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

**(Mark One)**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 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: 001-39243**

# SKILLZ INC.
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **84-4478274** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **PO Box 445**<br>**San Francisco, California** | **94104** |
| (Address of Principal Executive Offices) | (Zip Code) |

**(415) 762-0511**
Registrant's telephone number, including area code

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Class A common stock, par value $0.0001 per share | SKLZ | New York Stock Exchange |
| Warrants to purchase one share of Class A common stock, each at an exercise price of $11.50 per share | SKLZ.WS | New York Stock Exchange |

Securities registered pursuant to section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of voting stock held by non-affiliates of the registrant on March 27, 2023, based on the closing price of $0.51 for shares of the Registrant's Class A common stock as reported by the New York Stock Exchange, was approximately $171 million. Shares of common stock beneficially owned by each executive officer, director, and holder of more than 10% of our common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 27, 2023, the registrant had outstanding 353,833,354 shares of Class A common stock and 68,717,138 shares of Class B common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Skillz Inc.'s definitive Proxy Statement, to be filed with the Securities and Exchange Commission (the "SEC") within 120 days of December 31, 2022 and delivered to stockholders in connection with the 2023 Annual Meeting of Stockholders, are incorporated by reference into Part III of this Annual Report on Form 10-K for the year ended December 31, 2022 (this "Annual Report").

**SKILLZ INC.**

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## EXPLANATORY NOTE

***Background on Restatement of Previously Issued Financial Statements***

As previously disclosed in the Current Report on Form 8-K filed by Skillz, Inc. (the “Company,” “Skillz,” “we” or “us”) with the Securities and Exchange Commission (“SEC”) on March 24, 2023, the Company’s Audit Committee of the Board of Directors, in consultation with management of the Company, concluded that it should restate its previously issued consolidated financial statements.

The Company and its Audit Committee formally concluded on March 22, 2023 that the restatement of financial statements and amendment of certain information of prior periods presented in this Annual Report was necessary to correct for the following: (i) an understatement of end-user liability, (ii) reserves for potential indirect tax liabilities, (iii) impairment of long-lived assets, (iv) other adjustments and (v) income tax adjustments due to the aforementioned errors.

***Restatement of Previously Issued Financial Statements and Information***

This Annual Report on Form 10-K for the year ended December 31, 2022 includes the following information:

(a) restated Consolidated Balance Sheets as of December 31, 2021 and 2020, and the related Consolidated Statements of Operations and Comprehensive Loss, Changes in Stockholders’ Equity, and Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020, respectively;
(b) restated Unaudited Quarterly Financial Data for the first three quarters of the year ended December 31, 2022;
(c) restated Unaudited Quarterly Financial Data for each quarter of the years ended December 31, 2021 and 2020; and
(d) amended Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) related to the years ended December 31, 2021 and 2020.

For a more detailed description of the financial impact of the restatement, see Note 3 - “Restatement of Previously Issued Financial Statements” to our consolidated financial statements and “Restatement of Previously Issued Financial Statements” under Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, contained in this Annual Report. For the impact of these adjustments on the Unaudited Quarterly Financial Data, see Note 21 - “Quarterly Financial Information (Unaudited)” to our consolidated financial statements. All amounts in this Annual Report affected by the restatement reflect such amounts as restated.

***Internal Control Considerations***

In connection with the Company’s review of its financial statements leading to the restatement, the Company identified material weaknesses in its internal controls over financial reporting which failed to prevent or detect the identified misstatements requiring restatement. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis. Therefore, the Company’s management concluded that due to the material weaknesses in the Company’s internal control over financial reporting the Company’s disclosure controls and procedures were not effective as of December 31, 2022. See Item 9A. Controls and Procedures, for additional information and discussion related to material weaknesses in internal control over financial reporting and our related remediation activities.

**NOTE ABOUT FORWARD-LOOKING STATEMENTS**

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This Annual Report contains forward-looking statements regarding, among other things, the plans, strategies and prospects, both business and financial, of Skillz. These statements are based on the beliefs and assumptions of the management of Skillz. We also may provide forward-looking statements in oral statements or other written materials released to the public. Although Skillz believes that its plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, Skillz cannot assure you that it will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. Generally, statements that are not historical facts, including statements concerning possible or assumed future actions, business strategies, events or results of operations, are forward-looking statements. These statements may be preceded by, followed by or include the words "believes", "estimates", "expects", "projects", "forecasts", "may", "will", "should", "seeks", "plans", "scheduled", "anticipates" or "intends" or similar expressions. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about the ability of Skillz to:

- effectively compete in the global entertainment and gaming industries;
- attract and retain successful relationships with third-party mobile game developers ("developers" and each a "developer") that develop and update games hosted on Skillz's platform;
- drive brand awareness with consumers;
- invest in growth and development of employees;
- mitigate the commercial, reputational and regulatory risks to our business that may arise as a consequence of our need to restate our financial statements;
- remediate during 2023 certain material weaknesses in our internal control over financial reporting; and
- comply with laws and regulations applicable to its business.

These forward-looking statements are based on information available as of the date of this Form 10-K, and current expectations, forecasts and assumptions, and involve a number of judgments, risks and uncertainties. Important factors could cause actual results to differ materially from those indicated or implied by forward-looking statements such as those contained in documents we have filed with the SEC. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different from those expressed or implied by these forward-looking statements. Some of these risks and uncertainties include, but are not limited to, risks involved in our business and investing in our Class A common stock, par value $0.0001 per share (the "Class A common stock") discussed in "Part I. Item 1A. Risk Factors" of this Annual Report and those described elsewhere in this Annual Report or in our other SEC filings.

Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions prove incorrect, actual results may vary in material respects from those expressed or implied by these forward-looking statements. You should not place undue reliance on these forward-looking statements.

## ITEM 1. BUSINESS

*In this Annual Report, when we use the terms the "Company," "Skillz," "we," "us" and "our," unless otherwise indicated or the context otherwise requires, we are referring to Skillz Inc. and its wholly-owned subsidiaries.*

### Overview

We were founded on one simple belief: everyone loves to compete. We are building the competition layer of the internet by re-inventing competitive mobile gaming.

We want to bring out the best in everyone through competition. We believe in the potential for all people to unleash their inner champions through competition and for developers to bring their art to the world and achieve their dreams of financial success.

Our proprietary platform revolutionizes and democratizes the mobile gaming industry by "leveling the playing field" for developers worldwide, enabling us to deliver gaming experiences that our player community trusts and loves.

The trust and fairness we foster with our player community is part of the foundation upon which our business is built.

### Our Platform

#### *Overview*

We are re-inventing competitive mobile gaming and thereby expanding the mobile gaming market. Our technology platform aligns the interests of developers and gamers with respect to user monetization, rather than putting them at odds. Traditional mobile games utilize in-game advertisements or purchases, which we believe creates friction in the user experience, hurting engagement and retention. By monetizing user engagement primarily through prizes, we create a compelling alternative for both developers and users of competitive games. With our system, the more users enjoy playing in contests for prizes and the longer they play, the more revenue we generate for developers. We believe this dynamic generates significantly stronger monetization for developers compared to traditional mobile game monetization.

#### *Gamer Competition Engine*

Our end-to-end technology platform enables mobile game developers to improve gameplay experiences and drive improved engagement, retention and revenue from their content. Our easy-to-integrate software development kit, or "SDK," contains over 200 features in a smaller than 16-megabyte package, which allows for seamless over-the-air updates.

Rating and matching users is a challenging technical problem, as the fastest match is the next user in line to play, while the fairest match (i.e., a theoretically perfectly matched skill rating) could take a much longer time to find. User retention is sensitive to both fair matching and time to match and, therefore, we have invested significantly in technology to optimize these competing objectives.

Our SDK includes many social features such as in-game chat, friends, tournaments and leagues which allow players to interact and build relationships, strengthening the Skillz player community. Our players enjoy social experiences around our games, by communicating during and after competitions, on topics ranging from sharing gameplay strategies to building healthy rivalries and making personal connections. Our Friends feature allows players to challenge a friend to a match and broadcasts that player's affinity for Skillz to their social network.

#### *Developer Console*

Our intuitive developer dashboard enables our developer partners to rapidly integrate and monitor the performance of their games on our platform. The first step for a game developer integrating our tournament management system is to sign up for a free account on our developer portal. Developer onboarding has been optimized to enable developers to quickly and easily set up an account, access technical documentation, download the SDK and access customer support. Our developer portal has been built such that an average game developer can implement our SDK in about a day, with little or no technical support. Once a game goes live on our platform, the developer portal provides game developers with a single system through which they can access analytics on user behavior and monetization for their games.

***Live Operations***

Delivering live operations in games is critical to user retention and engagement. Our live operations, or LiveOps, system manages and optimizes the user experience across the thousands of games on our platform. We have built a highly automated system to power LiveOps for the games on our platform. LiveOps in mobile games on our platform encompasses everything from generating new events to creating new and exciting tournament formats in which users can compete in brand and influencer-sponsored events. With our highly automated system, we are able to run LiveOps for the games on our platform with what we believe is a fraction of the resourcing required by a typical game developer.

We run multivariate testing on our system settings in order to optimize user engagement and retention for games on our platform. Our system manages the presentation of tournament formats, frequency of events and merchandising of the Ticketz store, which is our in-game store that allows users to redeem prizes in exchange for tickets earned in gameplay on our platform (“Ticketz”). Ticketz can be redeemed within our loyalty program for prizes or credits to be used towards future paid-entry tournaments.

With our segment manager tool, we can administer important system settings for users on the platform, including the types of tournaments a user sees and is eligible to enter, deposit offers and promotions available to a user, and incentives and achievements presented to a user at various moments along their gaming journey.

***Payment Infrastructure***

We have developed a robust payments infrastructure and have achieved a system uptime of greater than 99.99%. We believe our technology capabilities are critical to building and maintaining trusted relationships with our developers and users.

***Data Science***

Our algorithms and machine learning technologies augment all facets of our platform. Key features of our proprietary data science technologies include anti-cheat, anti-fraud, player rating and matching, and segmentation engine. We believe our technology capabilities are industry-leading and have helped to differentiate our product offerings and fuel our growth.

Strong anti-cheat and anti-fraud protections are among the most critical elements required to foster a healthy competitive ecosystem. Our systems need to continuously evolve to stay ahead of sophisticated attempts to defraud or stack the odds against users. As a component of our proprietary security systems, we use our robust data to analyze and build statistical maps to predict users’ probable next outcome. This probability modeling then enables us to statistically detect anomalies, which are escalated for further review and remediation, where needed.

High personalization is an integral element to enhancing the gamer experience on our platform. For example, we invented a technology for creating user segments based on dynamically linking behaviors. Our technology allows us to overlap, concatenate and exclude different behaviors to create new user journeys through game environments. We have identified 65 different behavior sets, which enables us to increase the number of potential unique user journeys exponentially and dynamically adjust for a significantly more personalized experience.

We give gamers confidence to transact on our platform by delivering on our values of trust and fairness. We enable game developers to focus on what they do best: build great content. We provide developers of all sizes with a comprehensive technology platform enabling them to compete with the largest and most sophisticated mobile game developers in the world.

**Our Developer Community**

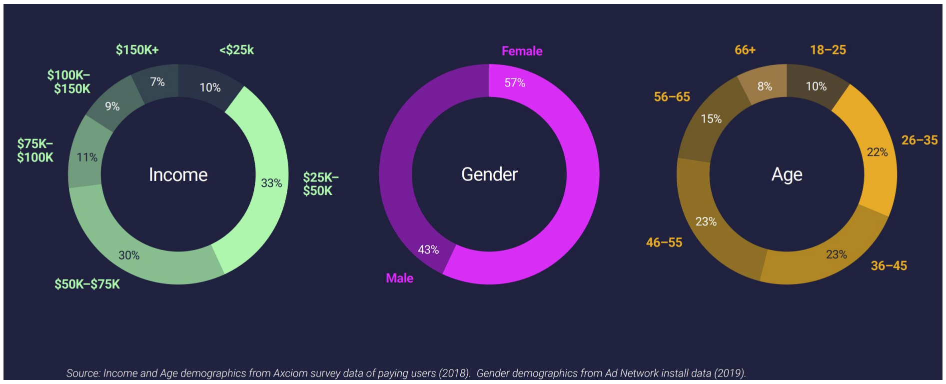
We have a growing community of developers using our platform to bring their art to the world. Content creation has been democratized in recent years with the introduction of standardized game development and distribution platforms and, as of December 31, 2022, we had over 16,000 registered game developers launch game integration on our system. As of December 31, 2022 over 500 developers had a game on our platform with at least one installed user. Our self-serve platform enables our developer customers to integrate and monitor their game performance through sophisticated dashboards. This allows the developers to do what they do best — build great games — while we help them on all other fronts by delivering services such as payments, analytics, LiveOps, prize fulfillment and customer service. Historically, a small number of games have accounted for a substantial portion of our revenue.

Games on our platform initially go live with free-to-play capabilities, before applying for prized competitions. We carefully curate which games are enabled for prizes based on a number of criteria, to ensure we provide an enticing competitive mobile gaming experience. We actively monitor metrics such as player liquidity inside each game (based on number of daily active users), the stability of each game (based on crash rates), user satisfaction (based on app store ratings), and user issues (as reported on support tickets). Games that do not meet our quality thresholds or are not determined by our proprietary algorithm to be skill-based are not prize enabled. We maintain player data and handle all communications with the players on behalf of our developers. This data model allows us to deliver effective monetization for the benefit of developers on our platform.

**Our Gamer Community**

We built a virtual world in which our gamer community shares in the thrill of victory or the agony of defeat, enjoying healthy rivalry, great achievements and valued recognition. Our social features such as chat, friend tournaments and leagues allow players to interact and build relationships, strengthening our player community. This community helps generate organic user growth, supplementing our paid user acquisition strategies.

As illustrated in the table below, we believe our end-user demographic is the mass market and resembles the population at large.




***Gaming for Good***

We believe we have pioneered the next iteration of the charity walk-a-thon. Through our initiative, Gaming for Good, or G4G, our platform enables mass-participatory video game tournaments that harness the power of community through competition. Through our platform, non-profits can reach a dramatically broadened universe of younger, first-time donors. A diverse range of charitable initiatives have benefited from the power of our platform and gamer community. We have been honored to be trusted by some of the world's leading non-profits, such as the World Wildlife Fund, the American Red Cross, the NAACP, and the American Cancer Society, to engage their audiences and expand their reach.

**Games on Our Platform**

We offer a wide range of gaming experiences for users. We enable game genres that can be played: (i) asynchronously; (ii) synchronously; or (iii) turn-based synchronously. An example of an asynchronous game would be a match-3 puzzle game or bingo game where users play the exact same game at different times and then the scores are compared when both contestants have played to determine the winner. An example of a turn-based synchronous game would be a dominoes game in which users take turns in real-time and the winner is determined when the game ends. An example of a synchronous game would be a real-time strategy game where users are making multiple moves simultaneously and then the winner is determined when the game ends.

Asynchronous – Blackout Bingo


PvP Sync – Dominoes Gold


Turn-based Sync – Pool Payday


**Our Distribution**

Our developers distribute their games through direct app downloads from our websites, as well as third-party platforms, such as the Apple App Store, which traditionally has been the main distribution channel for our developers' games. In accordance with the Apple App Store policy, Apple does not take any share of the end-user deposits on our system; however, Apple does receive a fee for end-user deposits made through Apple Pay.

**Our Marketing**

Our ability to cost-effectively acquire new users is important to our success. We leverage software tools, analytics and data science to efficiently acquire, engage and retain users while reinforcing our trusted consumer-facing brand with both end users and our developer partners. We acquire and engage users primarily through digital ad networks, our game developers and affiliate partners. We use paid marketing channels, in combination with compelling offers and exciting games, to achieve our objectives. We optimize our marketing investment across channels in order to generate targeted returns on our marketing spending.

In addition to traditional paid advertising channels, we cross-promote our product offerings to our existing user base across our gaming ecosystem using a combination of content, contests and special offers.

We have significant opportunities to extend our marketing channels to offline media and deploy omni-channel marketing strategies to further expand our business. For example, partnerships with celebrities and influencers have the potential to cost-effectively reach new users. Moreover, we intend to opportunistically engage in brand marketing to drive broader consumer and developer awareness of our platform.

With existing users, we seek to improve engagement and retention through engagement marketing programs that provide rewards and awards for players active on our platform. Players earn loyalty currency, called Ticketz, every time they play a paid entry contest. The frequency and amount of entry fees determine the amount of Ticketz that are earned. Players can earn trophies as awards for performing certain actions or achieving milestones in games, for which they receive Ticketz or credits, to be used towards future paid-entry tournaments. Tickets earned through the loyalty rewards and awards programs can be redeemed in our in-app Ticketz Store for various prizes ranging from Skillz-branded apparel to luxury goods and vehicles.

**Our Customer Advocacy**

We provide 24/7 support and trust and safety services to our developers' end-users. The customer support team responds to all user inquiries including support for game crashes, payment issues, and loyalty program inquiries. For the year ended December 31, 2022, our customer support team achieved a 92% Player CSAT and 44 Player NPS rating for cash players. Our Trust & Safety team reviews any suspicious payments and chargebacks, and investigates anomalous scoring patterns and user reports of cheating, among other things. These suspected bad actors are reviewed on a case-by-case basis with several escalating levels of review, which ultimately may require an in-person play test on a Skillz-provided mobile device administered by a third-party security vendor to confirm the user's ability.

**Our People**

We were founded in 2012 by Andrew Paradise and Casey Chafkin. At Skillz, we believe that every employee contributes to shaping the future of interactive entertainment. We are a multinational technology company with over 240 employees located in 7 countries as of December 31, 2022, inclusive of employees of Aarki, which we acquired during 2021. Our business success is driven in large part by our highly skilled workforce. Additionally, we rely on independent contractors and temporary personnel to supplement our workforce from time to time. None of our employees are represented by a labor organization or are a party to any collective bargaining agreement with respect to their employment by us.

*Culture and Engagement.* Skillz was founded on strong ethical principles, and we have intentionally grown and continue to grow values-first – scaling our workforce, services, customer portfolio, and investment partners purposefully. To ensure our culture remains positive and strong, we conduct periodic engagement surveys to gain a better understanding of what is important to our employees. We believe that as a result of our values, we have been able to identify, attract, engage and retain great people. Our seven core values define who we are, who we would like to be, and how we make decisions:


*Diversity, Equity and Inclusion*. At Skillz, we believe a diverse and inclusive workplace leads to greater innovation, agility, performance and engagement, enabling both business growth and societal impact. We envision a world where everyone plays games and we need everyone represented as we build that world, which is why we are dedicated to building a diverse team and inclusive environment as we scale. At Skillz, we ensure employees from diverse backgrounds are engaged, can be their authentic selves, build skills and achieve their greatest potential. Further, Skillz is committed to pay equity and representation from the bottom to the top: we were the first gaming company and the first eSports company to take the ParityPledge.

*Competitive Compensation and Benefits.* Skillz offers industry competitive wages and benefits. We also offer our employees a holistic total rewards package, with premier health and welfare programs for employees and family members. We believe our employees should have the support they need to maintain a strong work/life balance, grow personally and professionally, and save for their future. While the philosophy around our benefits is the same worldwide, specific benefits vary regionally due to local regulations and preferences. In addition, nearly every employee at Skillz is eligible for equity awards to share in the Company's financial success.

*Training and Development.* At Skillz, we foster a strong culture of learning, innovation and growth. In 2021, we were named by Fast Company one of the Best Workplaces for Innovators. We believe that investing in the growth and development of Skillzians will directly enhance our overall company performance. In support of this, we offer mentorship programs and employee trainings designed to help Skillzians develop and manage their careers, drive accountability, and promote a culture of continuous feedback. We also provide robust manager training that shares effective tools and frameworks around recruiting, managing, and developing our team members.

**Our Competition**

We primarily compete with alternative monetization services for mobile game content. This includes platforms that facilitate in-app advertisements and purchases. We principally compete on a number of factors, including a robust technology toolset designed with the ability to convert, engage and retain users. Our developers compete for end users with other forms of consumer discretionary entertainment that vie for the users' time and disposable income. This includes companies that provide video entertainment, music entertainment, social networking and other forms of leisure entertainment. The large companies in our ecosystem may play multiple roles, given the breadth of their businesses. Examples of these larger companies include Sony, Amazon, Meta, Apple, Alphabet, and Unity. Most of these companies are also our partners.

**Our Intellectual Property**

Our business relies substantially on the creation, use and protection of intellectual property. We protect our intellectual property by relying on international, federal, state and common law rights. We control access to our proprietary technology by entering into confidentiality and invention assignment agreements with our employees and contractors. We actively seek patent protection covering our inventions and as of December 31, 2022, we had over 110 patents granted or pending worldwide.

**Government Regulation and Compliance**

***Regulation***

We are subject to a variety of laws in the U.S. and abroad that affect our business, including state and federal laws regarding skill-based gaming, consumer protection, electronic marketing, data protection and privacy, competition, taxation, intellectual property, export and national security, which are continuously evolving. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting, particularly outside of the U.S. It is also likely that as our business grows and evolves, particularly if we expand to other countries, we will become subject to laws and regulations in additional jurisdictions or other jurisdictions may claim that we are required to comply with their laws and regulations.

State and federal laws in the U.S. and many other jurisdictions distinguish between games of skill and games of chance. We only enable games for paid entry-fee contests in jurisdictions in which skill-based gaming is permitted and not required to be licensed as gambling under applicable law. As of December 31, 2022, we enabled cash prizes in 45 states and the District of Columbia, covering approximately 90% of the U.S. population. Skillz enables cash prizes in all states except for Arkansas, Connecticut, Delaware, Louisiana and South Dakota. We use proprietary algorithms and data science tools designed to ensure that the degree of skill involved in affecting the outcome of a contest is sufficient to comply with applicable state laws. The scope and interpretation of the laws that are or may be applicable to the determination as to whether a contest is skill-based, and therefore beyond the scope of a state's gambling laws and licensing requirements, are subject to interpretation and evolving. We have not received any licenses, authorizations or approvals confirming that the paid entry-fee contests hosted on our platform comply with applicable laws. Our compliance is based on our interpretation of existing state and federal laws regarding skill-based gaming. There is a risk that existing or future laws in the states in which we operate may be interpreted in a manner that is not consistent with our current practices, and could have an adverse impact on our business and prospects. Additionally, existing and future laws that permit skill-based gaming may be accompanied in the future by restrictions or taxes that make it less feasible or impractical to operate in these jurisdictions.

It is possible that a number of laws and regulations may be adopted or construed to apply to us that could restrict the online and mobile industries, including with respect to player privacy, taxation, content suitability, copyright, distribution and antitrust. Furthermore, the growth and development of electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours conducting business through the Internet and mobile devices. We anticipate that scrutiny and regulation of our industry will increase and we will be required to devote legal and other resources to addressing such prospective regulation. For example, existing laws or new laws regarding the marketing of in-app purchases, or regulation of currency, banking institutions, unclaimed property or money transmission, may be interpreted to cover the games featured on our platform and the entry fees paid in respect of such contests. If that were to occur we may be required to seek licenses, authorizations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements, and we may be subject to additional regulation and oversight, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the U.S. or elsewhere regarding these activities may impede the growth of social game services and impair our business, financial condition or results of operations.

***Compliance***

Because we handle, collect, store, receive, transmit and otherwise process certain personal information of users and employees, we are also subject to federal, state and foreign laws related to the privacy and protection of such data, including the General Data Protection Regulation of the European Union ("GDPR") and the California Consumer Privacy Act ("CCPA"). The scope of data privacy laws and regulations worldwide continues to evolve, and we anticipate that the number of data privacy laws and the scope of individual data privacy and protection rights will increase.

We have developed internal compliance programs in an effort to comply with legal and regulatory requirements for skill-based gaming and with respect to data privacy and security. We use geofencing technology designed to restrict user access to paid entry fee contests to only those jurisdictions where video game contests of skill are permitted. While we are firmly committed to full compliance with all applicable laws and have developed appropriate policies and procedures in order to comply with the requirements of the evolving regulatory regimes, we cannot ensure that our compliance program will prevent the violation of one or more laws or regulations, or that a violation by us or an employee will not result in the imposition of a monetary fine.

**Corporate Information**

We were originally incorporated in the State of Delaware on January 15, 2020 as a special purpose acquisition company, formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, recapitalization, reorganization or similar business combination with one or more businesses. In December 2020, we completed the transactions (the "FEAC Business Combination") contemplated by that certain Agreement and Plan of Merger, dated as of September 1, 2020, by and among Flying Eagle Acquisition Corporation, a Delaware corporation ("FEAC"), FEAC Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of FEAC ("Merger Sub"), Old Skillz (which we define as Skillz Inc. prior to the FEAC Business Combination and Skillz Platform Inc. after the FEAC Business Combination), and solely in his capacity as the representative of the Old Skillz stockholders, Andrew Paradise as stockholder representative (the "Merger Agreement"), including the merger of Merger Sub with and into Old Skillz, pursuant to which (i) Old Skillz survived the merger as a wholly owned subsidiary of Skillz Inc. ("New Skillz") and (ii) the Old Skillz stockholders and the holders of Old Skillz options and warrants exchanged their Old Skillz capital stock and Old Skillz options for equity interests in New Skillz.

Our mailing address is P.O. Box 445, San Francisco, California 94104, and our telephone number is (415) 762-0511. Our Class A common stock is listed on the New York Stock Exchange (the "NYSE") under the symbol "SKLZ." Unless the context requires otherwise, the words "Skillz," "we," "Company," "us" and "our" refer to Skillz Inc. and our wholly-owned subsidiaries.

**Available Information**

Our website is located at www.skillz.com, and our investor relations website is located at http://investors.skillz.com/. We file reports with the SEC, and copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available, free of charge, on our investor relations website as soon as reasonably practicable after we file such material electronically with or furnish it to the SEC. The SEC also maintains a website that contains our SEC filings. The address of the site is www.sec.gov. We use our http://investors.skillz.com/ and www.skillz.com websites as a means of disclosing material nonpublic information and for complying with our disclosure obligations under Regulation FD.

The contents of, or information accessible through, our websites are not incorporated by reference into this Annual Report or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

## ITEM 1A. RISK FACTORS

*We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition, results of operations or reputation. The risks described below are not the only risks we face. Additional risks not presently known to us or that we currently believe are not material may also significantly affect our business, financial condition, results of operations or reputation. Our business could be harmed by any of these risks. In assessing these risks, you should also refer to the other information contained in this Annual Report, including our consolidated financial statements and related notes.*

## SUMMARY RISK FACTORS

Our business is subject to numerous risks and uncertainties, all of which are more fully described in the Risk Factors below. These risks include, but are not limited to:

- Our future growth depends on our ability to attract and retain end-users, and do so in a cost-effective manner;
- Our business could be harmed if we fail to manage our growth effectively;
- We have a history of losses and we may be unable to achieve profitability;
- We rely on our third-party developer partners to continue to offer a competitive experience in existing and new games on our platform;
- A limited number of games account for a substantial portion of our revenue;
- We rely on third-party service providers including cloud computing services, payment processors, and infrastructure service providers, and if we cannot manage our relationships with such providers or lose access to such services, our business, financial condition, results of operations and prospects could be adversely affected;
- Failure to maintain our brand and reputation could harm our business, financial condition and results of operations;
- The broader entertainment industry is highly competitive and our existing and potential users may be attracted to competing forms of entertainment;
- Our business is subject to a variety of U.S. and foreign laws, which are subject to change and could adversely affect our business;
- Failure to obtain, maintain, protect or enforce our intellectual property rights could harm our business, results of operations and financial condition;
- Economic downturns and political and market conditions beyond our control could adversely affect our business, financial condition and results of operations;
- The occurrence of a data breach or other failure of our cybersecurity;
- Failure to properly contain a global pandemic in a timely manner could materially affect how we and our business partners are operating;
- Failure to timely and effectively remediate the material weaknesses in our internal controls over financial reporting or additional material weaknesses or other deficiencies in the future; and
- Failure to mitigate the commercial, reputational and regulatory risks to our business that may arise as a consequence of our need to restate our financial statements.

**Risks Related to Our Business and Industry**

***We identified certain misstatements to our previously issued financial statements and have restated certain of our Consolidated Financial Statements, which has created additional risks and uncertainties that may have a material adverse effect on our business, financial position and results of operations.***

As discussed in the Explanatory Note, in Note 3, "Restatement of Previously Issued Consolidated Financial Statements", and Note 21, "Unaudited Quarterly Financial Data", in Item 8, Financial Statements and Supplementary Data, Part II-Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Annual Report, we restated our previously issued Consolidated Financial Statements as of and for the years ended December 31, 2021 and 2020, and the previously issued unaudited interim condensed consolidated financial statements in 2021, 2020 and the first three quarters of 2022. We concluded that these previous periods should be restated to correct; (i) an understatement of end-user liability, (ii) reserves for potential indirect tax liabilities, (iii) impairment of long-lived assets, (iv) other adjustments and (v) income tax adjustments related to the aforementioned errors.

As a result of these errors and the restatement, we have become subject to a number of additional risks and uncertainties and unanticipated costs for accounting, legal and other fees and expenses. We may become subject to legal proceedings brought by regulatory or governmental authorities, or subject to other legal proceedings, as a result of the errors or the related restatement, which could result in a loss of investor confidence or other reputational harm, the loss of key employees, additional defense and other costs. Any of the foregoing impacts, individually or in aggregate, may have a material adverse effect on our business, financial position and results of operations.

***We have identified material weaknesses in our internal control over financial reporting as of December 31, 2021 and December 31, 2022. If we are unable to develop and maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results in a timely manner, which may adversely affect investor confidence in us and materially and adversely affect our business, operating results and stock price.***

As discussed in Part II – 9A, "Controls and Procedures", of this Annual Report, our management concluded that material weaknesses existed as of December 31, 2022.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected and corrected on a timely basis. Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. If we are unable to maintain adequate internal controls over financial reporting, our business and operating results could be harmed.

If we are unable to remediate the material weaknesses timely and sufficiently or if we identify any new material weaknesses in the future, our ability to prevent or detect a misstatement of our accounts or disclosures could result in a material misstatement of our annual or interim financial statements. In such case, we may be unable to maintain compliance with securities law requirements regarding timely filing of periodic reports in addition to applicable stock exchange listing requirements, investors may lose confidence in our financial reporting, our ability to obtain additional financing may be impaired and our stock price may decline as a result. We could also become subject to investigations or sanctions by the SEC, the stock exchange on which our securities are listed or other regulatory authorities. Likewise, failure to timely file our financial statements could cause us to be ineligible to utilize short form registration statements, which could impair our ability to obtain capital in a timely fashion to execute our business strategies or issue shares to effect an acquisition. We cannot assure you that the measures we have taken to date, or any measures we may take in the future, will be sufficient to avoid potential future material weaknesses.

***Competition within the broader entertainment industry is intense and our existing and potential users may be attracted to competing forms of entertainment such as television, movies and sporting events, as well as other entertainment and gaming options on the Internet. If our platform and games available through our platform do not continue to be popular, our business, financial condition, results of operations and prospects would be materially adversely affected.***

We operate in the global entertainment and gaming industries within the broader entertainment industry. Our end-users face a vast array of entertainment choices. Other forms of entertainment, such as television, movies, sporting events and casinos, are more well established and may be perceived by the users to offer greater variety, affordability, interactivity and enjoyment. We compete with these other forms of entertainment for the discretionary time and income of the users. If we are unable to sustain sufficient interest in our gaming platform in comparison to other forms of entertainment, including new forms of entertainment, our business model may not continue to be viable.

The specific industries in which we operate are characterized by dynamic customer demand and technological advances, and there is intense competition among online gaming and entertainment providers. A number of established, well-financed companies producing online gaming, and/or interactive entertainment products and services compete with our platform, and other well-capitalized companies may introduce competitive services. Such competitors may spend more money and time on developing and testing products and services, undertake more extensive marketing campaigns, adopt more aggressive pricing or promotional policies, including with third-party developers, or otherwise develop more commercially successful products or services than ours, which could negatively impact our business. Our competitors may also develop products, features or services that are similar to ours or that achieve greater market acceptance. Such competitors may also undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. Furthermore, new competitors may enter the gaming industry. There has also been considerable consolidation among competitors in the entertainment and gaming industries and such consolidation and future consolidation could result in the formation of larger competitors with increased financial resources and altered cost structures, which may enable them to offer more competitive products, gain a larger market share, expand offerings and broaden their geographic scope of operations. If we are not able to maintain or improve our market share, or if the offerings on our platform do not continue to be popular, our business could suffer.

***We rely on our third-party developer partners to develop and update all of the game features on our platform. The decision of developers to remove the Skillz Software Development Kit, or "SDK" from their games or changes in the terms of our commercial relationship with third-party developers could adversely impact our financial condition, results of operations and prospects. In addition, the failure of developers to provide timely and reliable updates to their games could adversely impact our financial condition, results of operations and prospects.***

We rely on third-party game developers to develop the games that we host on our platform. Accordingly, our business depends on our ability to promote, enter into and maintain successful commercial relationships with such developers. In general, we rely on our standard terms of service for third-party developers which govern the distribution, operations and fee sharing arrangements for hosting a game on our platform. In some cases, we rely on negotiated agreements with third-party developers that modify our standard terms of service. Quality third-party game developers are continually in high demand and there can be no assurance that the developers that have developed games for our platform historically will continue to maintain games on our platform or be willing to provide new games for our platform in the future. If we are unable to attract and maintain these third-party developer relationships, if the terms and conditions of such commercial relationships become less favorable to Skillz or if a developer decides to remove their games from our platform, our results of operations and prospects would suffer.

In addition, we rely on our developer partners to manage and maintain their games, including updating their games to include the latest version of the Skillz SDK. The failure of our developer partners to provide timely and reliable updates could adversely impact our financial condition, results of operations and prospects.

Our focus on our third-party developers and willingness to focus on the long term benefits of our relationships with such developers may conflict with the short-term interests of our business. We believe our third-party developer partners are essential to our success and establishing mutually successful relationships with such developers serves the best long-term interests of Skillz and our stockholders. Therefore, we have made in the past, and we may make in the future, significant investments or changes to the terms of our relationships with our developer partners that we believe will benefit us in the long term, even if our decision has the potential to negatively impact our operating results in the short term. In addition, our decisions may not result in the long-term benefits that we expect, in which case the success of our platform, business, financial condition or results of operations could be harmed.

***Historically, a limited number of games have accounted for a substantial portion of our revenue. If these games were to become less popular or be removed from our platform and we are unable to identify and market suitable replacements, our business and prospects could suffer.***

Historically, our top games and related developers have accounted for a substantial portion of our revenue earned from the Skillz platform. For the year ended December 31, 2022, Solitaire Cube and 21 Blitz (each developed by Tether Studios, LLC ("Tether")) and Blackout Bingo (developed by Big Run Studios Inc. ("Big Run")) combined accounted for 71% of our revenue. For the year ended December 31, 2022, Tether accounted for 39% of our revenue and Big Run accounted for 41% of our revenue. These games, and the related developers, are subject to our standard terms of service, which include, among other things, developer exclusivity for certain periods of time, as modified by negotiated agreements. The negotiated agreements provide Skillz with the discretion, but not the obligation, to provide marketing support for specified games and for revenue sharing with the developers that is more favorable to Skillz than our standard terms. These negotiated agreements restrict the removal of the applicable games from our platform for at least 12 months following termination. During the post-termination period, Skillz has the option, but not the obligation, to host paid competitions for such games on the platform. Consistent with our standard terms of service, our agreement with Tether may be terminated by either party on 30 days' notice. Our agreement with Big Run is subject to termination by either party on an annual basis and by Skillz at any time at its discretion. If these games were to become less popular or be removed from our platform and we are unable to identify and market suitable replacements, our business and prospects could suffer.

***Our growth will depend on our ability to attract and retain end-users who participate in paid-entry fee contests, and the loss of such end-users, or failure to attract new end-users in a cost-effective manner, would adversely affect our business, financial condition, results of operations and prospects.***

Our business depends on maintaining a successful platform for third-party developed games that end-users will download and pay entry fees to compete in. As a result, our business relies on our ability to engage with players by consistently and timely making available through our platform games that are engaging, trustworthy and competitive with compelling content, features and events.

The success of the games featured on our platform depends, in part, on unpredictable and volatile factors beyond our control, including consumer preferences, competing games, new mobile platforms and the availability of other entertainment experiences. Our end-users have accounts in which they make deposits and hold prior winnings. Prior winnings represented more than 81% of total paid-entry fees for the year ended December 31, 2022. If the games offered on our platform do not meet consumer expectations, if they are not marketed in a timely and effective manner, or if end-users decide to withdraw prior winnings rather than apply such winnings as entry fees to enter subsequent paid contests on our platform our revenue and financial performance will be negatively affected. End-user liability as of December 31, 2022 amounted to $9.0 million and is reflected on our balance sheet within other current liabilities. We may be required to return these funds to end-users if they choose to withdraw them from their account.

In addition to the market factors noted above and elsewhere in these risk factors, our ability to successfully attract games to our platform and the ability of such games to achieve commercial success will depend on our ability to:

- achieve benefits from our player acquisition costs;
- achieve viral organic growth and gain user interest in our featured games through free or paid channels;
- adapt to changing player preferences;
- adapt to new technologies and feature sets for mobile and other devices;
- attract, retain and motivate talented and experienced third-party game developers to our platform;
- partner with mobile platforms and obtain featuring opportunities;
- continue to adapt to an increasingly diverse set of mobile devices, including various operating systems and specifications, limited bandwidth, and varying processing power and screen sizes;
- achieve and maintain successful end-user engagement;
- host games that can build upon or become franchise games;
- accurately forecast the timing and expense of our operations, including costs to secure and retain game developers and end-user adoption;
- minimize and quickly resolve bugs or outages negatively impacting our platform or games on our platform; and
- acquire and successfully integrate high quality mobile game assets, personnel or companies.

These and other uncertainties make it difficult to know whether our platform will succeed in continuing to host successful games and new games and features in accordance with our operating plan. If we do not succeed in doing so, our business, financial condition, results of operations and reputation will suffer.

***It is becoming increasingly difficult and more expensive for us to acquire players for our games and we may not achieve a positive return on investment on our user acquisition efforts.***

It is becoming increasingly difficult and more expensive for us to acquire players for our games for a variety of reasons, including the increasingly competitive nature of the mobile gaming industry and the significant amount of time and attention users are dedicating to competing entertainment options, including social media and other non-gaming applications. Furthermore, we acquire and engage users primarily through digital ad networks, our game developers and affiliate partners. We use paid marketing channels to achieve our objectives. We optimize our marketing investment across all our channels in order to generate strong returns on our marketing spending. While the COVID-19 pandemic initially resulted in a reduction in CPIs (costs per install), this effect was temporary and CPIs have reverted to at or above historical norms. If the number of players who download new title launches on our platform does not meet our expectations, our revenue and operating results will suffer. Furthermore, our spending on user acquisition is designed so that we will achieve a positive return on investment – that is, we expect that the amount we spend to acquire users in our games will be less than the revenue we ultimately generate from such acquired users. In order to determine the expected revenue from acquired users who may play our games for multiple years, we often must make certain assumptions about their projected spending behavior, and these assumptions may turn out to be incorrect. To the extent that we do not achieve a positive return on investment on our user acquisition spending, it will negatively impact our operating results.

***If users engage in criminal, inappropriate or fraudulent activities that seek to exploit our platform and users, our ability to attract and retain developers and users may be harmed, which could have an adverse impact on our reputation, business, financial condition and operating results. If we fail to detect fraud or theft, including by end-users and employees, our reputation and brand may suffer, which could negatively impact our business, financial condition and results of operations and can subject us to investigations and litigation.***

We have in the past incurred, and may in the future incur, losses from various types of financial fraud, including use of stolen or fraudulent credit card data, claims of unauthorized payments by a user and attempted payments by users with insufficient funds. Bad actors use increasingly sophisticated methods to engage in illegal activities involving personal information, such as unauthorized use of another person’s identity, account information or payment information and unauthorized acquisition or use of credit or debit card details, bank account information and mobile phone numbers and accounts. Under current credit card practices, we may be liable for use of funds on our platform with fraudulent credit card data, even if the associated financial institution approved the credit card transaction. Acts of fraud may involve various tactics, including collusion. Successful exploitation of our systems could have negative effects on our product offerings, services and user experience and could harm our reputation. Failure to discover such acts or schemes in a timely manner could result in harm to our operations. In addition, negative publicity related to such schemes could have an adverse effect on our reputation, potentially causing a material adverse effect on our business, financial condition, results of operations and prospects. In the event of the occurrence of any such issues with our existing platform or product offerings, substantial engineering and marketing resources and management attention may be diverted from other projects to correct these issues, which may delay other projects and the achievement of our strategic objectives. Our failure to adequately detect or prevent fraudulent transactions could harm our reputation or brand, result in litigation or regulatory action and lead to expenses that could adversely affect our business, financial condition, results of operations and prospects.

Further, unrelated third parties have developed, and may continue to develop, “cheating” programs that enable players to exploit vulnerabilities in the games featured on our platform, play them in an automated way, collude to alter the outcome of such games or obtain unfair advantages. These programs and practices undermine the integrity of our platform and harm the experiences of players who play fairly, and may lead players or third-party developers to stop engaging with our platform. We devote significant resources to discover and disable these cheating programs and activities. However, if we are unable to do so in a timely and effective manner, our operations may be disrupted and our reputation may be damaged. These cheating programs could result in lost revenue from paid competitions, disrupt our in-game economies, divert time from our personnel, increase costs of developing technological measures to combat these programs and activities, increase our customer service costs needed to respond to dissatisfied players, and lead to legal claims. This type of activity may subject us to liability and negative publicity, which would increase our operating costs and adversely affect our business, financial condition, operating results, reputation and future prospects.

***Maintaining and enhancing our brand and reputation is critical to our business prospects. Failure to maintain or grow our brand and reputation could harm our business, financial condition and results of operations.***

We believe that our brand, identity and reputation have significantly contributed to the success of our business. We also believe that maintaining and enhancing the "Skillz" brand and reputation is critical to retaining and growing our third-party developer and user base. We strive to establish and maintain our brand by obtaining trademark rights. However, if our trademarks or trade names are not adequately protected, we may not be able to build name recognition in our markets of interest and our competitive position, business, financial condition or results of operations may be harmed. Maintaining and enhancing our brand and reputation also depends largely on our continued ability to provide, through our platform, high-quality, relevant, reliable and trustworthy games developed by our third-party partners, which may require substantial investment, may not be successful, and may contain errors, bugs, flaws, corrupted data, effects and other vulnerabilities that could adversely affect our users' gaming experience, violate applicable security standards or cause users to stop using our platform, any of which could harm our reputation. We may also need to introduce new products or services that require developers or users to agree to new terms of service that they do not like, which may cause them to stop using our platform, which may negatively affect our brand and reputation.

