it was in compliance with the related covenants. Fees incurred under the Revolving Credit Facility were insignificant for the three months ended March 31, 2022 and 2021.

Purchase Obligations

Effective September 1, 2019, the Company entered into an amendment to a colocation and cloud services arrangement committing the Company to make payments of \$120 million for services over 3 years. As of March 31, 2022, the remaining commitment under this amended agreement was approximately \$7 million and is payable within the current year.

Legal Contingencies

Beginning in May 2021, four putative class action lawsuits were filed in the U.S. District Court for the Northern District of California against the Company, its directors, certain of its officers and the underwriters named in its initial public offering ("IPO") registration statement alleging violations of securities laws based on statements made in its registration statement on Form S-1 filed with the SEC in connection with its IPO and seeking monetary damages. One of these cases has since been dismissed by the plaintiff. The Company believes these lawsuits are without merit and it intends to vigorously defend them. Based on the preliminary nature of the proceedings in these cases, the outcome of these matters remains uncertain.

In August 2021, a shareholder derivative action purportedly brought on behalf of the Company, *Patel v. Szulczewski*, was filed in the U.S. District Court for the Northern District of California alleging that the Company's directors and officers made or caused the Company to make false and/or misleading statements about the Company's business operations and financial prospects in various public filings. Plaintiff asserts claims for breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, violations of Section 14(a) of the Exchange Act, and for contribution under Sections 10(b) and 21D of the Exchange Act and is seeking monetary damages.

In November 2021, a shareholder derivative action purportedly brought on behalf of the Company, *Aviv v. Szulczewski*, was filed in the U.S. District Court for the Northern District of California alleging that the Company's directors breached their fiduciary duties and caused the Company to make misstatements relating to a leased property that allegedly was used for commercial purposes in violation of zoning ordinances. Plaintiff asserts claims for breach of fiduciary duties, unjust enrichment, and violations of Section 14(a) of the Exchange Act, and is seeking monetary damages and restitution. Given that this, and the above described matters, are in the early stages of the litigation process, the Company is unable to estimate the range of potential loss, if any, but the litigation could subject the Company to substantial costs, divert resources and the attention of management from our business, and harm the Company's business and financial results.

In November 2021, France's Directorate General for Competition, Consumer Affairs and Repression of Fraud ("DGCCRF") issued an injunction delisting the Wish "App" from Google Play and the Apple App Store, and blocking Wish from appearing in Google, Bing and Qwant search results on the premise that unsafe products or products of poor quality are available for purchase on Wish. The injunction could expose Wish to civil and criminal penalties. The Company has taken immediate measures to challenge the injunction, and to suspend and lift it. In December 2021, the French Administrative Court upheld the injunction, but in so doing noted that the injunction is not permanent and encouraged the Company and DGCCRF to engage with one another directly to develop a timeline and/or plan for the lifting of the injunction. While that decision is the subject of appeals currently pending in French Court, the Company has been in direct contact with DGCCRF as well. In addition to the appeal, the Company has filed other administrative challenges to the injunction and the agency's interpretation enforcement thereof.

In December 2021, the Company became aware that authorities in France charged Wish with legal violations relating to the Company's former practice and use of strikethrough pricing in France, the Company's previous failure to translate into French listings and product details on the Company's app and website, and the Company's anti-counterfeiting policies and practices. The Company disputes the charges and is preparing to defend itself at a hearing scheduled for June 2022. Any adverse outcome could result in payment of substantial fines, payments to allegedly impacted consumer groups, harm to the Company's reputation, loss of rights, or adverse changes to the Company's offerings or business practices in France. Any of these results could adversely affect the Company's business. In addition, defending claims may be costly and may impose a significant burden on the Company's management.

As of March 31, 2022, in the opinion of management, there were no other legal contingency matters that arose in the ordinary course of business, either individually or in aggregate, that would have a material adverse effect on the financial position, results of operations, or cash flows of the Company. Given the unpredictable nature of legal proceedings, the Company bases its estimate on the information available at the time of the assessment. As additional information becomes available, the Company will reassess the potential liability and may revise the estimate.

NOTE 8. EQUITY AWARD ACTIVITY AND STOCK-BASED COMPENSATION

Equity Award Activity

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

	Options Outstanding			RSUs Outstanding
	Number of Options (in millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Number of RSUs (in millions)
Balances at December 31, 2021 ⁽¹⁾	45	\$ 0.254	2.5	48
Granted	6	\$ 2.860		52
Vested	—	\$ —		(4)
Exercised	(1)	\$ 0.138		—
Forfeited or cancelled	—	\$ —		(16)
Balances at March 31, 2022	50	\$ 0.593	3.3	80

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

The weighted-average grant date fair value of RSUs granted during the three months ended March 31, 2022 and 2021 was \$1.86 and \$22.01 per share, respectively. As of March 31, 2022, 13 million shares remained available for grant under the Company's equity incentive plans.

Performance Stock Units

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

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

2022 Inducement Plan

In January 2022, the Company's Board of Directors adopted and approved the 2022 Inducement Plan ("2022 Plan"). The Company intends that the 2022 Plan be reserved for persons to whom the Company may issue securities without stockholder approval as an inducement of employment pursuant to Rule 5635(c)(4) of the Marketplace Rules of the Nasdaq Stock Market, LLC. The 2022 Plan provides for the award of options, stock appreciation rights, restricted shares, and RSUs of the Company's Class A common stock to the Company's employees. Stock-based awards under the 2022 Plan that expire or are forfeited, cancelled, or repurchased generally are returned to the pool of shares of Class A common stock available for issuance under the 2022 Plan. The aggregate number of shares reserved for issuance under this plan shall not exceed the sum of 12 million shares plus additional common shares returned to the pool of shares available for issuance. As of March 31, 2022, 1 million shares under the 2022 Plan remained available for grant.

Stock Option Valuation

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

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

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

A summary of the assumptions used in the Black-Scholes option pricing model to determine the fair value of the options is as follows:

	Black-Scholes Assumptions
Expected term (in years)	6.10
Risk free interest rate	1.70%
Volatility	73.20%
Dividend yield	—
Estimated fair value per share	\$1.87

Stock-Based Compensation Expense

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

	Three Months Ended	
	March 31,	
	2022	2021
	(in millions)	
Cost of revenue	\$ (1)	\$ 5
Sales and marketing	1	3
Product development	14	15
General and administrative	(16)	14
Total stock-based compensation ⁽¹⁾	<u>\$ (2)</u>	<u>\$ 37</u>

(1) Total stock-based compensation for the three months ended March 31, 2022 decreased by \$39 million compared to the three months ended March 31, 2021 primarily due to forfeitures originating from the resignation of the Company's former CEO, reductions to the Company's workforce as part of the Company's February 2022 Restructuring Plan, and modifications to the Company's former Executive Chair's equity awards.

The Company will recognize the remaining \$12 million and \$300 million of unrecognized stock-based compensation expense over a weighted-average period of approximately 3.9 years and 2.8 years related to options and RSUs, respectively.

NOTE 9. INCOME TAXES

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

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

The provision for income taxes was insignificant and \$2 million for the three months ended March 31, 2022 and 2021, respectively. The year-over-year decrease in provision for income taxes was primarily related to a decrease in pre-tax earnings of the Company's international operations. The Company continues to maintain a valuation allowance on its domestic net deferred tax assets which is excluded from the annual effective tax rate estimate.

The Company had \$1 million of unrecognized tax benefits as of March 31, 2022 and December 31, 2021. These unrecognized tax benefits, if recognized, would affect the effective tax rate. The interest and penalties associated with the unrecognized tax benefits for the three months ended March 31, 2022 and 2021 were immaterial.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is not currently under examination by income tax authorities in federal, state or other jurisdictions. All tax returns will remain open for examination by the federal and state authorities for three and four years, respectively, from the date of utilization of any net operating loss or credits. Certain tax years are subject to foreign income tax examinations by tax authorities until the statute of limitations expire.

NOTE 10. NET LOSS PER SHARE

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

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

	Three Months Ended March 31,	
	2022	2021
	(in millions, except per share data)	
Numerator:		
Net loss	\$ (60)	\$ (128)
Denominator:		
Weighted-average shares used in computing net loss per share, basic and diluted	661	619
Net loss per share, basic and diluted	\$ (0.09)	\$ (0.21)

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

	As of March 31,	
	2022	2021
	(in millions)	
Warrant to purchase common stock	—	1
Common stock options outstanding	50	73
Unvested restricted stock units outstanding(1)	80	28
Employee Stock Purchase Plan	3	1
Total	133	103

(1) Unvested RSUs outstanding as of March 31, 2021 included 10 million PSUs, which were cancelled in February 2022.