Our brand and reputation may also be negatively affected by the actions of users acting under false or unauthentic identities and by the use of our platform for illicit, illegal or objectionable ends. We may also fail to respond expeditiously to the illicit efforts of third parties to gain an unfair advantage in games through cheating or other fraudulent activity or to otherwise address developer or user concerns, which could erode confidence in our brand and platform and damage our reputation. Any governmental or regulatory inquiry, investigation or action, including based on the appearance of illegal, illicit or objectionable activity or content on our platform, our business practices, or our failure to comply with laws and regulations, could damage our brand and reputation, regardless of the outcome.

We have experienced, and expect to continue to experience, media, legislative, governmental, regulatory, investor and other third-party scrutiny of our business decisions. Any scrutiny, inquiry investigation or action, including regarding the quality and trustworthiness of the games featured on our platform, data privacy, copyright, employment or other practices, workplace culture, product changes, service quality, litigation or regulatory action or regarding the actions of our employees, may harm our brand and reputation.

***Economic downturns and political and market conditions beyond our control could adversely affect our business, financial condition, results of operations and prospects.***

Unfavorable economic conditions have had, and may continue to have, far-reaching adverse consequences across many industries, including the global entertainment and gaming industries, which may adversely affect our financial condition, results of operations and prospects. In addition, changes in general market, economic and political conditions in domestic and foreign economies or financial markets, including fluctuation in stock markets resulting from, among other things, trends in the economy as a whole may reduce users' disposable income. Political instability or adverse political developments could also harm our business, financial condition and results of operations.

Further, our games and contests may be considered discretionary items for users. Factors affecting the level of consumer spending for such discretionary items include general economic conditions, and other factors, such as consumer confidence in future economic conditions, fears of recession, the availability and cost of consumer credit, levels of unemployment, tax rates, interest rates, and inflationary pressure. In recent years, the United States and other significant economic markets have experienced cyclical downturns and worldwide economic conditions remain uncertain. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to reductions.

***Our operations and business have been affected by the COVID-19 pandemic and may be materially and adversely impacted by future pandemics, epidemics and other health emergencies.***

The Company faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt operations and may materially and adversely affect its business, financial conditions and results of operations. The global COVID-19 pandemic, the measures attempted to contain and mitigate the effects of the virus, including travel bans and restrictions, shelter-in-place, quarantine and other similar governmental orders and restrictions on trade put in place around the world have caused widespread disruption in global economies, productivity and financial markets and have materially altered the way in which we conduct our day-to-day business. The governments in many of the jurisdictions in which we operate implemented restrictive measures such as travel bans, quarantine and self-isolation at various times during the pandemic and may do so again in the future.

The full extent to which pandemics and epidemics may impact our business, operations and financial results will depend on numerous factors that we may not be able to accurately predict, including: the duration and scope of the pandemic or epidemic, including any potential future waves of the pandemic or epidemic; governmental, business and individuals' actions that have been and will be taken in the future in response to such pandemic or epidemic; the effect on players and their willingness and ability to pay entry fees for the games on our platform; the effect on our third party developers and their willingness and ability to engage with our services and our platform; disruptions or restrictions on our employees' ability to work and travel; and interruptions related to our cloud networking and platform infrastructure and partners, and developer and user service and support providers. If we are not able to respond to and manage the impact of such events effectively, our business may be harmed.

While substantially all of our business operations can be performed remotely in the case of a pandemic or epidemic, in the past, many of our employees juggled additional work-related and personal challenges, including adjusting communication and work practices to collaborate remotely with work colleagues and business partners, managing technical and communication challenges of working from home on a daily basis, looking after children as a result of remote-learning and school closures, making plans for childcare and caring for themselves, family members or other dependents who are or may become ill which have impacted and may impact in the future, our business and operations.

While a pandemic or epidemic may lead to increased player engagement with the games on our platform relative to historic trends, these increases in player activity may not be indicative of our financial and operating results in future periods.

***Our business model depends upon the proliferation of mobile devices, the continued compatibility between the games featured on our platform and major mobile gaming operating systems and upon third-party platforms for the distribution of such games. If such third parties interfere with the distribution of our products or offerings, or if our expectations with respect to mobile devices and our compatibility with third party operating systems are incorrect, our business, financial condition, results of operations and prospects would be adversely affected.***

The number of people using mobile Internet-enabled devices has increased dramatically over time and we expect that this trend will continue. However, the mobile market, particularly the market for mobile games, may not grow in the way we anticipate. Our future success is substantially dependent upon the continued growth of the market for mobile games. In addition, we do not currently offer our games on all mobile devices. If the mobile devices on which our games are available decline in popularity or become obsolete faster than anticipated, we could experience a decline in revenue and Gross Marketplace Volume ("GMV") and may not achieve the anticipated return on our development efforts. Any such decline in the growth of the mobile market or in the use of mobile devices for games could harm our business, financial condition, results of operations and prospects.

The substantial majority of users access the games featured on our platform through the direct download on their mobile devices of apps developed by our developer partners. Our business model depends upon the continued compatibility between these apps and the major mobile operating systems, technologies, networks and standards that we do not control, such as the Android and iOS operating systems, and any changes, bugs, security, technical or regulatory issues in such systems, changes to our relationships with mobile manufacturers or carriers, or in their terms of service or policies that degrade our offerings' functionality, reduce or eliminate our ability to distribute our offerings, give preferential treatment to competitive products, limit our ability to deliver high quality offerings, or impose fees or other charges related to delivering our offerings, could adversely affect our product usage and monetization on mobile devices. Third parties with whom we do not have any formal relationships control the design of mobile devices and operating systems. These parties frequently introduce new devices, and from time to time they may introduce new operating systems or modify existing ones. Network carriers may also impact the ability of users to download apps or access specified content on mobile devices.

In addition, we rely upon third-party platforms, such as the Apple App Store, for distribution of the games featured on our platform. The promotion, distribution and operation of apps are subject to the respective distribution platforms' standard terms and policies for application developers, which are very broad and subject to frequent changes and differing interpretations. Furthermore, the distribution platforms may not enforce their standard terms and policies for application developers consistently and uniformly across all applications and with all publishers. A platform provider may also change its fee structure, add fees associated with access to and use of its platform and alter how developers and publishers are able to advertise on the platform. Such terms and policy changes may decrease the visibility or availability of the games featured on our platform, which could adversely affect our business, financial condition or results of operations. In addition, we may be subject to changes in the policies or structures of online platforms for purchase and download mobile applications that may negatively impact the number of organic downloads of our games.

If the growth of high-bandwidth capabilities, particularly for mobile devices, is slower than we expect, end-user growth, retention, and engagement may be seriously harmed. Additionally, to deliver high-quality content over mobile cellular networks, the games offered through our platform must work well with a range of mobile technologies, systems, networks, regulations, and standards that we do not control. In addition, the adoption of any laws or regulations that adversely affect the growth, popularity, or use of the Internet, including laws governing Internet neutrality, could decrease the demand for our platform and increase our cost of doing business. Specifically, any laws that would allow mobile providers in the United States or abroad to impede access to content, or otherwise discriminate against our content, such as providing for faster or better access to our competitors, over their data networks, could have a material adverse effect on our business, financial condition, results of operations and prospects.

***We rely on information technology ("IT") and other systems and platforms, and any failures, errors, defects or disruptions in our or our vendors' or other partners' systems or platforms could diminish our brand and reputation, subject us to liability, disrupt our business, affect our ability to scale our technical infrastructure and adversely affect our business, financial condition, operating results and growth prospects.***

Our technology infrastructure is critical to the performance of our platform and offerings and to the satisfaction of our developer partners and users. We devote significant resources to network and data security to protect our systems and data. However, cybersecurity attacks, including breaches, computer malware, computer hacking and insider threats have become more prevalent in our industry, and our systems may not be adequately designed with the necessary reliability and redundancy to avoid performance delays or outages that could be harmful to our business. We cannot assure you that the measures we take to prevent or hinder cyber-attacks, protect our systems, data and user information and to prevent outages, data or information loss, fraud and to prevent or detect security breaches, including a disaster recovery strategy for server and equipment failure and back-office systems and the use of third parties for certain cybersecurity services, will provide sufficient security. Any cybersecurity breach caused by hacking, which involves efforts to gain unauthorized access to information or systems, or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment, or the inadvertent transmission of computer viruses or other unauthorized access to our systems caused by employee error, malfeasance or other disruptions could adversely affect our business, financial condition, results of operations or reputation and could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disruption of our operations and the services we provide to users. We have experienced and will continue to experience hacking attacks of varying degrees from time to time. Because of our prominence in the gaming industry, we believe we are a particularly attractive target for hackers. Additionally, rapidly evolving technology and capabilities, evolving changes in the sources, capabilities and targets for cybersecurity attacks, as well as the increasing sophistication of cyber criminals increase the risk of material data compromise or business disruption.

Our vendors and other third parties with whom we do business, such as our developer partners, are also subject to the foregoing risks, and we do not have any control over them. We have experienced, and we may in the future experience, system disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors and capacity constraints. Such disruptions have not had a material impact, individually or in the aggregate to date; however, future disruptions from unauthorized access to, fraudulent manipulation of, or tampering with our computer systems and technological infrastructure, or those of third parties, could result in a wide range of negative outcomes, including violations of applicable privacy laws which can result in significant fines, governmental investigations and enforcement actions, legal and financial exposure, contractual liability and damage to our reputation, each of which could materially adversely affect our business, financial condition, results of operations, reputation and prospects.

Additionally, the games offered through our platform may contain errors, bugs, flaws or corrupted data, and these defects may only become apparent after their launch. If a particular game is unavailable when users attempt to play it or navigation through our platform is slower than they expect, users may be unable to properly engage in the games we host. Furthermore, programming errors, defects and data corruption could disrupt our operations, adversely affect the experience of end-users, harm our reputation, cause end-users to stop utilizing our platforms, divert our resources and delay market acceptance of our offerings, any of which could result in legal liability to us or harm our business, financial condition, results of operations and prospects.

If our developer and the end-user base and engagement continue to grow, and the amount and types of games offered through our platform continue to grow and evolve, we will need an increasing amount of technical infrastructure, including network capacity and computing power, to continue to satisfy end-users' needs. Such infrastructure expansion may be complex, and unanticipated delays in completing these projects or availability of components may lead to increased project costs, operational inefficiencies, or interruptions in the delivery or degradation of the quality of our platform. In addition, there may be issues related to this infrastructure that are not identified during the testing phases of design and implementation, which may only become evident after we have started to fully use the underlying equipment or software, that could further degrade the user experience or increase our costs. As such, we could fail to continue to effectively scale and grow our technical infrastructure to accommodate increased demands. In addition, our business may be subject to interruptions, delays or failures resulting from adverse weather conditions, other natural disasters, power loss, terrorism, cyber-attacks, public health emergencies or other catastrophic events.

We believe that if our third-party developers or users have a negative experience with our platform or services, or if our brand or reputation is negatively affected, developers and users may be less inclined to continue or to engage with our platform. As such, a failure or significant interruption in our service would harm our reputation, business and operating results.

In addition, as we expand our business and acquire more users, it is important that we continue to maintain a high level of customer service and satisfaction. As our paying user base continues to grow, we will need to expand our customer service and personnel, which will require more complex management and systems. If we are not able to continue to provide high levels of customer service, we may lose acquired users.

***Our business is subject to a variety of U.S. and foreign laws, many of which are unsettled and still developing and which could subject us to claims or otherwise harm our business, financial condition, results of operations and growth prospects. Any change in existing laws, or their interpretation, or the regulatory climate applicable to our platform and services, or changes in tax laws or interpretation thereof related to our platform and services, could adversely impact our ability to operate our business as currently conducted or as we seek to operate in the future, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.***

We are subject to a variety of laws in the U.S. and abroad that affect our business, including state and federal laws regarding skill-based gaming, consumer protection, electronic marketing, data protection and privacy, competition, taxation, intellectual property, export and national security, which are continuously evolving and developing. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting, particularly outside the U.S. In 2022, the Australian Taxation Office completed a comprehensive review of the Company’s tax obligations and determined the Company was required to register for the Goods and Service Tax in Australia. The Company then conducted a review of other foreign jurisdictions and determined it was liable for indirect taxation in various countries. See Note 12, Commitments and Contingencies, for further details. There is a risk that existing or future laws may be interpreted in a manner that is not consistent with our current practices, and could have an adverse effect on our business, financial condition, results of operations and growth prospects. It is also likely that as our business grows and evolves, particularly if we expand to other countries, we will become subject to laws in additional jurisdictions or other jurisdictions may claim that we are required to comply with their laws.

State and federal laws in the U.S. distinguish between games of skill and games of chance. We only enable games for paid entry-fee contests in states in which skill-based gaming is permitted and not required to be licensed as gambling under applicable state law. As of December 31, 2022, we operated in 45 states and the District of Columbia, covering approximately 90% of the U.S. population. We use proprietary algorithms and data science tools designed to ensure that the degree of skill involved in affecting the outcome of a contest is sufficient to comply with applicable state laws. The scope and interpretation of the laws that are or may be applicable to the determination as to whether a contest is skill-based, and therefore beyond the scope of a state’s gambling laws and licensing requirements, are subject to interpretation and evolving. There is a risk that existing or future laws in the states in which we operate may be interpreted in a manner that is not consistent with our current practices, and could have an adverse impact on our business and prospects. Additionally, existing and future laws that permit skill-based gaming may be accompanied in the future by restrictions, licensing requirements or taxes that make it impractical or less feasible to operate in these jurisdictions.

It is possible that a number of laws may be adopted or construed to apply to us that could restrict the online and mobile gaming industries, including player privacy, taxation, content suitability, copyright, distribution and antitrust. Furthermore, the growth and development of electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours conducting business through the Internet and mobile devices. We anticipate that scrutiny and regulation of our industry will increase and we will be required to devote legal and other resources to addressing such regulation. For example, existing laws or new laws regarding the marketing of in-app purchases, or regulation of currency, banking institutions, unclaimed property or money transmission may be interpreted to cover the games and contests featured on our platform and the entry fees paid in respect of such contests. If that were to occur we may be required to seek licenses, authorizations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements and we may become subject to additional regulation and oversight, all of which could be time consuming and significantly increase our operating costs. Any delays in obtaining or difficulty in maintaining regulatory approvals needed for expansion within existing jurisdictions or into new jurisdictions may negatively affect our opportunities for growth, including the growth of our customer base, or delay our ability to recognize revenue from our offerings in any such jurisdictions. Regulatory authorities may have broad powers with respect to the regulation and licensing of skill- based gaming operations and may revoke, suspend, condition or limit such licenses, impose substantial fines on us or take other actions, any one of which could have a material adverse effect on our business. We will strive to comply with all applicable laws and regulations relating to our business. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules. Non-compliance with any such law or regulations could expose us to claims, proceedings, litigation and investigations by private parties and regulatory authorities, as well as substantial fines and negative publicity, each of which may materially and adversely affect our business, financial condition, results of operations, growth prospects and reputation.

Governmental authorities could view us as having violated applicable laws, despite our efforts to comply. There is also a risk that civil and criminal proceedings, including class actions brought by or on behalf of prosecutors or public entities or incumbent providers of entertainment and gaming services, or private individuals, could be initiated against us, Internet service providers, credit card and other payment processors, advertisers and others involved in the skill-based gaming industries. Such potential proceedings could involve substantial litigation expense, penalties, fines, seizure of assets, injunctions or other restrictions being imposed upon us or our business partners, while diverting the attention of key executives. Such proceedings could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as impact our reputation.

There can be no assurance that legally enforceable legislation will not be proposed and passed in jurisdictions relevant or potentially relevant to our business to prohibit, restrict, or regulate various aspects of the skill-based gaming industry (or that existing laws in those jurisdictions will not be interpreted negatively by governmental authorities). Compliance with any such legislation may have a material adverse effect on our business, financial condition results of operations and prospects, either as a result of our determination that a jurisdiction should be blocked, or because a local license or approval may be costly for us or our business partners to obtain and/or such licenses or approvals may contain other commercially undesirable conditions.

***Changes in tax laws or tax rulings could materially affect our effective tax rates, financial position and results of operations.***

The tax regimes we are subject to or operate under are unsettled and may be subject to significant change. In the course of our business, there will be many transactions and calculations where the ultimate tax determination is uncertain. Changes in tax laws or tax rulings, or changes in interpretations of existing laws, could cause us to be subject to additional income-based taxes and non-income taxes (such as payroll, sales, use, value-added, digital tax, net worth, property, and goods and services taxes), which in turn could materially affect our financial position and results of operations. In December 2017, the U.S. federal government enacted the Tax Cuts and Jobs Act (“2017 Tax Act”). The 2017 Tax Act significantly changed the existing U.S. corporate income tax laws by, among other things, lowering the corporate tax rate, implementing a partially territorial tax system, and imposing a one-time deemed repatriation toll tax on cumulative undistributed foreign earnings. There is no guarantee that the tax regime to which we are subject in the U.S. and abroad will not change to our detriment. In addition, from time to time, various legislators and other government officials have proposed and adopted changes in tax laws, or in the administration or interpretation of such laws, affecting the gaming industry. For example, many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, have recently proposed or recommended changes to existing tax laws or have enacted new laws that could impact our tax obligations. Any significant changes to our future effective tax rate may result in a material adverse effect on our business, financial condition and results of operations. In addition, any worsening of economic conditions and the large number of jurisdictions with significant current or projected budget deficits could intensify the efforts of governments to raise revenues through increases in gaming taxes and/or other taxes. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration or interpretation or enforcement of such laws. Any material increase, or the adoption of additional taxes or fees, could have a material adverse effect on our business, financial condition, results of operations and prospects. Additionally, tax authorities may impose indirect taxes on Internet-related commercial activity based on existing statutes and regulations which, in some cases, were established prior to the advent of the Internet. Tax authorities may interpret laws originally enacted for mature industries and apply it to newer industries, such as Skillz. The application of such laws may be inconsistent from jurisdiction to jurisdiction.

***Companies and governmental agencies may restrict access to platforms, our website, mobile applications or the Internet generally, which could lead to the loss or slower growth of players on the Skillz platform.***

Our players generally need to access the Internet and in particular platforms or our website to play the games available on the Skillz platform. Companies and governmental agencies could block access to any platform, our website, mobile applications or the Internet generally for a number of reasons such as security or confidentiality concerns or regulatory reasons, or they may adopt policies that prohibit employees from accessing Apple or Google and our website or any social platform. If companies or governmental entities block or limit such or otherwise adopt policies restricting players from playing the games available on the

Skillz platform, our business could be negatively impacted and could lead to the loss or slower growth of players on the Skillz platform.

***We primarily rely, and expect to continue to rely, on Amazon Web Services ("AWS") to deliver our offerings to users on our platform and any failure or disruption of or interference with our use of AWS could adversely affect our business, financial condition, results of operations and prospects.***

Our technology infrastructure is critical to the performance of our platform and to the satisfaction of our developer partners and users, as well as our corporate functions. Our platform and company systems run on a complex distributed system, or what is commonly known as cloud computing. We own, operate and maintain elements of this system, but significant elements of this system are operated by third parties that we do not control and which would require significant time and expense to replace. We expect this dependence on third parties to continue. We have suffered interruptions in service in the past, including when releasing new software versions or bug fixes, and we may in the future experience, disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors and capacity constraints. If any such interruption were significant and/or prolonged it could adversely affect our business, financial condition, future prospects, results of operations or reputation. Further, if a particular game is unavailable when players attempt to access it or navigation through a game is slower than they expect, players may stop playing the game and may be less likely to return to the game as often, if at all.

In particular, a significant portion of our game traffic, data storage, data processing and other computing services and systems is hosted by AWS. AWS provides us with computing and storage capacity pursuant to an agreement that continues until terminated by either party. The agreement requires AWS to provide us their standard computing and storage capacity and related support in exchange for timely payment by us.

To the extent we or our third-party service providers do not effectively respond to any interruptions, upgrade systems as needed and continually develop technology and network architecture to accommodate traffic, our business, reputation, financial condition or results of operations could be adversely affected. We do not maintain insurance policies covering losses relating to our systems and we do not have business interruption insurance. Furthermore, our disaster recovery systems and those of third parties with which we do business may not function as intended or may fail to adequately protect our critical business information in the event of a significant business interruption, which may cause interruption in service of our games, security breaches or the loss of data or functionality, leading to a negative effect on our business, financial condition or results of operations.

In addition, in the event that any of our agreements with these third party service providers are terminated, we may experience significant costs or downtime in connection with the transfer to, or the addition of, new hosting or cloud computing providers. Although alternative providers could host our platform on a substantially similar basis, such transition could potentially be disruptive and we could incur significant costs in connection with such transition.

***Our use of third-party open source software could negatively affect our ability to offer our products and services through our platform and subject us to possible litigation.***

We have incorporated, and may in the future incorporate, third-party open source software in our technologies. Open source software is generally licensed by its authors or other third parties under open source licenses. From time to time, companies that use third-party open source software have faced claims challenging the use of such open source software and requesting compliance with the open source software license terms. Accordingly, we may be subject to suits by parties claiming ownership of what we believe to be open source software or claiming non-compliance with the applicable open source licensing terms. Some open source software licenses require end-users who use, distribute or make available across a network software and services that include open source software to offer to the public aspects of the technology that incorporates the open source software for no cost, make publicly available source code (which in some circumstances could include valuable proprietary code) for modifications or derivative works created based upon incorporating or using the open source software and/or to license such modifications or derivative works under the terms of the particular open source license. If we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release or license the source code of our proprietary software to the public. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of our licensed software. While we have internal processes and use tools designed to help us monitor and comply with the licenses of third-party open source software and protect our valuable proprietary source code, we may inadvertently use third-party open source software in a manner that exposes us to claims of non-compliance with the terms of their licenses, including claims of intellectual property rights infringement or for breach of contract. Furthermore, there exists today an increasing number of types of open source software licenses, almost none of which have been tested in courts of law to provide guidance of their proper legal interpretations, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our use of the open source software. If we were to receive a claim of non-compliance with the terms of any of these open source licenses, we may be required to publicly release certain portions of our proprietary source code, expend substantial time and resources to re-engineer some of our software, or pay damages, settlement fees or a royalty to use certain open source software. Any of the foregoing could disrupt and harm our business.

In addition, the use of third-party open source software typically exposes us to greater risks than the use of third-party commercial software because open source licensors generally do not provide support, warranties, controls, indemnification or other contractual protections regarding the functionality or origin of the software. Use of open source software may also present additional security risks because the public availability of such software may make it easier for hackers and other third parties to determine how to compromise our platform. Any of the foregoing could harm our business, financial condition, results of operations and prospects and could help our competitors develop products and services that are similar to or better than ours.

***We rely on other third-party service providers and if such third parties do not perform adequately or terminate their relationships with us, our costs may increase and our business, financial condition and results of operations could be adversely affected.***

Our success depends in part on our relationships with our third-party service providers. If those providers do not perform adequately, end-users may experience issues or interruptions with their experiences on our platform. Furthermore, if any of our partners terminates its relationship with us or refuses to renew its agreement with us on commercially reasonable terms, we would need to find an alternate provider, and we may not be able to secure similar terms or replace such providers in an acceptable time frame. We also rely on software and services supplied by third parties, such as game content, and our business may be adversely affected to the extent such game content does not meet our expectations, contains errors or vulnerabilities, is compromised or experiences outages. Any of these risks could increase our costs and adversely affect our business, financial condition, results of operations and prospects. Further, any negative publicity related to any of our third-party partners, including any publicity related to regulatory concerns, could adversely affect our reputation and brand, and could potentially lead to increased regulatory or litigation exposure.

We incorporate technology from third parties into our platform. We cannot be certain that our licensors are not infringing, misappropriating or otherwise violating the intellectual property rights of others or that our suppliers and licensors have sufficient rights to such technology in all jurisdictions in which we may operate. In addition, some of our license agreements may be terminated by our licensors for convenience. If we are unable to obtain or maintain rights to any of this technology because of intellectual property infringement claims brought by third parties against our suppliers and licensors or against us, or if we are unable to continue to obtain such technology or enter into new agreements on commercially reasonable terms, our ability to develop our platform could be severely limited and our business could be harmed. Additionally, if we are unable to obtain necessary technology from third parties, we may be forced to acquire or develop alternate technology, which may require significant time and effort and may be of lower quality or performance standards. This would limit and delay our ability to provide new or competitive offerings and increase our costs. If alternate technology cannot be obtained or developed, we may not be able to offer certain functionality as part of our offerings, which could adversely affect our business, financial condition and results of operations and prospects.

***We rely on third-party providers to validate the identity and identify the location of end-users, and if such providers fail to perform adequately, or if we do not maintain business relationships with them, our business, financial condition, results of operations and prospects could be adversely affected.***

There is no guarantee that the third-party geolocation and identity verification systems that we rely on will perform adequately, or be effective. We rely on our geolocation and identity verification systems to ensure we are in compliance with certain laws and regulations, and any service disruption to those systems would prohibit us from operating our platform in compliance with law, or at all, and would adversely affect our business, financial condition, results of operations and prospects. Additionally, incorrect or misleading geolocation and identity verification data with respect to current or potential users received from third-party service providers may result in us inadvertently allowing access to our offerings to individuals who should not be permitted to access them, or otherwise inadvertently deny access to individuals who should be able to access our offerings. Our third-party geolocation services provider relies on its ability to obtain information necessary to determine geolocation from mobile devices, operating systems, and other sources. Changes, disruptions or temporary or permanent failure to access such sources by our third-party services providers may result in their inability to accurately determine the location of end-users. Moreover, our inability to maintain our existing contracts with third-party services providers, or to replace them with equivalent third parties, may result in our inability to access geolocation and identity verification data necessary for our day-today operations. If any of these risks materializes, we may be subject to disciplinary action, fines, lawsuits, and our business, financial condition, results of operations prospects and reputation could be adversely affected.

***We rely on third-party payment processors to process deposits and withdrawals made by end-users on the platform, and if we cannot manage our relationships with such third parties and other payment-related risks, our business, financial condition and results of operations could be adversely affected. Further, we may have difficulty accessing the services of banks, credit card issuers and payment processing services providers, which may make it difficult to sell our products and services.***

We rely on a limited number of third-party payment processors to process deposits and withdrawals made by end-users on our platform. If any of our third-party payment processors terminates its relationship with us or refuses to renew its agreement with us on commercially reasonable terms, we may need to find an alternate payment processor, and may not be able to secure similar terms or replace such payment processor in an acceptable time frame. Further, the software and services provided by our third-party payment processors may not meet our expectations, and may contain errors or vulnerabilities, be compromised or experience outages. Any of these risks could cause us to lose our ability to accept online payments or other payment transactions or make timely payments to users on our platform, any of which could make our platform less trustworthy and convenient and adversely affect our ability to attract and retain end-users.

Nearly all of our payments are made by credit card, debit card or through other third-party payment services, which subjects us to certain regulations and to the risk of fraud. We may in the future offer new payment options to users that may be subject to additional regulations and risks. We are also subject to a number of other laws and regulations relating to the payments we accept from end-users, including with respect to money laundering, money transfers, privacy and information security. If we fail to comply with applicable rules and regulations, we may be subject to civil or criminal penalties, fines and/or higher transaction fees and may lose our ability to accept online payments or other payment card transactions, which could make our offerings less convenient and attractive to end-users. If any of these events were to occur, our business, financial condition results of operations and prospects could be materially adversely affected.

Additionally, our payment processors require us to comply with payment card network operating rules, which are set and interpreted by the payment card networks. The payment card networks could adopt new operating rules or interpret or reinterpret existing rules in ways that might prohibit us from providing certain offerings to some users, be costly to implement or difficult to follow. We have agreed to reimburse our payment processors for fines they are assessed by payment card networks if we or the users on our platform violate these rules.

Although financial institutions and payment processors are permitted to provide services to us and others in our industry, banks, credit card issuers and payment processing service providers may be hesitant to offer banking and payment processing services to gaming businesses. Consequently, we may encounter difficulties in establishing and maintaining banking and payment processing relationships with a full scope of services and generating market interest rates. If we were unable to maintain Skillz's bank accounts or end-users were unable to use their credit cards, bank accounts or e-wallets to make deposits and withdrawals from our platforms it would make it difficult for us to operate our business, increase our operating costs, and pose additional operational, logistical and security challenges which could result in an inability to implement our business plan. A disruption in our ability to process payments could have a material adverse effect on our business, financial condition, results of operations and prospects.

***Our strategy to expand internationally will be subject to increased challenges and risks; our growth prospects and market potential will depend on our ability to operate in a number of jurisdictions and if we fail to do so our business, financial condition, results of operations and prospects could be impaired.***

Our ability to grow our business will depend on our ability to offer our product offerings in a large number of jurisdictions or in heavily populated jurisdictions. If we fail to remain in large jurisdictions or in a greater number of mid-market jurisdictions, this may prevent us from expanding the footprint of our product offerings, increasing the end-user base and/or generating revenues. We cannot be certain that we will be able to conduct our skill-based gaming operations in any particular jurisdiction. Any failure could have a material adverse effect on our business, financial condition, results of operations and prospects.

One of our growth strategies is to expand our business outside the United States. An important part of targeting international markets is developing offerings that are localized and customized for the players in those markets. Our ability to expand our business and to attract talented employees and players in international markets will require considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute systems, regulatory systems and commercial infrastructures. Expanding our international focus may subject us to risks that we have not faced before or increase risks that we currently face, including risks associated with:

- inability to host certain games in certain foreign countries;
- challenges caused by distance, language and cultural differences;
- developing and customizing games and other offerings that appeal to the tastes and preferences of players in international markets;
- competition from local game makers with significant market share in those markets and with a better understanding of player preferences;
- utilizing, protecting, defending and enforcing our intellectual property rights;
- negotiating agreements with local distribution platforms that are sufficiently economically beneficial to us and protective of our rights;
- the inability to extend proprietary rights in our brand, content or technology into new jurisdictions;
- implementing alternative payment methods for virtual items in a manner that complies with local laws and practices and protects us from fraud;
- compliance with applicable foreign laws and regulations, including privacy laws and laws relating to content and consumer protection (for example, the United Kingdom's Office of Fair Trading's 2014 principles relating to in-app purchases in free-to-play games that are directed toward children 16 and under);
- compliance with anti-bribery laws, including the Foreign Corrupt Practices Act;
- credit risk and higher levels of payment fraud;
- currency exchange rate fluctuations;
- protectionist laws and business practices that favor local businesses in some countries;
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the tax laws of the U.S. or the foreign jurisdictions in which we operate;
- political, economic and social instability;
- public health crises, which can result in varying impacts to our employees, players, vendors and commercial partners internationally;
- higher costs associated with doing business internationally;
- export or import regulations; and
- trade and tariff restrictions.

If we are unable to manage the complexity of our global operations successfully, our business, financial condition and operating results could be adversely affected. Additionally, our ability to successfully gain market acceptance in any particular market is uncertain, and the distraction of our senior management team could harm our business, financial condition, results of operations and prospects.

***Our results of operations may fluctuate due to seasonality and other factors and, therefore, our periodic operating results will not be guarantees of future performance.***

Our financial results and operations in any given period may be influenced by numerous factors, many of which we are unable to predict or are outside of our control, including the impact of seasonality, and the other risks and uncertainties set forth herein, and therefore may not fully reflect the underlying performance of our business. Consumer engagement with our gaming platform may decline or fluctuate as a result of a number of factors, including the popularity of the underlying games, the user's level of satisfaction with our platform, the ability of our developer partners to improve and innovate games, our ability to adapt our platform, outages and disruptions of online services, the availability of alternative live events or entertainment, the services offered by our competitors, our marketing and advertising efforts or declines in consumer activity generally as a result of economic downturns, among others. Any decline or fluctuation in the recurring portion of our business may have a negative impact on our business, financial condition, results of operations or prospects.

***We may invest in or acquire other businesses, and our business may suffer if we miscalculate the value or benefits of such acquired businesses, if we are unable to successfully integrate acquired businesses into our company or otherwise manage the growth associated with multiple acquisitions.***

We intend to evaluate and pursue acquisitions and strategic investments. Each of these acquisitions will require unique approaches to integration due to, among other factors, the structure of the acquisitions, their locations and cultural differences among their teams and ours. If we are unable to obtain the anticipated benefits from these acquisitions and strategic investments, or we encounter difficulties in integrating their operations with ours, our business, financial condition, results of operations and prospects could be materially harmed. Challenges and risks from such investments and acquisitions include:

- negative effects on business initiatives and strategies from the changes and potential disruption that may follow the acquisition;
- diversion of our management’s attention;
- declining employee morale and retention issues resulting from changes in compensation, or changes in management, reporting relationships, or future prospects;
- the need to integrate the operations, systems, technologies, products and personnel of each acquired company, the inefficiencies and lack of control that may result if such integration is delayed or not implemented, and unforeseen difficulties and expenditures that may arise in connection with integration;
- the difficulty in determining the appropriate purchase price of acquired companies may lead to the overpayment of certain acquisitions and the potential impairment of intangible assets and goodwill acquired in the acquisitions;
- the difficulty in successfully evaluating and utilizing the acquired products, technology or personnel;
- the potential incurrence of debt, contingent liabilities, amortization expenses or restructuring charges in connection with any acquisition;
- the need to implement controls, procedures and policies appropriate for a larger, U.S.-based public company at companies that prior to acquisition may not have as robust controls, procedures and policies, in particular, with respect to the effectiveness of cyber and information security practices and incident response plans, compliance with privacy and other regulations protecting the rights of developers and users, and compliance with U.S.-based economic policies and sanctions which may not have previously been applicable to the acquired company’s operations;
- the difficulty in accurately forecasting and accounting for the financial impact of an acquisition transaction, including accounting charges and integrating and reporting results for acquired companies that have not historically followed U.S. GAAP;
- the fact that we may be required to pay contingent consideration in excess of the initial fair value, and contingent consideration may become payable at a time when we do not have sufficient cash available to pay such consideration;
- under purchase accounting, we may be required to write off deferred revenue which may impair our ability to recognize revenue that would have otherwise been recognizable which may impact our financial performance or that of the acquired company;
- risks associated with our expansion into new international markets and doing business internationally, including those described under the risk factor caption “Our strategy to expand internationally will be subject to increased challenges and risks”;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries;
- the need to transition operations, third-party developers and players onto our existing or new platforms and the potential loss of, or harm to, our relationships with employees, third-party developers, players and other suppliers as a result of integration of new businesses;
- the implications of our management team balancing levels of oversight over acquired businesses which continue their operations under contingent consideration provisions in acquisition agreements;
- our dependence on the accuracy and completeness of statements and disclosures made or actions taken by the companies we acquire or their representatives, when conducting due diligence and evaluating the results of such due diligence; and
- liability for activities of the acquired company before the acquisition, including intellectual property and other litigation claims or disputes, cyber and information security vulnerabilities, violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities.

The benefits of an acquisition or investment may also take considerable time to develop, and we cannot be certain that any particular acquisition or investment will produce the intended benefits, which could adversely affect our business, financial condition, results of operations, prospects or reputation. In July 2021, we completed the acquisition of Aarki and acquired 100% of its outstanding equity and voting interests. Our ability to grow through future acquisitions will depend on the availability of suitable acquisition and investment candidates at an acceptable cost, our ability to compete effectively to attract these candidates and the availability of financing to complete larger acquisitions. Acquisitions could result in potential dilutive issuances of equity securities, use of significant cash balances or incurrence of debt (and increased interest expense), contingent liabilities or amortization expenses related to intangible assets or write-offs of goodwill and/or intangible assets, which could adversely affect our financial condition and results of operations and dilute the economic and voting rights of our stockholders.

***We are subject to laws and regulations concerning privacy, information security, data protection, consumer protection and protection of minors, and these laws and regulations are continually evolving. Our actual or perceived failure to comply with these laws and regulations could harm our business, financial condition, results of operations, reputation or prospects.***

We receive, store and process personal information and other data relating to our employees and business contacts, as well as player data, and we enable our players to share their personal information with each other and with third parties, including on the Internet and mobile platforms. There are numerous federal, state and local laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other player data on the Internet and mobile platforms, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. A number of these laws, rules and regulations require us to provide notification to players, investors, regulators and other affected parties in the event of a security breach of certain personal data, or require the adoption of minimum information security standards that are often vaguely defined and difficult to practically implement.

Various government and consumer agencies have called for new regulation and changes in industry practices and are continuing to review the need for greater regulation for the collection of information concerning consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. In the United States, there are numerous federal and state data privacy laws, data breach notification laws and consumer protection laws. For example, the State of California’s passage of the CCPA, which went into effect on January 1, 2020 and created new privacy rights for consumers residing in the state. The CCPA gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing and receive detailed information about how their personal information is used. The CCPA allows for the California Attorney General to impose civil penalties and also provides a privacy right of action for certain data breaches. California voters also recently passed the California Privacy Rights Act (“CPRA”), which went into effect on January 1, 2023. The CPRA significantly modifies the CCPA, including by imposing additional obligations on covered companies and expanding California consumers’ rights with respect to certain sensitive personal information, potentially resulting in further uncertainty and requiring us to incur additional costs and expenses in an effort to comply. Other states, such as Virginia, have also adopted, or are considering adopting similar data privacy laws. In addition, laws in all 50 states require businesses to provide notice to consumers whose personal information has been disclosed as a result of a data breach. There is also increased attention being given to the collection of data from minors. For instance, the Children’s Online Privacy Protection Act (“COPPA”) requires companies to obtain parental consent before collecting personal information from children under the age of 13.

We are also subject to international laws, regulations and standards in many jurisdictions, which apply broadly to the collection, use, retention, security, disclosure, transfer and other processing of personal information. For example, the GDPR, which became effective in May 2018, greatly increased the European Commission’s jurisdictional reach of its laws and adds a broad array of requirements for handling personal data. The European Union (“EU”) member states are tasked under the GDPR to enact, and have enacted, certain implementing legislation that adds to and/or further interprets the GDPR requirements and potentially extends our obligations and potential liability for failing to meet such obligations. The GDPR, together with national legislation, regulations and guidelines of the EU member states and the United Kingdom governing the processing of personal data, impose strict obligations and restrictions on the ability to collect, use, retain, protect, disclose, transfer and otherwise process personal data. In particular, the GDPR includes obligations and restrictions concerning data transparency and consent, the overall rights of individuals to whom the personal data relates, the transfer of personal data out of the European Economic Area ("EEA") or the United Kingdom, security breach notifications and the security and confidentiality of personal data. The GDPR authorizes fines for certain violations of up to 4% of global annual revenue or €20 million, whichever is greater. Recent legal developments in Europe have created further complexity and uncertainty regarding transfers of personal data from the EEA and the United Kingdom to the United States. Most recently, in July 2020, the Court of Justice the European Union (“CJEU”) invalidated the EU-U.S. Privacy Shield Framework (“Privacy Shield”) under which personal data could be transferred from the EEA to the United States. While the CJEU upheld the adequacy of standard contractual clauses, a standard form of contract approved by the European Commission as an adequate personal data transfer mechanism and potential alternative to the Privacy Shield, it made clear that reliance on them alone may not necessarily be sufficient in all circumstances. Further, the United Kingdom's decision to leave the EU has created uncertainty with regard to data protection regulation in the United Kingdom. As of January 1, 2021, we are also subject to the UK GDPR and UK Data Protection Act of 2018, which retain the GDPR in the United Kingdom's national law. These laws require us to review and amend the legal mechanisms by which we make and/or receive personal data transfers. As supervisory authorities issue further guidance on personal data export mechanisms, including circumstances where the standard contractual clauses and other mechanisms cannot be used, and/or start taking enforcement action, we could suffer additional costs, complaints and/or regulatory investigations or fines, or if we are otherwise unable to transfer personal data between and among countries and regions in which we operate, it could affect the manner in which we do business, the geographical location or segregation of our relevant operations, and could adversely affect our financial results.

Compliance with GDPR, CCPA, COPPA and similar legal requirements has required us to devote significant operational resources and incur significant expenses. We expect the number of jurisdictions adopting their own data privacy laws to increase, which will require us to devote additional significant operational resources and incur additional significant expenses and will also increase our exposure to risks of claims by our players that we have not complied with all applicable data privacy laws.

We strive to comply with all applicable laws, policies, legal and contractual obligations and certain industry codes of conduct relating to privacy and data protection, to the extent reasonably attainable. However, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. It is also possible that new laws, policies, legal obligations or industry codes of conduct may be passed, or existing laws, policies, legal obligations or industry codes of conduct may be interpreted in such a way that could require us to take further compliance steps and/or could prevent us from being able to offer services to citizens of a certain jurisdiction or may make it costlier or more difficult for us to do so. Any failure or perceived failure by us to comply with our privacy policy and terms of service, our privacy-related obligations to players or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other player data, may result in governmental enforcement actions, investigations, litigation or public statements against us by consumer advocacy groups or others and could cause our players to lose trust in us, which could have an adverse effect on our business, financial condition, results of operations, reputation or prospects. Additionally, if third parties we work with, such as players, vendors or developers violate applicable laws or our policies, such violations may also put our players' information at risk and could in turn have an adverse effect on our business, financial condition, results of operations, reputation or prospects.

***Failure to obtain, maintain, protect or enforce our intellectual property rights could harm our business, results of operations, financial condition and prospects.***

Our success is dependent in part on protecting our intellectual property rights and proprietary technology (such as source code, information, data, processes and other forms of information, and know-how). We rely on a combination of copyrights, patents, trademarks, service marks, trade secret laws and contractual restrictions to establish and protect our intellectual property rights. However, there are steps that we have not yet taken to protect our intellectual property on a global basis. Additionally, the steps that we have already taken to protect our intellectual property may not be sufficient or effective to prevent third parties from infringing, misappropriating or otherwise violating our intellectual property or to prevent unauthorized disclosure or unauthorized use of our trade secrets or other confidential information. We may also not detect unauthorized use, infringement, misappropriation or other violation of our intellectual property rights, and even if we do detect such violations, we may need to engage in expensive and time-consuming litigation to enforce our rights.

While we take precautions designed to protect our intellectual property, it may still be possible for competitors and other unauthorized third parties to copy our technology and use our proprietary brand, content and information to create or enhance competing solutions and services, which could adversely affect our competitive position in our rapidly evolving and highly competitive industry. Effective protection of intellectual property rights is expensive and difficult to maintain, both in terms of applications and registration costs as well as the costs of defending and enforcing these rights. We may fail to maintain or be unable to obtain adequate protections for certain of our intellectual property rights in certain foreign countries because effective intellectual property protection may not be available to us in every country in which our services are available, and our intellectual property rights may not receive the same degree of protection in foreign countries as they would in the United States because of the differences in foreign patent, trademark, copyright, and other laws concerning intellectual property and proprietary rights.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with our third-party providers and strategic partners. However, we cannot guarantee that we have entered into such agreements with each party who has developed intellectual property on our behalf or each party that has or may have had access to our confidential information, know-how and trade secrets and cannot assure you that these agreements will be effective in controlling access to, and use and distribution of, our platform and proprietary information. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our offerings. Moreover, these agreements may not provide an adequate remedy for breaches or in the event of unauthorized use or disclosure of our confidential information or technology or infringement of our intellectual property. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret or know-how is difficult, expensive, and time-consuming, and the outcome is unpredictable. In addition, trade secrets and know-how can be difficult to protect and some courts inside and outside the United States are less willing or unwilling to protect trade secrets and know how. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor or other third party, we would have no right to prevent them from using that technology or information to compete with us, which could harm our competitive position, business, financial condition, results of operations, and prospects.

We have filed, and may continue in the future to file, copyright, trademark and patent applications to protect certain of our innovations and intellectual property. This process can be expensive and time-consuming, and we do not know whether any of our applications will result in the issuance of a patent, trademark or copyright, as applicable, or whether the examination process will require us to narrow the claims in our patent applications. In addition, we may not receive competitive advantages from the rights granted under our intellectual property. Our existing intellectual property, and any intellectual property granted to us or that we otherwise acquire in the future, may be contested, circumvented, invalidated, or declared unenforceable through administrative processes or litigation, and we may not be able to prevent third parties from infringing, misappropriating or otherwise violating our rights to our intellectual property. Therefore, the exact effect of our efforts to protect our intellectual property cannot be predicted with certainty. In addition, given the costs, effort, risks and downside of obtaining patent protection, including the requirement to ultimately disclose the invention to the public, we may choose not to seek patent protection for certain innovations. Any failure to adequately obtain such patent protection, or other intellectual property protection, could later prove to adversely impact our business, results of operations, financial condition or prospects.

We currently hold various domain names relating to our brand, including Skillz.com. Failure to protect our domain names could adversely affect our reputation and brand and make it more difficult for users to find our website and our online app. We may be unable, without significant cost or at all, to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our trademarks and other proprietary rights.

We may be required to spend significant resources in order to monitor and protect our intellectual property rights, and some violations may be difficult or impossible to detect. Litigation to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and counter suits attacking the validity and enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could impair the functionality of our platform, delay introductions of enhancements to our platform, result in our substituting inferior or costlier technologies into our platform or harm our reputation or brand and business, financial condition and results of operations. In addition, we may be required to license additional technology from third parties to develop and market new offerings or platform features, which may not be on commercially reasonable terms or at all and could adversely affect our ability to compete.

Although we take measures to protect our intellectual property, if we are unable to prevent the unauthorized use or exploitation of our intellectual property, the value of our brand, content, and other intangible assets may be diminished, competitors may be able to more effectively mimic our service and methods of operations, the perception of our business and service to our third party developer partners, potential developer partners and end game users may become confused, and our ability to attract new developers and users may be adversely affected. Any inability or failure to protect our intellectual property could adversely impact our business, results of operations, financial condition, reputation and prospects.

Our commercial success also depends in part on our ability to operate without infringing, misappropriating or otherwise violating the intellectual property rights of others. We may face allegations that we have infringed, misappropriated or otherwise violated the trademarks, copyrights, patents and other intellectual property rights of third parties, including from our competitors and non-practicing entities. We may also be subject to claims that our employees, consultants or other advisors have wrongfully used or disclosed alleged trade secrets of their former employers or claims asserting ownership of what we regard as our intellectual property. Intellectual property litigation may be protracted and expensive, and the results are difficult to predict. As the result of any court judgment or settlement, we may be obligated to stop offering certain features of our platform in a particular geographic region or worldwide, pay significant royalties, settlement costs or damages (including treble damages and attorneys' fees if we are found to have willfully infringed intellectual property rights), obtain licenses (which may not be available on acceptable terms or at all), modify our platform and features, or develop substitutes. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors and other third parties access to the same technologies licensed to us. Furthermore, even if intellectual property disputes do not result in litigation, the time and resources necessary to resolve them could harm our business, results of operations, financial condition and reputation.

***Our limited operating history and our history of operating losses make it difficult to evaluate our current business and prospects and may increase the risks associated with your investment.***

Our limited operating history makes it difficult to evaluate our current business and our future prospects, including our ability to plan for and model future growth. We have encountered and will continue to encounter risks and difficulties frequently experienced by growth companies in constantly evolving industries, including companies in the technology sector. If we do not address these risks successfully, our business may be harmed.

We have experienced net losses in each period since inception. As of December 31, 2022, we had an accumulated deficit of $873.1 million. While we have experienced significant revenue and user metrics growth in recent periods, the industry in which we operate is highly competitive, rapidly changing, and relies heavily on continually introducing compelling content, products and services. As such, if we, in combination with our third-party developers, fail to deliver such content, products and services, do not execute our strategy successfully or if our new content launches are delayed, our revenue growth, overall revenue or user metrics may decline, and our operating results will suffer.

In addition, our operating margin may experience downward pressure as a result of increasing competition, increased user acquisition costs and the other risks discussed in this Annual Report. We expect to continue to expend substantial financial and other resources on expanding our developer and consumer base, our technology, the expansion of our platform, and marketing. Our operating costs will increase and our operating margins may decline if we do not effectively manage costs, launch new products on schedule that monetize successfully and enhance the games featured on our platform. We rely primarily on digital advertising networks to acquire new users to the platform. Increases in digital advertising costs, including on a per user basis, could have a material adverse effect on our business, financial condition and results of operations, including on our ability to achieve profitability. Neither our user acquisition costs nor our lifetime customer value are assured, and thus we cannot assure you that this ratio will not further decline over time. In addition, we cannot assure you that digital advertising costs will not continue to increase in 2023 or any other future period.

If our revenue does not increase to offset any additional expenses, if we fail to manage or experience unexpected increases in operating expenses or if we are required to take additional charges related to impairments or restructurings, our business, financial condition, results of operations and prospects may be materially adversely affected. Further, we have limited historical financial data and operate in a rapidly evolving market. As such, any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more predictable market.

***We rely on assumptions and estimates to calculate certain of our key metrics, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.***

Certain of our key metrics, including Monthly Active Users or “MAUs”, Paying Monthly Active Users or “Paying MAUs”, Average Revenue Per Monthly Active User or “ARPU”, Average Revenue Per Paying Monthly Active User or “ARPPU”, Gross Marketplace Volume “GMV”, Average GMV Per Paying Monthly Active User, Average GMV Per Monthly Active User, Average end-user incentives, included as sales and marketing expense, per paying active user, and Average end-user incentives, included as sales and marketing expense, per playing active user, are calculated using data tracked by our internal analytics systems based on tracking activity of user accounts. MAUs means the number of end-users who entered into a paid or free contest hosted on Skillz’s platform at least once in a month, averaged over each month in the period. Paying MAUs means the number of end-users who entered into a paid contest hosted on Skillz’s platform at least once in a month, averaged over each month in the period. ARPU means the average monthly revenue in a given period divided by average monthly MAUs in that period. ARPPU means the average monthly revenue in a given period divided by average monthly Paying MAUs in that period. Average GMV Per Paying Monthly Active User means the average GMV in a given month divided by Paying MAUs in that month, averaged over the period. Average GMV Per Monthly Active User means the average GMV in a given month divided by MAUs in that month, averaged over the period. Average end-user incentives, included as sales and marketing expense, per paying active user reflects the average end-user incentives included in sales and marketing expense in a given month divided by PMAUs in that month, averaged over the period. Average end-user incentives, included as sales and marketing expense, per playing active user reflects the average end-user incentives included in sales and marketing expense in a given month divided by MAUs in that month, averaged over the period. The analytics systems for these metrics and the resulting data have not been independently verified. While these numbers are based on what we believe to be reasonable calculations for the applicable period of measurement, there are inherent challenges in measuring usage and user engagement across the end-user base, and factors relating to user activity and systems may impact these numbers. The calculation of our key metrics and examples of how user activity and our systems may impact the calculation of these metrics is described in detail under the heading titled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our third-party developers and investors rely on our key metrics as a representation of our performance. We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. If we determine that we can no longer calculate any of our key metrics with a sufficient degree of accuracy, and we cannot find an adequate replacement for the metric, our business, financial condition or results of operations may be harmed. In addition, if advertisers, platform partners or investors do not perceive end-user metrics to be accurate representations of the end-user base or end-user engagement, or if we discover material inaccuracies in end-user metrics, our reputation may be harmed and advertisers and platform partners may be less willing to allocate their budgets or resources to our products and services, which in either case could negatively affect our business, financial condition, results of operations, reputation and prospects.

***Our workforce and operations have grown substantially since our inception. If we are unable to effectively manage future expected growth, our financial performance and future prospects will be adversely affected.***

Since our inception, we have experienced rapid growth in the United States and internationally. This expansion has increased the complexity of our business and has placed, and will continue to place, significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. In the future, we may not be able to manage additional growth effectively, which could damage our reputation and negatively affect our operating results. Our current and planned personnel, systems, procedures, and controls may not be adequate to support future growth in our operations. To manage the growth of our operations and personnel and improve the technology that supports our business operations, as well as our financial and management systems, disclosure controls and procedures, and internal controls over financial reporting, we have been, and expect to continue to be, required to commit substantial financial, operational, management and technical resources. Our failure to upgrade our technology or network infrastructure effectively to support future growth could result in unanticipated disruptions. If we are unable to expand our operations and hire additional qualified personnel in an efficient manner, or if our operational technology is insufficient to reliably service our platform, we could potentially face difficulties in retaining users, which would adversely affect our business, financial condition, operating results and prospects.

Our organizational structure is complex and properly managing our expected future growth will require us to establish consistent policies across regions and functions, and a failure to do so could likewise harm our business. Moreover, in order to optimize our organizational structure, we may in the future implement reductions in force, which may yield unintended consequences and costs, such as attrition beyond the intended reduction in force, the distraction of employees, reduced employee morale and could adversely affect our reputation as an employer, which could make it more difficult for us to hire new employees in the future and increase the risk that we may not achieve the anticipated benefits from the reduction in force.

***Continued growth and success will depend on the performance of the current and future employees of Skillz, including certain key employees. Recruitment and retention of these individuals is vital to growing our business and meeting our business plans. The loss of any of our key executives or other key employees could harm our business.***

Our ability to compete and grow depends in large part on the efforts and talents of our employees and executives. Our success depends in a large part upon the continued service of our senior management team, including Andrew Paradise, our Founder and Chief Executive Officer. Mr. Paradise is critical to our vision, strategic direction, culture, products and technology, and the continued retention of our entire senior management team is important to the success of our operating plan. We do not have employment agreements, other than offer letters, with our senior management team, and we do not maintain key-man insurance for members of our senior management team. The loss of any member of our senior management team could cause disruption and harm our business, financial condition, results of operations, reputation and prospects.

In addition, our ability to execute our strategy depends on our continued ability to identify, hire, develop, manage, motivate and retain highly skilled employees, including game designers, engineers, data scientists, operations personnel, financial and accounting staff, product management staff and sales and marketing staff. Skilled and experienced personnel in the areas where the company competes are in high demand, and competition for their talents is intense. We devote significant resources to identifying, recruiting, hiring, training, successfully integrating and retaining them. We have continued to experience significant turnover in our headcount, which has placed and will continue to place significant demands on our management and our operational, financial and technological infrastructure. We cannot guarantee we will continue to attract and retain the number of highly skilled employees we need, particularly with the uncertainty in the current macroeconomic environment. In 2022, we continued to experience leadership changes, including a new Chief Financial Officer and other management positions. Furthermore, we may experience additional changes in key roles in the future. Management transitions can be time-consuming, difficult to manage and could cause disruption to our business.

We believe that two critical components of our success and our ability to retain our best people are our culture and our competitive compensation practices. Further, many of our employees receive a total compensation package that includes equity awards. Any new regulations, volatility in the stock market and other factors could diminish the company's use or the value of the company's equity awards, putting the company at a competitive disadvantage and potentially causing our employee base to be more vulnerable to be targeted for recruitment by competitors. The failure to successfully hire and retain key executives and employees or the loss of any key executives or employees could have a significant impact on our operations, including declining product identity and competitive differentiation, eroding employee morale and productivity or an inability to maintain internal controls, regulatory or other compliance related requirements. Additionally, such failure may also force us to increase our hiring of independent contractors or consultants, which may increase our costs and reduce our profitability. We must also devote substantial managerial and financial resources to monitoring and managing our workforce. Our future success will depend on our ability to manage the levels and related costs of our workforce.

***We are a party to pending litigation with various plaintiffs and we may be subject to future litigation in the operation of our business. An adverse outcome in one or more proceedings could adversely affect our business.***

We are involved, and in the future, may become involved, in claims, suits, government investigations, and proceedings arising in the ordinary course of our business, including actions with respect to intellectual property claims, privacy, data protection or law enforcement matters, tax matters, labor and employment claims, commercial and acquisition-related claims and other matters. Such claims, suits, government investigations, and proceedings are inherently uncertain and their results cannot be predicted. Regardless of their outcomes, such legal proceedings can have an adverse impact on us because of legal costs, diversion of management and other personnel, and other factors. It is possible that a resolution of one or more such proceedings could result in liability, penalties, or sanctions, as well as judgments, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, or requiring a change in our business practices, products or technologies, which could in the future materially and adversely affect our business, financial condition, results of operations, reputation and prospects.

***Our insurance may not provide adequate levels of coverage against claims.***

We believe that we maintain insurance customary for businesses of our size and type. However, there are types of losses we may incur that cannot be insured against or that we believe are not economically reasonable to insure. We do not maintain "key man" insurance policies on any of our officers or employees. Moreover, any loss incurred could exceed policy limits and policy payments made to us may not be made on a timely basis. Such losses could adversely affect our business prospects, results of operations and financial condition.

***The requirements of being a public company, including compliance with the Exchange Act and the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), may strain our resources and divert management's attention, the increases in legal, accounting and compliance expenses may be greater than we anticipate, and there can be no assurance that we will satisfy these obligations.***

In December 2020, we became a public company, and as such, have incurred, and will continue to incur (and particularly now that we are no longer an "emerging growth company"), significant legal, accounting and other expenses that Skillz did not incur as a private company. We are subject to the reporting requirements of the Exchange Act and are required to comply with the applicable requirements of Sarbanes-Oxley and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as the rules and regulations subsequently implemented by the SEC and the listing standards of the NYSE, including changes in corporate governance practices and the establishment and maintenance of effective disclosure and financial controls. Compliance with these rules and regulations can be burdensome. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. In addition, these rules and regulations have and will continue to increase our historical legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect that these rules and regulations may make it more difficult and more expensive for us to attract and retain qualified members of our Board of Directors (the "Board") as compared to Skillz as a private company. In particular, we expect to incur significant expenses and devote substantial management effort toward the remediation of material weaknesses. We will need to hire additional accounting and financial staff, and engage outside consultants, all with appropriate experience and technical accounting knowledge and maintain an internal audit function, which will increase our operating expenses.

Further, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. We must invest resources to comply with evolving laws, regulations and standards, and such investment may result in further increased general and administrative expenses. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us, and there could be a material adverse effect on our business, financial condition, cash flows and results of operations.

***Our reported financial results may be affected by changes in accounting principles generally accepted in the United States.***

Generally accepted accounting principles ("GAAP") in the United States are subject to interpretation by the Financial Accounting Standards Board ("FASB"), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. Any difficulties in implementing these pronouncements could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

***We may require additional capital to support our growth plans, and such capital may not be available on terms acceptable to us, if at all. This could hamper our growth and adversely affect our business, financial condition, results of operations and prospects.***

We intend to continue to make significant investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new games and features or enhance our existing games, improve our operating infrastructure or acquire complementary businesses, personnel and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our Class A common stock. Our debt financing (see Risks Related to Our Indebtedness) involves offering additional security interests and undertaking restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Additionally, if we seek to access additional capital or increase our borrowing, there can be no assurance that financing and credit may be available on favorable terms, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business, financial condition or results of operations may be harmed.

***Our investment portfolio and our ability to access cash and cash equivalents may become impaired by deterioration of the financial markets.***

Our cash equivalent and investment portfolio is invested with a goal of preserving our access to capital, and generally consists of money market funds, corporate debt securities, U.S. government and government agency debt securities, mutual funds, certificates of deposit and time deposits. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards, permissible allocations of certain sectors and limits our exposure to specific investment types, and we believe our current investment portfolio has a low risk of material impairment. However, volatility in the global financial markets can negatively impact the value of our investments. If financial markets experience volatility, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any disruption of the capital markets could cause our other income and expenses to vary from expectations. Lastly, changing circumstances and market conditions, some of which may be beyond our control, could impair our ability to access our existing cash and cash equivalents and investments and to timely pay key vendors and others. For example, on March 10, 2023, Silicon Valley Bank ("SVB") was placed into receivership with the Federal Deposit Insurance Corporation ("FDIC"), which resulted in all funds held at SVB, including our funds held at SVB, being temporarily inaccessible by SVB's customers. As of March 30, 2023, we have approximately $22.0 million of cash with SVB. If other banks and financial institutions with whom we have banking relationships enter receivership or become insolvent in the future in response to financial conditions affecting the banking system and financial markets, we may be unable to access, and we may lose, some or all of our existing cash and cash equivalents and investments to the extent those funds are not insured or otherwise protected by the FDIC.

***Global climate change, the occurrence of an earthquake, other natural disaster or other significant business interruption at or near any of our facilities could cause damage to our facilities and equipment and interfere with our operations.***

There is evidence of global climate change, which could present risks to our future operations from natural disasters and extreme weather conditions, such as hurricanes, tornadoes, earthquakes, wildfires or flooding. Such extreme weather conditions could pose physical risks to our facilities and disrupt operation of our third-party developer partners, service providers and our game players and may increase operational costs. Concern over climate change will likely result in new legal or regulatory requirements designed to identify or mitigate the effects of climate change on the environment. For example, in the U.S., the SEC is actively engaged in climate-related rule making. These proposed rules, depending on how they are finally adopted, as well as other changes the government might implement, could impose significant new burdens on us and our third-party developer partners and service providers, with significant costs and operational impacts, and adversely impact our ability to maintain our platform and operate successfully. If such laws or regulations are more stringent than current legal or regulatory requirements, we may experience increased compliance burdens and costs to meet the regulatory obligations.

**Risks Related to Ownership of Our Class A Common Stock**

***The trading price of our Class A common stock has been, and may continue to be, volatile, and the value of our Class A common stock may decline.***

The market price of our Class A common stock has been and may continue to be subject to wide fluctuations in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our financial condition and operating results;
- changes in projected operational and financial results;
- changes in laws or regulations applicable to our offerings;
- the commencement or conclusion of legal proceedings that involve us;
- actual or anticipated changes in our growth rate relative to our competitors;
- announcements of new offerings by us or our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;
- additions or departures of key personnel;
- issuance of new or updated research or reports by securities analysts;
- the use by investors or analysts of third-party data regarding our business that may not reflect our financial performance;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- sales of our Class A common stock;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and
- general economic and market conditions.

Furthermore, the stock markets frequently experience extreme price and volume fluctuations that affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, elections, interest rate changes or international currency fluctuations, may negatively impact the market price of our Class A common stock. As a result of such fluctuations, you may not realize any return on your investment in us and may lose some or all of your investment. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We are currently the target of this type of litigation, and may continue to be such a target in the future, which could result in substantial costs and divert our management's attention from other business concerns.

Furthermore, the trading price of our Class A common stock may be adversely affected by third-parties trying to drive down the market price. Short sellers and others, some of whom post anonymously on social media, may be positioned to profit if our stock declines and their activities can negatively affect our stock price. These broad market and industry factors may seriously harm the market price of our Class A common stock, regardless of our operating performance.

***There can be no assurance that we will be able to remain in compliance with the continued listing standards of the NYSE.***

The NYSE considers a listed company to be out of compliance with its continued listing standards if, among other things, the average closing price of the company's stock is less than $1.00 over a period of 30 consecutive trading days. If the listed company does not regain compliance within the NYSE's six-month cure period, it will be subject to delisting. We received a notification from the NYSE on December 16, 2022 that the 30-day average trading price of our Class A common stock fell below $1.00 in violation of NYSE's listing standards. We notified the NYSE of our intent to cure the stock price deficiency to regain compliance with the NYSE continued listing standard by June 16, 2023.

Our Class A common stock could also be delisted if (i) our average market capitalization over a consecutive 30 trading-day period is less than $15 million, or (ii) our Class A common stock trades at an "abnormally low" price. In either case, our Class A common stock would be suspended from trading on the NYSE immediately, and the NYSE would begin the process to delist our Class A common stock, subject to our right to appeal under NYSE rules. Additionally, the NYSE considers a listed company to be out of compliance with its continued listing standards if the company's average global market capitalization over a 30 consecutive trading-day period is less than $50.0 million and, at the same time, the company's stockholders' equity is less than $50.0 million. If any of these were to occur, there is no assurance that any appeal we undertake in these or other circumstances would be successful, nor is there any assurance that we will remain in compliance with the other NYSE continued listing standards.

If we fail to satisfy the NYSE's continued listing standards, our Class A common stock will be subject to delisting. Delisting from the NYSE would likely have a negative effect on the liquidity and market price of our Class A common stock, reduce the number of investors willing to hold or acquire our Class A common stock, limit or reduce the amount of analyst coverage we receive, and impair your ability to sell or purchase our Class A common stock when you wish to do so. In addition, a delisting from the NYSE might negatively impact our reputation and, as a consequence, our business. Additionally, if we were delisted from the NYSE and we are not able to list our Class A common stock on another national exchange we will not be eligible to use Form S-3 registration statements, which would delay our ability to raise funds in the future, limit the type of offerings of Class A common stock we could undertake, and increase the expenses of any offering.

In the event of a delisting of our Class A common stock, we can provide no assurance that any action taken by us to restore compliance with listing requirements would allow our securities to become listed again, stabilize the market price or improve the liquidity of our Class A common stock, prevent our Class A common stock from dropping below the NYSE minimum share price requirement or prevent future non-compliance with the NYSE's listing standards. Additionally, if our Class A common stock is not listed on, or becomes delisted from, the NYSE for any reason, and is quoted on the OTC Bulletin Board, an inter-dealer automated quotation system for equity securities that is not a national securities exchange, the liquidity and price of our Class A common stock may be more limited than if we were quoted or listed on the NYSE or another national securities exchange. You may be unable to sell your Class A common stock unless a market can be established or sustained.

***We are a "controlled company" within the meaning of the rules of the NYSE and our stockholders do not have certain corporate governance protections that are available to stockholders of companies that are not controlled companies.***

So long as more than 50% of the voting power for the election of our directors is held by an individual, a group or another company, we will qualify as a "controlled company" within the meaning of the NYSE corporate governance standards. As December 31, 2022, Mr. Paradise controls 82% of the voting power of our outstanding capital stock. As a result, we are presently a "controlled company" within the meaning of the NYSE corporate governance standards and will not be subject to the requirements that would otherwise require us to have: (i) a majority of independent directors; (ii) a nominating committee comprised solely of independent directors; (iii) compensation of our executive officers determined by a majority of the independent directors or a compensation committee comprised solely of independent directors; and (iv) director nominees selected, or recommended for the Board's selection, either by a majority of the independent directors or a nominating committee comprised solely of independent directors.

Mr. Paradise's equity interest in us may be diluted due to future equity issuances by us or his own actions in selling shares of Class B common stock in each case, which could result in a loss of the "controlled company" exemption under the NYSE listing rules. We would then be required to comply with corporate governance protections of the NYSE listing requirements described above.

***The dual class structure of our common stock has the effect of concentrating voting power with our Chief Executive Officer and Co-Founder, which will limit an investor's ability to influence the outcome of important transactions, including a change in control.***

Shares of our Class B common stock have 20 votes per share, while shares of our Class A common stock have one vote per share. Mr. Paradise holds all of the issued and outstanding shares of our Class B common stock and, as of December 31, 2022, 82% of the voting power of our capital stock on a fully-diluted basis. Accordingly, Mr. Paradise will be able to control matters submitted to our stockholders for approval, including the election of directors, amendments of our organizational documents and any merger, consolidation, sale of all or substantially all of our assets or other major corporate transactions. Mr. Paradise may have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentrated control may have the effect of delaying, preventing or deterring a change in control of us, could deprive our stockholders of an opportunity to receive a premium for their capital stock as part of a sale of us and might ultimately affect the market price of shares of our Class A common stock.

***We cannot predict the impact our dual class structure may have on the stock price of our Class A common stock.***

We cannot predict whether our dual class structure will result in a lower or more volatile market price of our Class A common stock or in adverse publicity or other adverse consequences. For example, certain index providers have announced restrictions on including companies with multiple-class share structures in certain of their indexes. Under these policies, our dual class capital structure would make us ineligible for inclusion in certain indices, and as a result, mutual funds, exchange-traded funds and other investment vehicles that attempt to passively track those indices will not be investing in our stock. It is unclear what effect, if any, these policies will have on the valuations of publicly traded companies excluded from such indices, but it is possible that they may depress valuations, as compared to similar companies that are included. As a result, the market price of shares of our Class A common stock could be adversely affected.

***Delaware law and provisions in our Third Amended and Restated Certificate of Incorporation (our "Charter") and Amended and Restated Bylaws (our "Bylaws") could make a takeover proposal more difficult.***

Our organizational documents are governed by Delaware law. Certain provisions of Delaware law and of our Charter and Bylaws could discourage, delay, defer or prevent a merger, tender offer, proxy contest or other change of control transaction that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares of Class A common stock held by our stockholders. These provisions provide for, among other things:

- the ability of our Board to issue one or more series of preferred stock;
- stockholder action by written consent only until the first time when Mr. Paradise ceases to beneficially own a majority of the voting power of our capital stock;
- certain limitations on convening special stockholder meetings;
- advance notice for nominations of directors by stockholders and for stockholders to include matters to be considered at our annual meetings;
- amendment of certain provisions of the organizational documents only by the affirmative vote of (i) a majority of the voting power of our capital stock so long as Mr. Paradise beneficially owns shares representing a majority of the voting power of our capital stock and (ii) at least two-thirds of the voting power of the capital stock from and after the time that Mr. Paradise ceases to beneficially own shares representing a majority of the voting power of our voting stock; and
- a dual-class common stock structure with 20 votes per share of our Class B common stock, the result of which is that Mr. Paradise has the ability to control the outcome of matters requiring stockholder approval, even though Mr. Paradise owns less than a majority of the outstanding shares of our capital stock.

These anti-takeover provisions as well as certain provisions of Delaware law could make it more difficult for a third party to acquire us, even if the third party's offer may be considered beneficial by many of our stockholders. As a result, our stockholders may be limited in their ability to obtain a premium for their shares. If prospective takeovers are not consummated for any reason, we may experience negative reactions from the financial markets, including negative impacts on the price of our common stock. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors of their choosing and to cause us to take other corporate actions that our stockholders desire.

***Our Charter designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings and the federal district courts as the sole and exclusive forum for other types of actions and proceedings, in each case, that may be initiated by our stockholders, which could limit our stockholders' ability to obtain what such stockholders believe to be a favorable judicial forum for disputes with us or our directors, officers or other employees.***

Our Charter provides that, unless we consent to the selection of an alternative forum, any (i) derivative action or proceeding brought on behalf of us; (ii) action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of ours to us or our stockholders; (iii) action asserting a claim against us or any director or officer arising pursuant to any provision of the General Corporation Law of the State of Delaware or our Charter or Bylaws; (iv) any action to interpret, apply, enforce or determine the validity of any provisions in our Charter or Bylaws; or (v) action asserting a claim against us or any director or officer of ours governed by the internal affairs doctrine, shall, to the fullest extent permitted by law, be exclusively brought in the Court of Chancery of the State of Delaware or, if such court does not have subject matter jurisdiction thereof, the federal district court of the State of Delaware. Subject to the foregoing, the federal district courts of the United States are the exclusive forum for the resolution of any action, suit or proceeding asserting a cause of action under the Securities Act. The exclusive forum provision does not apply to suits brought to enforce any liability or duty created by the Exchange Act. Any person or entity purchasing or otherwise acquiring an interest in any shares of our capital stock shall be deemed to have notice of and to have consented to the forum provisions in our Charter. These choice-of-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that he, she or it believes to be favorable for disputes with us or our or directors, officers or other employees, which may discourage such lawsuits. We note that there is uncertainty as to whether a court would enforce these provisions and that investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. Section 22 of the Securities Act creates concurrent jurisdiction for state and federal courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder.

Alternatively, if a court were to find these provisions of our Charter inapplicable or unenforceable with respect to one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could materially adversely affect our business, financial condition and results of operations and result in a diversion of the time and resources of our management and Board.

We have never declared or paid any cash dividends on our capital stock, and we do not intend to pay any cash dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board. Accordingly, the holders of our common stock may need to rely on sales of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

We do not intend to pay dividends for the foreseeable future.

**Risks Related to Our Indebtedness**

***Our indebtedness could adversely affect our financial health and our ability to execute our business strategy.***

As of December 31, 2022, the aggregate indebtedness under our senior secured notes was $289.5 million. We expect to maintain significant levels of indebtedness going forward. Our indebtedness could have important consequences including:

- making it more difficult for us to satisfy our obligations with respect to our debt, and any failure to comply with the obligations under our debt instruments, including restrictive covenants, could result in an event of default under the indenture governing our senior secured notes or agreements governing future indebtedness;
- increasing our vulnerability to adverse general economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in the economy and our industry;
- placing us at a competitive disadvantage compared to our competitors with less indebtedness;
- making it more difficult to borrow additional funds in the future to fund growth, acquisitions, working capital, capital expenditures and other purposes; and
- potentially requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund our other business needs.

We receive debt ratings from the major credit rating agencies in the U.S. Factors that may impact our credit ratings include debt levels, planned asset purchases or sales and near-term and long-term production growth opportunities. Liquidity, asset quality, cost structure, reserve mix and other factors could also be considered by the rating agencies. Any downgrade in our credit rating or the ratings of our indebtedness, or adverse conditions in the debt capital markets, could:

- adversely affect the trading price of, or market for, our existing or future debt;
- increase interest expense under future debt;
- increase the cost of, and adversely affect our ability to refinance, our existing debt; and
- adversely affect our ability to raise additional debt.

***The instruments governing our indebtedness impose certain restrictions on our business, and future such instruments could impose new restrictions on our business.***

The instruments governing our indebtedness, including the indenture governing our senior secured notes, contain certain covenants imposing restrictions on our business. These restrictions may affect our ability to operate our business, to plan for, or react to, changes in the market conditions or our capital needs and may limit our ability to take advantage of potential business opportunities as they arise. The credit facility and the indenture governing the senior secured notes include covenants restricting, among other things, our ability to do the following under certain circumstances:

- incur or guarantee additional indebtedness or issue certain disqualified or preferred stock;
- pay dividends or make other distributions on, or redeem or purchase any equity interests or make other restricted payments;
- make certain acquisitions or investments;
- create or incur liens;
- transfer or sell assets;
- incur restrictions on the payment of dividends or other distributions from our restricted subsidiaries;
- alter the business that we conduct;
- enter into transactions with affiliates; and
- consummate a merger or consolidation or sell, assign, transfer, lease or otherwise dispose of all or substantially all our assets.

In addition, the instruments contain customary events of default upon the occurrence of which, after any applicable grace period, the indebtedness could be declared immediately due and payable. In such event, we may not have sufficient available cash to repay such debt at the time it becomes due, or be able to refinance such debt on acceptable terms or at all. Any of the foregoing could materially adversely affect our business, financial condition and results of operations.

***Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to service or repay our substantial debt.***

Our ability to make scheduled payments of the principal of, to pay interest on, and to refinance our debt, depends on our future performance, which is subject to economic, financial, competitive and other factors. Our business may not generate cash flow from operations in the future sufficient to satisfy our obligations under our current indebtedness and any future indebtedness we may incur and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our outstanding indebtedness or future indebtedness will depend on market conditions and our financial position at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms when needed, which could result in a default on our indebtedness.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company received a comment letter from the staff (the “Staff”) of the SEC’s Division of Corporation Finance on June 15, 2022, relating to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021, the Form 10-Q for the Quarterly Period Ended March 31, 2022 and the Current Report on Form 8-K furnished May 4, 2022. After interim responses from the Company, resolution of certain comments, and supplemental comments from the Staff, the Company received the most recent comment letter from the Staff on March 27, 2023 (the “Most Recent Comment Letter”). In the Most Recent Comment Letter, the Staff requested additional information pertaining to the following matters: (a) the calculation of developer revenue share, (b) the determination of cash included in prior winnings and cash prizes, and (c) the composition of our cash deposits. As of the filing of this Annual Report, the Company has not responded to the Most Recent Comment Letter, which response is due April 10, 2023. The Company responded to all prior comment letters, from the Staff, and has revised disclosures in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data beginning in this Annual Report, in response to the Staff’s comments in such letters.

## ITEM 2. PROPERTIES

Our principal business operations are located in San Francisco, California, Los Angeles, California, and Las Vegas, Nevada for in office collaboration of product, operations, and revenue teams. We also lease offices in smaller offices and coworking spaces in major U.S. cities. In connection with our acquisition of Aarki, Inc. in 2021, we assumed leases for a number of offices and coworking spaces around the world, including data centers in the U.S. and Hong Kong and a workspace in the Philippines.

## ITEM 3. LEGAL PROCEEDINGS

Refer to Note 12, “Commitments and Contingencies,” in this Form 10-K.

Additionally, on May 7 and June 17, 2021, two shareholders filed securities class action lawsuits against Skillz Inc., Andrew Paradise, Casey Chafkin, Miriam Aguirre, Scott Henry and Harry Sloan (collectively, the “Defendants”) in the United States District Court for the Northern District of California (the “Court”) captioned Jedrzejczyk v. Skillz Inc., et al., No. 21-cv-3450, and Shultz v. Skillz Inc., et al., No. 21-cv-04662. On October 8, 2021, Court-appointed lead plaintiffs filed an amended consolidated complaint on behalf of all persons who purchased or otherwise acquired Skillz common stock between December 16, 2020 and May 4, 2021 against Defendants as well as the other members of our board of directors (with Defendants, the “Company Defendants”) and the underwriters in our March 2021 underwritten public offering. The amended complaint alleged that the Company Defendants and the underwriter defendants made false and/or misleading statements in violation of Sections 10(b) and 20(a) of the Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, as well as in violation of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933. The Company Defendants and underwriter defendants filed motions to dismiss on December 7, 2021. The Court granted the motions and dismissed all claims on July 5, 2022, but allowed plaintiffs to file a further amended complaint. On August 4, 2022, lead plaintiffs filed an amended complaint alleging violations of the Exchange Act of 1934 and Rule 10b-5 against the Company, Andrew Paradise, Casey Chafkin, Miriam Aguirre and Scott Henry (the “remaining Company Defendants”). The plaintiffs dropped their claims under the Securities Act and did not name the underwriters or any other officers or directors. On September 19, 2022, the remaining Company Defendants filed a motion to dismiss all remaining claims against them. On March 1, 2023, the Court granted that motion and dismissed all of plaintiff’s remaining claims. On March 30, 2023, the Plaintiffs filed an appeal. Skillz has not yet received the Plaintiff’s appellate brief, which is expected in approximately two months.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II
## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

**Market Information for Common Stock**

Our Class A common stock has been listed on the NYSE under the symbol "SKLZ" since December 17, 2020. There is no public market for our Class B common stock.

**Holders of our Common Stock**

As of March 27, 2023, there were 449 holders of record of our Class A common stock and one holder of record of our Class B common stock. The number of record holders does not include Depository Trust Company participants or beneficial owners holding shares through nominee names.

**Dividend Policy**

We have not paid any cash dividends on our common stock to date and we do not intend to pay any cash dividends on our common stock for the foreseeable future. The payment of cash dividends in the future will be dependent upon our revenues and earnings, if any, capital requirements and general financial condition. The payment of any cash dividends will be within the discretion of the Board at such time.

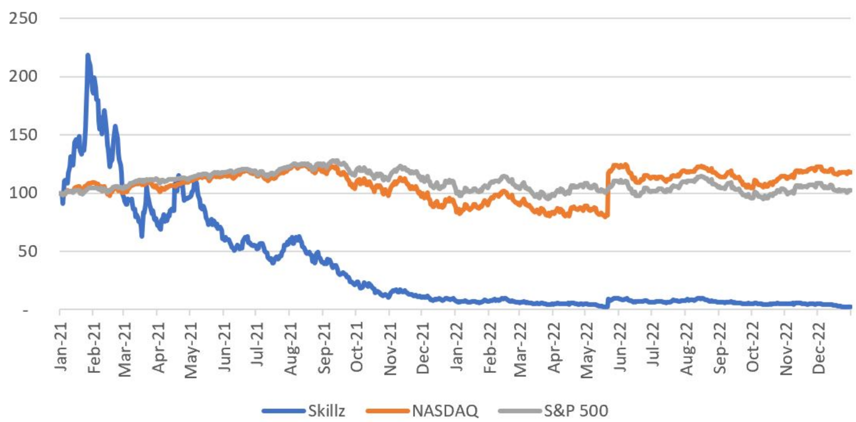
**Securities Authorized for Issuance Under Equity Compensation Plans**

Refer to Note 16, "Stock Based Compensation," in this Form 10-K.

**Stock Performance Graph**

*This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Skillz Inc. under the Securities Act of 1933, as amended, or the Exchange Act.*

The following graph compares the cumulative total stockholder return on our Class A common stock with the cumulative total return on the Standard & Poor's ("S&P") 500 Index and the Nasdaq Composite Index. The graph assumes an initial investment of $100 in our common stock at the market close on December 31, 2020 and $100 invested on the same date in each of the S&P 500 Index and the Nasdaq Composite Index. Data for the S&P 500 Index and the Nasdaq Composite Index assume reinvestment of dividends. Total return equals stock price appreciation plus reinvestment of dividends.



**Unregistered Sales of Equity Securities**

[None.]

**ITEM 6. [Reserved]**

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of operations and financial condition of Skillz Inc. (for purposes of this section, "Skillz," "we," "us" and "our"). MD&A is provided as a supplement and should be read in conjunction with the consolidated financial statements and related notes included in Part II, Item 8, "Financial Statements and Supplementary Data", of this Annual Report on Form 10-K. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in Part I, Item 1A, "Risk Factors". Actual results may differ materially from those contained in any forward-looking statements. Our historical results are not necessarily indicative of the results that may be expected for any period in the future. The following discussion gives effect to the restatement of our consolidated financial statements for the fiscal years ended December 31, 2021 and 2020, discussed in Part II, Item 8, Note 3, "Restatement of Previously Issued Consolidated Financial Statements" to the consolidated financial statements of this Annual Report on Form 10-K. See also the related discussion in the Explanatory Note.*

**Overview**

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

Skillz was founded in 2012 by Andrew Paradise and Casey Chafkin with the vision to make eSports accessible to everyone possible. As of December 31, 2022, the platform had over 2.1 million MAUs and hosted an average of over 1.5 million daily tournaments, including over 0.78 million paid entry daily tournaments, and offered over 79 million in prizes each month. Since our inception in 2012, over 16,000 registered game developers have launched a game integration on our platform. As of December 31, 2022, over 500 developers had a game on our platform with at least one installed user.

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

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

Historically, our top games and related developers have accounted for a substantial portion of our revenue earned from the Skillz platform. For the years ended December 31, 2022, 2021 and 2020, the games Solitaire Cube, 21 Blitz (each developed by Tether Studios, LLC ("Tether")) and Blackout Bingo (developed by Big Run Studios Inc. ("Big Run")) combined accounted for 71%, 72%, and 79% of our revenue, respectively. For the years ended December 31, 2022, 2021 and 2020 Tether accounted for 39%, 42%, and 59% of our revenue, respectively. For the years ended December 31, 2022, 2021 and 2020 Big Run accounted for 41%, 39%, and 28% of our revenue, respectively.

Our top titles rotate over time as more games generate success on the Skillz platform. In the year ended December 31, 2022, the number of games that generated over $1 million of annualized GMV increased 16% from 44 to 51. GMV represents entry fees that may be paid using cash deposits, prior winnings and end-user incentives.

The following supplemental financial information table summarizes key operating metrics for the years ended December 31, 2022, 2021 and 2020:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| Gross marketplace volume (“GMV”) (000s)[1] | $ 1,642,282 | $ 2,435,782 | $ 1,592,389 |
| Paying monthly active users (“PMAUs”) (000s)[2] | 386 | 513 | 324 |
| Monthly active users (“MAUs”) (000s)[3] | 2,105 | 2,949 | 2,559 |
| Average GMV per paying monthly active user[4] | $ 354.4 | $ 395.9 | $ 409.6 |
| Average GMV per monthly active user[5] | $ 65.0 | $ 68.8 | $ 51.9 |
| Average revenue per paying monthly active user (“ARPPU”)[6] | $ 59.7 | $ 62.0 | $ 59.0 |
| Average revenue per monthly active user (“ARPU”)[7] | $ 11.0 | $ 10.9 | $ 7.5 |
| Paying MAU to MAU ratio | 18 % | 18 % | 13 % |
| Average end-user incentives, included as sales and marketing expense, per paying active user[8] | 25.33 | 30.78 | 26.27 |
| Average end-user incentives, included as sales and marketing expense, per playing active user[9] | 4.65 | 5.35 | 3.33 |

(1) “GMV” or “Gross Marketplace Volume” means the total entry fees paid by users for contests hosted on Skillz’s platform. Total entry fees include entry fees paid by end-users using cash deposits, prior winnings from end-users’ accounts and end-user incentives used to enter paid entry fee contests.
(2) “Paying Monthly Active Users” or “PMAUs” means the number of end-users who entered into a paid contest hosted on Skillz’s platform at least once in a month, averaged over each month in the period.
(3) “Monthly Active Users” or “MAUs” means the number of playing end-users who entered into a paid or free contest hosted on Skillz’s platform at least once in a month, averaged over each month in the period.
(4) “Average GMV Per Paying Monthly Active User” means the average GMV in a given month divided by Paying MAUs in that month, averaged over the period.
(5) “Average GMV Per Monthly Active User” means the average GMV in a given month divided by MAUs in that month, averaged over the period.
(6) “Average Revenue Per Paying Monthly Active User” or “ARPPU” means the average revenue in a given month divided by Paying MAUs in that month, averaged over the period and does not include a deduction for end-user incentives that are included in sales and marketing expense.
(7) “Average Revenue Per Monthly Active User” or “ARPU” means the average revenue in a given month divided by MAUs in that month, averaged over the period and does not include a deduction for end-user incentives that are included in sales and marketing expense.
(8) Amount reflects the average end-user incentives included in sales and marketing expense in a given month divided by PMAUs in that month, averaged over the period.
(9) Amount reflects the average end-user incentives included in sales and marketing expense in a given month divided by MAUs in that month, averaged over the period.