NOTE 11. GEOGRAPHICAL INFORMATION

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

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

	Three Months Ended March 31,			
	2022		2021	
	(in millions)			
Europe	\$ 34	38%	\$ 235	49%
North America(1)	43	48%	186	39%
South America	3	3%	18	4%
Other	10	11%	38	8%
Core marketplace revenue(2)	\$ 90	100%	\$ 477	100%

(1) The United States accounted for \$35 million and \$156 million of core marketplace revenue for the three months ended March 31, 2022 and 2021, respectively.

China accounted for substantially all of marketplace and logistics revenue during the three months ended March 31, 2022 and 2021 based on the location of the merchants' operations.

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

NOTE 12. RESTRUCTURING COSTS

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

During the three months ended March 31, 2022, the Company recorded charges of approximately \$3 million in severance and other personnel reductions costs for terminated employees and \$4 million in impairments of lease assets and property and equipment. The Company anticipates that related severance payments will continue to occur into the second quarter of 2022.

NOTE 13. SUBSEQUENT EVENTS

In May 2022, the Company filed a Form S-8 to register an additional 15 million shares towards its 2022 Plan. The Company intends the additional shares to be used exclusively for grants of equity as an inducement to individuals who were not previously employees or directors of the Company. As of the filing date of this Quarterly Report on Form 10-Q, 16 million shares under the 2022 Plan remained available for grant.

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

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

Financial Results for the Three Months Ended March 31, 2022

- Total revenue was \$189 million.
- Total cost of revenue and expenses were \$251 million, including negative stock-based compensation expense of \$2 million.
- Loss from operations was \$62 million.
- Net loss was \$60 million.
- Adjusted EBITDA was a loss of \$40 million or 21% of total revenue.
- Cash and cash equivalents and marketable securities were \$1.0 billion.

As of March 31, 2022, we had an accumulated deficit of \$2.6 billion. We expect losses from operations to continue for the foreseeable future as we incur costs and expenses related to brand development, expansion of market share, and continued development of our mobile shopping marketplace infrastructure.

During the first quarter of 2022, we continued to face headwinds of reduced retention and new buyer conversion and a rise in digital advertising costs. In response to rising digital advertising costs, which contributed to lower marketing efficiency, starting in the third quarter of 2021, we decided to significantly reduce our digital advertising expenditures as we focused our resources on other strategic initiatives. As discussed below under "Key Financial and Performance Metrics," our monthly active users ("MAUs") and last twelve months ("LTM") active buyers have been negatively impacted by our decision to significantly reduce our digital advertising expenditures. In response to these headwinds, we commenced a number of initiatives that we believe will improve the user experience and increase retention, including enhancing our product quality and selection, and providing an unmatched fun and entertaining shopping experience. We believe our continued strategy to enhance users' experience in our marketplace and provide a more differentiated and engaging user experience will position us for long-term sustainable growth.

COVID-19

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

In addition, the COVID-19 pandemic has also disrupted the global supply chain, which may interfere with the delivery of our merchants' products to our users. Our MAUs, LTM Active Buyers and revenue may be negatively impacted due to a combination of reasons including: (i) macroeconomic factors such as worldwide retail businesses reopening; (ii) the disruption of the global supply chain; (iii) increased consumer spending on travel and other discretionary items; and, (iv) the waning impact of U.S. and other government economic stimulus programs.

February 2022 Restructuring Plan

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

The Restructuring Plan includes i) reducing our headcount by approximately 15% (or approximately 190 positions), ii) exiting various office leases, and iii) reducing and realigning vendor expenditures. During the three months ended March 31, 2022, we recorded charges of approximately \$3 million in severance and other personnel reductions costs for terminated employees and \$4 million in impairments of lease assets and property and equipment. We anticipate that related severance payments will continue to occur into the second quarter of 2022.

Our Financial Model

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

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

Key Financial and Performance Metrics

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

	Three Months Ended	
	March 31,	
	2022	2021
	(in millions)	
MAU	27	101
LTM Active Buyers	28	61
Adjusted EBITDA	\$ (40)	\$ (79)
Adjusted EBITDA Margin	(21)%	(10)%
Free Cash Flow	\$ (148)	\$ (354)

Monthly Active Users

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

MAUs decreased approximately 73% from the three months ended March 31, 2022 compared to the three months ended March 31, 2021. We believe this decline was primarily driven by our decision to significantly reduce our digital advertising expenditures.

LTM Active Buyers

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

LTM Active Buyers decreased approximately 54% from the three months ended March 31, 2022 compared to the three months ended March 31, 2021. We believe this decline was primarily driven by reduced digital advertising expenditures resulting in lower MAUs and conversion.

A Note About Metrics

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

Non-U.S. GAAP Financial Measures

Adjusted EBITDA and Adjusted EBITDA Margin

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

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

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

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

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

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

	Three Months Ended March 31,	
	2022	2021
	(in millions)	
Revenue	\$ 189	\$ 772
Net loss	(60)	(128)
Net loss as a percentage of revenue	(32)%	(17)%
Excluding:		
Interest and other income, net	(2)	—
Provision for income taxes	—	2
Depreciation and amortization	2	2
Stock-based compensation expense(1)	(2)	37
Employer payroll taxes related to stock-based compensation expense	—	7
Restructuring and other discrete items(2)	22	—
Recurring other items	—	1
Adjusted EBITDA	<u>\$ (40)</u>	<u>\$ (79)</u>
Adjusted EBITDA margin	<u>(21)%</u>	<u>(10)%</u>

(1) Total stock-based compensation for the three months ended March 31, 2022 decreased by \$39 million compared to the three months ended March 31, 2021 primarily due to forfeitures originating from the resignation of the Company's former CEO, reductions to the Company's workforce as part of the Company's Restructuring Plan, and modifications to our former Executive Chair's equity awards.

(2) Includes restructuring charges consisting of \$3 million of employee severance and \$4 million in impairment of lease assets and property and equipment as well as a \$15 million one-time discretionary cash bonus paid to select employees to help cover their tax obligations triggered by the settlement of their RSUs that vested upon the Company's IPO.

Free Cash Flow

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

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

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

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

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

	Three Months Ended March 31,	
	2022	2021
	(in millions)	
Cash used in operating activities	\$ (146)	\$ (354)
Less:		
Purchases of property and equipment and development of internal-use software	2	—
Free Cash Flow	<u>\$ (148)</u>	<u>\$ (354)</u>

Results of Operations

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

	Three Months Ended March 31,	
	2022	2021
	(in millions)	
Revenue	\$ 189	\$ 772
Cost of revenue(1)	125	335
Gross profit	64	437
Operating expenses:		
Sales and marketing(1)	45	470
Product development(1)	66	51
General and administrative(1)	15	42
Total operating expenses	126	563
Loss from operations	(62)	(126)
Other income, net		
Interest and other income, net	2	—
Loss before provision for income taxes	(60)	(126)
Provision for income taxes	—	2
Net loss	\$ (60)	\$ (128)

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

	Three Months Ended March 31,	
	2022	2021
	(in millions)	
Cost of revenue	\$ (1)	\$ 5
Sales and marketing	1	3
Product development	14	15
General and administrative	(16)	14
Total stock-based compensation	\$ (2)	\$ 37

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

	Three Months Ended March 31,	
	2022	2021
Revenue	100%	100%
Cost of revenue	66%	43%
Gross margin	34%	57%
Operating expenses:		
Sales and marketing	24%	61%
Product development	35%	7%
General and administrative	8%	6%
Total operating expenses	67%	74%
Loss from operations	(33)%	(17)%
Other income, net:		
Interest and other income, net	1%	—
Loss before provision for income taxes	(32)%	(17)%
Provision for income taxes	—	—
Net loss	(32)%	(17)%

Comparison of Three Months Ended March 31, 2022 and 2021

Revenue

	Three Months Ended March 31,		Change	
	2022	2021	\$	%
	(in millions)			
Core marketplace revenue ⁽¹⁾	\$ 90	\$ 477	\$ (387)	(81)%
ProductBoost revenue	14	50	(36)	(72)%
Marketplace revenue	104	527	(423)	(80)%
Logistics revenue	85	245	(160)	(65)%
Revenue	\$ 189	\$ 772	\$ (583)	(76)%

(1) Core marketplace revenue for the three months ended March 31, 2022 and 2021 included approximately \$2 million and \$9 million net gains, respectively, from our cash flow hedging program.