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

User acquisition (“UA”) marketing is a sales and marketing expense to acquire new paying users to the platform. Assuming acquisition cost per user is constant, decreases in UA marketing typically result in lower revenue as a result of having fewer new paying users. We reduced our UA marketing spend in 2022 to $117.3 million from approximately $241.5 million in 2021. The reduction in UA marketing and engagement marketing expenses has resulted in a substantial reduction in revenue and is expected to continue to result in a reduction in revenue. We are currently unable to reasonably estimate the quantitative impact, or range of impact, that reductions in UA marketing and engagement marketing will have on forward-looking revenue as a result of the number of interrelated factors impacting revenue, including, but not limited to, retention of existing users on the platform, ARPPU, efficacy of various engagement marketing programs on existing users, elasticity of the digital advertising supply curve, and impact of varying levels of player liquidity on the existing user ecosystem.

Over the course of 2022, our focus was on driving higher efficiency from our marketing investment by (1) reducing spend on low-return engagement marketing programs, which we expect will result in lower engagement marketing as a percentage of revenue and (2) driving UA efficiency by optimizing spend across networks, driving higher organic traffic, and migrating a proportion of UA marketing spend to Aarki, Inc. (“Aarki”). To the extent we reduce engagement marketing spend, we expect to reduce our Bonus Cash end-user incentives in proportion to such overall engagement marketing reduction.

On July 16, 2021, we completed the acquisition of Aarki and acquired 100% of the outstanding equity and voting interests of Aarki under the terms of the Agreement and Plan of Merger. We paid $162.3 million in consideration comprised of $95.3 million in cash and the remaining $67.1 million comprised of 4.4 million of Skillz Class A common stock to the existing Aarki stockholders. We acquired Aarki to produce efficiencies in user-acquisition costs over the long term, which could be reinvested to acquire more users to accelerate growth and provide a broader product offering, including media buying capabilities to better serve game developers. The financial results of Aarki have been included in our consolidated financial statements since the date of the acquisition.

As previously disclosed, we recorded certain goodwill and intangible assets in connection with our acquisition of Aarki. Our policy is to evaluate goodwill and long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In the third and fourth quarters of 2022, we identified triggering events that indicated the carrying amount of the goodwill and intangible assets may not be recoverable, which were primarily related to a significant decrease in our stock price and market capitalization, as well as downward adjustments to our forecast. As a result of our impairment evaluations, we recorded a non-cash impairment charge of $168.1 million in the consolidated statement of operations and comprehensive loss for the year ended December 31, 2022. This amount includes a full impairment of the goodwill and intangible assets acquired in connection with our acquisition of Aarki, as well as impairment of lease right-of-use assets and other long-lived assets. See Note 2, Summary of Significant Accounting Policies, for further details.

**Our Financial Model**

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

Our platform allows users to participate in fair competition, while rewarding developers who create games that keep players engaged. We generate revenue by receiving a percentage of player entry fees in paid (Cash or Bonus Cash) contests, after deducting end-user prizes (i.e., winnings from the Competitions), end-user incentives accounted for as reduction of revenue and the profit share paid to developers (the “Take Rate”). GMV represents entry fees that may be paid using cash deposits, prior winnings (which includes Bonus Cash previously won and returned as winnings), and end-user incentives (which includes Bonus Cash that has been lost during the period). We offer incentives to end-users to drive traffic to the Skillz platform. End-user incentives that are offered on behalf of game developers, such as Ticketz (which can be redeemed for Bonus Cash) and initial deposit Bonus Cash, are accounted for as a reduction of revenue. End-user incentives for which game developers do not have a valid expectation of being offered to end-users to engage on the platform, such as limited-time Bonus Cash offers, are accounted for as a sales and marketing expense. Refer to Note 2 of our consolidated financial statements for further information.

The following table summarizes the components of GMV, including average GMV per active user and average GMV per paying active user for the years ended December 31, 2022, 2021 and 2020:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| **As a percentage of GMV(%)** | | | |
| Prior winnings [(1)] | 81 % | 81 % | 82 % |
| Cash deposits [(2)] | 12 % | 10 % | 11 % |
| End user incentives [(3)] | 7 % | 9 % | 7 % |
| **As components of average GMV per paying monthly active user ($)** | | | |
| Prior winnings | $ 285.7 | $ 320.8 | $ 334.3 |
| Cash deposits | $ 43.2 | $ 42.6 | $ 46.2 |
| End user incentives | $ 25.5 | $ 32.5 | $ 29.0 |
| **As components of average GMV per monthly active user ($)** | | | |
| Prior winnings | $ 52.4 | $ 55.8 | $ 42.3 |
| Cash deposits | $ 7.9 | $ 7.4 | $ 5.9 |
| End user incentives | $ 4.7 | $ 5.6 | $ 3.7 |

(1) ‘Prior winnings’ include Cash and Bonus Cash that are in the end-user’s account as a result of winnings from Competitions. For the year ended December 31, 2022, prior winnings from Cash and Bonus Cash were 92% and 8%, respectively. For the year ended December 31, 2021, prior winnings from Cash and Bonus Cash were 90% and 10%, respectively. For the year ended December 31, 2020, prior winnings from Cash and Bonus Cash were 92% and 8%, respectively.
(2) ‘Cash deposits’ represents currency deposits into the end-user’s Skillz account during the respective period.
(3) ‘End user incentives’ is based on amounts recorded as a reduction of revenue or sales and marketing expense during the respective period. End-user incentives primarily consist of (i) Bonus Cash, (ii) Ticketz (which can be redeemed for Bonus Cash) and (iii) promotional offers. Bonus Cash relates to all Bonus Cash that has been lost during the period (i.e., when the related cost has been incurred by the Company). Refer to Note 2 of our consolidated financial statements for further information.

Prizes include Cash, Bonus Cash, physical merchandise and items sponsored by third-parties. Prizes for the year ended December 31, 2022 consisted of approximately 92% Cash, 8% Bonus Cash returned to the winning player from their entry fees and less than 1% physical merchandise. Prizes for the year ended December 31, 2021 consisted of approximately 90% Cash, 10% Bonus Cash returned to the winning player from their entry fees and less than 1% physical merchandise. Prizes for the year ended December 31, 2020 consisted of approximately 92% Cash, 8% Bonus Cash returned to the winning player from their entry fees and less than 1% physical merchandise.

The following are key elements of our financial model:

- **The scale, growth and engagement of the users —** As we continue to acquire users, our ability to match comparable players, on both skill level and tournament template, in a fair and timely manner improves. Better matching leads to stronger engagement and the ability to create larger tournaments with more profitable take rates. This creates a stickier, more engaging, and continuously improving experience for our players, which in turn attracts more players to our platform, creating a positively reinforcing cycle leading to ever-improving gaming experiences.
- **The scale, growth and partnership of our developers —** We have created a platform that drives economic success for our developers. Our end-to-end platform allows developers to focus on creating games by automating and optimizing integral parts of their businesses — from user acquisition and monetization to game optimization. Our built-in payments, analytics, customer support, and live operations platform enables our developers to consistently learn, grow, earn and share in our success.
- **Product-first philosophy and data science capabilities —** We have built a culture that puts product first, driving our impact with users and developers and then scaling marketing investment. In 2022, 46% of our salary costs were spent on product development. Our easy-to-integrate SDK contains over 200 features in a less than 16-MB package which allows for over-the-air upgrades. Our intuitive Developer Console dashboard enables our developers to rapidly integrate and monitor the performance of their games. Our LiveOps system enables us to manage and optimize the user experience across the thousands of games on our platform. We collect over 300 data points during each gameplay session to feed our big data assets which augment all elements of our platform. Our key data science technologies drive our player rating and matching, anti-cheat and anti-fraud, and user experience personalization engine.
- **Our unit economics —** Our proprietary and highly scalable software platform operates at a low direct cost (i.e. direct software and server costs), contributing to our gross margins. Once acquired, each user cohort contributes to revenue

over its life such that at three months, approximately 20% of users in a cohort continue to be paying users and the balance of PMAUs have churned. Thereafter, our retention curve continues to flatten with a limited portion of users continuing to contribute to revenue in each cohort for subsequent years. A cohort is all the users acquired in the period presented. A user is considered part of a cohort based on the first time they make a deposit and enter a paid tournament. Once a user is considered part of a cohort, they are always counted in that cohort. During the year ended December 31, 2022, we experienced lower than average user retention driven by reduced user incentives, product feature changes and macroeconomic conditions.

**Key Components of Results of Operations**

**Revenue**

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

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

- Streamlined game and tournament management allowing players to register with the developer to compete in games for prizes while earning Skillz loyalty perks;
- Fair play in each tournament via the Skillz suite of fairness tools, including skill-based player matching and fraud monitoring;
- Improved end-user retention by rewarding the most loyal players with Ticketz which can be redeemed in the Skillz virtual store and are earned in every match and can be redeemed for prizes or credits to be used towards future paid entry fee tournaments;
- Marketing campaigns through main-stream online advertising networks and social media platforms to drive end-user traffic to developers’ games within the Skillz ecosystem;
- Systematic calls to end-user action via push notifications to users with game results, promotional offers, and time-sensitive actions; and
- Process end-user payments, billings and settlements on behalf of the developer to enable players to connect their preferred payment method to deposit and enter into the game developers’ multi-player competitions for cash prizes.

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

Skillz typically withholds 16% to 20% of the total entry fees when distributing the prize money as a commission. That commission is shared between Skillz and the game developers; however, the game developers’ share is calculated solely based upon entry fees paid by net cash deposits received from end-users, adjusted for certain costs incurred by Skillz to provide monetization services.

**Costs and Expenses**

***Cost of Revenue***

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

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

***Research and Development***

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

***Sales and Marketing***

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

***General and Administrative***

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

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

***Impairment of Goodwill and Long-lived Assets***

In the third quarter of 2022, we revised our financial outlook, resulting in lower projected user acquisition spend and a slower than expected migration of that spend to the Aarki technology-driven marketing platform, which will result in unrealized cost-saving synergies. We determined that this constituted an indicator of impairment for one our held and used long-lived asset groups, primarily consisting of developed technology and customer relationship intangible assets. As a result of our impairment evaluation, we recorded a non-cash intangible asset impairment charge of $51.2 million in the consolidated statement of operations and comprehensive loss.

In the fourth quarter of 2022, we experienced a sharp decline in our share price and market capitalization, and also had another downward adjustment to our forecast. We determined that these factors constituted a further indicator of impairment for our long-lived assets. As a result of our impairment evaluation, we recorded a non-cash impairment charge of $31.4 million in the consolidated statement of operations and comprehensive loss, which primarily related to intangible assets and a lease right-of-use asset. As a result of the indicators of impairment identified in the fourth quarter of 2022, we also determined that an interim goodwill impairment test was necessary as of December 31, 2022. As a result, the Company performed a quantitative goodwill impairment evaluation as of that date and determined the fair value of its reporting unit was less than its carrying value and recorded a goodwill impairment charge of $85.5 million.

See Note 2, Summary of Significant Accounting Policies, for further details.

**Results of Operations**

The following table sets forth a summary of our results of operations for the periods indicated and reflects the revisions as discussed in Note 3, Restatement of Previously Issued Financial Statements (in thousands, except share and per share data):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 (As Restated) | 2020 (As Restated) |
| Revenue | $ 269,709 | $ 380,154 | $ 229,047 |
| Costs and expenses: | | | |
| Cost of revenue | 30,718 | 25,243 | 12,281 |
| Research and development | 52,265 | 46,232 | 23,225 |
| Sales and marketing | 277,014 | 466,691 | 254,269 |
| General and administrative | 163,018 | 135,802 | 42,462 |
| Impairment of goodwill and long-lived assets | 168,051 | — | — |
| Total costs and expenses | 691,066 | 673,968 | 332,237 |
| Loss from operations | (421,357) | (293,814) | (103,190) |
| Interest expense, net | (23,992) | (1,222) | (1,325) |
| Change in fair value of common stock warrant liabilities | 6,004 | 87,922 | (23,049) |
| Other income (expense), net | 125 | 49 | (21,400) |
| Loss before income taxes | (439,220) | (207,065) | (148,964) |
| Provision (benefit) for income taxes | (345) | (19,140) | 115 |
| Net loss | $ (438,875) | $ (187,925) | $ (149,079) |
| Net loss per share attributable to common stockholders: | | | |
| Basic | $ (1.07) | $ (0.49) | $ (0.51) |
| Diluted | $ (1.07) | $ (0.71) | $ (0.51) |
| Weighted average shares outstanding: | | | |
| Basic | 409,969,539 | 384,625,249 | 294,549,146 |
| Diluted | 409,969,539 | 388,549,673 | 294,549,146 |
| | | | |
| Other comprehensive loss: | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | (1,315) | (248) | — |
| Total other comprehensive loss | $ (1,315) | $ (248) | $ — |
| Total comprehensive loss | $ (440,190) | $ (188,173) | $ (149,079) |

***Revenue***

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| *(In thousands, except percentages)* | 2022 | 2021 (As Restated) | 2020 (As Restated) | 2021 to 2022 % Change | 2020 to 2021 % Change |
| Revenue | $ 269,709 | $ 380,154 | $ 229,047 | (29)% | 66 % |

*2022 Compared to 2021*

Revenue decreased by $110.4 million, or 29%, to $269.7 million in 2022 from $380.2 million in 2021. The decrease was attributable primarily to lower retention from existing user cohorts driven by a combination of factors, including past product changes, which together have had a negative impact on overall user experience. Furthermore, there were $124.2 million, or 51%, and $72.0 million, or 38%, decreases in spend to acquire new paying users and engagement marketing spend, respectively, as the Company scaled-back spending to achieve better user acquisition efficiency and eliminated low-return engagement marketing programs. ARPU decreased 1% over the same period.

Our year-over-year revenue growth rate for the year ended December 31, 2022 declined 29%, which was down from our year-over-year revenue growth rate for the year ended December 31, 2021 of 66%. The decrease in the revenue growth rate compared to the previous period is primarily due to transitioning our focus from revenue growth to promoting profitable growth and efficiency. The transition to profitable growth and efficiency led the Company to reduce the rate of investment in UA marketing and engagement marketing. Our year-over-year growth rate for the year ended December 31, 2022 for UA marketing and engagement marketing was (51)% and (38)%, respectively, and was down from our year-over-year growth rate for the year ended December 31, 2021 for UA marketing and engagement marketing of 77% and 85%, respectively.

*2021 Compared to 2020*

Revenue increased by $151.1 million, or 66%, to $380.2 million in 2021 from $229.0 million in 2020. The increase was attributable primarily to an increase in paying MAUs, driven by sales and marketing investment to acquire new paying users. ARPU increased 45% over the same period.

Our year-over-year revenue growth rate for the year ended December 31, 2021 was 66%, which was down from our year-over-year revenue growth rate for the year ended December 31, 2020 of 91%. The decrease in the revenue growth rate compared to the previous period is primarily due to transitioning our focus from revenue growth to promoting profitable growth and efficiency. The transition to profitable growth and efficiency led the Company to reduce the rate of investment in UA marketing and engagement marketing. Our year-over-year growth rate for the year ended December 31, 2021 for UA marketing and engagement marketing was 77% and 85%, respectively, and was down from our year-over-year growth rate for the year ended December 31, 2020 for UA marketing and engagement marketing of 160% and 102%, respectively.

***Cost of Revenue***

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| ***(In thousands, except percentages)*** | **2022** | **2021** | **2020** | **2021 to 2022 % Change** | **2020 to 2021 % Change** |
| | | **(As Restated)** | | | |
| Cost of revenue | $ 30,718 | $ 25,243 | $ 12,281 | 22 % | 106 % |

*2022 Compared to 2021*

Cost of revenue increased by $5.5 million, or 22%, to $30.7 million in 2022 from $25.2 million in 2021. The increase in cost of revenue was primarily driven by amortization of acquired developed technology intangible assets, and an increase in server expense. This increase was partially offset by a decrease in payment processing costs. Cost of revenue as a percentage of revenue increased to 11% in 2022 from 7% in 2021.

*2021 Compared to 2020*

Cost of revenue increased by $13.0 million, or 106%, to $25.2 million in 2021 from $12.3 million in 2020. The increase in cost of revenue was primarily driven by amortization of acquired developed technology intangible assets, an increase in server expense, and an increase in payment processing costs. Cost of revenue as a percentage of revenue increased to 7% in 2021 from 5% in 2020.

***Research and Development***

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| ***(In thousands, except percentages)*** | **2022** | **2021** | **2020** | **2021 to 2022 % Change** | **2020 to 2021 % Change** |
| | | **(As Restated)** | | | |
| Research and development | $ 52,265 | $ 46,232 | $ 23,225 | 13 % | 99 % |

*2022 Compared to 2021*

Research and development costs increased by $6.0 million, or 13%, to $52.3 million in 2022 from $46.2 million in 2021. The increase was primarily driven by a $13.5 million increase in research and development headcount costs, of which $11.7 million related to salaries and bonuses due to an increase in headcount from the acquisition of Aarki and $1.9 million of restructuring expenses, a $1.2 million increase related to equipment and software expense, and $0.3 million related to an increase in facilities expense. These increases were partially offset by decreases of $2.7 million related to stock-based compensation, $5.8 million in professional fees, and $0.5 million in other expenses. Research and development expenses as a percentage of revenue increased to 19% in 2022 compared to 12% in 2021.

*2021 Compared to 2020*

Research and development costs increased by $23.0 million, or 99%, to $46.2 million in 2021 from $23.2 million in 2020. The increase was primarily driven by a $18.2 million increase in research and development headcount costs, a $2.5 million increase in server and software costs, a $0.3 million increase in facilities costs, a $0.4 million increase in allocation of related overhead costs, and a $1.4 million increase in capitalized internal-use software development costs, as certain projects entered the application development stage. Research and development expenses accounted for 12% of revenues in 2021 compared to 10% in 2020.

***Sales and Marketing***

| *(In thousands, except percentages)* | Year Ended December 31, 2022 | 2021 (As Restated) | 2020 (As Restated) | 2021 to 2022 % Change | 2020 to 2021 % Change |
|---|---|---|---|---|---|
| Sales and marketing | $ 277,014 | $ 466,691 | $ 254,269 | (41)% | 84 % |

*2022 Compared to 2021*

Sales and marketing costs decreased by $189.7 million, or 41%, to $277.0 million in 2022 from $466.7 million in 2021. The decrease was attributable primarily to 51% and 38% decreases in UA marketing and engagement marketing spend, respectively. UA marketing expenses were $117.3 million and $241.5 million in 2022 and 2021, respectively. Engagement marketing expenses were $117.4 million and $189.4 million in 2022 and 2021, respectively. Engagement marketing as a percentage of revenue decreased to 44% in 2022 from 50% in 2021. This decrease reflects reduced investments in low-return marketing programs that resulted in a decrease in our engagement marketing expense per user in 2022 compared to 2021.

*2021 Compared to 2020*

Sales and marketing costs increased by $212.4 million, or 84%, to $466.7 million in 2021 from $254.3 million in 2020. The increase was attributable primarily to 77% and 85% increases in UA marketing and engagement marketing spend, respectively. UA marketing expenses were $241.5 million and $136.6 million in 2021 and 2020, respectively. Engagement marketing expenses were $189.4 million and $102.1 million in 2021 and 2020, respectively. Engagement marketing as a percentage of revenue increased to 50% in 2021 from 45% in 2020. This increase reflects investment in marketing programs that resulted in an increase in our engagement marketing cost per user in 2021 compared to 2020.

***General and Administrative***

| *(In thousands, except percentages)* | Year Ended December 31, 2022 | 2021 (As Restated) | 2020 (As Restated) | 2021 to 2022 % Change | 2020 to 2021 % Change |
|---|---|---|---|---|---|
| General and administrative | $ 163,018 | $ 135,802 | $ 42,462 | 20 % | 220 % |

*2022 Compared to 2021*

General and administrative costs increased by $27.2 million, or 20%, to $163.0 million in 2022 from $135.8 million in 2021. The increase was primarily driven by a $50.8 million increase in stock-based compensation expense, which includes $65.1 million of stock-based compensation expense recognized for the cancellation of performance stock units previously granted to the CEO without the concurrent grant or offer of a replacement award, a $6.6 million increase in payroll expenses related to salaries and benefits, including $1.7 million of restructuring expenses, a $0.4 million increase in depreciation and amortization expense, and a $0.5 million increase in facilities expenses. These increases were partially offset by a $13.6 million decrease in professional fees, a $5.0 million decrease in bonus and commission expenses, a decrease of $1.1 million in other state and local tax expenses, and a $11.6 million decrease in litigation charges. General and administrative expenses as percentage of revenues increased to 60% in 2022 compared to 36% in 2021.

*2021 Compared to 2020*

General and administrative costs increased by $93.3 million, or 220%, to $135.8 million in 2021 from $42.5 million in 2020. The increase was primarily driven by a $42.8 million increase in headcount costs, of which a $31.0 million increase is related to stock-based compensation expense, a $7.3 million increase in professional fees related to the Company's follow-on offering, a $15.0 million increase in professional fees driven by the Company's acquisition of Aarki, a $16.4 million increase in public company-related insurance costs and legal costs, a $2.7 million increase in other public company costs and a $11.6 million increase in expense related to a loss contingency accrual, partially offset by a $2.7 million decrease in facilities expenses. General and administrative expenses as percentage of revenues increased to 36% in 2021 compared to 19% in 2020.

***Impairment of Goodwill and Long-lived Assets***

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| *(In thousands, except percentages)* | 2022 | 2021 | 2020 | 2021 to 2022 % Change | 2020 to 2021 % Change |
| Impairment of goodwill and long-lived assets | $ 168,051 | $ — | $ — | NM | NM |

During the year ended December 31, 2022 we recorded an impairment of goodwill and long-lived assets of $168.1 million. The impairments were driven primarily by a sharp decrease in our stock price and market capitalization that we experienced throughout the year, as well as downward adjustments to our operating forecasts, which were considered triggering events for our goodwill and long-lived assets and indicated the assets may not be recoverable.

See Note 2, Summary of Significant Accounting Policies, for further details.

***Interest expense, net***

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| *(In thousands, except percentages)* | 2022 | 2021 | 2020 | 2021 to 2022 % Change | 2020 to 2021 % Change |
| Interest expense, net | $ (23,992) | $ (1,222) | $ (1,325) | NM | (8)% |

*2022 Compared to 2021*

Interest expense, net increased by $22.8 million, to $24.0 million in 2022 from $1.2 million in 2021. The increase was due to interest expense related to our senior secured notes issued in 2021. This increase was partially offset by interest income from our marketable securities and a gain on extinguishment of debt related to a debt repurchase of our 2021 secured notes in July 2022.

*2021 Compared to 2020*

Interest expense, net decreased by $0.1 million, to $1.2 million in 2021 from $1.3 million in 2020. The decrease was primarily driven by the repayment of a previously outstanding loan in 2020, partially offset by an increase in interest expense related to our senior secured notes issued in December 2021.

***Change in fair value of common stock warrant liabilities***

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| *(In thousands, except percentages)* | 2022 | 2021 | 2020 | 2021 to 2022 % Change | 2020 to 2021 % Change |
| Change in fair value of common stock warrant liabilities | $ 6,004 | $ 87,922 | $ (23,049) | NM | NM |

*2022 Compared to 2021*

The change in fair value of warrant liabilities decreased by $81.9 million to $6.0 million in 2022 from $87.9 million in 2021. Refer to Note 14, Common Stock Warrants, of the notes to the consolidated financial statements for further discussion.

*2021 Compared to 2020*

The change in fair value of warrant liabilities increased by $111.0 million to $87.9 million in 2021 from $(23.0) million in 2020. Refer to Note 14, Common Stock Warrants, of the notes to the consolidated financial statements for further discussion.

***Other income (expense), net***

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| ***(In thousands, except percentages)*** | **2022** | **2021** | **2020** | **2021 to 2022 % Change** | **2020 to 2021 % Change** |
| Other income, net | $ 125 | $ 49 | $ (21,400) | 155 % | NM |

*2022 Compared to 2021*

Other income, net increased by $0.1 million to $0.1 million in other income in 2022 from $0.05 million in other income in 2021.

*2021 Compared to 2020*

Other income (expense) increased by $21.4 million to $0.05 million in 2021 from $(21.4) million in 2020. The increase was primarily driven by fair value adjustments of financial instruments in 2020.

***Provision (benefit) for income taxes***

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| ***(In thousands, except percentages)*** | **2022** | **2021** | **2020** | **2021 to 2022 % Change** | **2020 to 2021 % Change** |
| Provision (benefit) for income taxes | $ (345) | $ (19,140) | $ 115 | NM | NM |

*2022 Compared to 2021*

Benefit for income taxes decreased by $18.8 million to $0.3 million in 2022 from a benefit from income taxes of $19.1 million. The decrease was primarily driven by a discrete benefit related to the partial release of valuation allowance related to the acquisition of Aarki in the prior period.

*2021 Compared to 2020*

Provision for income taxes decreased by $19.3 million to a benefit of $19.1 million in 2021 from $0.1 million in 2020. The decrease was primarily driven by a discrete benefit related to the partial release of valuation allowance due to the acquisition of Aarki and a decrease in accrued state tax liabilities.

**Non-GAAP Financial Measures**

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

***Adjusted EBITDA***

"Adjusted EBITDA" is defined as net loss, excluding interest expense, net; change in fair value of common stock warrant liabilities; other income (expense), net; provision (benefit) for income taxes; depreciation and amortization; stock-based compensation expense and related payroll tax expense; and certain other non-cash or non-recurring items impacting net loss from time to time, including, but not limited to change in fair value adjustments of common stock warrant liabilities, impairment charges, and acquisition related expenses for transaction costs, loss contingency accruals, restructuring charges and one-time nonrecurring expenses, as they are not indicative of business operations. Adjusted EBITDA is intended as a supplemental measure of our performance that is neither required by, nor presented in accordance with, GAAP. We believe that the use of Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing the Company's financial measures with those of comparable companies, which may present similar non-GAAP financial measures to investors. However, you should be aware that when evaluating Adjusted EBITDA we may incur future expenses similar to those excluded when calculating this measure. In addition, our presentation of this measure should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate Adjusted EBITDA in the same fashion.

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

The following table reconciles net loss to Adjusted EBITDA for the periods indicated and reflects the revisions as discussed in Note 3, Restatement of Previously Issued Financial Statements (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | | (As Restated) | (As Restated) |
| Net loss | $ (438,875) | $ (187,925) | $ (149,079) |
| Interest expense, net[1] | 23,992 | 1,222 | 1,325 |
| Stock-based compensation[2] | 108,202 | 60,331 | 23,757 |
| Change in fair value of common stock warrant liabilities | (6,004) | (87,922) | 23,049 |
| Provision (benefit) for income taxes | (345) | (19,140) | 115 |
| Depreciation and amortization | 17,871 | 11,665 | 1,609 |
| Other (income) expense, net[3] | (125) | (49) | 21,400 |
| Acquisition related expenses[4] | — | 7,983 | — |
| Impairment charges[5][6] | 168,051 | — | 3,395 |
| Loss contingency accrual[7] | — | 11,557 | — |
| Restructuring charges[8] | 4,830 | — | — |
| One-time nonrecurring expenses[9][10][11] | 26 | 14,630 | 4,747 |
| Adjusted EBITDA | $ (122,377) | $ (187,648) | $ (69,682) |

(1) For the year ended 2022, amount includes $2.6 million gain on extinguishment of debt for our 2021 senior secured notes. Please refer to Note 10, Long-Term Debt, for more details.
(2) For the year ended 2022, amount includes stock-based compensation recognized for the cancellation of the Chief Executive Officers' award of 16.1 million performance share units granted on September 14, 2021 (the "CEO Performance Stock Units").
(3) For the year ended 2020, other (income) expense, net is primarily attributed to a $21.7 million adjustment to the fair value of the redeemable convertible Series E preferred stock forward contract liability.
(4) For the year ended 2021, this represents acquisition-related expenses for our Aarki acquisition.
(5) For the year ended 2020, this represents an impairment charge of a lease deposit and prepayment in connection with a lease agreement related to our new corporate facilities in San Francisco.
(6) For the year ended 2022, amount includes impairment of goodwill and long-lived assets related to the developed technology, customer relationships, computer equipment, and lease ROU assets. Please refer to Note 6, Goodwill and Intangible Assets, and Note 2, Summary of Significant Accounting Policies, for more details.
(7) For the year ended 2021, this amount represents a loss contingency accrual related to a litigation matter relating to a former employee as discussed in Note 12, Commitments and Contingencies.
(8) For the year ended 2022, amount includes restructuring charges related to employee termination benefits.
(9) For the year ended 2022, amounts represent one-time nonrecurring expenses related to IPO bonuses for certain employees, net of amounts forfeited by terminated employees.
(10) For the year ended 2021, amounts represent one-time nonrecurring expenses related to the follow-on offering and executive severance expense.

(11) For the year ended 2020, amounts represent one-time transaction expenses related to the FEAC Business Combination.

**Liquidity and Capital Resources**

Since inception, we have financed our operations primarily from the sales of capital stock. As of December 31, 2022, our principal sources of liquidity were our cash and cash equivalents in the amount of $362.5 million, which are primarily invested in money market funds and marketable securities with maturity less than three months, and marketable securities in the amount of $184.0 million.

In December 2021, the Company offered $300 million in aggregate principal senior secured notes due 2026 in a private offering. The notes were sold in a private placement to qualified institutional buyers. Annual interest started to accrue from December 20, 2021 at a stated rate of 10.25% and will be payable semiannually on June 15 and December 15 of each year, beginning on June 15, 2022. The notes mature on December 15, 2026. We used the net proceeds from the offering for general corporate purposes, which included investments in marketable securities classified as available-for-sale in operating activities. We may also use the proceeds for potential acquisitions of other companies, products, or technologies that we may identify in the future. The notes contain customary covenants restricting our and certain of our subsidiaries' ability to incur debt, incur liens, make distributions to holders of our stock, make certain transactions with our affiliates, as well as certain financial covenants specified in the indentures. We were in compliance with all covenants applicable to the notes as of December 31, 2022 and 2021.

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

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

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

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| Net cash used in operating activities | $ (179,597) | $ (180,154) | $ (56,232) |
| Net cash provided by (used in) investing activities | $ 311,386 | $ (643,924) | $ (3,246) |
| Net cash provided by (used in) financing activities | $ (10,605) | $ 802,682 | $ 296,578 |

***Cash Flows from Operating Activities***

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

Net cash used in operating activities was $179.6 million for the year ended December 31, 2022. The most significant component of our cash used during this period was a net loss of $438.9 million, which included non-cash expenses of $108.2 million related to stock-based compensation, including $65.1 million related to the cancellation of performance stock units granted to our CEO, non-cash goodwill and long-lived asset impairment charge of $168.1 million, non-cash income of $6.0

million for the change in fair value related to Private Common Stock Warrants, $17.9 million related to depreciation and amortization, a gain on extinguishment of debt for $2.6 million, and net cash outflows of $32.4 million from changes in operating assets and liabilities. The net cash outflows from changes of operating assets and liabilities were primarily the result of decreases in other liabilities of $28.0 million, accounts payable of $17.2 million, and a loss contingency accrual of $4.4 million. These net cash outflows were slightly offset by decreases of $5.6 million and $11.6 million in accounts receivable and prepaid expenses and other assets, respectively.

Net cash used in operating activities was $180.2 million for the year ended December 31, 2021. The most significant component of our cash used during this period was a net loss of $187.9 million, which included non-cash income of $87.9 million for the change in fair value related to Public and Private Common Stock Warrants, a $19.4 million deferred income tax benefit, non-cash expenses of $60.3 million related to stock-based compensation, $11.7 million related to depreciation and amortization, accretion of unamortized discounts and amortization of issuance costs, and net cash inflows of $42.3 million from changes in operating assets and liabilities. The net cash inflows from changes of operating assets and liabilities were primarily the result of an increase in other liabilities of $28.7 million, primarily related to an increase in accrued sales and marketing costs.

Net cash used in operating activities was $56.2 million for the year ended December 31, 2020. The most significant component of our cash used during this period was a net loss of $149.1 million, which included non-cash expenses of $21.5 million related to fair value adjustments of the redeemable convertible Series E preferred stock forward contract liability, $23.0 million for the change in fair value of Public and Private Common Stock Warrants, $23.8 million related to stock-based compensation, $3.6 million related to impairment charges, and $1.6 million related to depreciation and amortization, accretion of unamortized discounts and amortization of issuance costs, as well as net cash inflows of $18.8 million from changes in operating assets and liabilities. The net cash inflows from changes in operating assets and liabilities were primarily the result of an increase in other liabilities of $15.6 million.

***Cash Flows from Investing Activities***

Net cash provided by investing activities was $311.4 million for the year ended December 31, 2022. The net cash provided by investing activities included $167.8 million in proceeds from sales of marketable securities and $599.5 million in proceeds from maturities of marketable securities, partially offset by $454.1 million in purchases of marketable securities.

Net cash used in investing activities was $643.9 million for the year ended December 31, 2021. For the year ended December 31, 2021, the net cash used in investing activities included the $504.0 million purchases of marketable securities, $84.0 million used for acquisition of Aarki, net of cash acquired, and $54.8 million used for investments in non-marketable equity securities.

Net cash used in investing activities was $3.2 million for the year ended December 31, 2020 and related to purchases of property and equipment, including internal-use software.

***Cash Flows from Financing Activities***

Net cash used in financing activities was $10.6 million for the year ended December 31, 2022, which was primarily due to the $7.3 million payment for redemption of senior secured notes, $2.0 million in payments for debt issuance costs and $2.6 million in principal payments on finance lease obligations.

Net cash provided by financing activities was $802.7 million for the year ended December 31, 2021, which was primarily due to $402.1 million in net proceeds from the issuance of common stock in connection with the Company’s follow-on offering, $280.9 million of borrowings under debt agreements, net of issuance costs, and $130.6 million of proceeds from the exercise of common stock warrants, partially offset by $13.2 million in payments made towards offering costs.

Net cash provided by financing activities was $296.6 million for the year ended December 31, 2020, which was primarily due to $246.5 million in net proceeds from the issuance of common stock in connection with the FEAC Business Combination, net proceeds from the issuance of redeemable convertible Series E preferred stock of $76.6 million, partially offset by $13.4 million due to taxes paid related to the net share settlement of equity awards, $10.0 million of debt repayments under our debt facilities, and $2.0 million in payments made towards offering costs.

**Contractual Obligations and Commitments**

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

***Leases***

We have operating lease arrangements for office space, and finance lease agreements for certain network equipment. As of December 31, 2022, we had lease payment obligations of $23.3 million, with $5.3 million payable within 12 months.

***Secured Notes and Term Loan***

Refer to "Liquidity and Capital Resources" under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K for more information.

**Off-Balance Sheet Arrangements**

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

**Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to a variety of market and other risks, including the effects of changes in interest rates, inflation, as well as risks to the availability of funding sources. Please refer to Item 7A Quantitative and Qualitative Disclosure About Market Risk in this Form 10-K for a detailed discussion on the relevant risks.

**Critical Accounting Estimates**

Our consolidated financial statements have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates under different assumptions or conditions.

We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

***Revenue Recognition***

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

We recognize revenue for our services in accordance with the FASB Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606").

*Revenues from Contracts with Customers*

We apply the five-step model to achieve the core principle of ASC 606. We determined that our customer in the provision of our technology platform and services is the game developer. Our ordinary activities consist of providing game developers services through access to our technology platform using the Skillz SDK. The SDK acts as an application programming interface enabling communication of data between Skillz and the game developers, which when integrated with the developer's game content, facilitates end-user registration into Competitions, managing and hosting end-user Competition accounts, matching players of similar skill levels, collecting end-user entry fees, distributing end-user prizes, resolving end-user disputes pertaining to their participation in Competitions, and running third-party marketing campaigns ("Monetization Services").

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

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

Revenue is recognized at the time the performance obligation is satisfied by transferring control of the promised service in an amount that reflects the consideration that we expect to receive in exchange for the Monetization Services. We recognize revenue upon completion of a game, which is when our performance obligation to the game developer is satisfied. We do not recognize contract assets or contract liabilities as the payment of the transaction price is concurrent with the fulfillment of the services. At the time of game completion, we have the right to receive payment for the services rendered. Our agreements with game developers can generally be terminated for convenience by either party upon thirty days prior written notice, and in certain of our larger developer agreements, the developer, if required by us, must continue to make its games available on the platform for a period of up to twelve months. As we are able to terminate the developer agreements at our convenience, we have concluded the contract term for revenue recognition does not extend beyond the contractual notification period.

*End-User Incentive Programs*

To drive traffic to the platform, we provide promotions and incentives to end-users in various forms. Evaluating whether a promotion or incentive is a payment to a customer may require significant judgment. Promotions and incentives which are consideration payable to a customer are recognized as a reduction of revenue at the later of when revenue is recognized or when we pay or promise to pay the incentive. Promotions and incentives recorded as sales and marketing expense are recognized when we incur the related cost.

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

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

  An example of an incentive for which the game developer has a valid expectation is Ticketz, which are a virtual currency earned for every Competition played based on the amount of the entry fee ("Ticketz"). Ticketz can be redeemed for prizes, including Bonus Cash prizes. Another example is initial deposit Bonus Cash which is a promotional incentive that can be earned in fixed amounts when an end-user makes an initial deposit on our platform.

Bonus Cash can only be used by end-users to enter into future paid-entry fee Competitions and cannot be withdrawn until it is won by another end-user.

- *Marketing promotions accounted for as sales and marketing expense.* When we conclude that the game developers do not have a valid expectation that the incentive will be offered, we record the related cost as sales and marketing expense. Our assessment is based on an evaluation of all information reasonably available to the game developers regarding our customary business practices, published policies and specific statements. These promotions are offered to end-users to draw, re-engage, or generally increase end-users' use of our platform.

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

***Stock-Based Compensation***

We recognize the cost of share-based awards granted to employees and directors based on the estimated grant-date fair value of the awards. For awards that vest solely based on a service condition, the cost is recognized on a straight-line basis over the service period, which is generally the vesting period of the award. For awards that vest based on service, performance and market conditions, we recognize stock-based compensation expense when the performance conditions are probable of being achieved. The compensation cost related to awards with market conditions is recognized on an accelerated attribution basis over the requisite service period and regardless of whether the market condition is satisfied, if the requisite service is provided. We recognize stock-based compensation costs and reverse previously recognized costs for unvested options in the period forfeitures occur.

For awards with market conditions, we determine the grant date fair value utilizing a Monte Carlo valuation model, which incorporates various assumptions such as expected stock price volatility, expected term, risk-free interest rates, expected date of a qualifying event, and expected capital raise percentage. We estimate the volatility of common stock on the date of grant based on the weighted average historical stock price volatility of comparable publicly-traded companies in our industry group. We estimate the expected term based on various exercise scenarios, as these awards are not considered "plain vanilla." The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. We estimate the expected date of a qualifying event and the expected capital raise percentage based on management's expectations at the time of measurement of the award's value.

***Goodwill***

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

See Note 6, Goodwill and Intangible Assets, for further details.

***Long-Lived Assets***

Long-lived assets consist of property, equipment and intangible assets with estimable useful lives subject to depreciation and amortization. Intangible assets consist of purchased intangible assets including developed technology, customer relationships, trademarks and tradenames, and are amortized over their useful lives ranging from one to eight years using the straight-line method of amortization. Also included in long-lived assets are lease right-of-use (ROU) assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of an asset or asset group to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of the asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. We determined that the Company has two asset groups, the Skillz and Aarki asset groups, which represent the lowest level of identifiable cash flows.

See Note 2, Summary of Significant Accounting Policies, for further details.

***Indirect Tax Liabilities***

We are subject to indirect taxes such as sales and use and value-add tax in the United States and certain foreign jurisdictions, respectively. The evaluation of our indirect tax liabilities involves significant judgment in the interpretation and application of U.S. GAAP and complex domestic and international tax laws. Indirect tax liabilities are adjusted considering changing facts and circumstances, such as the closing of a tax examination, further interpretation of existing tax law, or new tax law. We recognize changes to our estimate if it is estimable and probable that our position would not be sustainable upon examination by taxing authorities. Although management believes our recorded liabilities are reasonable, no assurance can be given that the final tax outcomes of these matters will not be different from that which our liabilities are based on. To the extent that final tax outcomes of these matters are different than the amounts recorded, such differences could have a material impact

**Recent Accounting Pronouncements**

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

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

***Interest Rate Risk***

The market risk inherent in our financial instruments and our financial position represents the potential loss arising from adverse changes in interest rates. As of December 31, 2022, we had cash and cash equivalents of $362.5 million, which consisted of money market fund accounts and U.S. government and agency securities for which the fair market value would be affected by changes in the general level of U.S. interest rates. As of December 31, 2022, we had marketable securities of $184.0 million, which primarily consisted of U.S government, corporate debt securities, asset backed securities, commercial paper, and debt instruments issued by foreign governments. We limit the amount of credit exposure to any one issuer. Our investments carry a degree of interest rate risk. However, due to the low-risk profile of our investments, an immediate 10% change in interest rates would not have a material effect on the fair market value of our cash and cash equivalents and marketable securities.

***Foreign Currency Risk***

There was no material foreign currency risk for the years ended December 31, 2022 and 2021.