Revenue decreased \$583 million, or 76%, to \$189 million for the three months ended March 31, 2022 as compared to \$772 million for the three months ended March 31, 2021. This decrease was attributable to decreased marketplace and logistics revenue, as noted below.

Marketplace revenue decreased \$423 million, or 80% to \$104 million for the three months ended March 31, 2022, as compared to \$527 million for the three months ended March 31, 2021. This decrease was primarily driven by lower order volumes associated with reduced MAUs and LTM Active Buyers, as well as revisions to our pricing strategy, which resulted in lower marketplace revenue per order. While lower pricing contributed to lower marketplace revenue based on first quarter sales volume, we expect to see corresponding increases in order volumes over time.

Logistics revenue decreased \$160 million, or 65% to \$85 million for the three months ended March 31, 2022, as compared to \$245 million for the three months ended March 31, 2021. Like marketplace revenue, the decrease was primarily driven by lower order volumes.

Cost of Revenue and Gross Margin

	Three Months Ended March 31,		Change	
	2022	2021	\$	%
	(in millions)			
Cost of revenue	\$ 125	\$ 335	\$ (210)	(63)%
Percentage of revenue	66%	43%		
Gross Margin	34%	57%		

Cost of revenue decreased \$210 million, or 63%, to \$125 million for the three months ended March 31, 2022, as compared to \$335 million for the three months ended March 31, 2021, primarily due to lower marketplace and logistics related costs as a result of lower order volumes.

The gross margin decreased to 34% for the three months ended March 31, 2022 from 57% for the three months ended March 31, 2021, primarily due to a shift in revenue mix, with a greater percentage of lower margin logistics services making up overall revenue during the first quarter of 2022 compared to the same period in 2021 and revisions to our pricing strategy, which resulted in lower marketplace revenue per order.

Sales and Marketing

	Three Months Ended March 31,		Change	
	2022	2021	\$	%
	(in millions)			
Sales and marketing	\$ 45	\$ 470	\$ (425)	(90)%
Percentage of revenue	24%	61%		

Sales and marketing expense decreased \$425 million, or 90%, to \$45 million for the three months ended March 31, 2022, compared to \$470 million for the three months ended March 31, 2021, primarily due to our decision to reduce digital advertising expenditures in order to focus our resources on other strategic initiatives.

Product Development

	Three Months Ended March 31,		Change	
	2022	2021	\$	%
	(in millions)			
Product development	\$ 66	\$ 51	\$ 15	29%
Percentage of revenue	35%	7%		

Product development expense increased \$15 million, or 29%, to \$66 million for the three months ended March 31, 2022, as compared to \$51 million for the three months ended March 31, 2021, primarily as a result of an increase in employee-related costs driven by increased headcount prior to our Restructuring Plan and a one-time discretionary bonus paid to select employees to help cover their tax obligations triggered by the settlement of their RSUs that vested upon the Company's IPO.

General and Administrative

	Three Months Ended March 31,		Change	
	2022	2021	\$	%
	(in millions)			
General and administrative	\$ 15	\$ 42	\$ (27)	(64)%
Percentage of revenue	8%	6%		

General and administrative expense decreased \$27 million, or 64%, to \$15 million for the three months ended March 31, 2022, as compared to \$42 million for the three months ended March 31, 2021. The decrease was primarily related to a reversal of stock-based compensation in connection with the resignation of both our CEO and executive chair and the reduction of our workforce pursuant to the Restructuring Plan.

Provision for Income Taxes

	Three Months Ended March 31,		Change	
	2022	2021	\$	%
	(in millions)			
Provision for income taxes	\$ —	\$ 2	\$ (2)	(100)%
Percentage of revenue	—	—		

Provision for income taxes decreased \$2 million for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The change in provision for income taxes was primarily due to a decrease in pre-tax earnings of our international operations.

Liquidity and Capital Resources

As of March 31, 2022, we had cash, cash equivalents and marketable securities of \$1.0 billion, a majority of which were held in cash deposits and money market funds and were held for working capital purposes. We believe that our existing cash, cash equivalents and marketable securities will be sufficient to meet our anticipated cash needs for at least the next 12 months, though we may require additional financing or capital resources in the future.

Our material cash requirements include \$190 million in accounts and merchants payable, \$7 million remaining on a colocation and cloud services purchase commitment, and \$25 million of facility lease obligations, of which \$7 million is due within the next 12 months.

November 2020 Credit Facility

In November 2020, we entered into the Revolving Credit Facility which enables us to borrow up to \$280 million. The Revolving Credit Facility contains an accordion option which, if exercised and provided we are able to secure additional lender commitments and satisfy certain other conditions, would allow us to increase the aggregate commitments by up to \$100 million. As of March 31, 2022, we had not made any borrowings under the Revolving Credit Facility. Refer to Note 7 to our condensed consolidated financial statements in Item 1 of Part I, "Financial Information" for additional details related to the Revolving Credit Facility.

Cash Flows

	Three Months Ended March 31,	
	2022	2021
	(in millions)	
Net cash (used in) provided by:		
Operating activities	\$ (146)	\$ (354)
Investing activities	(105)	14
Financing activities	—	(5)

Net Cash Used in Operating Activities

Our cash flows from operations are largely dependent on the amount of revenue we generate. Net cash used in operating activities in each period presented has been influenced by changes in funds receivable, prepaid expenses, and other current and noncurrent assets, accounts payable, merchants payable, accrued and refund liabilities, lease liabilities, and other current and noncurrent liabilities.

Net cash used in our operating activities for the three months ended March 31, 2022 was \$146 million. This was driven by our net loss of \$60 million and \$97 million unfavorable changes in our operating assets and liabilities, which was partially offset by non-cash expenses of \$11 million. Unfavorable working capital movement was mainly driven by reductions in accounts payable, merchants payable and accrued and refund liabilities. Accounts payable decreased by \$27 million primarily due to lower order volumes and reduced digital advertising expenditures.

Net cash used in our operating activities for the three months ended March 31, 2021 was \$354 million. This was primarily driven by our net loss of \$128 million and \$266 million unfavorable net working capital changes, which was partially offset by non-cash expenses, such as stock-based compensation expense of \$37 million. Unfavorable working capital movement was mainly driven by accounts payable and merchants payable. Accounts payable decreased by \$143 million primarily due to shorter vendor payment terms. Due to the COVID-19 pandemic, we were able to negotiate favorable payment terms with certain key digital advertising partners (45 days and 60 days). The payment terms with these key digital advertising partners reverted back to 30 days when the favorable terms expired on December 31, 2020. Merchants payable decreased by \$73 million primarily driven by lower order volumes in the first quarter of 2021 compared to the fourth quarter of 2020 due to seasonality and higher percentage of shipments through our A+ program which accelerated the payment of merchants payable due to higher delivery confirmation rates. Other decreases in unfavorable working capital movement were driven by refunds and accrued liabilities.

Net Cash (Used in) Provided by Investing Activities

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

Net cash used in investing activities was \$105 million for the three months ended March 31, 2022. This was primarily due to \$153 million in purchases of marketable securities and \$2 million in capital expenditures, partially offset by \$50 million of maturities in marketable securities.

Net cash provided by investing activities was \$14 million for the three months ended March 31, 2021. This was primarily due to \$67 million of maturities of marketable securities, partially offset by \$53 million purchases of marketable securities.

Net Cash Used in Financing Activities

Cash generated by our financing activities was insignificant for the three months ended March 31, 2022.

Net cash used in our financing activities was \$5 million for the three months ended March 31, 2021 primarily due to tax payments related to RSU settlement.

Off Balance Sheet Arrangements

For the three months ended March 31, 2022 and 2021, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contingencies

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

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates, including those listed below on an ongoing basis. We base our estimates on historical facts and various other assumptions that we believe to be reasonable at the time the estimates are made. Actual results could differ from those estimates.

Our critical accounting policies are as follows:

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

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

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

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Sensitivity

Cash, cash equivalents and marketable securities as of March 31, 2022 were held primarily in cash deposits and money market funds. The fair value of our cash, cash equivalents, and investments would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of these instruments. A 100 basis point increase or decrease in our current interest rates would have increased or decreased our interest income by \$10 million for the three months ended March 31, 2022.