**ITEM 8. FINANCIAL STATEMENTS**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**



The supplementary financial information required by this Item 8 is included in Item 7.

## Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Skillz Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Skillz Inc. (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 31, 2023 expressed an adverse opinion thereon.

**Restatement of 2021 and 2020 Financial Statements**

As discussed in Note 3 to the consolidated financial statements, the consolidated financial statements as of and for the years ended December 31, 2021 and 2020 have been restated to correct misstatements.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the U.S. Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosure to which it relates.

| | |
|---|---|
| | ***Presentation of End-User Incentive Programs*** |
| Description of the Matter | As described in Note 1 to the consolidated financial statements, the Company primarily derives its revenues by providing monetization services. The Company determined that its customer in the provision of its monetization services is the game developer. The monetization services provided by the Company allow developers to offer multi-player competition to their end-users. As part of its monetization services, the Company offers promotions and incentives to end-users in various forms. Promotions and incentives that are accounted for as payments to a customer are presented as a reduction of revenue, while all other promotions and incentives are presented as sales and marketing expense. As a result, the Company's determination of whether promotions and incentives are accounted for as payments to a customer impacts the amount of recognized revenue. The Company recognized a reduction of revenue of $49.0 million and sales and marketing expense of $105.1 million related to its end-user promotion and incentive programs for the year ended December 31, 2022.<br><br>Auditing the Company's accounting for end-user promotion and incentive programs was challenging and complex due to the significant judgment involved in the Company's determination of which promotions and incentives represent payments to a customer and which ones represent sales and marketing expense. The Company determines which promotions and incentives represent payments to a customer based on its evaluation of whether the game developers have a valid expectation that the promotions and incentives will be offered to end-users on the game developers' behalf. The Company's assessment of valid expectations is based on an evaluation of all information reasonably available to the game developers regarding the Company's customary business practices, published policies and specific statements. |
| How We Addressed the Matter in Our Audit | We performed substantive audit procedures that included, among others, evaluating what information is reasonably available to game developers regarding the Company's customary business practices, published policies and specific statements, and testing, on a sample basis, the appropriate presentation of promotions and incentives transactions as either a reduction of revenue or sales and marketing expense. Additionally, we performed data analytics to evaluate the reasonableness of end-user incentive amounts presented as a reduction of revenue and sales and marketing expense. |

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2018.

San Mateo, California

March 31, 2023

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors of Skillz Inc.

**Opinion on Internal Control Over Financial Reporting**

We have audited Skillz Inc.'s internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weaknesses described below on the achievement of the objectives of the control criteria, Skillz Inc. (the Company) has not maintained effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment. Management has identified material weaknesses in controls related to:

- the Company's risk assessment process, due to a lack of sufficient trained personnel to adequately identify new or changing risks of misstatement to the consolidated financial statements and to design responsive internal controls over financial reporting, such as not adequately identifying financial statement risks related to the Company's exposure to indirect taxes;
- information technology general controls (ITGCs) in the areas of access and program change over information technology (IT) systems that support the Company's financial reporting processes were not designed and operating effectively, and as result, the related IT dependent manual and application controls that rely upon the affected ITGCs, or information coming from IT systems with affected ITGCs, were also deemed ineffective; and
- controls across accounting processes due to insufficient documentation of control activities and retention of evidence to demonstrate management's review, as well as the design and implementation of controls to prevent and detect misstatements across several accounting processes, including related to the Company's accounting for its player liability.

These material weaknesses impact multiple components of the COSO framework.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes. These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2022 consolidated financial statements, and this report does not affect our report dated March 31, 2023, which expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the U.S. Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Mateo, California

March 31, 2023

**SKILLZ INC.**

**CONSOLIDATED BALANCE SHEETS**

*(In thousands, except for number of shares and par value per share amounts)*

| | December 31, | |
|---|---|---|
| | **2022** | **2021** |
| | | **(As Restated)** |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 362,516 | $ 241,332 |
| Marketable securities, current | 127,268 | 319,055 |
| Accounts receivable, net | 7,177 | 12,769 |
| Prepaid expenses and other current assets | 4,722 | 16,704 |
| Total current assets | 501,683 | 589,860 |
| Property and equipment, net | 2,991 | 9,988 |
| Operating lease right-of-use assets, net | 472 | 14,511 |
| Marketable securities, non-current | 56,728 | 182,629 |
| Non-marketable equity securities | 55,649 | 55,649 |
| Intangible assets, net | — | 79,137 |
| Goodwill | — | 85,872 |
| Other long-term assets | 3,772 | 3,478 |
| Total assets | $ 621,295 | $ 1,021,124 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,696 | $ 19,753 |
| Operating lease liabilities, current | 2,133 | 2,110 |
| Other current liabilities | 45,666 | 77,953 |
| Total current liabilities | 49,495 | 99,816 |
| Operating lease liabilities, non-current | 11,942 | 13,567 |
| Common stock warrant liabilities, non-current | 289 | 6,293 |
| Long-term debt, non-current | 272,781 | 278,889 |
| Other long-term liabilities | 8,387 | 13,400 |
| Total liabilities | 342,894 | 411,965 |
| Commitments and contingencies *(Note 12)* | | |
| Stockholders' equity: | | |
| Preferred stock $0.0001 par value; 10 million shares authorized — 0 issued and outstanding as of December 31, 2022 and 2021 | — | — |
| Common stock $0.0001 par value; 625 million shares authorized; Class A common stock – 500 million shares authorized; 353 million and 340 million shares issued and outstanding as of December 31, 2022 and 2021, respectively; Class B common stock – 125 million shares authorized; 69 million shares issued and outstanding as of December 31, 2022 and 2021, respectively | 41 | 40 |
| Additional paid-in capital | 1,153,031 | 1,043,600 |
| Accumulated other comprehensive loss | (1,563) | (248) |
| Accumulated deficit | (873,108) | (434,233) |
| Total stockholders' equity | 278,401 | 609,159 |
| Total liabilities and stockholders' equity | $ 621,295 | $ 1,021,124 |

*See accompanying Notes to the Consolidated Financial Statements.*

**SKILLZ INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

*(In thousands, except for number of shares and per share amounts)*

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | | (As Restated) | (As Restated) |
| Revenue | $ 269,709 | $ 380,154 | $ 229,047 |
| Costs and expenses: | | | |
| Cost of revenue | 30,718 | 25,243 | 12,281 |
| Research and development | 52,265 | 46,232 | 23,225 |
| Sales and marketing | 277,014 | 466,691 | 254,269 |
| General and administrative | 163,018 | 135,802 | 42,462 |
| Impairment of goodwill and long-lived assets | 168,051 | — | — |
| Total costs and expenses | 691,066 | 673,968 | 332,237 |
| Loss from operations | (421,357) | (293,814) | (103,190) |
| Interest expense, net | (23,992) | (1,222) | (1,325) |
| Change in fair value of common stock warrant liabilities | 6,004 | 87,922 | (23,049) |
| Other income (expense), net | 125 | 49 | (21,400) |
| Loss before income taxes | (439,220) | (207,065) | (148,964) |
| Provision (benefit) for income taxes | (345) | (19,140) | 115 |
| Net loss | $ (438,875) | $ (187,925) | $ (149,079) |
| Net loss per share attributable to common stockholders: | | | |
| Basic | $ (1.07) | $ (0.49) | $ (0.51) |
| Diluted | $ (1.07) | $ (0.71) | $ (0.51) |
| Weighted average shares outstanding: | | | |
| Basic | 409,969,539 | 384,625,249 | 294,549,146 |
| Diluted | 409,969,539 | 388,549,673 | 294,549,146 |
| | | | |
| Other comprehensive loss: | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | (1,315) | (248) | — |
| Total other comprehensive loss | $ (1,315) | $ (248) | $ — |
| Total comprehensive loss | $ (440,190) | $ (188,173) | $ (149,079) |

*See accompanying Notes to the Consolidated Financial Statements.*

# SKILLZ INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

*(In thousands, except for number of shares)*

| | Preferred stock | | Common stock | | Additional paid-in capital | Accumulated Other Comprehensive Loss | Accumulated deficit | Total stockholders' equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | |
| **Balance at 12/31/2019 (Restated)** | — | — | 286,074,923 | $ 29 | $ 108,892 | $ — | $ (94,680) | $ 14,241 |
| Issuance of Old Skillz redeemable convertible Series E preferred stock | — | — | 17,834,808 | 2 | 98,303 | — | — | 98,305 |
| Issuance of Old Skillz common stock upon exercise of stock options | — | — | 7,642,110 | 1 | 1,242 | — | — | 1,243 |
| Conversion of Old Skillz preferred stock warrants | — | — | — | — | 654 | — | — | 654 |
| Issuance of Old Skillz common stock upon early exercise of stock options with promissory note | — | — | 12,700,358 | 1 | (1) | — | — | — |
| Surrender of common stock upon net settlement of promissory note | — | — | (1,037,535) | — | — | — | — | — |
| Taxes paid related to net share settlement of equity awards | — | — | (1,102,746) | — | (13,404) | — | — | (13,404) |
| Issuance of Old Skillz convertible Series A, Series A-1 and Series B preferred stock upon exercise of warrants | — | — | 2,860,974 | 1 | 1 | — | — | 2 |
| Issuance of Old Skillz common stock upon exercise of warrants | — | — | 726,063 | — | 382 | — | — | 382 |
| Repurchase of Old Skillz common stock | — | — | (468,270) | — | — | — | (1,339) | (1,339) |
| Repurchase of Old Skillz preferred stock | — | — | (13,739) | (1) | — | — | (1,210) | (1,211) |
| Net Business Combination and PIPE financing | — | — | 44,580,578 | 4 | 75,239 | — | — | 75,243 |
| Stock-based compensation | — | — | — | — | 23,757 | — | — | 23,757 |
| Net loss (Restated) | — | — | — | — | — | — | (149,079) | (149,079) |
| **Balance at 12/31/2020 (Restated)** | — | — | 369,797,524 | 37 | 295,065 | — | (246,308) | 48,794 |
| Issuance of common stock upon exercise of stock options | — | — | 5,968,161 | — | 3,883 | — | — | 3,883 |
| Issuance of common stock upon exercise of warrants and other, net | — | — | 11,586,519 | — | 215,311 | — | — | 215,311 |
| Issuance of common stock for business combination | — | — | 4,401,633 | — | 66,972 | — | — | 66,972 |
| Net cash contributions from follow-on offering | — | — | 17,000,000 | 3 | 402,038 | — | — | 402,041 |
| Stock-based compensation | — | — | — | — | 60,331 | — | — | 60,331 |
| Other comprehensive loss | — | — | — | — | — | (248) | — | (248) |
| Net loss (Restated) | — | — | — | — | — | — | (187,925) | (187,925) |
| **Balance at 12/31/2021 (Restated)** | — | — | 408,753,837 | 40 | 1,043,600 | (248) | (434,233) | 609,159 |
| Issuance of common stock upon exercise of stock options and release of restricted stock units | — | — | 12,620,093 | 1 | 1,310 | — | — | 1,311 |
| Stock-based compensation | — | — | — | — | 108,202 | — | — | 108,202 |
| Other comprehensive loss | — | — | — | — | — | (1,315) | — | (1,315) |
| Other, net | — | — | — | — | (81) | — | — | (81) |
| Net loss | — | — | — | — | — | — | (438,875) | (438,875) |
| **Balance at December 31, 2022** | — | — | 421,373,930 | $ 41 | $ 1,153,031 | $ (1,563) | $ (873,108) | $ 278,401 |

*See accompanying Notes to the Consolidated Financial Statements.*

# SKILLZ INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*(In thousands)*

| | Year Ended December 31, 2022 | 2021 (As Restated) | 2020 (As Restated) |
|---|---|---|---|
| **Operating Activities** | | | |
| Net loss | $ (438,875) | $ (187,925) | $ (149,079) |
| Adjustment to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 17,871 | 11,665 | 1,609 |
| Stock-based compensation | 108,202 | 60,331 | 23,757 |
| Gain on extinguishment of debt | (2,553) | — | — |
| Accretion of unamortized debt discount and amortization of debt issuance costs | 3,743 | 149 | 558 |
| Fair value adjustment of derivatives | — | — | 21,463 |
| Amortization of premium for marketable securities | 3,095 | — | — |
| Impairment charges | 168,051 | 634 | 3,573 |
| Deferred income taxes | (698) | (19,377) | — |
| Change in fair value of common stock warrant liabilities | (6,004) | (87,922) | 23,049 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | 5,592 | 931 | — |
| Prepaid expenses and other assets | 11,602 | (6,284) | (7,505) |
| Operating lease right-of-use assets | 1,605 | (14,511) | — |
| Accounts payable | (17,222) | 6,261 | 10,729 |
| Loss contingency accrual | (4,449) | 11,557 | — |
| Operating lease liabilities | (1,602) | 15,677 | — |
| Other accruals and liabilities | (27,955) | 28,660 | 15,614 |
| **Net cash used in operating activities** | (179,597) | (180,154) | (56,232) |
| **Investing Activities** | | | |
| Purchases of property and equipment, including internal use software | (1,892) | (3,236) | (3,246) |
| Investment in non-marketable equity securities | — | (54,769) | — |
| Purchases of marketable securities | (454,091) | (504,032) | — |
| Proceeds from sales of marketable securities | 167,847 | 2,100 | — |
| Proceeds from maturities of marketable securities | 599,522 | — | — |
| Cash paid for business acquisition, net of cash acquired | — | (83,987) | — |
| **Net cash provided by (used in) investing activities** | 311,386 | (643,924) | (3,246) |
| **Financing Activities** | | | |
| Principal payments on finance lease liabilities | (2,612) | (1,582) | — |
| Borrowings under debt agreements, net of issuance costs | — | 280,897 | — |
| Payments for debt issuance costs | (2,005) | (3) | (201) |
| Payments for extinguishment of debt | (7,298) | — | — |
| Payments under debt agreements | — | — | (10,000) |
| Proceeds from issuance of common stock in follow-on offering, net of underwriting commissions, and offering costs | — | 402,138 | — |
| Net cash contributions from FEAC business combination and PIPE Financing | — | — | 246,484 |
| Payments made towards offering costs | — | (13,222) | (1,993) |
| Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs | — | — | 76,617 |
| Net proceeds from exercise of stock options and issuance of common stock | 1,310 | 3,883 | 1,243 |
| Proceeds from exercise of common stock warrants, net of redemptions | — | 130,571 | 382 |
| Taxes paid related to net share settlement of equity awards | — | — | (13,404) |
| Payments made to repurchase common stock | — | — | (1,339) |
| Payments for redemption of preferred stock | — | — | (1,211) |
| **Net cash provided by (used in) financing activities** | $ (10,605) | $ 802,682 | $ 296,578 |
| Net change in cash, cash equivalents and restricted cash | 121,184 | (21,396) | 237,100 |
| Cash, cash equivalents and restricted cash – beginning of year | 244,252 | 265,648 | 28,548 |
| **Cash, cash equivalents and restricted cash – end of year** | $ 365,436 | $ 244,252 | $ 265,648 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Supplemental cash flow data:** | | | | | | |
| Cash paid during the period for: | | | | | | |
| Interest | $ | 30,334 | $ | 180 | $ | 815 |
| Noncash investing and financing activities: | | | | | | |
| Settlement of the Redeemable convertible Series E preferred stock forward contract liability | $ | — | $ | — | $ | 21,688 |
| Deferred offering costs in accounts payable and accrued liabilities | $ | — | $ | 2,004 | $ | 14,065 |
| Issuance of common stock for business combination | $ | — | $ | 67,051 | $ | — |
| Warrant liability reclassified to additional paid-in capital | $ | — | $ | 84,016 | $ | — |
| Payment of promissory notes through surrender of shares | $ | — | $ | — | $ | 18,673 |

*See accompanying Notes to the Consolidated Financial Statements.*

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

Years Ended December 31, 2022, 2021, and 2020

**1. Description of the Business and Basis of Presentation**

***Business***

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

The Company was originally incorporated in Delaware on March 2, 2020 as a special purpose acquisition company under the name Flying Eagle Acquisition Corp. ("FEAC") for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination involving FEAC and one or more operating businesses. On December 16, 2020 (the "Closing"), the Company consummated the merger agreement (the "Merger Agreement") dated September 1, 2020, by and among, FEAC, Merger Sub Inc., a Delaware corporation ("Merger Sub"), Skillz Inc., a Delaware corporation ("Old Skillz") and Andrew Paradise (the "Founder"), solely in his capacity as the representative of the stockholders of Old Skillz.

Pursuant to the terms of the Merger Agreement, a business combination between FEAC and Old Skillz was effected through the merger of Merger Sub with and into Old Skillz, with Old Skillz surviving as the surviving company and a wholly-owned subsidiary of FEAC (the "Merger" and collectively with the other transaction described in the Merger Agreement, the "FEAC Business Combination"). On the closing date of the business combination, FEAC changed its name to Skillz Inc. (the "Company" or "Skillz") and Old Skillz changed its name to Skillz Platform Inc. The Company's common stock is now listed on the NYSE under the symbol "SKLZ" and warrants to purchase the common stock at an exercise price of $11.50 per share were listed on the NYSE under the symbol "SKLZ.WS."

Skillz Platform Inc. was originally formed as Professional Gaming, LLC on March 28, 2012, changed its name to Lookout Gaming, LLC on May 18, 2012, and to Skillz LLC on January 31, 2013, before converting to a Delaware corporation with the name Skillz Inc. on April 29, 2013.

***Basis of Presentation***

The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") as determined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") and pursuant to the regulations of the U.S. Securities and Exchange Commission ("SEC"). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Pursuant to the Merger Agreement, the merger between Merger Sub and Old Skillz was accounted for as a reverse recapitalization in accordance with U.S. GAAP (the "Reverse Recapitalization"). Under this method of accounting, FEAC was treated as the "acquired" company and Old Skillz was treated as the acquirer for financial reporting purposes.

Accordingly, for accounting purposes, the Reverse Recapitalization was treated as the equivalent of Old Skillz issuing stock for the net assets of FEAC, accompanied by a recapitalization. The net assets of FEAC are stated at historical cost, with no goodwill or other intangible assets recorded.

Old Skillz was determined to be the accounting acquirer based on the following predominant factors:

- Old Skillz's existing stockholders had the greatest voting interest in the Company;
- The largest individual minority stockholder in the Company was an existing stockholder of Old Skillz;
- Old Skillz's directors represented the majority of the new board of directors of the Company;
- Old Skillz's senior management was the senior management of the Company; and

- Old Skillz was the larger entity based on historical revenue and has the larger employee base.

The consolidated assets, liabilities and results of operations prior to the Reverse Recapitalization were those of Old Skillz. The shares and corresponding capital amounts and losses per share, prior to the Reverse Recapitalization, have been retroactively restated based on shares reflecting the exchange ratio of 0.7471 (the "Exchange Ratio") established in the FEAC Business Combination.

In connection with the preparation of the 2022 annual consolidated financial statements, the Company identified errors in its previously issued financial statements.

In accordance with SEC Staff Accounting Bulletin (“SAB”) No.99, Materiality, and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, the Company assessed the materiality of these errors to its previously issued consolidated financial statements. Based upon the Company’s evaluation of both quantitative and qualitative factors, the Company concluded the errors were material to the Company’s previously issued consolidated financial statements. Accordingly, the Company has restated its previously issued consolidated financial statements as shown in Note 3, Restatement of Previously Issued Financial Statements. All relevant footnotes have also been adjusted to reflect the impact of the revisions.

**2. Summary of Significant Accounting Policies**

***Use of Estimates***

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

***Revenue Recognition***

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

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

*Revenues from Contracts with Customers*

The Company applies the five-step model to achieve the core principle of ASC 606. The Company determined that its customer in the provision of its technology platform and services is the game developer. The Company's ordinary activities consist of providing game developers services through access to its technology platform using the Skillz SDK. The SDK acts as an application programming interface enabling communication of data between Skillz and the game developers, which when integrated with the developer's game content, facilitates end-user registration into Competitions, managing and hosting end-user Competition accounts, matching players of similar skill levels, collecting end-user entry fees, distributing end-user prizes, resolving end-user disputes pertaining to their participation in Competitions, and running third-party marketing campaigns ("Monetization Services").

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

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

Revenue is recognized at the time the performance obligation is satisfied by transferring control of the promised service in an amount that reflects the consideration that the Company expects to receive in exchange for the Monetization Services. The Company recognizes revenue upon completion of a game, which is when its performance obligation to the game developer is satisfied. The Company does not recognize contract assets or contract liabilities as the payment of the transaction price is concurrent with the fulfillment of the services. At the time of game completion, the Company has the right to receive payment for the services rendered. The Company's agreements with game developers can generally be terminated for convenience by either party upon thirty days prior written notice, and in certain of the Company's larger developer agreements, the developer, if required by the Company, must continue to make its games available on the platform for a period of up to twelve months. As the Company is able to terminate the developer agreements at its convenience, the Company has concluded the contract term for revenue recognition does not extend beyond the contractual notification period. The Company did not have any transaction price allocated to performance obligations that are unsatisfied (or partially satisfied) as of December 31, 2022, 2021 and 2020.

Games provided by two developer partners accounted for 39% and 41% of the Company's revenue from Monetization Services in the year ended December 31, 2022, 42% and 39% in the year ended December 31, 2021, and 59% and 28% in the year ended December 31, 2020.

*End-User Incentive Programs*

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

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

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

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

  For the years ended December 31, 2022, 2021, and 2020, the Company recognized a reduction of revenue of $49.0 million, $74.1 million, and $51.3 million, respectively, related to these end-user incentives.

- *Marketing promotions accounted for as sales and marketing expense.* When the Company concludes that the game developers do not have a valid expectation that the incentive will be offered, the Company records the related cost as sales and marketing expense. The Company's assessment is based on an evaluation of all information reasonably available to the game developers regarding the Company's customary business practices, published policies and specific statements. These promotions are offered to end-users to draw, re-engage, or generally increase end-users' use of the Company's platform.

(Amounts in tables are in thousands, unless otherwise noted)

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

For the years ended December 31, 2022, 2021, and 2020, the Company recognized sales and marketing expense of $105.1 million, $176.1 million, and $91.5 million, respectively, related to these end-user incentives.

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

Total marketing promotions accounted for as sales and marketing expense recognized in the years ended December 31, 2022, 2021, and 2020 were $117.3 million, $189.4 million, and $102.1 million, respectively.

***Cost of Revenue***

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

***Cash, Cash Equivalents, and Restricted Cash***

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

Restricted cash maintained under an agreement that legally restricts the use of such funds is not included within cash and cash equivalents and is reported within other long-term assets and other current assets as of December 31, 2022. Restricted cash is comprised of $2.9 million which is pledged in the form of a letter of credit for the Company's San Francisco office lease.

A reconciliation of the Company's cash and cash equivalents in the consolidated balance sheets to cash, cash equivalents and restricted cash in the consolidated statement of cash flows as of December 31, 2022 and 2021 is as follows:

| | December 31, | |
|---|---|---|
| | 2022 | 2021 |
| Cash and cash equivalents | $ 362,516 | $ 241,332 |
| Restricted cash included in other long-term assets | 2,920 | 2,920 |
| Cash, cash equivalents and restricted cash | $ 365,436 | $ 244,252 |

***Concentrations of Credit Risk***

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

***Accounts Receivable, Net***

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

***Fair Value Measurement***

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

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

Level 2 — Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs reflecting management’s estimate of assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

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

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

***Business Combinations***

The results of businesses acquired in a business combination are included in our consolidated financial statements from the date of the acquisition. The Company uses the acquisition method of accounting and allocates the purchase price, including the fair value of any non-cash consideration, to the identifiable assets and liabilities of the relevant acquired business at their acquisition date fair values. Any excess consideration over the fair value of assets acquired and liabilities assumed is recognized as goodwill. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations and comprehensive loss.

Determining the fair value of assets acquired and liabilities assumed requires the Company to perform valuations with significant judgment and estimates, including the selection of valuation methodologies, estimates of future revenue, costs and cash flows, discount rates and selection of comparable companies. The Company engages the assistance of valuation specialists in concluding on fair value measurements in connection with determining fair values of assets acquired and liabilities assumed in a business combination.

Transaction costs associated with business combinations are expensed as incurred, and are included in general and administrative expense in the consolidated statements of operations and comprehensive loss.

***Goodwill***

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

The Company performs its goodwill impairment evaluation annually on November 1, 2022, and may perform additional interim impairment assessments if impairment indicators are identified.

See Note 6, Goodwill and Intangible Assets, for further details.

***Long-Lived Assets***

Long-lived assets consist of property and equipment and intangible assets with estimable useful lives subject to depreciation and amortization. Intangible assets consist of purchased intangible assets, including developed technology, customer relationships, trademarks and tradenames, and are amortized over their useful lives ranging from one to eight years using the straight-line method of amortization. Also included in the Company's long-lived assets are its lease right-of-use (ROU) assets. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. When impairment indicators are identified, the Company assesses its long-lived assets for impairment. Recoverability of an asset or asset group to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of the asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. The Company has determined that it has two asset groups, Skillz and Aarki asset groups, which represent the lowest level of identifiable cash flows.

The Company identified an impairment indicator and recorded impairment of its Aarki asset group during the third quarter of 2022. Additionally, during the fourth quarter of 2022, additional indicators of impairment for both the Skillz and Aarki asset groups were identified, most notably sharp declines in the Company's stock price and overall market capitalization, near the end of 2022, and secondarily, a downward revision to the Aarki business forecast and related expected cash flows attributable to the Aarki asset group. As a result of these indicators of impairment, in the fourth quarter of 2022, the Company reviewed the undiscounted future cash flows for the Skillz and Aarki asset groups, and the results of the analysis in each case indicated the carrying amount of the asset groups were not expected to be recovered. As a result, the Company performed analyses to estimate the fair value of the long-lived asset groups.

The fair value of the Aarki asset group was estimated using an income approach. Under the income approach, a long-lived asset group's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset group. Indications of value are developed by discounting future net cash flows to their present value at market-based rates of return. Significant factors considered in the calculation of the fair value of the long-lived asset group were projected revenue, gross margins, operating expenses, the remaining economic life of the overall long-lived asset group based on the primary asset of the group, which was determined to be the developed technology, along with the discount rates used to derive the estimated present values of future cash flows. The Company applied judgment which involved the use of significant assumptions with respect to its income forecast such as the level and timing of future cash flows. The Company determined the fair value of the Aarki asset group was lower than its carrying values and recorded a long-lived asset impairment charge of $19.8 million during the three months ended December 31, 2022, and $71.1 million during the year ended December 31, 2022.

For the Skillz asset group, the Company reviewed undiscounted future cash flows for the asset group, and the results of the analysis indicated the carrying amount of the asset group was not expected to be recovered. The Company's ROU asset related to its San Francisco office lease was the most significant asset of the Skillz long-lived asset group with the remaining long-lived assets consisting of an immaterial amount of property and equipment. The Company performed analyses to estimate the fair values of the assets within the Skillz asset group. For the ROU asset, the fair value was estimated based on key assumptions made by the Company including required construction costs, market rental rates, and expected vacancy period. The Company also determined that the fair value of the Skillz lease ROU asset was lower than its carrying value and recorded a long-lived asset impairment charge of $11.5 million during the three months ended December 31, 2022.

These non-cash charges were recorded within Impairment of goodwill and long-lived assets on the consolidated statements of operations and comprehensive loss. There was no long-lived asset impairment recorded for the years ended December 31, 2021 and 2020.

See Note 6, Goodwill and Intangible Assets, and Note 5, Balance Sheet Components, for further details.

***Investments***

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

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

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

***Advertising and Promotional Expense***

Advertising and promotional expenses are included in sales and marketing expenses within the consolidated statements of operations and comprehensive loss and are expensed when incurred. For the years ended December 31, 2022, 2021, and 2020, advertising expenses, not including marketing promotions related to the Company's end-user incentive programs, were $118.8 million, $241.9 million, and $136.8 million, respectively.

***Public and Private Common Stock Warrant Liabilities***

As part of FEAC's initial public offering, FEAC issued to third party investors 69.0 million units, consisting of one share of Class A common stock of FEAC and one-fourth of one warrant, at a price of $10.00 per unit. Each whole warrant entitles the holder to purchase one share of Class A common stock at an exercise price of $11.50 per share (the "Public Warrants"). Simultaneously with the closing of FEAC's initial public offering, FEAC completed the private sale of 10,033,333 warrants to FEAC's sponsor at a purchase price of $1.50 per warrant (the "Private Warrants"). In connection with the FEAC Business Combination, FEAC's sponsor agreed to forfeit 5,016,666 Private Warrants. Each Private Warrant allows the sponsor to purchase one share of Class A common stock at $11.50 per share. Subsequent to the FEAC Business Combination, 17,249,977 Public Warrants and 5,016,666 Private Warrants remained outstanding as of December 31, 2020. There were zero Public warrants and 4,535,728 Private Warrants outstanding as of December 31, 2022 and 2021.

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

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

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

***Derivative Financial Instruments***

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. The Company evaluates all of its financial instruments, including its long-term debt, preferred stock and stock purchase warrants, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. Embedded derivatives must be separately measured from the host contract if all the requirements for bifurcation are met. The assessment of the conditions surrounding the bifurcation of embedded derivatives depends on the nature of the host contract. Bifurcated embedded derivatives and freestanding derivative financial instruments that are classified as assets or liabilities are recognized at fair value with changes in fair value recognized as a component of other income (expense), net in the consolidated statements of operations and comprehensive loss.

***Stock-Based Compensation***

The Company measures and recognizes compensation expense for all stock-based awards based on estimated grant-date fair values recognized over the requisite service period. For awards that vest solely based on a service condition, the Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period. The compensation expense related to awards with performance conditions is recognized over the requisite service period when the performance conditions are probable of being achieved. The compensation expense related to awards with market conditions is recognized on an accelerated attribution basis over the requisite service period identified as the derived service period over which the market conditions are expected to be achieved and is not reversed if the market condition is not satisfied. See Note 16, Stock-Based Compensation, for more information. The Company accounts for forfeitures as they occur. If an employee stock-based award is canceled without the concurrent grant or offer of a replacement award, the cancellation is treated as a settlement for no consideration and any previously unrecognized compensation cost shall be recognized at the cancellation date. Stock-based awards granted to employees are primarily stock options and restricted stock units.

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

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

***Income Taxes***

The Company accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the consolidated financial statements or in the Company's tax returns. Deferred income taxes are recognized for differences between financial reporting and tax bases of assets and liabilities at the enacted statutory tax rates in effect for the years in which the temporary differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain.

The Company records a valuation allowance to reduce deferred tax assets to the net amount that the Company believes is more likely than not to be realized. In assessing the need for a valuation allowance, the Company considered historical levels of income, expectations of future taxable income and ongoing tax planning strategies. Because of the uncertainty of the realization of the deferred tax assets, the Company recorded a full valuation allowance against its net deferred tax assets. Realization of deferred tax assets is dependent primarily upon future U.S. taxable income.

The Company utilizes a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax positions for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon tax authority examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

Although the Company believes it has adequately reserved for the Company's uncertain tax positions, the Company can provide no assurance that the final tax outcome of these matters will not be materially different. The Company evaluates its uncertain tax positions on a regular basis and evaluations are based on a number of factors, including changes in facts and circumstances, changes in tax law, correspondence with tax authorities during the course of an audit and effective settlement of audit issues.

To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on the Company's financial condition and operating results. The provision for income taxes includes the effects of any accruals that the Company believes are appropriate, as well as the related net interest and penalties. The Company accounts for taxes due on future U.S. inclusions in taxable income under the Global Intangible Low-Taxed Income ("GILTI") provision as a current-period expense when incurred.

***Property and Equipment, Net***

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful life of the related asset, generally three to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the related lease. Maintenance and repairs that do not extend the life or improve the asset are expensed as incurred. Upon disposal of property and equipment, assets and related accumulated depreciation are removed from the accounts, and the related gain or loss is included in the consolidated statement of operations and comprehensive loss.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If property and equipment are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair value. Refer to Long-lived Assets above for impairment of long-lived assets.

The Company capitalizes certain costs related to developed or modified software solely for the Company's internal use to deliver the Company's services. The Company capitalizes costs during the application development stage once the preliminary project stage is complete, management authorizes and commits to funding the project, it is probable that the project will be completed, and that the software will be used to perform the function intended. Costs related to preliminary project activities and post-implementation activities are expensed as incurred.

*(Amounts in tables are in thousands, unless otherwise noted)*

The following table presents the estimated useful lives of the Company's property and equipment:

| Property and Equipment | Useful Life |
|---|---|
| Computer equipment and servers | 3 years |
| Capitalized internal-use software | 3 years |
| Office equipment and other | 5 years |
| Leased equipment and leasehold improvements | Lesser of estimated useful life or remaining lease term |

***Leases***

The Company adopted Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02) retroactively as of January 1, 2021, using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application. Results and disclosure requirements for reporting periods beginning after January 1, 2021 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with the Company's historical accounting under Topic 840.

The Company elected the package of practical expedients permitted under the transition guidance, which allowed it to carry forward its historical lease classification, the Company's assessment on whether a contract was or contains a lease, and the Company's assessment of initial direct costs for any leases that existed prior to January 1, 2021. The Company also elected to combine its lease and non-lease components and to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the in the consolidated statement of operations and comprehensive loss on a straight-line basis over the lease term. Additionally, the Company applies a portfolio approach to effectively account for the operating and finance lease ROU assets and lease liabilities.

As of the adoption date, the Company recognized total ROU assets of $13.7 million, with corresponding lease liabilities of $14.6 million on the consolidated balance sheets. The ROU assets include adjustments for prepayments and accrued lease payments. The adoption did not impact our beginning accumulated deficit, or our prior year consolidated statements of operations and comprehensive loss and statements of cash flows.

Under Topic 842, the Company determines if an arrangement is a lease at inception. ROU assets and lease liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. As most of the Company's leases do not provide an implicit rate, it uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The determination of an appropriate incremental borrowing rate requires judgment. The Company determines its incremental borrowing rate based on publicly available data for instruments with similar characteristics, including recently issued debt, as well as other factors. The ROU asset also includes any lease payments made prior to commencement and is recorded net of any lease incentives received.

The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise such options. When determining the probability of exercising such options, the Company considers contract-based, asset-based, entity-based, and market-based factors. The Company's lease agreements may contain variable costs such as common area maintenance, insurance, real estate taxes or other costs. Variable lease costs are expensed as incurred on the consolidated statements of operations and comprehensive loss. The Company's lease agreements generally do not contain any residual value guarantees or restrictive covenants.

ROU assets related to the Company's operating leases are included in operating lease ROU assets, while the corresponding lease liabilities are included in current and non-current operating lease liabilities on the Company's consolidated balance sheets. ROU assets related to the Company's finance leases are included in property and equipment, while the corresponding lease liabilities are included in other current liabilities and other non-current long-term liabilities on the Company's consolidated balance sheets. The Company incurred an impairment charge of $12.4 million related to its operating lease assets and $2.9 million related to its finance lease assets for the year ended December 31, 2022. The impairment charge on operating lease ROU assets includes the $11.5 million impairment charge for the Skillz lease ROU asset discussed within Long-Lived Assets above.

***Indirect Tax Liabilities***

We are subject to indirect taxes such as sales and use tax in the United States and value-add tax in certain foreign jurisdictions, respectively. The evaluation of our indirect tax liabilities involves significant judgment in the interpretation and application of U.S. GAAP and complex domestic and international tax laws. Indirect tax liabilities are adjusted considering changing facts and circumstances, such as the closing of a tax examination, further interpretation of existing tax law, or new tax law. We recognize changes to our estimate if it is estimable and probable that our position would not be sustainable upon examination by taxing authorities. Although management believes our recorded liabilities are reasonable, no assurance can be given that the final tax outcomes of these matters will not be different from that which our liabilities are based on. To the extent that final tax outcomes of these matters are different than the amounts recorded, such differences could have a material impact on our consolidated financial statements as the Company records related tax reserves as a reduction in revenue, and penalties and interest in general and administrative expenses.

***Net Loss Per Share***

Basic and diluted net loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Net loss available to common stockholders represents net loss attributable to common stockholders reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities as the holders of the participating securities do not have a contractual obligation to share in any losses. Diluted loss per share adjusts basic loss per share for the potentially dilutive impact of stock options, warrants, restricted stock, and contingently issuable earnout shares.

The Company considers certain restricted shares of Class A common stock issued upon exercise of executive stock options but subject to continued vesting requirements (Note 15) to be participating securities.

Net loss per share calculations for all periods prior to the FEAC Business Combination have been retrospectively adjusted for the equivalent number of shares outstanding immediately after the FEAC Business Combination to effect the reverse recapitalization. Subsequent to the FEAC Business Combination, net loss per share was calculated based on the weighted average number of common stock then outstanding.

***Segments***

Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker (“CODM”) in deciding how to allocate resources to an individual segment and in assessing performance. During the year ended December 31, 2022, the Company continued to operate as a single operating and reportable segment as the CODM reviews financial information presented on a consolidated basis for the purposes of making operating decisions, allocation of resources, and evaluating financial performance.

***Recently Issued Accounting Pronouncements Not Yet Adopted***

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which requires entities to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, Revenue from Contracts with Customers, instead of fair value at the acquisition date in accordance with Topic 805. The amendments in ASU 2021-08 will result in the acquirer recording acquired contract assets and liabilities on the same basis that would have been recorded by the acquiree before the acquisition under ASC Topic 606. The amendments in ASU 2021-08 are effective for fiscal years beginning after December 15, 2022, with early adoption permitted. The Company does not expect the adoption of this standard to have a material effect on the consolidated financial statements.

**3. Restatement of Previously Issued Consolidated Financial Statements**

As previously disclosed in the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on March 24, 2023, certain of the Company's previously filed interim unaudited and annual audited consolidated financial statements should no longer be relied upon and a restatement is required for these previously issued consolidated financial statements. The consolidated financial statements for the year ended December 31, 2022 include restated consolidated financial statements for the years ended December 31, 2021 and 2020. In addition, we have restated our unaudited quarterly financial data for the first three quarters of the year ended December 31, 2022 and for each quarter of the years ended December 31, 2021 and 2020 as presented in Note 21, Quarterly Financial Information. We have also restated impacted amounts within the notes to the consolidated financial statements, as applicable.

***Restatement Background***

*Understatement of End-User Liability*

The Company identified an error in its end-user liability balance, which is included in other current liabilities on the consolidated balance sheets. The error was the result of a design deficiency in the Company's reconciliation process for the end-user liability balance. If uncorrected, the error would have resulted in an understatement of sales and marketing expense, an overstatement of revenue and an understatement of other current liabilities in the consolidated financial statements. As a result, sales and marketing expense for the years ended December 31, 2021 and 2020 was understated by $1.8 million and $2.3 million, respectively, and revenue for the years ended December 31, 2021 and 2020 was overstated by $0.1 million in the Company's previously reported consolidated statements of operations and comprehensive loss. The impact on the consolidated balance sheets was an understatement of other current liabilities by $8.2 million and $6.3 million as of December 31, 2021 and 2020, respectively.

*Reserve for Indirect Tax Liabilities*

During 2022, the Company determined that it is liable for indirect taxation in various jurisdictions within the United States and other countries around the world based on its operations. As a result, the Company determined that it should accrue for indirect taxes, and the related interest and penalties, in the current and prior years. The error was due to the lack of appropriate risk assessment to identify the potential for a material indirect tax exposure. The error if uncorrected would have resulted in an overstatement of revenue, an understatement of general and administrative expenses and an understatement of other current liabilities in the Company's consolidated financial statements.

As a result, revenue was overstated by $3.8 million and $1.0 million for the years ended December 31, 2021 and 2020, respectively, and general and administrative expense was understated by $0.7 million, and $0.2 million for the years ended December 31, 2021 and 2020, respectively, in the consolidated statements of operations and comprehensive loss. The impact on the consolidated balance sheets was an understatement of other current liabilities of $6.2 million and $1.7 million as of December 31, 2021 and 2020, respectively.

*Other Adjustments*

In addition to the misstatements identified above, the Company has corrected other immaterial errors. While these other errors are quantitatively and qualitatively immaterial, individually and in the aggregate, because the Company is correcting for the material errors, the Company has decided to correct these other errors as well. These include adjustments to correct errors in the purchase price allocation and subsequent accounting associated with the acquisition of Aarki. Upon the acquisition, we had previously incorrectly recorded a liability for and continued to accrue for the Aarki bonus program liability as well as incorrectly recorded Aarki finance leases under ASC 842. If uncorrected, the error would have resulted in an understatement of Goodwill and an understatement of accumulated deficit in the consolidated financial statements. As a result, as of and for the year ended December 31, 2021, goodwill was overstated by $1.0 million, cost of revenue was understated by $0.5 million, research and development expense was understated by $0.2 million, sales and marketing expense was understated by $0.2 million, and general and administrative expense was understated by $0.1 million in the Company's previously reported consolidated financial statements. Other immaterial adjustments resulted in an overstatement of sales and marketing expense of $0.7 million for the year ended December 31, 2021. There were no other adjustments identified for the year ended December 31, 2020.

*(Amounts in tables are in thousands, unless otherwise noted)*

These misstatements, both individually and in the aggregate, had no impact to previously reported total cash flows from operating, investing or financing activities, or the timing of cash payments.

Below are our restated consolidated balance sheets as of December 31, 2021 and 2020 and the restated consolidated statements of operations and comprehensive loss, statements of stockholders' equity, and statements of cash flows for each of the years ended December 31, 2021 and 2020. The amounts as previously reported for the years ended December 31, 2021 and 2020 were derived from our Annual Report on Form 10-K for the year ended December 31, 2021, filed on March 1, 2022.