Foreign Currency Risk

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

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

Based on our overall currency rate exposures as of March 31, 2022, including the derivative financial instruments intended to hedge the nonfunctional currency-denominated monetary assets, liabilities and cash flows, and other factors, a 10% appreciation or depreciation of the U.S. dollar from its cross-functional rates would not be expected, in the aggregate, to have a material effect on our financial position, results of operations and cash flows in the near-term.

Inflation Risk

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure. Our CEO and Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of March 31, 2022, and, based on their evaluation, have concluded that the disclosure controls and procedures were not effective as of such date due to material weaknesses in internal control over financial reporting, described below.

Previously Reported Material Weaknesses

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

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

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

Management's Plan to Remediate the Material Weaknesses

Our remediation efforts are ongoing and we will continue our initiatives to implement measures designed to ensure that control deficiencies contributing to the material weaknesses are remediated, such that these controls are designed, implemented, and operating effectively. Management is committed to making the necessary changes and improvements to its system of controls to address the material weaknesses in internal control over financial reporting described above.

In 2021, the Company added to its executive leadership team individuals who have extensive backgrounds leading and operating in companies compliant with the Sarbanes Oxley Act ("SOX"): (i) Chief Financial Officer, who is also a certified public accountant ("CPA") and experienced in U.S. GAAP financial reporting, (ii) Chief Technology Officer, with experience in SOX compliance within Fortune 100 companies, (iii) Chief Product Officer, with experience in SOX compliance within Fortune 100 companies, and (iv) six finance and accounting personnel ranging from staff accountants to a Senior Director who are also all CPAs. Additionally, in 2022, the Company appointed a new CEO, an experienced retail, ecommerce and consumer brand executive who has led significant digital and operational transformations within both established and rapidly growing public, multinational enterprises. We believe that this leadership team has the experience and commitment necessary to oversee and lead the necessary steps needed to remediate the material weaknesses noted above.

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

Changes in Internal Control over Financial Reporting

Other than the changes associated with the material weaknesses and remediation actions noted above, there have been no changes to our internal control over financial reporting that occurred during the quarter ended March 31, 2022.

Inherent Limitations on the Effectiveness of Disclosure Controls and Procedures

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

You should carefully consider the risks and uncertainties described under the heading "Risk Factors" in Part I, Item 1A of our 2021 Form 10-K, together with all of the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes, before making a decision to invest in our Class A common stock. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect our business. These risk factors could materially and adversely affect our business, financial condition and results of operations, and the market price of our ordinary shares could decline. These risk factors do not identify all risks that we face – our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. Due to risks and uncertainties, known and unknown, our past financial results may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. There have been no additional material changes from the risks and uncertainties previously disclosed under the "Risk Factors" section in our 2021 Form 10-K.

Item 6. Exhibits.

Exhibit Number	Description
10.15	Offer Letter, dated January 26, 2022, by and between the Company and Vijay Talwar (incorporated by reference from Exhibit 10.15 to the Company's Annual Report on Form 10-K filed on March 14, 2022).
10.16	Consulting Agreement, dated February 4, 2022, between the Registrant and Jaqueline Reses (incorporated by reference from Exhibit 10.16 to the Company's Annual Report on Form 10-K filed on March 14, 2022).
10.17	ContextLogic Inc. 2022 New Employee Equity Incentive Plan and forms of agreements thereunder, as amended (incorporated by reference from Exhibit 99.1 to the Company's Form S-8 filed on January 31, 2022).
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

ContextLogic Inc.

Date: May 5, 2022

By: /s/ Vijay Talwar
Vijay Talwar
Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ Vivian Liu
Vivian Liu
Chief Financial Officer
(Principal Financial Officer)

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

I, Vijay Talwar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ContextLogic Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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(s) 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: May 5, 2022

By: _____ /s/ Vijay Talwar
Vijay Talwar
Chief Executive Officer and Director
(Principal Executive Officer)

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

I, Vivian Liu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ContextLogic Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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(s) 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: May 5, 2022

By: _____
/s/ Vivian Liu
Vivian Liu
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report of ContextLogic Inc. (the "Company") on Form 10-Q for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 5, 2022

By: _____
/s/ Vijay Talwar
Vijay Talwar
Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report of ContextLogic Inc. (the "Company") on Form 10-Q for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 5, 2022

By: _____
/s/ Vivian Liu
Vivian Liu
Chief Financial Officer
(Principal Financial Officer)