*Consolidated Statements of Operations and Comprehensive Loss*

| | Year Ended December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | **As Reported** | **End-User Liability** | **Indirect Taxes** | **Other Adjustments** | **As Restated** |
| Revenue | $ 384,089 | $ (138) | $ (3,797) | $ — | $ 380,154 |
| Cost of revenue | 24,711 | — | — | 532 | 25,243 |
| Research and development | 46,017 | — | — | 215 | 46,232 |
| Sales and marketing | 465,457 | 1,780 | — | (546) | 466,691 |
| General and administrative | 135,026 | — | 691 | 85 | 135,802 |
| Total costs and expenses | 671,211 | 1,780 | 691 | 286 | 673,968 |
| Loss from operations | (287,122) | (1,918) | (4,488) | (286) | (293,814) |
| Loss before income taxes | (200,373) | (1,918) | (4,488) | (286) | (207,065) |
| Benefit for income taxes | (18,996) | — | — | (144) | (19,140) |
| Net loss | $ (181,377) | $ (1,918) | $ (4,488) | $ (142) | $ (187,925) |
| Net loss per share attributable to common stockholders: (1) | | | | | |
| Basic | $ (0.47) | $ — | $ (0.01) | $ — | $ (0.49) |
| Diluted | $ (0.69) | $ — | $ (0.01) | $ — | $ (0.71) |
| Total comprehensive loss | $ (181,625) | $ (1,918) | $ (4,488) | $ (142) | $ (188,173) |

*(1) Due to differences in rounding to the nearest cent per basic or diluted share, totals may not equal the sum of the line items.*

| | Year Ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | **As Reported** | **End-User Liability** | **Indirect Taxes** | **Other Adjustments** | **As Restated** |
| Revenue | $ 230,115 | $ (87) | $ (981) | $ — | $ 229,047 |
| Cost of revenue | 12,281 | — | — | — | 12,281 |
| Research and development | 23,225 | — | — | — | 23,225 |
| Sales and marketing | 251,941 | 2,328 | — | — | 254,269 |
| General and administrative | 42,289 | — | 173 | — | 42,462 |
| Total costs and expenses | 329,736 | 2,328 | 173 | — | 332,237 |
| Loss from operations | (99,621) | (2,415) | (1,154) | — | (103,190) |
| Loss before income taxes | (145,395) | (2,415) | (1,154) | — | (148,964) |
| Net loss | $ (145,510) | $ (2,415) | $ (1,154) | $ — | $ (149,079) |
| Net loss per share attributable to common stockholders:(1) | | | | | |
| Basic | $ (0.49) | $ (0.01) | $ — | $ — | $ (0.51) |
| Diluted | $ (0.49) | $ (0.01) | $ — | $ — | $ (0.51) |
| Total comprehensive loss | $ (145,510) | $ (2,415) | $ (1,154) | $ — | $ (149,079) |

*(1) Due to differences in rounding to the nearest cent per basic or diluted share, totals may not equal the sum of the line items.*

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

*Consolidated Balance Sheets*

| | Year Ended December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Other Adjustments | As Restated |
| Accounts receivable, net | $ 13,497 | $ — | $ — | $ (728) | $ 12,769 |
| Total current assets | 590,588 | — | — | (728) | 589,860 |
| Goodwill | 86,845 | — | — | (973) | 85,872 |
| Total assets | 1,022,825 | — | — | (1,701) | 1,021,124 |
| Other current liabilities | 64,969 | 8,168 | 6,232 | (1,416) | 77,953 |
| Total current liabilities | 86,832 | 8,168 | 6,232 | (1,416) | 99,816 |
| Other long-term liabilities | 13,544 | — | — | (144) | 13,400 |
| Total liabilities | 399,125 | 8,168 | 6,232 | (1,560) | 411,965 |
| Accumulated deficit | (419,692) | (8,168) | (6,232) | (141) | (434,233) |
| Total stockholders' equity | 623,700 | (8,168) | (6,232) | (141) | 609,159 |
| Total liabilities and stockholders' equity | $ 1,022,825 | $ — | $ — | $ (1,701) | $ 1,021,124 |

| | Year Ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Other Adjustments | As Restated |
| Other current liabilities | $ 25,317 | $ 6,250 | $ 1,744 | $ (1) | $ 33,310 |
| Total current liabilities | 47,356 | 6,250 | 1,744 | (1) | 55,349 |
| Total liabilities | 225,634 | 6,250 | 1,744 | (1) | 233,627 |
| Accumulated deficit | (238,315) | (6,250) | (1,744) | 1 | (246,308) |
| Total stockholders' equity | $ 56,787 | $ (6,250) | $ (1,744) | $ 1 | $ 48,794 |

*Consolidated Statements of Stockholders' Equity*

| **Accumulated Deficit** | As Reported | End-User Liability | Indirect Taxes | Other Adjustments | As Restated |
|---|---|---|---|---|---|
| Balance at December 31, 2019 (1) | $ (90,256) | $ (3,835) | $ (590) | $ 1 | $ (94,680) |
| Net loss | (145,510) | (2,415) | (1,154) | — | (149,079) |
| Balance at December 31, 2020 | $ (238,315) | $ (6,250) | $ (1,744) | $ 1 | $ (246,308) |
| Net loss | (181,377) | (1,918) | (4,488) | (142) | (187,925) |
| Balance at December 31, 2021 | $ (419,692) | $ (8,168) | $ (6,232) | $ (141) | $ (434,233) |

*(1) The cumulative impact of the misstatements related to the years ended prior to January 1, 2020 is reflected in this line.*

*Consolidated Statements of Cash Flows*

| | Year Ended December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Other Adjustments | As Restated |
| Net loss | $ (181,377) | $ (1,918) | $ (4,488) | $ (142) | $ (187,925) |
| Depreciation and amortization | $ 11,133 | $ — | $ — | $ 532 | $ 11,665 |
| Deferred income taxes | $ (19,233) | $ — | $ — | $ (144) | $ (19,377) |
| Accounts receivable, net | $ 203 | $ — | $ — | $ 728 | $ 931 |
| Other accruals and liabilities | $ 23,228 | $ 1,918 | $ 4,488 | $ (974) | $ 28,660 |

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

| | Year Ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Other Adjustments | As Restated |
| Net loss | $ (145,510) | $ (2,415) | $ (1,154) | $ — | $ (149,079) |
| Other accruals and liabilities | $ 12,045 | $ 2,415 | $ 1,154 | $ — | $ 15,614 |

**4. Business Combinations**

*Reverse Recapitalization with Flying Eagle Acquisition Corp.*

As discussed in Note 1, on December 16, 2020, the Company consummated the Merger Agreement dated September 1, 2020, with Old Skillz surviving the merger as a wholly owned subsidiary of the Company.

Shares of Old Skillz common stock issued and outstanding were canceled and converted into the right to receive 0.7471 shares of common stock. Unless otherwise stated, the Exchange Ratio was applied to the number of shares and share prices of Old Skillz throughout these consolidated financial statements.

At the effective time of the FEAC Business Combination (the “Effective Time”), and subject to the terms and conditions of the Merger Agreement, holders of 359,518,849 shares of Old Skillz (“Stock Election Shares”) received merger consideration in the form of 191,932,860 shares of the Company’s Class A common stock and 76,663,551 shares of the Company’s Class B common stock, and holders of 75,786,931 shares of Old Skillz (“Cash Election Shares”) received cash consideration of $566,204,152.

Pursuant to the Merger Agreement, Eagle Equity Partners II, LLC (the “Sponsor”) delivered 10,000,000 of its shares of FEAC Class B common stock into escrow that were subject to forfeiture if certain earnout conditions described more fully in the Merger Agreement were not satisfied. The earnout conditions have been fully satisfied and, in March 2021, the Earnout Shares (as defined below) were released from escrow in accordance with the terms of the Merger Agreement. When the earnout conditions were fully satisfied, 5,000,000 of such shares were released to the Sponsor in the form of shares of the Company’s Class A common stock (the “Sponsor Earnout Shares”), and the other 5,000,000 shares were released to the Old Skillz stockholders (the “Skillz Earnout Shares”, and collectively with the Sponsor Earnout Shares, the “Earnout Shares”), who received shares of the Company’s common stock as a result of the FEAC Business Combination in the form of shares of Class A common stock of the Company (other than the Founder and a trust for the benefit of his family members, who received shares of Class B common stock of the Company). The Earnout Shares are accounted for as equity classified equity instruments, were included as merger consideration as part of the Reverse Recapitalization, and recorded in additional paid-in capital.

Upon the closing of the FEAC Business Combination, the Company's certificate of incorporation was amended and restated to, among other things, increase the total number of authorized shares of all classes of capital stock to 635,000,000 shares, $0.0001 par value per share, of which, 500,000,000 shares are designated as Class A common stock, 125,000,000 shares are designated as Class B common stock, and 10,000,000 shares are designated as preferred stock.

In connection with the FEAC Business Combination, certain institutional investors (the “Investors”) purchased from the Company an aggregate of 15,853,052 shares of Class A common stock (the “Private Placement”), for a purchase price of $10.00 per share and an aggregate purchase price of $158.5 million (the “Private Placement Shares”), pursuant to separate subscription agreements (each, a “Subscription Agreement”) entered into effective as of September 1, 2020.

The FEAC Business Combination is accounted for as a reverse recapitalization in accordance with U.S. GAAP. Under this method of accounting, FEAC was treated as the “acquired” company and Old Skillz is treated as the acquirer for financial reporting purposes. Accordingly, for accounting purposes, the FEAC Business Combination was treated as the equivalent of Old Skillz issuing stock for the net assets of FEAC, accompanied by a recapitalization. The net assets of FEAC were stated at historical cost, with no goodwill or other intangible assets recorded.

The following table reconciles the elements of the FEAC Business Combination to the consolidated statement of cash flows and the consolidated statement of stockholders’ equity (deficit) for the year ended December 31, 2020:

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

| | Recapitalization |
|---|---|
| Cash - FEAC trust and cash, net of redemptions | $ 689,979 |
| Cash - Private Placement Financing | 158,531 |
| Non-cash net assets assumed from FEAC | — |
| Less: cash consideration paid to Old Skillz stockholders | (566,204) |
| Less: transaction costs and advisory fees incurred by FEAC | (35,822) |
| Net cash contributions from FEAC Business Combination and PIPE Financing | 246,484 |
| Less: non-cash fair value of Public and Private Common Stock Warrants(1) | (155,183) |
| Less: non-cash net assets assumed from FEAC | — |
| Less: accrued transaction costs and advisor fees incurred by Skillz | (16,058) |
| Net FEAC Business Combination and PIPE financing | $ 75,243 |

(1) Net of $1.0 million of transaction costs and advisor fees incurred by Skillz attributable to the Public and Private Common Stock Warrants.

The number of shares of common stock issued immediately following the consummation of the Business Combination (share numbers are not in thousands):

| | Recapitalization |
|---|---|
| Common stock, outstanding prior to FEAC Business Combination | 69,000,000 |
| Less: redemption of FEAC shares | (2,140) |
| Common stock of FEAC | 68,997,860 |
| FEAC sponsor shares | 6,350,200 |
| Earnout shares | 10,000,000 |
| Shares issued in Private Placement Financing | 15,853,052 |
| FEAC Business Combination and Private Placement Financing shares - Class A common stock | 101,201,112 |
| Old Skillz shares converted to New Skillz Class A common stock(1) | 191,932,861 |
| Old Skillz shares converted to New Skillz Class B common stock(2) | 76,663,551 |
| Total shares of common stock immediately after FEAC Business Combination | 369,797,524 |

(1) The number of Old Skillz shares converted to Class A common stock was determined from 332,690,933 shares of Old Skillz Class B common stock outstanding immediately prior to the closing of the FEAC Business Combination, including shares of redeemable convertible preferred stock, converted at the Exchange Ratio, less 56,620,419 shares of New Skillz stock which were repurchased from Old Skillz stockholders as part of the FEAC Business Combination. All fractional shares were rounded down.

(2) The number of Old Skillz shares converted to Class B common stock was determined from the 102,614,847 shares of Old Skillz Class A common stock outstanding immediately prior to the closing of the FEAC Business Combination, including shares of convertible preferred stock, converted at the Exchange Ratio. All fractional shares were rounded down.

*Acquisition of Aarki, Inc.*

On July 16, 2021, the Company completed the acquisition of Aarki, Inc. ("Aarki") and acquired 100% of the outstanding equity and voting interest of Aarki under the terms of the Agreement and Plan of Merger. The Company transferred $162.3 million in consideration comprised of $95.3 million in cash and the remaining $67.1 million comprised of 4.4 million of Skillz Class A common stock to the existing Aarki stockholders. The Company acquired Aarki to produce efficiencies in user-acquisition costs, which could be reinvested to acquire more users to accelerate growth and provide a broader product offering, including media buying capabilities to better serve game developers. The financial results of Aarki have been included in the Company's consolidated financial statements since the date of the acquisition.

*(Amounts in tables are in thousands, unless otherwise noted)*

The Company has included the financial results of Aarki in the consolidated financial statements from the date of acquisition.

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

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

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

The following is an allocation of the purchase price as of July 16, 2021, the acquisition closing date, and the fair values for each major class of assets acquired and liabilities assumed. The Company retained the services of certified valuation specialists to assist with assigning values to certain acquired assets and assumed liabilities:

| Description | | Amount |
|---|---|---|
| | | (As Restated) |
| Cash and cash equivalents | $ | 11,309 |
| Accounts receivable, net | | 13,700 |
| Prepaid expenses and other current assets | | 356 |
| Property and equipment, net (as restated) | | 5,607 |
| Intangible assets, net | | 86,800 |
| Other long-term assets | | 91 |
| Accounts payable | | (445) |
| Accrued professional fees | | (3,145) |
| Other current liabilities (as restated) | | (16,030) |
| Deferred tax liabilities | | (20,075) |
| Other long-term liabilities | | (1,693) |
| Identifiable net assets acquired | | 76,475 |
| Goodwill (as restated) | | 85,872 |
| Total purchase price | $ | 162,347 |

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

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

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

*(Amounts in tables are in thousands, unless otherwise noted)*

The Company considers the restatement of property and equipment, other current liabilities and goodwill noted above to be an accounting error requiring correction under ASC Topic 250 and have included these amounts within Note 3.

*Assumptions in the Allocation of Purchase Price*

The goodwill recognized was attributable primarily to the acquired workforce, expected cost-saving synergies and other benefits that the Company believed would result from use of the Aarki technology-driven marketing platform with the operations of Skillz. None of the goodwill recorded in connection with the Aarki acquisition is deductible for tax purposes.

The fair value of the identified intangible assets acquired from the Aarki acquisition was estimated using income approaches. Under the income approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. Indications of value are developed by discounting future net cash flows to their present value at market-based rates of return. More specifically, the fair value of the developed technology was determined using the multi-period excess earnings method ("MPEEM"). MPEEM is an income approach to the fair value measurement attributable to a specific intangible asset being valued from the asset grouping's overall cash-flow stream. MPEEM isolates the expected future discounted cash-flow stream to its net present value. Significant factors considered in the calculation of the developed technology intangible asset were the projected revenue, gross margins, operating expenses, technology migration curve and research and development costs attributed to maintenance of the acquired technology, along with the discount rate used to derive the estimated present value of future cash flows. The fair value of customer relationships was estimated using the "with and without" income approach, which measures the difference between cash flows generated assuming the existence of the current customer relationships and the cash flows assuming those relationships do not exist and are replaced over time. Estimated costs on projected revenues, excluding acquired contract backlog, were made using historical data pertaining to sales to new and existing customers. The Company valued the finite-lived trademark and trade name using the relief-from-royalty method income approach. The Company applied judgment which involved the use of significant assumptions with respect to its income forecast such as the level and timing of future cash flows. The Company believes the level and timing of expected future cash flows appropriately reflected market participant assumptions.

*Transaction Costs*

The Company incurred transaction costs of approximately $8.0 million for the year ended December 31, 2021 in connection with the business combination for legal, accounting and other professional services fees. These costs are included in the general and administrative expenses on the consolidated statement of operations and comprehensive loss. Direct and incremental transaction costs related to equity offerings that would not otherwise have been incurred are treated as a reduction of the cash proceeds and are deducted from the Company's additional paid-in capital. Accordingly, $0.1 million was incurred related to equity issuance costs for the year ended December 31, 2021 in connection with the issuance of Skillz Class A shares to the Aarki stockholders.

*Pro-Forma Financial Information*

The financial information in the table below summarizes the combined results of operations of the Company and Aarki, on a pro forma basis, as though the companies had been combined as of the beginning of the periods presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place on January 1, 2020 or of results that may occur in the future.

The table below presents the pro forma revenue and net loss of the Company for the year ended December 31, 2021 and 2020. These pro forma results were based on estimates and assumptions, which the Company believes are reasonable. The pro forma results include adjustments primarily related to purchase accounting adjustments, acquisition costs and other non-recurring charges incurred which are included in the earliest period presented. The table below presents the unaudited pro forma revenue and net loss for the years ended December 31, 2021 and 2020.

| | Year Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| | (As Restated) | (As Restated) |
| Revenue | $ 394,988 | $ 257,586 |
| Net loss | $ (200,303) | $ (152,676) |

*(Amounts in tables are in thousands, unless otherwise noted)*

## 5. Balance Sheet Components

### *Prepaid Expenses and Other Current Assets*

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Credit card processing reserve | $ 1,000 | $ 9,527 |
| Prepaid expenses | 2,234 | 5,681 |
| Other current assets | 1,488 | 1,496 |
| Prepaid expenses and other current assets | $ 4,722 | $ 16,704 |

### *Property and Equipment, Net*

Property and equipment consisted of the following as of December 31, 2022 and 2021:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Capitalized internal-use software | $ 9,126 | $ 6,569 |
| Computer equipment and servers | 1,291 | 2,267 |
| Furniture and fixtures | 278 | 400 |
| Leasehold improvements | 114 | 114 |
| Construction in progress | — | 2,544 |
| Finance lease right-of-use assets | 10 | 5,226 |
| Total property and equipment | 10,819 | 17,120 |
| Accumulated depreciation and amortization | (7,828) | (7,132) |
| Property and equipment, net | $ 2,991 | $ 9,988 |

Depreciation and amortization expense related to property and equipment was $0.7 million, $3.5 million, and $1.6 million in 2022, 2021, and 2020, respectively.

As discussed in Note 2, for the year ended December 31, 2022, an impairment charge of approximately $3.5 million was recorded in connection with property and equipment, primarily finance lease ROU assets and computer equipment.

*(Amounts in tables are in thousands, unless otherwise noted)*

***Other Current Liabilities***

Other current liabilities consisted of the following as of December 31, 2022 and 2021:

| | December 31, | |
|---|---|---|
| | 2022 | 2021 |
| | | (As Restated) |
| Accrued sales and marketing expenses (as restated) | $ 4,409 | $ 28,895 |
| Accrued compensation | 4,991 | 12,108 |
| Accrued publisher fees (as restated) | 4,442 | 3,057 |
| End-user liability, net (as restated) | 8,984 | 12,286 |
| Accrued developer revenue share | 2,017 | 1,655 |
| Short-term lease obligations | 1,525 | 2,447 |
| Accrued legal expenses | 1,984 | 5,126 |
| Indirect tax liabilities (as restated) | 10,909 | 6,809 |
| Other accrued expenses (as restated) | 6,405 | 5,570 |
| Other current liabilities | $ 45,666 | $ 77,953 |

**6. Goodwill and Intangible Assets**

*Goodwill*

The Company observed continued market volatility including declines in its market capitalization and revised its financial outlook in August 2022, which was identified as a potential indicator of impairment. As a result, the Company performed an interim quantitative goodwill impairment evaluation as of August 31, 2022, and determined the fair value of its reporting unit was greater than its carrying value and did not record a goodwill impairment charge.

During the fiscal year 2022 annual impairment test on November 1, 2022, the Company performed a qualitative assessment of these factors to determine whether it was more likely than not that the fair value of the reporting unit was less than the carrying amount. As of November 1, 2022, it was determined that it was not more likely than not that the fair value of the Skillz reporting unit was less than its carrying amount.

Management determined that an additional interim goodwill impairment test was necessary as of December 31, 2022, due to the sharp decline in Skillz stock price and market capitalization from November 1, 2022 to December 31, 2022. As a result, the Company performed a quantitative goodwill impairment evaluation as of December 31, 2022. As the Company's estimated enterprise value was significantly below its carrying value, the Company's quantitative assessment was based on the net asset value method. Under this method, the impairment was based on a comparison of the estimated fair value of the Company's net assets (excluding goodwill) to the carrying value of its stockholders' equity. Certain adjustments were required to the carrying value of assets and liabilities to estimate their fair value, the most significant of which related to the Company's long-term debt, for which the fair value of the long-term debt was estimated based on secondary market quotes, as described in Note 10. Based on the results of the net asset approach, the Company recorded an impairment loss for the total carrying value of goodwill of $85.5 million. The impairment was recorded within Impairment of goodwill and long-lived assets in the consolidated statement of operations and comprehensive loss for the year ended December 31, 2022. There was no goodwill impairment recorded for the year ended December 31, 2021.

The following table presents details of changes to the Company's goodwill balance for the year ended December 31, 2022:

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

| | | Goodwill (As Restated) |
|---|---|---|
| Balance as of December 31, 2021 | $ | 85,872 |
| Adjustment [(1)] | | (409) |
| Impairment | | (85,463) |
| Balance as of December 31, 2022 | $ | — |

(1) During the first quarter of 2022, the Company recorded a measurement period adjustment to increase the carrying value of the identifiable net assets acquired as a result of the Aarki acquisition, with a corresponding decrease to goodwill. See Note 4, Business Combinations, for more details.

*Intangible Assets, Net*

Intangible assets consist of purchased intangible assets, including developed technology, customer relationships, trademarks and tradenames. The Company reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable.

During 2022, the Company identified indicators of impairment related to the Aarki asset group, which is primarily composed of intangible assets. In August 2022, the Company revised its financial outlook, resulting in lower projected user acquisition spend and a slower than expected migration of that spend to the Aarki technology-driven marketing platform, resulting in unrealized cost-saving synergies, which the Company identified as an indicator of impairment related to the Aarki asset group. Additionally, during the fourth quarter of 2022, additional indicators of impairment were identified, most notably sharp declines in the Company’s stock price and overall market capitalization near the end of 2022, and secondarily, a downward revision to the Aarki business forecast and related expected cash flows attributable to the Aarki asset group. As a result of these indicators of impairment, in the third quarter and in the fourth quarter of 2022, the Company reviewed the undiscounted future cash flows for the Aarki asset group, and the results of the analysis in each case indicated the carrying amount of the asset group was not expected to be recovered. As a result, the Company performed analyses to estimate the fair value of the long-lived asset group. In each quarter, the fair value of the Aarki asset group was estimated using an income approach. Under the income approach, a long-lived asset group’s fair value is equal to the present value of future economic benefits to be derived from ownership of the asset group. Indications of value are developed by discounting future net cash flows to their present value at market-based rates of return. Significant factors considered in the calculation of the fair value of the long-lived asset group were projected revenue, gross margins, operating expenses, the remaining economic life of the overall long-lived asset group based on the primary asset of the group, which was determined to be the developed technology, along with the discount rates used to derive the estimated present values of future cash flows. The Company applied judgment which involved the use of significant assumptions with respect to its income forecast such as the level and timing of future cash flows.

As of December 31, 2022, the Company determined the Aarki asset group had no remaining fair value and recorded impairment charges totaling $66.7 million related to intangible assets during the year ended December 31, 2022.

The components of intangible assets consisted of the following as of December 31, 2022:

| | Gross Carrying Amount | Accumulated Amortization | Impairment | Net Carrying Amount |
|---|---|---|---|---|
| Developed technology | $ 60,400 | $ (9,249) | $ (51,151) | $ — |
| Customer relationships | 26,200 | (10,699) | (15,501) | — |
| Intangible assets, net | $ 86,600 | $ (19,948) | $ (66,652) | $ — |

The components of intangible assets consisted of the following as of December 31, 2021:

SKILLZ INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(Amounts in tables are in thousands, unless otherwise noted)*

| | Weighted Average Remaining Useful Life (in years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|---|
| Developed technology | 7.58 | $ 60,400 | $ (3,460) | $ 56,940 |
| Customer relationships | 2.58 | 26,200 | (4,003) | 22,197 |
| Trademark and trade name | — | 200 | (200) | — |
| Intangible assets, net | | $ 86,800 | $ (7,663) | $ 79,137 |

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

| | Year Ended December 31, 2022 |
|---|---|
| Beginning balance at December 31, 2021 | $ 79,137 |
| Amortization | (12,485) |
| Impairment | (66,652) |
| Ending balance at December 31, 2022 | $ — |

The following table summarizes amortization expense associated with finite-lived intangible assets recognized in the consolidated statements of operations and comprehensive loss for the years ended December 31, 2022 and 2021 as follows:

| | Year Ended December 31, 2022 | 2021 |
|---|---|---|
| Cost of revenue | $ 5,789 | $ 3,460 |
| Sales and marketing | 6,696 | 4,003 |
| General and administrative | — | 200 |
| Total amortization expense | $ 12,485 | $ 7,663 |

**7. Restructuring**

In the second and third quarters of 2022, the Company approved and implemented restructuring plans to realign resources and reduce operating costs. As a result, during the year ended December 31, 2022, the Company recorded restructuring charges of $4.5 million. These charges included $4.8 million of employee termination benefits primarily consisting of severance and continuation of health insurance benefits and a $0.3 million reduction of stock based compensation expense resulting from the modification of certain unvested equity awards provided for employees at the time of termination. The table below summarizes the restructuring charges recognized in the consolidated statement of operations and comprehensive loss for year ended December 31, 2022 as follows:

| | Total Restructuring Changes |
|---|---|
| Research and development | $ 1,905 |
| Sales and marketing | 947 |
| General and administrative | 1,673 |
| Total | $ 4,525 |

*(Amounts in tables are in thousands, unless otherwise noted)*

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

| | Restructuring Accrual |
|---|---|
| Employee termination benefits | 4,830 |
| Cash payments | (4,830) |
| Restructuring liability as of December 31, 2022 | — |

**8. Fair Value Measurements**

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

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

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis:

| | Fair Value Measurements as of December 31, 2022 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Available-for-Sale Investments | | | | |
| Asset-backed securities | $ — | $ 58,192 | $ — | $ 58,192 |
| Certificates of deposits | — | — | — | — |
| Corporate notes and bonds | — | 110,298 | — | 110,298 |
| Commercial paper | — | 10,479 | — | 10,479 |
| Foreign government securities | — | 5,027 | — | 5,027 |
| US government and agency securities | 86,898 | — | — | 86,898 |
| Total assets | $ 86,898 | $ 183,996 | $ — | $ 270,894 |
| **Liabilities:** | | | | |
| Common Stock Warrants | | | | |
| Private Common Stock Warrants | $ — | $ — | $ 289 | $ 289 |
| Total liabilities | $ — | $ — | $ 289 | $ 289 |

*(Amounts in tables are in thousands, unless otherwise noted)*

| | Fair Value Measurements as of December 31, 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Available-for-Sale Investments | | | | |
| Asset-backed securities | $ — | $ 111,552 | $ — | $ 111,552 |
| Certificates of deposits | — | 6,002 | — | 6,002 |
| Corporate notes and bonds | — | 206,989 | — | 206,989 |
| Commercial paper | — | 109,391 | — | 109,391 |
| Foreign government securities | — | 8,181 | — | 8,181 |
| US government securities | 86,787 | — | — | 86,787 |
| Total assets | $ 86,787 | $ 442,115 | $ — | $ 528,902 |
| **Liabilities:** | | | | |
| Common Stock Warrants | | | | |
| Private Common Stock Warrants | $ — | $ — | $ 6,293 | $ 6,293 |
| Total liabilities | $ — | $ — | $ 6,293 | $ 6,293 |

*Available-for-Sale Investments*

Available-for-sale investments were classified within Level 1 or Level 2 because of the Company's use quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value. The market values of Level 2 investments are determined based on observable inputs for the securities other than quoted prices, such as interest rates, yield curves, and credit spreads, or quoted prices for identical or similar securities in markets that are not considered active. There were no transfers between levels during the periods presented.

*Public and Private Common Stock Warrants*

The Public Warrants were classified within Level 1 as they are publicly traded and had an observable market price in an active market and were fully redeemed as of December 31, 2021. The Private Warrants were classified within Level 3 as they were valued based on a BSM pricing model, which involved the use of certain unobservable inputs, such as expected volatility estimated based on the average historical stock price volatility of comparable companies. As of December 31, 2022 and 2021, the fair value of the Private Warrants liability was $0.3 million and $6.3 million, respectively.

The following sets forth the activity for Private Warrants:

| | Private Warrants |
|---|---|
| Balance at December 31, 2021 | $ 6,293 |
| Fair market value adjustment | (6,004) |
| Balance as of December 31, 2022 | $ 289 |

*Forward Contract Liability*

The Company had no outstanding forward contract liability as it was settled during the year ended December 31, 2020.
Prior to the FEAC Business Combination, the Company measured the Redeemable Convertible Series E preferred stock forward contract liability at fair value based on significant inputs not observable in the market, which causes it to be classified as a Level 3 measurement within the fair value hierarchy. The valuation of the Redeemable Convertible Series E preferred stock forward contract liability uses assumptions and estimates the Company believes would be made by a market participant in making the same valuation. The Company assessed these assumptions and estimates on an on-going basis in 2020 until settlement of the contract as additional data impacting the assumptions and estimates was obtained. Changes in the fair value of the redeemable convertible Series E preferred stock forward contract liability related to updated assumptions and estimates are recognized within Other income (expense), net in the consolidated statements of operations and comprehensive loss.

*(Amounts in tables are in thousands, unless otherwise noted)*

The table below reflects the fair value measurement of the Company’s Level 3 inputs as of September 10, 2020, the date on which the Redeemable Convertible Series E preferred forward contract liability was settled, prior to giving effect to the FEAC Business Combination:

| | Fair Value as of September 10, 2020 | Valuation Technique | Unobservable Input Description | Input |
|---|---|---|---|---|
| Redeemable Convertible Series E preferred stock forward contract liability | $ 21,688 | Discounted cash flow | Fair value of Redeemable Convertible Series E preferred stock | $ 9.17 |

The fair value of the redeemable convertible Series E preferred stock forward contract liability as of the September 10, 2020 settlement date was determined by multiplying the number of additional shares issued by the Company by the difference between the issuance price in accordance with the forward contract agreement and the estimated fair value of the redeemable convertible Series E preferred stock.

*Earnout Shares*

Pursuant to the Merger Agreement, FEAC delivered 10,000,000 of its shares of FEAC Class B common stock into escrow that are subject to forfeiture if certain earnout conditions described more fully in the Merger Agreement are not satisfied. If the earnout conditions are fully satisfied, 5,000,000 of such shares will be released to the Sponsor in the form of shares of Class A common stock of New Skillz, and the other 5,000,000 shares will be released to the Old Skillz stockholders, who will receive shares of New Skillz common stock as a result of the FEAC Business Combination in the form of shares of Class A common stock of New Skillz (other than the Founder and a trust for the benefit of his family members, who will receive shares of Class B common stock of New Skillz), in each case as further described in the Merger Agreement. The fair value of the Earnout Shares of $172.3 million was estimated using a model based on multiple stock price paths developed through the use of a Monte Carlo simulation that incorporates into the valuation the possibility that the market condition targets may not be satisfied. The Earnout Shares were included in the net consideration from the FEAC Business Combination and recorded in Additional paid-in capital with a corresponding offset to Additional paid-in capital. In January 2021, the conditions for the release of the Earnout Shares were satisfied. The Sponsor released 10,000,000 of its shares of FEAC Class B common stock from escrow as certain earnout conditions were satisfied. 5,000,000 of such shares were released to the Sponsor in the form of shares of the Company’s Class A common stock and the other 5,000,000 shares were released to the Old Skillz stockholders, who received shares of the Company’s common stock as a result of the FEAC Business Combination in the form of shares of Class A common stock of the Company (other than the Founder and a trust for the benefit of his family members, who received shares of Class B common stock of the Company).

(Amounts in tables are in thousands, unless otherwise noted)

## 9. Investments

***Investment Components***

The components of investments were as follows:

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

| | As of December 31, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Adjusted Cost Basis | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Marketable Securities - Current | Marketable Securities - Non-current |
| Asset-backed securities | $ 111,619 | $ 1 | $ (68) | $ 111,552 | $ — | $ 5,372 | $ 106,180 |
| Certificates of deposits | 6,002 | — | — | 6,002 | — | 6,002 | — |
| Corporate notes and bonds | 207,170 | 21 | (201) | 206,990 | 3,026 | 132,688 | 71,276 |
| Commercial paper | 109,391 | — | — | 109,391 | 24,193 | 85,198 | — |
| Money market funds | 51,768 | — | — | 51,768 | 51,768 | — | — |
| Foreign government securities | 8,186 | — | (5) | 8,181 | — | 3,008 | 5,173 |
| US government and agency securities | 86,783 | 4 | — | 86,787 | — | 86,787 | — |
| Total investments | $ 580,919 | $ 26 | $ (274) | $ 580,671 | $ 78,987 | $ 319,055 | $ 182,629 |

Non-marketable equity securities are investments in privately held companies without readily determinable fair values. The carrying value of the Company’s investments without readily determinable fair values was $55.6 million as of December 31, 2022 and 2021 and is classified within “Investments in non-marketable equity securities” in the condensed consolidated balance sheets. The Company did not record any adjustments to the carrying value of its non-marketable equity securities accounted for under the measurement alternative, and did not recognize any gains or losses related to the sale of non-marketable equity securities in the years ended December 31, 2022 or 2021.

***Unrealized Losses on Marketable Securities***

Marketable securities with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values were as follows:

*(Amounts in tables are in thousands, unless otherwise noted)*

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

Unrealized losses from marketable securities are primarily attributable to changes in interest rates. The company does not believe any of unrealized losses represent impairments based on the Company's evaluation of available evidence.

***Marketable Securities Maturities***

| | Adjusted Cost Basis | Estimated Fair Value |
|---|---|---|
| **December 31, 2022** | | |
| Due in one year or less | $ 128,597 | $ 127,268 |
| Due after one year through five years | 56,990 | 56,728 |
| Total | $ 185,587 | $ 183,996 |

**10. Long-Term Debt**

Components of long-term debt were as follows as of December 31, 2022 and 2021:

| | December 31, | |
|---|---|---|
| | 2022 | 2021 |
| 2021 Senior Secured Notes | $ 289,500 | $ 300,000 |
| Unamortized discount and issuance costs | (16,719) | (21,111) |
| Long-term debt, non-current | $ 272,781 | $ 278,889 |

***2021 Senior Secured Notes***

In December 2021, the Company entered into $300 million of 10.25% secured notes in a private placement to certain institutional buyers. The interest is payable semiannually on June 15 and December 15 of each year, beginning on June 15, 2022. At issuance, the effective interest rate on the notes was 12.14%. The notes will mature on December 15, 2026 unless repurchased or redeemed earlier. The secured notes contain customary covenants restricting the Company's ability to incur debt, incur liens, make distributions to stockholders, make certain transactions with our affiliates, as well as certain other financial covenants. The Company was in compliance with all covenants as of December 31, 2022.

In accounting for the senior secured notes, unamortized discount and issuance costs were deducted from the carrying value in the consolidated balance sheet. The unamortized discount and issuance costs will be recognized as interest expense over the five-year term of the senior secured notes. The senior secured notes are classified as Level 2 financial instruments, and the fair value of the notes is presented for disclosure purposes only. The Company determined the fair value of the notes is $185 million as of December 31, 2022 based on secondary market quotes.

Interest is paid semi-annually. Accrued interest as of December 31, 2022 was $1.2 million and was recorded within other current liabilities in the Company's consolidated balance sheets. During the year ended December 31, 2022, $30.0 million and has been paid for interest.

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

*(Amounts in tables are in thousands, unless otherwise noted)*

The following table outlines maturities of the Company's long-term debt, as of December 31, 2022:

| | Amount |
|---|---|
| 2023 | $ — |
| 2024 | — |
| 2025 | — |
| 2026 | 289,500 |
| Total | $ 289,500 |

**11. Leases**

The Company is a party to various non-cancelable operating lease agreements for certain of its offices. The Company is a party to various non-cancelable finance lease agreements for certain network equipment. The leases have original lease periods expiring between 2023 to 2030. Some leases include one or more options to renew. The Company does not assume renewals in its determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement. The lease agreements generally do not contain any material residual value guarantees or material restrictive covenants.

The components of lease costs, lease term and the discount rate were as follows for the year ended December 31, 2022 and 2021:

| | Year Ended December 31, | |
|---|---|---|
| | **2022** | **2021** |
| Finance leases | | |
| Amortization of assets under finance leases | $ 2,003 | $ 1,144 |
| Interest | 285 | 237 |
| Total finance lease costs | $ 2,288 | $ 1,381 |
| Operating lease cost | $ 3,983 | $ 3,309 |
| Variable lease cost | $ 489 | $ 241 |
| Short-term lease rent expense | $ 830 | $ 388 |
| | | |
| **Weighted-average remaining lease term** | | |
| Operating leases | 6.7 | 7.4 |
| Finance leases | 1.8 | 1.9 |
| | | |
| **Weighted-average discount rate** | | |
| Operating leases | 11.5 % | 11.3 % |
| Finance leases | 10.8 % | 10.4 % |

Operating lease expense was $6.5 million for the year ended December 31, 2020, under ASC 840.

*(Amounts in tables are in thousands, unless otherwise noted)*

The following table outlines future minimum lease payments under the Company’s non-cancellable leases as of December 31, 2022:

| | Operating Leases | Finance Leases |
|---|---|---|
| 2023 | $ 3,619 | $ 1,726 |
| 2024 | 2,657 | 705 |
| 2025 | 2,513 | 294 |
| 2026 | 2,588 | — |
| 2027 | 2,666 | — |
| Thereafter | 6,547 | — |
| Total undiscounted cash flows | 20,590 | 2,725 |
| Less: Imputed interest | (6,515) | (245) |
| Present value of lease liabilities | $ 14,075 | $ 2,480 |
| | | |
| Lease liabilities, current | 2,133 | 1,553 |
| Lease liabilities, non-current | 11,942 | 927 |
| Present value of lease liabilities | $ 14,075 | $ 2,480 |

As of December 31, 2022, the Company does not have additional operating and finance leases not yet commenced.

Supplemental cash flow information related to leases for the year ended December 31, 2022 is as follows:

| | |
|---|---|
| **Cash paid for amounts included in the measurement of lease liabilities:** | |
| Payments for operating leases included in cash from operating activities | $ 3,994 |
| Payments for finance leases included in cash from operating activities | $ 285 |
| Payments for finance leases included in cash from financing activities | $ 2,612 |
| **Assets obtained in exchange for lease obligations:** | |
| Operating leases | $ — |
| Finance leases | $ — |

## 12. Commitments and Contingencies

### *Legal Matters*

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

On May 15, 2019, a former employee of the Company filed a suit against the Company in the San Francisco Superior Court in California for claims including breach of contract, retaliation and wrongful termination. The case was tried in August and September 2021. The jury found in favor of the former employee and rendered a verdict against the Company for $11.6 million in compensatory damages, and the Company recorded a loss contingency accrual and corresponding general and administrative expenses in such amount in the third quarter of 2021. In April 2022, the judge in the case determined, in light of the Company’s post-verdict motions, that the instructions given to the jury at trial were defective. Accordingly, the judge ordered a new trial on damages or, alternatively, permitted the plaintiff accept a reduced verdict in the amount of $4.35 million, which the plaintiff subsequently levied from the Company’s bank account. On May 25, 2022, the Company filed an appeal from the judgment seeking, in part, entry of judgment in the Company's favor notwithstanding the verdict. The plaintiff accepted the reduced verdict, and filed an appeal from the judgment on June 7, 2022, seeking in part, to reinstate the jury's original verdict. Management believes the most likely outcome is that this matter will go back to trial which would mean that it likely will not be resolved until calendar year 2024. As a result, the liability has been reclassified from a short-term liability to a long-term liability on the consolidated balance sheet as of December 31, 2022.

***Indirect Taxes***

During 2022, the Company completed a review with the Australian Taxation Office (ATO) and concluded it was required to register for the Goods and Service Tax (GST) in Australia. In conjunction with this review and the expansion of the Company’s operations in international jurisdictions in 2021 and 2022, the Company reviewed its global indirect tax exposure for the rest of the world. As a result of this review, the Company determined that it is liable for indirect taxation in various countries around the world based on operations in the current fiscal year as well as historical periods. Accordingly, the Company recorded a charge for indirect taxes due in the amount of $2.9 million, $1.9 million, and $0.6 million for the years ending December 31, 2022, 2021, and 2020, respectively, which is included as a reduction to revenue in the consolidated statements of operations and comprehensive loss. For those same periods, $0.6 million, $0.6 million, and $0.1 million were accrued related to interest and penalties, respectively, and were recorded as expenses within general and administrative in the consolidated statements of operations and comprehensive loss. As of December 31, 2022 and 2021, $6.5 million and $3.6 million, respectively, are accrued within other current liabilities on the consolidated balance sheets. These amounts include interest and penalties of $1.4 million and $0.8 million as of December 31, 2022 and 2021, respectively.

In some U.S. jurisdictions, non-income-based taxes, such as sales and use tax are assessed on our operations. During 2022, the Company assessed the possibility that the Company has exposure to sales and use tax in various state jurisdictions. There is uncertainty as to what constitutes sufficient presence for a jurisdiction to levy taxes, fees, and surcharges for Skillz’s business, primarily given the nature of its product offering which is not the sale of physical goods, and there is uncertainty as to whether its services are taxable in certain jurisdictions. The Company recorded a charge for indirect taxes due in the amount of $1.4 million, $1.9 million, and $0.4 million for the years ending December 31, 2022, 2021, and 2020, respectively, which are included as a reduction to revenue in the consolidated statements of operations and comprehensive loss. As of December 31, 2022 and 2021, $4.1 million and $2.6 million, respectively, are accrued within other current liabilities on the consolidated balance sheets. These amounts include interest of $0.3 million and $0.2 million as of December 31, 2022 and 2021, respectively.

The estimate of a probable outcome under the loss contingency is based on analysis of sales activities, revenue subject to sales and other indirect taxes, and applicable regulations in applicable jurisdictions in each period. Changes in assumptions may occur in the future as the Company obtains new information, which can result in adjustments to the recorded liability.

**13. Retirement Plans**

***401(k) Plan***

The Company has a 401(k) Plan that qualifies as a deferred salary arrangement under Section 401 of the IRC. Under the 401(k) Plan, participating employees may defer a portion of their pretax earnings not to exceed the maximum amount allowable. Contributions for eligible employees for the years ended December 31, 2022, 2021 and 2020, were $1.4 million, $0.3 million, and $0.1 million respectively.

**14. Common Stock Warrants**

As of December 31, 2022 and 2021, the Company had zero Public Warrants and 4,535,728 Private Warrants outstanding, respectively. During the year ended December 31, 2022, there were no Private Warrants exercised.

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

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

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

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

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

**15. Stockholders' Equity**

**Common Stock**

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

As of December 31, 2022 and December 31, 2021, the Company has authorized a total of 635 million shares, consisting of 500 million shares of Class A Common Stock, par value $0.0001 per share ("Class A Common Stock"), 125 million shares of Class B Common Stock, par value $0.0001 per share ("Class B Common Stock"), and 10 million shares of Preferred Stock, par value $0.0001 per share ("preferred stock").

In March 2021, the Company completed an underwritten public offering of its Class A common stock and issued 17,000,000 shares of Class A common stock, for an aggregate purchase price of $408.0 million, before issuance costs of

$5.9 million. In connection with the public offering, certain stockholders of the Company sold an aggregate of 19.8 million shares, including the full exercise of the underwriters' option to purchase an additional 4.8 million additional shares. The purchase price per share, net of the underwriter discount, was $23.34. The Company incurred transaction costs of $6.8 million in connection with this sale of shares by certain stockholders, which was recorded as a General and administrative expense.

***Old Skillz Redeemable Convertible Preferred Stock***

In April and May 2020, Old Skillz received $65.0 million in cash proceeds from the issuance of redeemable convertible Series E preferred stock to private investors at a price per share of $43.11. The Series E Stock Purchase Agreement required the Old Skillz to issue and sell, and the Series E investors to purchase, additional shares of redeemable convertible Series E preferred stock subsequent to the initial closing (the "redeemable convertible Series E preferred stock forward contract liability"). The Company concluded that the redeemable convertible Series E preferred stock forward contract liability met the definition of a freestanding financial instrument, as it was legally detachable and separately exercisable from the initial closing of the redeemable convertible Series E preferred stock. The forward contract liability had an immaterial value at the issue date.

In September 2020, Old Skillz received $11.7 million in cash proceeds as settlement for the outstanding redeemable convertible Series E preferred stock forward contract liability and issuance of the underlying redeemable convertible Series E preferred stock to a private investor at a price per share of $43.11. During the year ended December 31, 2020, the Company recognized a non-cash charge of $21.7 million related to changes in the fair value of the redeemable convertible Series E preferred stock forward contract liability, which was included in other income (expense), net in the consolidated statements of operations.

Immediately prior to the completion of the FEAC Business Combination on December 16, 2020, all outstanding shares of the Company's redeemable convertible preferred stock converted into shares of common stock.

*(Amounts in tables are in thousands, unless otherwise noted)*

**16. Stock-Based Compensation**

The following table summarizes stock-based compensation expense recognized for the years ended December 31, 2022, 2021 and 2020, as follows:

| | December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| Research and development | $ 4,662 | $ 7,416 | $ 6,110 |
| Sales and marketing | 8,615 | 8,770 | 4,505 |
| General and administrative | 94,925 | 44,145 | 13,142 |
| Total stock-based compensation expense | $ 108,202 | $ 60,331 | $ 23,757 |

***Equity Incentive Plans***

*2012, 2015, and 2017 Equity Incentive Plans*

Prior to the FEAC Business Combination, the Company maintained a stock based compensation plan. Old Skillz's 2012, 2015, and 2017 Equity Incentive Plans (the "Legacy Equity Incentive Plans") provided for the grant of stock-based awards to purchase or directly issue shares of common stock to employees, directors and consultants. Options were granted at a price per share equal to the fair market value of the underlying common stock at the date of grant. Options granted to newly hired employees typically vest 25% on the first anniversary date of hire and ratably each quarter over the ensuing 36 month period. The maximum term for stock options granted under the Legacy Equity Incentive Plans may not exceed ten years from date of grant.

Each Old Skillz option from the Legacy Equity Incentive Plans that was outstanding immediately prior to the FEAC Business Combination, whether vested or unvested, was converted into an option to acquire a number of shares of Class A Common Stock (other than in the case of the Founder, who received options exercisable for Class B common stock of the Company) (each such option, an "Exchanged Option") equal to the product (rounded down to the nearest whole number) of (i) the number of shares of Old Skillz common stock subject to such Old Skillz option immediately prior to the FEAC Business Combination and (ii) the Exchange Ratio, at an exercise price per share (rounded up to the nearest whole cent) equal to (A) the exercise price per share of such Old Skillz option immediately prior to the consummation of the FEAC Business Combination, divided by (B) the Exchange Ratio. Except as specifically provided in the FEAC Business Combination Agreement, following the FEAC Business Combination, each Exchanged Option will continue to be governed by the same terms and conditions (including vesting and exercisability terms) as were applicable to the corresponding former Old Skillz option immediately prior to the consummation of the FEAC Business Combination. All stock option activity was retroactively restated to reflect the Exchanged Options.

*Skillz Inc. 2020 Omnibus Incentive Plan*

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

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

***Stock Options and Restricted Stock Units***

Stock option and RSU activity during the year ended December 31, 2022 is as follows (in thousands, except for share, per share, and contractual term data):

| | | Options Outstanding | | | | Restricted Stock Units | |
|---|---|---|---|---|---|---|---|
| | Number of Shares Available for Issuance Under the Plan | Number of Shares Outstanding Under the Plan | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value | Number of Plan shares outstanding | Weighted-Average Grant Date Fair Value per share |
| Balance at December 31, 2021 | 51,437,898 | 27,727,088 | $ 7.79 | 7.04 | $ 113,110 | 7,600,097 | $ 13.17 |
| Additional shares authorized | 20,437,691 | — | — | | | | |
| Options and restricted stock units granted | (56,239,223) | — | — | | | 56,239,223 | 1.04 |
| Options exercised and restricted stock units released | — | (10,318,720) | 0.13 | | | (2,074,116) | 9.35 |
| Options and restricted stock units canceled | 12,821,148 | (1,162,506) | 1.02 | | | (11,658,642) | 6.63 |
| Balance at December 31, 2022 | 28,457,514 | 16,245,862 | $ 13.15 | 7.27 | $ 1,145 | 50,106,562 | $ 1.23 |
| | | | | | | | |
| Exercisable at December 31, 2021 | | 13,157,036 | $ 0.15 | 5.17 | $ 95,946 | | |
| Exercisable at December 31, 2022 | | 3,930,317 | $ 0.29 | 5.17 | $ 1,132 | | |
| Unvested at December 31, 2021 | | 14,570,052 | $ 14.69 | 8.72 | $ 17,164 | | |
| Unvested at December 31, 2022 | | 12,315,545 | $ 17.25 | 7.94 | $ 14 | | |

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

The number of RSUs granted does not include 15.9 million performance based RSUs previously issued by the Company, as the performance-based RSUs are not deemed granted for accounting purposes. Refer to the 2022 CFO and CEO Performance Award disclosure below for further details.

As of December 31, 2022, unrecognized stock-based compensation expense related to unvested stock options, restricted common stock, RSUs, performance-based RSUs and performance stock units was $113.0 million. The weighted-average period over which such compensation expense will be recognized is 3.51 years. This does not include unrecognized stock-based compensation expense related to performance-based RSUs not deemed granted for accounting purposes.

The aggregate intrinsic value of options exercised was $16.0 million, $69.8 million and $89.9 million during the years ended December 31, 2022, 2021 and 2020, respectively.

*(Amounts in tables are in thousands, unless otherwise noted)*

No options were granted during the year ended December 31, 2022. The assumptions used to estimate the fair value of stock options granted and the resulting fair values for the years ended December 31, 2021 and 2020 were as follows:

| | 2021 (1) | 2020 |
|---|---|---|
| Expected volatility | 48.71% | 45% – 50% |
| Risk-free interest rate | 0.02% | 0.27% – 1.44% |
| Expected term (in years) | 0.25 | 4.14-6.25 |
| Expected dividend yield | — | — |
| Weighted average estimated fair value of stock options granted during the year | $15.63 | $5.06 |

(1) For the year ended December 31, 2021, the above assumptions were used to estimate the fair value of certain stock options previously granted to the former CFO, that were modified as part of the transition and release agreement.

*2022 CFO Restricted Stock Unit and Performance Award*

The Company granted the Company's President and Chief Financial Officer ("CFO") a restricted stock unit award covering shares of the Company's Class A common stock with a grant date value equal to $15.0 million, comprised of 10.4 million restricted stock units. Such grant vests 25% on the first anniversary of CFO's start date and the remainder vests in 12 substantially equal quarterly installments, in each case subject to continuous service with the Company through each applicable vesting date, provided that the grant vests in full if the CFO is terminated without cause following a change of control of the Company. On September 30, 2022, the restricted stock unit award was re-measured based on the fair value of an underlying share of the Company's Class A common stock, which was equal to $10.7 million, and the Company then reclassified the liability classified award to additional paid-in capital as the number of shares became fixed. During the year ended December 31, 2022, the Company recognized $1.1 million in compensation expense related to this grant. As of December 31, 2022, the unrecognized stock-based compensation cost related to the non-vested CFO Restricted Stock Unit Award was $9.6 million. The Company expects this cost to be recognized over a remaining weighted-average period of approximately 3.6 years.

In addition, the Company issued to the CFO a performance stock unit award covering shares of the Company's Class A common stock with a fair value of $5.0 million as of the issuance date, comprised of 3.5 million performance stock units. Such award vests over four one-year periods, with pro-rata vesting for the first and last performance periods, in each case subject to continuous service with the Company through each applicable vesting date and the attainment of certain corporate performance goals. As of December 31, 2022, the award was not considered granted for accounting purposes as the Company had not established the performance conditions for this award, and the unrecognized stock-based compensation cost for this CFO performance stock unit award was $5.0 million.

*2022 CEO Restricted Stock Unit and Performance Award*

The Company granted the Company's President and Chief Executive Officer ("CEO") a restricted stock unit award covering shares of the Company's Class A common stock with a grant date value equal to $25.9 million, comprised of 29.0 million restricted stock units. Such grant vests 25% on the first anniversary of January 1, 2023 and the remainder vests in 12 substantially equal quarterly installments, in each case subject to continuous service with the Company through each applicable vesting date, provided that the grant vests in full if the CEO is terminated without cause following a change of control of the Company. During the year ended December 31, 2022, the Company recognized $0.4 million in compensation expense related to this grant. As of December 31, 2022, the unrecognized stock-based compensation cost related to the non-vested CEO Restricted Stock Unit Award was $14.3 million. The Company expects this cost to be recognized over a remaining weighted-average period of approximately 4.0 years.

In addition, the Company issued to the CEO a performance stock unit award covering shares of the Company's Class A common stock with a fair value of $8.6 million as of the issuance date, comprised of 9.7 million performance stock units. Such award vests over four one-year periods, in each case subject to continuous service with the Company through each applicable vesting date and the attainment of certain corporate performance goals. As of December 31, 2022, the award was not considered granted for accounting purposes as the Company had not established the performance conditions for this award, and the unrecognized stock-based compensation cost for this CEO performance stock unit award was $8.6 million.

*2021 CEO Performance Award*

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

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

On March 14, 2022 ("cancellation date"), the Board of Directors of Skillz and the CEO, entered into an agreement to cancel this CEO Performance Award. The Company determined that the cancellation of the CEO Performance Award was a settlement for no consideration and not accompanied by a concurrent grant (or offer to grant) of a replacement award. As a result, the Company recorded the remaining unrecognized compensation costs related to the CEO Performance Award of $65.1 million during three months ended March 31, 2022.

*Employee Stock Purchase Plan*

In June 2021, the Company commenced its first offering period under the Skillz, Inc. Employee Stock Purchase Plan (the Employee Stock Purchase Plan), which assists employees in acquiring a stock ownership interest in the Company and encourages them to remain in the employment of the Company. The Employee Stock Purchase Plan is intended to qualify under Section 423 of the Internal Revenue Code. The Employee Stock Purchase Plan permits eligible employees to purchase common stock at a discount through payroll deductions during specified offering periods. No employee may purchase more than $25 thousand worth of stock in any calendar year. The price of shares purchased under the Employee Stock Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The total Employee Stock Purchase plan expense for the year ended December 31, 2022 was immaterial.

***Founders' Option Agreements***

In December 2020, in connection with the closing of the FEAC Business Combination, the Company entered into option agreements with each of the CEO and CRO (the "Option Agreements") awarding options to purchase (i) 9,960,000 shares of New Skillz Class B common stock to the CEO and (ii) 2,040,000 shares of New Skillz Class A common stock to the CRO. The options will vest in three equal increments as follows (i) one-third (1/3) of the options shall vest and become exercisable as of the date, following the grant date, that the volume weighted average price on the NYSE over a ten (10) trading day period of underlying New Skillz Class A common stock ("VWAP") equals or exceeds 3.0x the VWAP of the shares as of the Closing Date, (ii) one-third (1/3) of the options shall vest and become exercisable as of the date, following the grant date, that the VWAP of the shares equals or exceeds 4.0x the VWAP of the shares as of the Closing Date; and (iii) one-third (1/3) of the options shall vest and become exercisable as of the date, following the grant date, that the VWAP of the shares equals or exceeds 5.0x the VWAP of the shares as of the Closing Date. The $93.4 million grant date fair value of the Founders' Options was estimated using a model based on multiple stock price paths developed through the use of a Monte Carlo simulation that incorporates into the valuation the possibility that the market condition targets may not be satisfied. The significant inputs to the valuation included the Company's Class A stock price and the risk-free interest rate as of the grant date, as well as the estimated volatility of the Company's Class A common stock. For the year ended December 31, 2022, the Company recognized $19.4 million in compensation expense related to these grants. As of December 31, 2022, the unrecognized stock-based compensation cost related to non-vested Founders' Option Agreements was $53.7 million.

*(Amounts in tables are in thousands, unless otherwise noted)*

## 17. Income Taxes

The Company has historically generated net operating losses in each of the tax jurisdictions in which it operates and has provided a valuation allowance against net deferred tax assets due to uncertainties regarding the Company's ability to realize these assets.

For financial reporting purposes, loss before (benefits) provision for income taxes, includes the following components:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | | (As Restated) | (As Restated) |
| Domestic | $ (439,939) | $ (207,177) | $ (148,964) |
| Foreign | 719 | 112 | — |
| Total | $ (439,220) | $ (207,065) | $ (148,964) |

The provision for income taxes consists of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | | (As Restated) | |
| Current: | | | |
| Federal | $ (8) | $ — | $ — |
| State | 112 | 214 | 115 |
| Foreign | 249 | 23 | — |
| Total Current | 353 | 237 | 115 |
| | | | |
| Deferred: | | | |
| Federal | (686) | (17,182) | — |
| State | (12) | (2,195) | — |
| Foreign | — | — | — |
| Total Deferred | (698) | (19,377) | — |
| Provision (Benefit) for income taxes | $ (345) | $ (19,140) | $ 115 |

A reconciliation of the Company's effective tax rate to the statutory U.S. federal rate of 21% is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | | (As Restated) | |
| U.S. Federal provision (benefit) | | | |
| At statutory rate | $ (92,237) | $ (43,484) | $ (30,533) |
| State taxes | 37 | (1,594) | 90 |
| Valuation allowance | 55,175 | 39,581 | 26,245 |
| Stock-based compensation | 19,473 | (1,834) | (7,257) |
| Permanent differences related to fair value adjustments | (1,261) | (18,464) | 8,573 |
| Other permanent differences | 490 | 6,451 | 2,997 |
| Goodwill impairment | 17,978 | 204 | — |
| Total | $ (345) | $ (19,140) | $ 115 |

(Amounts in tables are in thousands, unless otherwise noted)

***Deferred Tax Assets and Liabilities***

Deferred income taxes reflect the net tax effects of loss and credit carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities for federal and state income taxes are as follows:

| | Year Ended December 31, | |
|---|---|---|
| | **2022** | **2021** |
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 135,695 | $ 106,981 |
| Stock-based compensation | 1,586 | 2,682 |
| Reserves and accruals | 5,219 | 6,646 |
| Property and equipment | 1,204 | — |
| Lease liabilities | 3,412 | 3,750 |
| Capitalized R&D | 9,462 | — |
| Sec. 163(j) interest carryforwards | 5,965 | 594 |
| Other | 32 | 8 |
| Total deferred tax assets | $ 162,575 | $ 120,661 |
| Less: valuation allowance | (162,461) | (98,839) |
| Deferred tax assets, net of valuation allowance | $ 114 | $ 21,822 |
| Deferred tax liabilities: | | |
| Intangibles | — | (18,930) |
| Property and equipment | — | (120) |
| Right-of-use assets | (114) | (3,471) |
| Total deferred tax liabilities | (114) | (22,521) |
| Net deferred tax assets (liabilities) | $ — | $ (699) |

A valuation allowance is required to be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain. A full review of all positive and negative evidence needs to be considered. As of December 31, 2022 and 2021, the Company has provided a full valuation allowance on its net deferred tax assets. The change in total valuation allowance from 2021 to 2022 was an increase of $63.6 million.

The purchase accounting for the Aarki acquisition gave rise to a deferred tax liability during the year ended December 31, 2021; this resulted in a partial release of prior valuation allowance and a discrete benefit of $18.6 million was recorded.

The Company has net operating loss carryforwards for federal and state income tax purposes of approximately $563.1 million and $212.0 million, respectively, as of December 31, 2022. The federal and state net operating loss carryforwards, if not utilized, will expire beginning in 2033 and 2032, respectively. $527.2 million of the federal net operating loss carryforwards are not subject to expiration. Utilization of some of the federal and state net operating loss and credit carryforwards may be subject to annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitations may result in the expiration of net operating losses and credits before utilization. The Company has performed a Section 382 study as of December 31, 2021 and does not expect any net operating losses to expire unused due to Section 382 limitations.

The Company files tax returns in the U.S., California, Massachusetts, and Oregon. The Company is not currently under examination in any of these jurisdictions and all its tax years remain open to examination due to net operating loss carryforwards. The Company does not have any material reserves for uncertain tax positions.

**18. Related-Party Transactions**

Aside from Executive grants discussed in Note 16, the Company did not have any other significant related party transactions in the years ended December 31, 2022, 2021, and 2020.

**19. Net Loss Per Share**

Net loss per share calculations for all periods prior to the FEAC Business Combination have been retrospectively adjusted for the equivalent number of shares outstanding immediately after the FEAC Business Combination to effect the reverse recapitalization. Subsequent to the FEAC Business Combination, net loss per share was calculated based on the weighted average number of common stock then outstanding.

The Company computes net loss per share of the Class A common stock and Class B common stock using the two-class method required for participating securities. Basic and diluted loss per share are the same for each class of common stock because they are entitled to the same liquidation and dividend rights. The effect of potentially dilutive common shares is reflected in diluted loss per share by application of the treasury stock method. The following table sets forth the computation of basic and diluted loss per Class A common stock and Class B common stock (in thousands, except for share and per share data):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | | (As Restated) | (As Restated) |
| **Numerator:** | | | |
| Net loss – basic | $ (438,875) | $ (187,925) | $ (149,079) |
| **Denominator:** | | | |
| Weighted average common shares outstanding – basic | 409,969,539 | 384,625,249 | 294,549,146 |
| **Net loss per share attributable to common stockholders – basic** | $ (1.07) | $ (0.49) | $ (0.51) |
| | | | |
| **Numerator:** | | | |
| Net loss – basic | $ (438,875) | $ (187,925) | $ (149,079) |
| Decrease in fair value of public and private common stock warrant liabilities | — | (87,922) | — |
| Net loss – diluted | (438,875) | (275,847) | (149,079) |
| **Denominator:** | | | |
| Weighted average common shares outstanding – basic | 409,969,539 | 384,625,249 | 294,549,146 |
| Incremental common shares from assumed exercise of public and private common stock warrants | — | 3,924,424 | — |
| Weighted average common shares outstanding – diluted | 409,969,539 | 388,549,673 | 294,549,146 |
| **Net loss per share attributable to common stockholders – diluted** | $ (1.07) | $ (0.71) | $ (0.51) |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| **Number of Securities Outstanding** | **2022** | **2021** | **2020** |
| Common and preferred stock warrants | 4,535,728 | — | 22,314,778 |
| Common stock options | 20,723,690 | 35,895,960 | 51,735,883 |
| Performance stock units | — | 16,146,630 | — |
| Restricted stock units | 50,106,562 | 7,600,097 | 341,256 |
| Earnout shares | — | — | 10,000,000 |
| Total | 75,365,980 | 59,642,687 | 84,391,917 |

*(Amounts in tables are in thousands, unless otherwise noted)*

## 20. Geographical Information

No sales to a country other than the United States accounted for more than 10% of revenue for fiscal years 2022, 2021, or 2020. Revenue, classified by the major geographic areas where the end users were located when they entered paid competitions, was as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| | | (As Restated) | (As Restated) |
| United States | $ 206,067 | $ 314,800 | $ 201,945 |
| Other countries | 63,642 | 65,354 | 27,102 |
| Total | $ 269,709 | $ 380,154 | $ 229,047 |

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

| | Year Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| United States | $ 3,058 | $ 20,997 |
| Other countries | 405 | 3,502 |
| Total | $ 3,463 | $ 24,499 |

## 21. Quarterly Financial Information (Unaudited)

In connection with the preparation of the restated consolidated financial statements included in Note 3, Restatement of Previously Issued Consolidated Financial Statements, the Company also identified an error in the long-lived asset impairment analysis performed in the third quarter of 2022, which resulted in an understatement of impairment loss as discussed below.

*Impairment of Long-Lived Assets*

In August 2022, the Company revised its financial outlook, which the Company identified as an indicator of impairment for the Company's Aarki asset group. In the third quarter of 2022, the Company recorded an impairment loss of $47.6 million on intangible assets related to the Aarki acquisition.

The Company subsequently noted additional indicators of impairment during the fourth quarter of 2022, most notably sharp declines in the Company's stock price and market capitalization near the end of 2022. During the assessment performed as of December 31, 2022, it was determined that there was an error in the Company's identification of the Aarki asset group in the impairment analysis performed as of August 31, 2022. As a result, the impairment loss in the third quarter of 2022 was understated by $3.6 million in the consolidated statements of operations and comprehensive loss, and the related intangible assets as of September 30, 2022 were overstated in the consolidated balance sheets.

This error is incremental to the errors discussed in Note 3 for the understatement of end-user liability, reserve for indirect tax liabilities, and other adjustments which also had impacts to the previously issued 2022, 2021 and 2020 quarterly consolidated financial statements. In connection therewith, the Company has made adjustments to its previously issued 2022, 2021 and 2020 quarterly financial information to correct these errors and other immaterial misstatements for such periods. The following tables for each of the quarters in the years ended December 31, 2022, 2021 and 2020 reflect the quarterly information as filed in the Company's Quarterly Report on Form 10-Q for the periods ended September 30, 2022, 2021 and 2020, June 30, 2022, 2021 and 2020, and March 31, 2022, 2021 and 2020, as restated for these errors.

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

*Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss, Fiscal Year 2022*

The following unaudited condensed consolidated statements of operations and comprehensive loss tables present the impacts of the restatement adjustments for the periods ended September 30, 2022, 2021 and 2020, June 30, 2022, 2021 and 2020, and March 31, 2022, 2021 and 2020 (in thousands, except for per share amounts). For the impacts of the restatement adjustments for the statements of operations and comprehensive loss for the year ended December 31, 2021 and 2020, refer to Note 3 - *Restatement of Previously Issued Consolidated Financial Statements*. The year ended December 31, 2022 was not subject to restatement and is presented in Part 1 of Item 8. Financial Statements.

| | Three Months Ended September 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Revenue | $ 60,255 | $ (71) | $ (856) | $ — | $ (112) | $ 59,216 |
| Costs and expenses: | | | | | | |
| Cost of revenue | 7,555 | — | — | (245) | 289 | 7,599 |
| Research and development | 8,354 | — | — | — | (417) | 7,937 |
| Sales and marketing | 51,773 | (84) | — | (2) | (207) | 51,480 |
| General and administrative | 20,280 | — | 152 | (21) | 525 | 20,936 |
| Impairment of goodwill and long-lived assets | 47,581 | — | — | 3,649 | — | 51,230 |
| Total costs and expenses | 135,543 | (84) | 152 | 3,381 | 190 | 139,182 |
| Loss from operations | (75,288) | 13 | (1,008) | (3,381) | (302) | (79,966) |
| Interest expense, net | (3,807) | — | — | — | — | (3,807) |
| Change in fair value of common stock warrant liabilities | (80) | — | — | — | — | (80) |
| Other income, net | 508 | — | — | — | — | 508 |
| Loss before income taxes | (78,667) | 13 | (1,008) | (3,381) | (302) | (83,345) |
| Benefit for income taxes | (120) | — | — | — | — | (120) |
| Net loss | $ (78,547) | $ 13 | $ (1,008) | $ (3,381) | $ (302) | $ (83,225) |
| Net loss per share attributable to common stockholders: | | | | | | |
| Basic | $ (0.19) | $ — | $ — | $ (0.01) | $ — | $ (0.20) |
| Diluted | $ (0.19) | $ — | $ — | $ (0.01) | $ — | $ (0.20) |
| | | | | | | |
| Other comprehensive loss: | | | | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | 139 | — | — | — | — | 139 |
| Total other comprehensive loss | $ 139 | $ — | $ — | $ — | $ — | $ 139 |
| Total comprehensive loss | $ (78,408) | $ 13 | $ (1,008) | $ (3,381) | $ (302) | $ (83,086) |

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

| | Three Months Ended June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Revenue | $ 73,335 | $ (83) | $ (1,470) | $ — | $ (25) | $ 71,757 |
| Costs and expenses: | | | | | | |
| Cost of revenue | 9,020 | — | — | — | (17) | 9,003 |
| Research and development | 18,529 | — | — | — | (276) | 18,253 |
| Sales and marketing | 73,185 | 1,053 | — | — | (507) | 73,731 |
| General and administrative | 26,712 | — | 184 | — | (15) | 26,881 |
| Impairment of goodwill and long-lived assets | — | — | — | — | — | — |
| Total costs and expenses | 127,446 | 1,053 | 184 | — | (815) | 127,868 |
| Loss from operations | (54,111) | (1,136) | (1,654) | — | 790 | (56,111) |
| Interest expense, net | (7,596) | — | — | — | — | (7,596) |
| Change in fair value of common stock warrant liabilities | 1,023 | — | — | — | — | 1,023 |
| Other expense, net | (82) | — | — | — | — | (82) |
| Loss before income taxes | (60,766) | (1,136) | (1,654) | — | 790 | (62,766) |
| Benefit for income taxes | (155) | — | — | — | — | (155) |
| Net loss | $ (60,611) | $ (1,136) | $ (1,654) | $ — | $ 790 | $ (62,611) |
| Net loss per share attributable to common stockholders: (1) | | | | | | |
| Basic | $ (0.15) | $ — | $ — | $ — | $ — | $ (0.16) |
| Diluted | $ (0.15) | $ — | $ — | $ — | $ — | $ (0.16) |
| | | | | | | |
| Other comprehensive loss: | | | | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | (577) | — | — | — | — | (577) |
| Total other comprehensive loss | $ (577) | $ — | $ — | $ — | $ — | $ (577) |
| Total comprehensive loss | $ (61,188) | $ (1,136) | $ (1,654) | $ — | $ 790 | $ (63,188) |

*(1) Due to differences in rounding to the nearest cent per basic or diluted share, totals may not equal the sum of the line items.*

| | Three Months Ended March 31, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Revenue | $ 93,438 | $ (52) | $ (1,435) | $ — | $ (87) | $ 91,864 |
| Costs and expenses: | | | | | | |
| Cost of revenue | 9,265 | — | — | — | (65) | 9,200 |
| Research and development | 18,653 | — | — | — | (3) | 18,650 |
| Sales and marketing | 117,332 | 630 | — | — | (617) | 117,345 |
| General and administrative | 92,792 | — | (76) | — | 7 | 92,723 |
| Impairment of goodwill and long-lived assets | — | — | — | — | — | — |
| Total costs and expenses | 238,042 | 630 | (76) | — | (678) | 237,918 |
| Loss from operations | (144,604) | (682) | (1,359) | — | 591 | (146,054) |
| Interest expense, net | (8,157) | — | — | — | — | (8,157) |
| Change in fair value of common stock warrant liabilities | 4,462 | — | — | — | — | 4,462 |
| Other expense, net | (27) | — | — | — | (1) | (28) |
| Loss before income taxes | (148,326) | (682) | (1,359) | — | 590 | (149,777) |
| Benefit for income taxes | (213) | — | — | — | — | (213) |
| Net loss | $ (148,113) | $ (682) | $ (1,359) | $ — | $ 590 | $ (149,564) |
| Net loss per share attributable to common stockholders: | | | | | | |
| Basic | $ (0.37) | $ — | $ — | $ — | $ — | $ (0.37) |
| Diluted | $ (0.37) | $ — | $ — | $ — | $ — | $ (0.37) |
| | | | | | | |
| Other comprehensive loss: | | | | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | (2,046) | — | — | — | — | (2,046) |
| Total other comprehensive loss | $ (2,046) | $ — | $ — | $ — | $ — | $ (2,046) |
| Total comprehensive loss | $ (150,159) | $ (682) | $ (1,359) | $ — | $ 590 | $ (151,610) |

*(Amounts in tables are in thousands, unless otherwise noted)*

*Condensed Consolidated Statements of Operations and Comprehensive Loss, Fiscal Year 2021*

| | Three Months Ended December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Revenue | $ 108,849 | $ (41) | $ (1,114) | $ — | $ 506 | $ 108,200 |
| Costs and expenses: | | | | | | |
| Cost of revenue | 8,422 | — | — | — | — | 8,422 |
| Research and development | 15,433 | — | — | — | 311 | 15,744 |
| Sales and marketing | 155,080 | 531 | — | — | (207) | 155,404 |
| General and administrative | 33,934 | — | 192 | — | 122 | 34,248 |
| Impairment of goodwill and long-lived assets | — | — | — | — | — | — |
| Total costs and expenses | 212,869 | 531 | 192 | — | 226 | 213,818 |
| Loss from operations | (104,020) | (572) | (1,306) | — | 280 | (105,618) |
| Interest expense, net | (1,086) | — | — | — | — | (1,086) |
| Change in fair value of common stock warrant liabilities | 6,024 | — | — | — | — | 6,024 |
| Other expense, net | (59) | — | — | — | — | (59) |
| Loss before income taxes | (99,141) | (572) | (1,306) | — | 280 | (100,739) |
| Benefit for income taxes | (170) | — | — | — | (144) | (314) |
| Net loss | $ (98,971) | $ (572) | $ (1,306) | $ — | $ 424 | $ (100,425) |
| Net loss per share attributable to common stockholders: | | | | | | |
| Basic | $ (0.25) | $ — | $ — | $ — | $ — | $ (0.25) |
| Diluted | $ (0.25) | $ — | $ — | $ — | $ — | $ (0.25) |
| Other comprehensive loss: | | | | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | (248) | — | — | — | — | (248) |
| Total other comprehensive loss | $ (248) | $ — | $ — | $ — | $ — | $ (248) |
| Total comprehensive loss | $ (99,219) | $ (572) | $ (1,306) | $ — | $ 424 | $ (100,673) |

| | Three Months Ended September 30, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Revenue | $ 102,072 | $ (34) | $ (1,008) | $ — | $ (506) | $ 100,524 |
| Costs and expenses: | | | | | | |
| Cost of revenue | 7,647 | — | — | — | 532 | 8,179 |
| Research and development | 13,162 | — | — | — | (96) | 13,066 |
| Sales and marketing | 114,531 | 636 | — | — | (339) | 114,828 |
| General and administrative | 48,376 | — | 176 | — | (38) | 48,514 |
| Impairment of goodwill and long-lived assets | — | — | — | — | — | — |
| Total costs and expenses | 183,716 | 636 | 176 | — | 59 | 184,587 |
| Loss from operations | (81,644) | (670) | (1,184) | — | (565) | (84,063) |
| Interest expense, net | (87) | — | — | — | — | (87) |
| Change in fair value of common stock warrant liabilities | 113,601 | — | — | — | — | 113,601 |
| Other expense, net | (22) | — | — | — | — | (22) |
| Income before income taxes | 31,848 | (670) | (1,184) | — | (565) | 29,429 |
| Benefit for income taxes | (18,933) | — | — | — | — | (18,933) |
| Net income | $ 50,781 | $ (670) | $ (1,184) | $ — | $ (565) | $ 48,362 |
| Net income (loss) loss per share attributable to common stockholders: | | | | | | |
| Basic | $ 0.13 | $ — | $ (0.01) | $ — | $ — | $ 0.12 |
| Diluted | $ (0.16) | $ — | $ — | $ — | $ — | $ (0.16) |
| Other comprehensive loss: | | | | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | — | — | — | — | — | — |
| Total other comprehensive loss | $ — | $ — | $ — | $ — | $ — | $ — |
| Total comprehensive loss | $ 50,781 | $ (670) | $ (1,184) | $ — | $ (565) | $ 48,362 |

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

| | Three Months Ended June 30, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Revenue | $ 89,491 | $ (38) | $ (891) | $ — | $ — | $ 88,562 |
| Costs and expenses: | | | | | | |
| Cost of revenue | 4,386 | — | — | — | — | 4,386 |
| Research and development | 10,140 | — | — | — | — | 10,140 |
| Sales and marketing | 99,523 | 475 | — | — | — | 99,998 |
| General and administrative | 25,432 | — | 169 | — | — | 25,601 |
| Impairment of goodwill and long-lived assets | — | — | — | — | — | — |
| Total costs and expenses | 139,481 | 475 | 169 | — | — | 140,125 |
| Loss from operations | (49,990) | (513) | (1,060) | — | — | (51,563) |
| Interest expense, net | (25) | — | — | — | — | (25) |
| Change in fair value of common stock warrant liabilities | (29,595) | — | — | — | — | (29,595) |
| Other income, net | 80 | — | — | — | — | 80 |
| Loss before income taxes | (79,530) | (513) | (1,060) | — | — | (81,103) |
| Provision for income taxes | 65 | — | — | — | — | 65 |
| Net loss | $ (79,595) | $ (513) | $ (1,060) | $ — | $ — | $ (81,168) |
| Net loss per share attributable to common stockholders: | | | | | | |
| Basic | $ (0.21) | $ — | $ — | $ — | $ — | $ (0.21) |
| Diluted | $ (0.21) | $ — | $ — | $ — | $ — | $ (0.21) |
| Other comprehensive loss: | | | | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | — | — | — | — | — | — |
| Total other comprehensive loss | $ — | $ — | $ — | $ — | $ — | $ — |
| Total comprehensive loss | $ (79,595) | $ (513) | $ (1,060) | $ — | $ — | $ (81,168) |

| | Three Months Ended March 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Revenue | $ 83,677 | $ (25) | $ (784) | $ — | $ — | $ 82,868 |
| Costs and expenses: | | | | | | |
| Cost of revenue | 4,256 | — | — | — | — | 4,256 |
| Research and development | 7,282 | — | — | — | — | 7,282 |
| Sales and marketing | 96,323 | 138 | — | — | — | 96,461 |
| General and administrative | 27,284 | — | 155 | — | — | 27,439 |
| Impairment of goodwill and long-lived assets | — | — | — | — | — | — |
| Total costs and expenses | 135,145 | 138 | 155 | — | — | 135,438 |
| Loss from operations | (51,468) | (163) | (939) | — | — | (52,570) |
| Interest expense, net | (24) | — | — | — | — | (24) |
| Change in fair value of common stock warrant liabilities | (2,108) | — | — | — | — | (2,108) |
| Other income, net | 50 | — | — | — | — | 50 |
| Loss before income taxes | (53,550) | (163) | (939) | — | — | (54,652) |
| Provision for income taxes | 42 | — | — | — | — | 42 |
| Net loss | $ (53,592) | $ (163) | $ (939) | $ — | $ — | $ (54,694) |
| Net loss per share attributable to common stockholders: | | | | | | |
| Basic | $ (0.15) | $ — | $ — | $ — | $ — | $ (0.15) |
| Diluted | $ (0.16) | $ — | $ — | $ — | $ — | $ (0.16) |
| Other comprehensive loss: | | | | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | — | — | — | — | — | — |
| Total other comprehensive loss | $ — | $ — | $ — | $ — | $ — | $ — |
| Total comprehensive loss | $ (53,592) | $ (163) | $ (939) | $ — | $ — | $ (54,694) |

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

| | Three Months Ended December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Revenue | $ 67,723 | $ (25) | $ (321) | $ — | $ — | $ 67,377 |
| Costs and expenses: | | | | | | |
| Cost of revenue | 3,475 | — | — | — | — | 3,475 |
| Research and development | 9,972 | — | — | — | — | 9,972 |
| Sales and marketing | 79,560 | 1,179 | — | — | — | 80,739 |
| General and administrative | 17,953 | — | 53 | — | — | 18,006 |
| Impairment of goodwill and long-lived assets | — | — | — | — | — | — |
| Total costs and expenses | 110,960 | 1,179 | 53 | — | — | 112,192 |
| Loss from operations | (43,237) | (1,204) | (374) | — | — | (44,815) |
| Interest expense, net | (28) | — | — | — | — | (28) |
| Change in fair value of common stock warrant liabilities | (23,049) | — | — | — | — | (23,049) |
| Other expense, net | (651) | — | — | — | — | (651) |
| Loss before income taxes | (66,965) | (1,204) | (374) | — | — | (68,543) |
| Provision for income taxes | 15 | — | — | — | — | 15 |
| Net loss | $ (66,980) | $ (1,204) | $ (374) | $ — | $ — | $ (68,558) |
| Net loss per share attributable to common stockholders:(1) | | | | | | |
| Basic | $ (0.22) | $ — | $ — | $ — | $ — | $ (0.23) |
| Diluted | $ (0.22) | $ — | $ — | $ — | $ — | $ (0.23) |
| | | | | | | |
| Other comprehensive loss: | | | | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | — | — | — | — | — | — |
| Total other comprehensive loss | $ — | $ — | $ — | $ — | $ — | $ — |
| Total comprehensive loss | $ (66,980) | $ (1,204) | $ (374) | $ — | $ — | $ (68,558) |

*(1) Due to differences in rounding to the nearest cent per basic or diluted share, totals may not equal the sum of the line items.*

| | Three Months Ended September 30, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Revenue | $ 59,955 | $ (19) | $ (252) | $ — | $ — | $ 59,684 |
| Costs and expenses: | | | | | | |
| Cost of revenue | 3,102 | — | — | — | — | 3,102 |
| Research and development | 4,369 | — | — | — | — | 4,369 |
| Sales and marketing | 73,187 | 390 | — | — | — | 73,577 |
| General and administrative | 7,861 | — | 44 | — | — | 7,905 |
| Impairment of goodwill and long-lived assets | — | — | — | — | — | — |
| Total costs and expenses | 88,519 | 390 | 44 | — | — | 88,953 |
| Loss from operations | (28,564) | (409) | (296) | — | — | (29,269) |
| Interest expense, net | (24) | — | — | — | — | (24) |
| Change in fair value of common stock warrant liabilities | — | — | — | — | — | — |
| Other expense, net | (14,216) | — | — | — | — | (14,216) |
| Loss before income taxes | (42,804) | (409) | (296) | — | — | (43,509) |
| Provision for income taxes | 47 | — | — | — | — | 47 |
| Net loss | $ (42,851) | $ (409) | $ (296) | $ — | $ — | $ (43,556) |
| Net loss per share attributable to common stockholders:(1) | | | | | | |
| Basic | $ (0.14) | $ — | $ — | $ — | $ — | $ (0.15) |
| Diluted | $ (0.14) | $ — | $ — | $ — | $ — | $ (0.15) |
| | | | | | | |
| Other comprehensive loss: | | | | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | — | — | — | — | — | — |
| Total other comprehensive loss | $ — | $ — | $ — | $ — | $ — | $ — |
| Total comprehensive loss | $ (42,851) | $ (409) | $ (296) | $ — | $ — | $ (43,556) |

*(1) Due to differences in rounding to the nearest cent per basic or diluted share, totals may not equal the sum of the line items.*

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

| | Three Months Ended June 30, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Revenue | $ 58,878 | $ (24) | $ (240) | $ — | $ — | $ 58,614 |
| Costs and expenses: | | | | | | |
| Cost of revenue | 2,937 | — | — | — | — | 2,937 |
| Research and development | 4,518 | — | — | — | — | 4,518 |
| Sales and marketing | 52,369 | 416 | — | — | — | 52,785 |
| General and administrative | 11,642 | — | 44 | — | — | 11,686 |
| Impairment of goodwill and long-lived assets | — | — | — | — | — | — |
| Total costs and expenses | 71,466 | 416 | 44 | — | — | 71,926 |
| Loss from operations | (12,588) | (440) | (284) | — | — | (13,312) |
| Interest expense, net | (957) | — | — | — | — | (957) |
| Change in fair value of common stock warrant liabilities | — | — | — | — | — | — |
| Other expense, net | (6,584) | — | — | — | — | (6,584) |
| Loss before income taxes | (20,129) | (440) | (284) | — | — | (20,853) |
| Provision for income taxes | 28 | — | — | — | — | 28 |
| Net loss | $ (20,157) | $ (440) | $ (284) | $ — | $ — | $ (20,881) |
| Net loss per share attributable to common stockholders: | | | | | | |
| Basic | $ (0.07) | $ — | $ — | $ — | $ — | $ (0.07) |
| Diluted | $ (0.07) | $ — | $ — | $ — | $ — | $ (0.07) |
| Other comprehensive loss: | | | | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | — | — | — | — | — | — |
| Total other comprehensive loss | $ — | $ — | $ — | $ — | $ — | $ — |
| Total comprehensive loss | $ (20,157) | $ (440) | $ (284) | $ — | $ — | $ (20,881) |

| | Three Months Ended March 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Revenue | $ 43,559 | $ (17) | $ (170) | $ — | $ — | $ 43,372 |
| Costs and expenses: | | | | | | |
| Cost of revenue | 2,767 | — | — | — | — | 2,767 |
| Research and development | 4,366 | — | — | — | — | 4,366 |
| Sales and marketing | 46,825 | 343 | — | — | — | 47,168 |
| General and administrative | 4,833 | — | 32 | — | — | 4,865 |
| Impairment of goodwill and long-lived assets | — | — | — | — | — | — |
| Total costs and expenses | 58,791 | 343 | 32 | — | — | 59,166 |
| Loss from operations | (15,232) | (360) | (202) | — | — | (15,794) |
| Interest expense, net | (316) | — | — | — | — | (316) |
| Change in fair value of common stock warrant liabilities | — | — | — | — | — | — |
| Other income, net | 51 | — | — | — | — | 51 |
| Loss before income taxes | (15,497) | (360) | (202) | — | — | (16,059) |
| Provision for income taxes | 25 | — | — | — | — | 25 |
| Net loss | $ (15,522) | $ (360) | $ (202) | $ — | $ — | $ (16,084) |
| Net loss per share attributable to common stockholders: | | | | | | |
| Basic | $ (0.06) | $ — | $ — | $ — | $ — | $ (0.06) |
| Diluted | $ (0.06) | $ — | $ — | $ — | $ — | $ (0.06) |
| Other comprehensive loss: | | | | | | |
| Change in unrealized loss on available-for-sale investments, net of tax | — | — | — | — | — | — |
| Total other comprehensive loss | $ — | $ — | $ — | $ — | $ — | $ — |
| Total comprehensive loss | $ (15,522) | $ (360) | $ (202) | $ — | $ — | $ (16,084) |

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

*Condensed Consolidated Balance Sheets*

The following unaudited condensed consolidated balance sheet tables present the impacts of the restatement adjustments as of the periods ended September 30, 2022 and 2021, June 30, 2022 and 2021, and March 31, 2022 and 2021. For the impacts of the restatement adjustments for the consolidated balance sheets as of December 31, 2021 refer to Note 3, Restatement of Previously Issued Financial Statements. The period ended December 31, 2022 was not subject to restatement and is presented in Part 1 of Item 8. Financial Statements.

| | As of September 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Accounts receivable, net | $ 9,001 | $ — | $ — | $ — | $ (829) | $ 8,172 |
| Total current assets | 492,446 | — | — | — | (829) | 491,617 |
| Property and equipment, net | 7,247 | — | — | (2,466) | — | 4,781 |
| Operating lease right-of-use assets, net | 13,366 | — | — | (653) | — | 12,713 |
| Intangible assets, net | 20,289 | — | — | (264) | — | 20,025 |
| Goodwill | 86,436 | — | — | — | (973) | 85,463 |
| Total assets | 772,414 | — | — | (3,383) | (1,802) | 767,229 |
| Other current liabilities | 45,890 | 9,972 | 10,254 | — | (2,394) | 63,722 |
| Total current liabilities | 53,222 | 9,972 | 10,254 | — | (2,394) | 71,054 |
| Other long-term liabilities | 1,687 | — | — | — | (144) | 1,543 |
| Total liabilities | 340,113 | 9,972 | 10,254 | — | (2,538) | 357,801 |
| Additional paid-in capital | 1,141,955 | — | — | — | (199) | 1,141,756 |
| Accumulated deficit | (706,963) | (9,972) | (10,254) | (3,383) | 935 | (729,637) |
| Total stockholders' equity | 432,301 | (9,972) | (10,254) | (3,383) | 736 | 409,428 |
| Total liabilities and stockholders' equity | $ 772,414 | $ — | $ — | $ (3,383) | $ (1,802) | $ 767,229 |

| | As of June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | As Reported | End-User Liability | Indirect Taxes | Impairment | Other Adjustments | As Restated |
| Accounts receivable, net | $ 10,630 | $ — | $ — | $ — | $ (391) | $ 10,239 |
| Total current assets | 502,512 | — | — | — | (391) | 502,121 |
| Goodwill | 86,436 | — | — | — | (973) | 85,463 |
| Total assets | 858,903 | — | — | — | (1,364) | 857,539 |
| Other current liabilities | 54,838 | 9,985 | 9,246 | — | (2,023) | 72,046 |
| Total current liabilities | 58,379 | 9,985 | 9,246 | — | (2,023) | 75,587 |
| Other long-term liabilities | 1,180 | — | — | — | (144) | 1,036 |
| Total liabilities | 354,016 | 9,985 | 9,246 | — | (2,167) | 371,080 |
| Additional paid-in capital | 1,136,133 | — | — | — | (435) | 1,135,698 |
| Accumulated deficit | (628,416) | (9,985) | (9,246) | — | 1,238 | (646,409) |
| Total stockholders' equity | 504,887 | (9,985) | (9,246) | — | 803 | 486,459 |
| Total liabilities and stockholders' equity | $ 858,903 | $ — | $ — | $ — | $ (1,364) | $ 857,539 |

**SKILLZ INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(Amounts in tables are in thousands, unless otherwise noted)*

| | As of March 31, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | **As Reported** | **End-User Liability** | **Indirect Taxes** | **Impairment** | **Other Adjustments** | **As Restated** |
| Accounts receivable, net | $ 13,230 | $ — | $ — | $ — | $ (303) | $ 12,927 |
| Total current assets | 519,321 | — | — | — | (303) | 519,018 |
| Goodwill | 86,436 | — | — | — | (973) | 85,463 |
| Total assets | 932,536 | — | — | — | (1,276) | 931,260 |
| Other current liabilities | 57,607 | 8,849 | 7,591 | — | (1,533) | 72,514 |
| Total current liabilities | 72,917 | 8,849 | 7,591 | — | (1,533) | 87,824 |
| Long-term debt, non-current | 279,713 | — | — | — | — | 279,713 |
| Other long-term liabilities | 13,238 | — | — | — | (144) | 13,094 |
| Total liabilities | 380,898 | 8,849 | 7,591 | — | (1,677) | 395,661 |
| Additional paid-in capital | 1,121,697 | — | — | — | (46) | 1,121,651 |
| Accumulated deficit | (567,805) | (8,849) | (7,591) | — | 447 | (583,798) |
| Total stockholders' equity | 551,638 | (8,849) | (7,591) | — | 401 | 535,599 |
| Total liabilities and stockholders' equity | $ 932,536 | $ — | $ — | $ — | $ (1,276) | $ 931,260 |

*Condensed Consolidated Balance Sheets, Fiscal year 2021*

| | As of September 30, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | **As Reported** | **End-User Liability** | **Indirect Taxes** | **Impairment** | **Other Adjustments** | **As Restated** |
| Accounts receivable, net | $ 12,725 | $ — | $ — | $ — | $ (2,039) | $ 10,686 |
| Total current assets | 570,342 | — | — | — | (2,039) | 568,303 |
| Goodwill | 87,230 | — | — | — | (973) | 86,257 |
| Total assets | 811,132 | — | — | — | (3,012) | 808,120 |
| Accounts payable | 10,047 | — | — | — | (1,137) | 8,910 |
| Other current liabilities | 70,157 | 7,596 | 4,926 | — | (1,310) | 81,369 |
| Total current liabilities | 80,204 | 7,596 | 4,926 | — | (2,447) | 90,279 |
| Total liabilities | 106,796 | 7,596 | 4,926 | — | (2,447) | 116,871 |
| Accumulated deficit | (320,721) | (7,596) | (4,926) | — | (565) | (333,808) |
| Total stockholders' equity | 704,336 | (7,596) | (4,926) | — | (565) | 691,249 |
| Total liabilities and stockholders' equity | $ 811,132 | $ — | $ — | $ — | $ (3,012) | $ 808,120 |

| | As of June 30, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | **As Reported** | **End-User Liability** | **Indirect Taxes** | **Impairment** | **Other Adjustments** | **As Restated** |
| Other current liabilities | $ 35,531 | $ 6,926 | $ 3,743 | $ — | $ — | $ 46,200 |
| Total current liabilities | 124,934 | 6,926 | 3,743 | — | — | 135,603 |
| Total liabilities | 185,646 | 6,926 | 3,743 | — | — | 196,315 |
| Accumulated deficit | (371,502) | (6,926) | (3,743) | — | — | (382,171) |
| Total stockholders' equity | $ 534,812 | $ (6,926) | $ (3,743) | $ — | $ — | $ 524,143 |

| | As of March 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | **As Reported** | **End-User Liability** | **Indirect Taxes** | **Impairment** | **Other Adjustments** | **As Restated** |
| Other current liabilities | $ 29,860 | $ 6,413 | $ 2,682 | $ — | $ — | $ 38,955 |
| Total current liabilities | 40,098 | 6,413 | 2,682 | — | — | 49,193 |
| Total liabilities | 152,512 | 6,413 | 2,682 | — | — | 161,607 |
| Accumulated deficit | (291,907) | (6,413) | (2,682) | — | — | (301,002) |
| Total stockholders' equity | $ 588,911 | $ (6,413) | $ (2,682) | $ — | $ — | $ 579,816 |

**22. Subsequent Events**

On February 27, 2023, the Company entered into a purchase agreement for an office building in Las Vegas, Nevada for $11.5 million. The building is intended to be used as the future Company headquarters. The Company completed the purchase on March 14, 2023 including making payment of the $11.5 million purchase price to the seller.

On March 10, 2023, Silicon Valley Bank (“SVB”) was closed by the California Department of Financial Protection and Innovation, and the FDIC was appointed as receiver. On March 13, 2023, the FDIC announced the establishment of the Silicon Valley Bridge Bank (“Bridge Bank”), which assumed the deposits and obligations of SVB. The FDIC further announced that all contracts entered into with SVB before it failed were transferred into the Bridge Bank by the FDIC and the Bridge Bank is obligated to and has the full ability to perform SVB’s contractual obligations. As of March 30, 2023, the Company held cash deposits of approximately $22.0 million at the Bridge Bank. The Company does not anticipate any losses with respect to its funds that had been deposited with SVB.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Evaluation of Disclosure Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

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

Our management, including our principal executive officer and principal financial officer, has concluded that our consolidated financial statements present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in this Form 10-K, in conformity with GAAP.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining an adequate system of internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a system of policies and procedures designed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions or dispositions of our assets.
- Provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with accounting principles generally accepted in the United States, and that our receipts and expenditures are being made only in accordance with authorizations of management and our directors.
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Due to its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, the effectiveness of our system of internal control over financial reporting may vary over time.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework). Based on this evaluation, due to the material weaknesses described below, management concluded that our system of internal control over financial reporting was not effective as of December 31, 2022.

The effectiveness of our internal control over financial reporting as of December 31, 2022 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

**Material Weaknesses**

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Our management concluded that material weaknesses existed as of December 31, 2022 with respect to the following:

1. Risk assessment
2. Information technology general controls

3. Internal control over accounting processes

Risk Assessment

In 2022, the Company experienced significant turnover of personnel involved in the design and operation of our system of internal control over financial reporting. While we backfilled vacated positions by engaging consultants and invested in hiring initiatives to recruit full-time employees, such hiring was not completed timely to offset the impact of the turnover we experienced. As a result, we were unable to maintain an effective risk assessment process based on the criteria established in the COSO Framework, due to the lack of sufficient trained personnel to adequately identify new or changing risks of misstatement to our financial statements and to design responsive internal controls over financial reporting.

The Company's risk assessment process did not adequately identify financial statement risks related to the Company's exposure to indirect taxes that impacted the indirect tax liability in our consolidated balance sheets and resulted in a restatement of our previously issued consolidated financial statements, as discussed in Note 3. In addition, we did not timely identify third party service organizations on which we rely that were not planning to issue System Organization Controls (SOC) reports, or issued SOC reports with qualified opinions. Consequently, we did not implement mitigating internal controls to adequately respond to the related financial statement risks.

Information Technology General Controls (ITGCs)

As of December 31, 2021, ITGCs in the areas of access and program change over information technology (IT) systems that support the Company's financial reporting processes were not designed or operating effectively. Specifically, the Company did not maintain sufficient: (a) user access controls to ensure appropriate segregation of duties and adequately restrict user and privileged access to financial applications, programs, and data to appropriate Company personnel; (b) program change management controls to ensure that IT program and data changes affecting financial information technology applications and underlying records are identified, tested, authorized, and implemented appropriately. As a result, the Company's related IT dependent manual and application controls that rely upon the affected ITGCs, or information coming from IT systems with affected ITGCs were also deemed ineffective.

During 2022, as a result of the aforementioned significant turnover in Company personnel, the ITGC-related material weakness remediation efforts were not completed and, therefore, the material weakness identified in the prior year continued to exist as of December 31, 2022.

Internal Controls Over Accounting Processes

As of December 31, 2021, controls designed to properly evaluate certain accounting processes, including where management review was involved, did not operate effectively due to the lack of sufficient documentation or evidence retained to demonstrate management's review.

As a result of the aforementioned significant turnover in Company personnel, the material weakness remediation efforts in 2022 were not completed. Therefore, there continued to be insufficient documentation or evidence retained to demonstrate management's review across accounting processes as of December 31, 2022. This resulted in an increased number of accounting processes with control operating deficiencies in 2022 compared to 2021. In addition, as noted in the *Risk Assessment* section above, the significant turnover in personnel resulted in our failure to design and implement controls to prevent and detect misstatements across several accounting processes, including related to the Company's accounting for its end-user liability balance in our balance sheets, which resulted in a restatement of our previously issued consolidated financial statements, as discussed in Note 3 to the Consolidated Financial Statements.

**Remediation of Material Weaknesses**

In 2023, our remediation efforts will include the following:

- Creation of a Steering Committee which will oversee a material weaknesses remediation working group, establish organizational priorities and identify and allocate resources needed for the remediation of control deficiencies underlying the material weaknesses discussed above.
- Appointment of a Project Management Director (PMD), and identification of members of a working group who, together with PMD, will report to the Steering Committee and will evaluate remediation efforts started by the Company in 2022, create detailed project plans with control owners to address control deficiencies underlying material weaknesses, identify resource needs, and monitor execution of detailed remediation tasks by control owners established in the project plan.
- Augmentation of personnel and resources involved in the design and performance of internal control over financial reporting as deemed necessary by the working group and by the Steering Committee.

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

We believe that these remediation actions, when fully implemented, will remediate the material weaknesses we have identified and strengthen our internal control over financial reporting. However, material weaknesses are not considered remediated until the new controls have been operational for a sufficient period of time, are tested, and management concludes that these controls are operating effectively. We are committed to the continuous improvement of our internal control over financial reporting. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies, or we may modify, or, in appropriate circumstances, not complete certain of the remediation work described above.

**Changes in Internal Control over Financial Reporting**

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

**Attestation of Independent Registered Public Accounting Firm**

Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report with respect to our internal control over financial reporting, which appears in Part II, Item 8 of this Annual Report on Form 10-K.

**Limitations on Effectiveness of Controls and Procedures**

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

**Item 9B. Other Information.**

None.

**Item 9C. Disclosures Regarding Foreign Jurisdictions that Prevent Inspections.**

None.

**Item 10. Directors, Executive Officers and Corporate Governance.**

Refer to the information under the captions “Election of Directors (Proposal No. 1)” “Directors and Management,” “Corporate Governance - Controlled Company Exemption,” “Corporate Governance - Other Board Information; Committees of the Board,” “Corporate Governance - Other Board Information; Code of Ethics and Conduct,” “Corporate Governance - Other Board Information; Compensation Committee Interlocks and Insider Participation” and “Corporate Governance - Delinquent Section 16(a) Reports” that will be included in the Company’s definitive Proxy Statement to be filed with the SEC within 120 days of December 31, 2022.

## PART III

### Item 11. Executive Compensation.

Refer to the information under the captions "Executive Compensation - Introduction" "Executive Compensation - Summary Compensation Table," "Executive Compensation - Outstanding Equity Awards at 2021 Fiscal Year-End; "Corporate Governance - Director Compensation" and "Corporate Governance - Director Compensation Program" that will be included in the Company's definitive Proxy Statement to be filed with the SEC within 120 days of December 31, 2022.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Refer to the information under the captions "Corporate Governance - Security Ownership of Certain Beneficial Owners, Directors and Management" and "Executive Compensation - Outstanding Equity Awards at 2021 Fiscal Year-End" that will be included in the Company's definitive Proxy Statement to be filed with the SEC within 120 days of December 31, 2022.

### Item 13. Certain Relationships and Related Transactions, and Director Independence.

Refer to the information under the captions "Certain Relationships and Related Transactions" and "Corporate Governance - Independence of Directors" that will be included in the Company's definitive Proxy Statement to be filed with the SEC within 120 days of December 31, 2022.

### Item 14. Principal Accountant Fees and Services.

Refer to the information under the caption "Fees of Independent Accountants" that will be included in the Company's definitive Proxy Statement to be filed with the SEC within 120 days of December 31, 2022.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules.

(a) We have filed the following documents as part of this Annual Report:

**1. Financial Statements**

Our consolidated financial statements are listed in the "Index to Consolidated Financial Statements" under Part II, Item 8 of this Annual Report.

All financial statement schedules are omitted because such schedules are not required or the information required has been presented in the aforementioned financial statements and accompanying notes included in this Annual Report.

**2. Exhibits**

The documents listed in the Exhibit Index of this Annual Report are incorporated by reference or are filed with this Annual Report, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

| Exhibit No. | Exhibit Description | Form | Exhibit | Filing Date |
|---|---|---|---|---|
| 2.1 | Merger Agreement, dated as of September 1, 2020, by and among Flying Eagle Acquisition Corp., FEAC Merger Sub Inc., Skillz Inc., and Andrew Paradise, solely in his capacity as representative of the stockholders of Skillz Inc. | 8-K(1) | 2.1 | 9/2/20 |
| 2.2 | Agreement and Plan of Merger, dated as of June 1, 2021, by and among Skillz Inc., Spades Merger Sub I, Spades Merger Sub II, Aarki Inc. and Shareholder Representative Services | 8-K | 2.1 | 6/2/21 |
| 3.1 | Third Amended and Restated Certificate of Incorporation of Skillz Inc. | 8-K | 3.1 | 12/21/20 |
| 3.2 | Certificate of Amendment to the Third Amended and Restated Certificate of Incorporation of Skillz Inc. | 10-Q | 3.1 | 8/4/2022 |
| 3.2 | Amended and Restated Bylaws of Skillz Inc. | 8-K | 3.2 | 12/21/20 |
| 4.1 | Form of Specimen Class A Common Stock Certificate of Skillz Inc. | 8-K | 4.1 | 12/21/20 |
| 4.2 | Warrant Agreement, dated March 5, 2020, by and between Flying Eagle Acquisition Corp. and Continental Stock Transfer & Trust Company, as warrant agent | 8-K(1) | 4.1 | 3/10/20 |
| 4.3** | Description of Skillz Inc.'s Securities | 10-K | 4.3 | 3/01/22 |
| 4.4 | Indenture, dated as of December 20, 2021, among Skillz Inc., each of the guarantors party thereto and UMB Bank, N.A., as Trustee | 8-K | 4.1 | 12/20/21 |
| 4.5 | Form of 10.250% Note due 2026 (included as Exhibit A to Exhibit 4.4) | 8-K | 4.2 | 12/20/21 |
| 10.1+ | Skillz Inc. 2020 Omnibus Incentive Plan | S-4(1) | Annex F | 9/8/20 |
| 10.2+ | Skillz Inc. 2020 Employee Stock Purchase Plan | S-4(1) | Annex G | 9/8/20 |
| 10.3+ | Form of Indemnification Agreement | 8-K | 10.1 | 2/26/21 |
| 10.4 | Support Agreement, dated as of September 1, 2020, by and among Flying Eagle Acquisition Corp. and certain Supporting Stockholders of Skillz Inc. | 8-K(1) | 10.3 | 9/2/20 |
| 10.5 | Eighth Amended and Restated Investors' Rights Agreement, dated September 1, 2020, by and among Flying Eagle Acquisition Corp., Skillz Inc. and certain of its stockholders | 8-K(1) | 10.2 | 9/2/20 |
| 10.6† | Earnout Escrow Agreement, dated December 16, 2020 by and among Skillz Inc., Andrew Paradise, solely in his capacity as representative of the stockholders of Skillz Inc., Eagle Equity Partners II LLC and Continental Stock Transfer & Trust Company | 8-K | 10.6 | 12/21/20 |
| 10.7 | Director Nomination Agreement, dated December 16, 2020, by and between Skillz Inc. and Eagle Equity Partner II, LLC | 8-K | 10.7 | 12/21/20 |
| 10.8 | Note Cancellation Agreement dated as of December 16, 2020 by and between Skillz Inc. and Andrew Paradise | 8-K | 10.8 | 12/21/20 |

| | | | | |
|---|---|---|---|---|
| 10.9 | Note Cancellation Agreement dated as of December 16, 2020 by and between Skillz Inc. and Casey Chafkin | 8-K | 10.9 | 12/21/20 |
| 10.10†* | Amendment to Skillz Online Developer Terms and Conditions of Service, dated January 15, 2020, by and between Skillz Inc and Tether Studios, Inc. | S-4(1) | 10.9 | 11/2/20 |
| 10.11+ | Form of Option Agreement | 8-K | 10.11 | 12/21/20 |
| 10.12+ | Skillz Inc. Executive Severance and Change in Control Plan | 8-K | 10.12 | 12/21/20 |
| 10.13+ | Form of Severance Plan Participation Agreement | 8-K | 10.13 | 12/21/20 |
| 10.14 | Investor Rights Agreement dated September 1, 2020 by and among Flying Eagle Acquisition Corp., Skillz Inc., and the stockholders named therein | 8-K | 10.14 | 12/21/20 |
| 10.15+ | Offer Letter, signed by Skillz Inc. and Vatsal Bhardwaj, dated as of October 7, 2021 | 10-K | 10.15 | 3/01/22 |
| 10.16+ | Offer Letter, signed by Skillz Inc. and Jason Roswig, dated as of June 24, 2022 | 8-K | 10.1 | |
| 10.16+ | Transition and Separation Agreement, between Skillz Inc. and Doris Fritz-Bianchi, dated as of August 24, 2022 | 8-K | 10.1 | 8/25/22 |
| 10.17+ | Transition and Release Agreement, between Skillz Inc. and Ian Lee, dated as of June 29, 2022 | 8-K | 10.1 | 6/30/22 |
| 10.18 | Form of Non-Competition and Non-Solicitation Agreement, dated as of June 1, 2021, by and between Skillz Inc. and Certain Stockholders of Aarki, Inc. | 8-K | 99.4 | 6/2/21 |
| 10.19+ | CEO Equity Award Agreement, dated as of November 23, 2022 | 8-K | 10.1 | 11/30/22 |
| 10.20+** | Confidentiality, Non-Competition, Non-Solicitation and Assignment of Inventions Agreement, dated as of May 13, 2013 | | | |
| 21.1** | List of Subsidiaries | 10-K | 21.1 | 3/01/22 |
| 23.1** | Consent of Independent Registered Public Accounting Firm | | | |
| 31.1** | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | |
| 31.2** | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | |
| 32.1** | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | |
| 32.2** | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | |
| 101.INS*** | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | | | |
| 101.SCH*** | Inline XBRL Taxonomy Extension Schema Document | | | |
| 101.CAL*** | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | | |
| 101.DEF*** | Inline XBRL Definition Linkbase Document | | | |
| 101.LAB*** | Inline XBRL Taxonomy Extension Label Linkbase Document | | | |
| 101.PRE*** | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | | |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). | | | |

(1) Filed by Flying Eagle Acquisition Corp.

† Certain of the exhibits and schedules to this Exhibit have been omitted in accordance with Regulation S-K Item 601(a)(5). The Registrant agrees to furnish a copy of all omitted exhibits and schedules to the SEC upon its request.

* Certain portions of this exhibit have been omitted pursuant to Regulation S-K Item 601(b)(10)(iv). The Registrant agrees to furnish an unredacted copy of the exhibit to the SEC upon its request.

**Filed herewith.

***Submitted electronically with the report.

+ Management contract or compensatory plan or arrangement

**Item 16. Form 10-K Summary.**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SKILLZ INC.**

| | |
|---|---|
| By: | /s/ Andrew Paradise |
| Name: | Andrew Paradise |
| Title: | Chief Executive Officer and Chairman |
| Date: | March 31, 2023 |

## POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints each of Andrew Paradise and Jason Roswig, acting alone or together with another attorney-in-fact, as his or her true and lawful attorney-in- fact and agent, with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Andrew Paradise<br>Andrew Paradise | Chief Executive Officer and Chairman<br>(Principal Executive Officer) | March 31, 2023 |
| /s/ Alvin Lobo<br>Alvin Lobo | Chief Financial Officer<br>(Principal Financial Officer) | March 31, 2023 |
| /s/ Stanley Mbugua<br>Stanley Mbugua | Chief Accounting Officer<br>(Principal Accounting Officer) | March 31, 2023 |
| /s/ Casey Chafkin<br>Casey Chafkin | Chief Strategy Officer and Director | March 31, 2023 |
| /s/ Kevin Chessen<br>Kevin Chessen | Director | March 31, 2023 |
| /s/ Alex Mandel<br>Alex Mandel | Director | March 31, 2023 |
| /s/ Henry Hoffman<br>Henry Hoffman | Director | March 31, 2023 |
| /s/ Seth Schorr<br>Seth Schorr | Director | March 31, 2023 |
| /s/ Kent Wakeford<br>Kent Wakeford | Director | March 31, 2023 |

**Exhibit 4.3**

# DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

*The following summary of the material terms of the capital stock of Skillz Inc. is not intended to be a complete summary of the rights and preferences of such securities, and is qualified by reference to our Amended and Restated Certificate of Incorporation (the "Charter"), our Amended and Restated Bylaws (the "Bylaws") and the warrant-related documents described herein, each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit is a part, and certain provisions of Delaware law. We urge you to read each of our Charter, our Bylaws and the warrant-related documents described herein in their entirety for a complete description of the rights and preferences of our securities. Unless the context requires otherwise, all references to "we", "us," "our," the "Company" and "Skillz" in this section refer solely to Skillz, Inc. and not to our subsidiaries.*

## Authorized Capital Stock

We are authorized to issue 635,000,000 shares, consisting of 500,000,000 shares of Class A common stock, par value $0.0001 per share, 125,000,000 shares of Class B common stock, par value $0.0001 per share, and 10,000,000 shares of preferred stock, par value $0.0001 per share.

## Common Stock

### *Class A Common Stock*

*Voting Rights*

Holders of Class A common stock are entitled to cast one vote per share. Generally, holders of all classes of common stock vote together as a single class, and an action is approved by stockholders if the number of votes cast in favor of the action exceeds the number of votes cast in opposition to the action, while directors are elected by a plurality of the votes cast. Holders of Class A common stock are not entitled to cumulate their votes in the election of directors.

*Dividend Rights*

Holders of Class A common stock share ratably (based on the number of shares of Class A common stock held) if and when any dividend is declared by the Board of Directors of Skillz (the "Board") out of funds legally available therefor, subject to restrictions, whether statutory or contractual (including with respect to any outstanding indebtedness), on the declaration and payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock or any class or series of stock having a preference over, or the right to participate with, the Class A common stock with respect to the payment of dividends.

*Liquidation, Dissolution and Winding Up*

On the liquidation, dissolution, distribution of assets or winding up of Skillz, each holder of Class A common stock will be entitled, pro rata on a per share basis, to all assets of Skillz of whatever kind available for distribution to the holders of common stock, subject to the designations, preferences, limitations, restrictions and relative rights of any other class or series of preferred stock then outstanding.

*Other Matters*

Holders of shares of Class A common stock do not have subscription, redemption or conversion rights. All the outstanding shares of Class A common stock will be validly issued, fully paid and nonassessable.

### *Class B Common Stock*

*Voting Rights*

Holders of Class B common stock are entitled to cast 20 votes per share. Generally, holders of all classes of common stock vote together as a single class, and an action is approved by stockholders if the number of votes cast in favor of the action exceeds the number of votes cast in opposition to the action, while directors are elected by a plurality of the votes cast. Holders of Class B common stock will not be entitled to cumulate their votes in the election of directors.

*Dividend Rights*

Holders of Class B common stock share ratably (based on the number of shares of Class B common stock held) if and when any dividend is declared by the Board out of funds legally available therefor, subject to restrictions, whether statutory or contractual (including with respect to any outstanding indebtedness), on the declaration and payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock or any class or series of stock having a preference over, or the right to participate with, the Class B common stock with respect to the payment of dividends.

*Optional Conversion Rights*

Holders of Class B common stock have the right to convert shares of their Class B common stock into fully paid and non-assessable shares of Class A common stock, on a one-to-one basis, at the option of the holder at any time upon written notice to Skillz.

*Mandatory Conversion Rights*

Holders of Class B common stock shall have their Class B common stock automatically converted into Class A common stock, on a one-to-one basis, upon the occurrence of any of the events described below:

(1) Any sale, assignment, transfer, conveyance, hypothecation, or other transfer or disposition, directly or indirectly, of any Class B common stock or any legal or beneficial interest in such share, whether or not for value and whether voluntary or involuntary or by operation of law (including by merger, consolidation, or otherwise), including, without limitation the transfer of a share of Class B common stock to a broker or other nominee or the transfer of, or entering into a binding agreement with respect to, voting control over such share by proxy or otherwise, other than a permitted transfer.

(2) Upon the first date on which Andrew Paradise, together with all other qualified stockholders, collectively cease to beneficially own at least 20% of the number of Class B common stock (as such number of shares is equitably adjusted in respect of any reclassification, stock dividend, subdivision, combination, or recapitalization of the Class B common stock) collectively held by Mr. Paradise and his permitted transferees.

(3) Upon the date specified by the affirmative vote of the holders of at least two-thirds of the outstanding shares of Class B common stock, voting as a separate class.

*Liquidation Rights*

On the liquidation, dissolution, distribution of assets or winding up of Skillz, each holder of Class B common stock will be entitled, pro rata on a per share basis, to all assets of Skillz of whatever kind available for distribution to the holders of common stock, subject to the designations, preferences, limitations, restrictions and relative rights of any other class or series of preferred stock then outstanding.

**Preferred Stock**

Our Charter provides that the Board has the authority, without action by the stockholders, to designate and issue shares of preferred stock in one or more classes or series, and to determine and fix the number of shares constituting any such class or series, the voting powers, designations, preferences, limitations, restrictions and relative rights of each class or series of preferred stock, including, without limitation, dividend rights, dividend rates, conversion rights, exchange rights, voting rights, rights and terms of redemption, dissolution preferences, and treatment in the case of a merger, business combination transaction, or sale of Skillz's assets, which rights may be greater than the rights of the holders of the common stock. We do not have any outstanding preferred stock as of the date of this prospectus.

The purpose of authorizing the Board to issue preferred stock and determine the rights and preferences of any classes or series of preferred stock is to eliminate delays associated with a stockholder vote on specific issuances. The simplified issuance of preferred stock, while providing flexibility in connection with possible acquisitions, future financings and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or could discourage a third party from seeking to acquire, a majority of Skillz's outstanding voting stock. Additionally, the issuance of preferred stock may adversely affect the holders of Class A common stock by restricting dividends on the Class A common stock, diluting the voting power of the Class A common stock or subordinating the dividend or liquidation rights of the Class A common stock. As a result of these or other factors, the issuance of preferred stock could have an adverse impact on the market price of Class A common stock.

In December 2020, we completed the transactions (the "Business Combination") contemplated by that certain Agreement and Plan of Merger, dated as of September 1, 2020, by and among Flying Eagle Acquisition Corporation, a Delaware corporation ("FEAC"), FEAC Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of FEAC ("Merger Sub"), Old Skillz (which we define as Skillz Inc. prior to the Business Combination and Skillz Platform Inc. after the Business Combination), and solely in his capacity as the representative of the Old Skillz stockholders, Andrew Paradise as stockholder representative (the "Merger Agreement"), including the merger of Merger Sub with and into Old Skillz, pursuant to which (i) Old Skillz survived the merger as a wholly owned subsidiary of Skillz Inc. ("New Skillz") and (ii) the Old Skillz stockholders and the holders of Old Skillz options and warrants exchanged their Old Skillz capital stock and Old Skillz options for equity interests in New Skillz.

After the Business Combination, options to purchase shares of Old Skillz common stock that were outstanding and unexercised, whether or not then vested or exercisable, were assumed by New Skillz and were converted into options to acquire shares of New Skillz Class A common stock (other than in the case of Mr. Paradise, who received options exercisable for New Skillz Class B common stock) with the same terms and conditions as applied to the Old Skillz options immediately prior to the effective time of the Business Combination provided that the number of shares underlying such New Skillz options was determined by multiplying the number of shares of Old Skillz common stock subject to such options immediately prior to the effective time, by the ratio determined by dividing the merger consideration value by $10.00 (the product being the "option exchange ratio") and the per share exercise price of such New Skillz options were determined by dividing the per share exercise price of the Old Skillz options immediately prior to the effective time by the option exchange ratio. As of December 31, 2021, unvested options to purchase 12,315,545 shares of New Skillz common stock were outstanding, with a weighted average exercise price of $17.25 per share.

**Warrants**

***Public Warrants***

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

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

On July 16, 2021, the Company announced the redemption of all Public Warrants that remained outstanding on August 16, 2021. On August 16, 2021, 5,888,294 Public Warrants remained unexercised at 5pm New York City time, and such warrants expired and were no longer exercisable, and the holders of those Public Warrants are entitled to receive only the redemption price of $0.01 per warrant. As of December 31, 2021, there were no outstanding public warrants.

***Private Placement Warrants***

As of December 31, 2021, there were 4,535,728 private placement warrants outstanding. The private placement warrants are not redeemable by Skillz for cash so long as they are held by the initial stockholders or their permitted transferees. The initial purchasers of the private placement warrants, or their permitted transferees, have the option to exercise the private placement warrants on a cashless basis. If the private placement warrants are held by holders other than the initial purchasers thereof or their permitted transferees, the private placement warrants will be redeemable by Skillz and exercisable by the holders as set forth below.

All holders of private placement warrants may pay the exercise price by surrendering their warrants for that number of shares of Class A common stock equal to the quotient obtained by dividing (x) the product of the number of Class A common stock underlying the warrants, multiplied by the excess of the "fair market value" of the Class A common stock (defined below) over the exercise price of the warrants by (y) the fair market value. The "fair market value" will mean the average closing price of the Class A common stock for the 10 trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of warrants.

**Exclusive Forum**

Our Charter provides that, to the fullest extent permitted by law, unless we otherwise consent in writing, the Court of Chancery (the "Chancery Court") of the State of Delaware (or, in the event that the Chancery Court does not have jurisdiction, the federal district for the District of Delaware or other state courts of the State of Delaware) shall, to the fullest extent permitted by law, by the sole and exclusive forum for any action brought (1) any derivative action or proceeding brought on behalf of Skillz, (2) any action asserting a claim of breach of a fiduciary duty owed by, or any other wrongdoing by, any current or former director, officer, other employee or stockholder of the Company, (3) any action asserting a claim against Skillz arising pursuant to any provision of the Delaware General Corporation Law (the "DGCL"), the Charter or the Bylaws, or as to which the DGCL confers jurisdiction on the Court of Chancery, (4) any action to interpret, apply, enforce or determine the validity of any provisions of the Charter or the Bylaws, or (5) any other action asserting a claim governed by the internal affairs doctrine. Notwithstanding the foregoing, the federal district courts of the United States shall be the exclusive forum for the resolution of any action, suit or proceeding asserting a cause of action arising under the Securities Act of 1933, as amended (the "Securities Act"). This exclusive forum provision does not apply to suits brought to enforce any liability or duty created by the Securities Exchange Act of 1934, as amended. Any person or entity purchasing or otherwise acquiring an interest in any shares of our capital stock shall be deemed to have notice of and to have consented to the forum provisions in our Charter. These choice-of-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that he, she or it believes to be favorable for disputes with us or our or directors, officers or other employees, which may discourage such lawsuits. We note that there is uncertainty as to whether a court would enforce these provisions and that investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. Section 22 of the Securities Act creates concurrent jurisdiction for state and federal courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder.

**Anti-Takeover Effects of Provisions of the Charter, the Bylaws and Applicable Law**

Certain provisions of the Charter, Bylaws, and laws of the State of Delaware, where Skillz is incorporated, may discourage or make more difficult a takeover attempt that a stockholder might consider in his or her best interest. These provisions may also adversely affect prevailing market prices for the Class A common stock and the Class B common stock. Skillz believes that the benefits of increased protection give Skillz the potential ability to negotiate with the proponent of an unsolicited proposal to acquire or restructure Skillz and outweigh the disadvantage of discouraging those proposals because negotiation of the proposals could result in an improvement of their terms.

***Authorized but Unissued Shares***

Delaware law does not require stockholder approval for any issuance of authorized shares. However, the listing requirements of the NYSE, on which our Class A common stock is listed, require stockholder approval of certain issuances equal to exceeding 20% of the then outstanding voting power or then outstanding number of shares of common stock.

Additional shares that may be used in the future may be issued for a variety of corporate purposes, including future public offerings, to raise additional capital, or to facilitate acquisitions. The existence of authorized but unissued and unreserved common stock and preferred stock could make more difficult or discourage an attempt to obtain control of Skillz by means of a proxy contest, tender offer, merger, or otherwise.

***Dual Class Stock***

As described above, the Charter provides for a dual class common stock structure, which provides Mr. Paradise with the ability to control the outcome of matters requiring stockholder approval, even though he owns significantly less than a majority of the shares of outstanding Class A common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of Skillz or its assets.

***Number of Directors***

The Charter and the Bylaws provide that, subject to any rights of holders of preferred stock to elect additional directors under specified circumstances, the number of directors may be fixed from time to time pursuant to a resolution adopted by the Board; providing, however, that unless otherwise approved by (i) if before the first date on which the issued and outstanding shares of Class B common stock represents less be entitled to vote in the election of directors at an annual meeting of stockholders, the holders of a majority in voting power of the shares of capital stock of Skillz that would then be entitled to vote in the election of directors at an annual meeting or by written consent, or (ii) if after the first date on which the issued and outstanding shares of Class B common stock represents less than 50% of the total voting power of the then outstanding shares of capital stock of Skillz that would then be entitled to vote in the election of directors at an annual meeting of stockholders, by the holders of two-thirds (2/3rds) of the voting power of the shares of capital stock of Skillz that would then be entitled to vote in the election of directors at an annual meeting of stockholders, the number of directors may not exceed seven. The number of directors is currently set at seven.

***Requirements for Advance Notification of Stockholder Meetings, Nominations and Proposals***

The Bylaws establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors, other than nominations made by or at the direction of the Board or a committee of the Board. In order to be "properly brought" before a meeting, a stockholder will have to comply with advance notice requirements and provide Skillz with certain information. Generally, to be timely, a stockholder's notice must be received at Skillz's principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary of the immediately preceding annual meeting of stockholders. The Bylaws also specify requirements as to the form and content of a stockholder's notice. The Bylaws allow the chairperson of the meeting at a meeting of the stockholders to adopt rules and regulations for the conduct of meetings which may have the effect of precluding the conduct of certain business at a meeting if the rules and regulations are not followed. These provisions may also defer, delay, or discourage a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to influence or obtain control of Skillz.

***Limitations on Stockholder Action by Written Consent***

The Charter provides that, subject to the terms of any series of preferred stock, any action required or permitted to be taken by the stockholders of Skillz must be effected at an annual or special meeting of the stockholders and may not be effected by written consent in lieu of a meeting, provided that prior to the first date on which the issued and outstanding shares of Class B common stock represents less than 50% of the total voting power of the then outstanding shares of capital stock of the Company that would then be entitled to vote in the election of directors at an annual meeting of stockholders, any action required or permitted to be taken at any annual or special meeting of stockholders of the Company may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of the outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

***Amendment of the Charter and Bylaws***

The DGCL provides generally that the affirmative vote of a majority of the outstanding shares entitled to vote thereon, voting together a single class, is required to amend a corporation's certificate of incorporation, unless the certificate of incorporation requires a greater percentage.

Our Charter provides that it may be amended by Skillz in the manners provided therein or prescribed by statute. The Charter provides that the affirmative vote of the holders of a majority of the voting power of the then-outstanding shares of capital stock of Skillz entitled to vote generally in the election of directors, voting together as a single class, will be required to amend or repeal, or adopt any provision of the Charter providing for the capital stock of Skillz, amendment of the Charter, amendment of the Bylaws, board of directors, election of directors, limitation of director liability, indemnification and special meetings of the stockholders.

So long as any shares of our Class B common stock are outstanding, Skillz may not, without the prior affirmative vote of the holders of two-thirds of the outstanding shares of Class B common stock, voting as a separate class, in addition to any other vote required by applicable law or the Charter, directly or indirectly, amend, alter, change, repeal, or adopt any provision of the Charter (1) in a manner that is inconsistent with, or otherwise alters or changes, any of the voting, conversion, dividend, or liquidation provisions of the shares of Class B common stock or other, powers, preferences, or special rights of the shares of Class B common stock, (2) to provide for each share of Class A common stock to have more than one vote per share or any rights to a separate class vote of the holders of shares of Class A common stock other than as provided in the Charter or required by the DGCL, or (3) to otherwise adversely impact or affect the rights, powers, preferences, or privileges of the shares of Class B common stock.

So long as any shares of our Class A common stock shares are outstanding, Skillz may not, without the prior affirmative vote of the holders of two-thirds of the outstanding shares of Class A common stock, voting as a separate class, in addition to any other vote required by applicable law or the Charter, directly or indirectly, amend, alter, change, repeal, or adopt any provision of the Charter (1) in a manner that is inconsistent with, or otherwise alters or changes, any of the voting, conversion, dividend, or liquidation provisions of the shares of Class A common stock or other rights, powers, preferences, or privileges of the shares of Class A common stock or (2) to provide for each share of Class B common stock to have more than 20 votes per share or any rights to a separate class vote of the holders of shares of Class B common stock other than as provided in the Charter or required by the DGCL.

The Charter also provides that, subject to the terms of any preferred stock, the Board shall have the power to adopt, amend, alter, or repeal the Bylaws by the affirmative vote of a majority of the directors present at any regular or special meeting of the Board at which a quorum is present in any manner not inconsistent with the laws of the State of Delaware or the Charter. The stockholders of Skillz are prohibited from adopting, amending, altering, or repealing the Bylaws, or to adopt any provision inconsistent with the Bylaws, unless such action is approved, in addition to any other vote required by the Charter, by the requisite stockholder consent.

**Business Combinations**

Under Section 203 of the DGCL, a corporation will not be permitted to engage in a business combination with any interested stockholder for a period of three years following the time that such interested stockholder became an interested stockholder, unless:

(1) prior to such time the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

(2) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned (i) by persons who are directors and also officers and (ii) employee stock plans in which employee

participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

(3) at or subsequent to such time the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66⅔% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a "business combination" includes a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an "interested stockholder" is a person who, together with that person's affiliates and associates, owns, or within the previous three years owned, 15% or more of Skillz's outstanding voting stock. For purposes of this section only, "voting stock" has the meaning given to it in Section 203 of the DGCL.

Since Skillz has not opted out of Section 203 of the DGCL, it applies to Skillz. As a result, this provision makes it more difficult for a person who is an "interested stockholder" to effect various business combinations with Skillz for a three-year period. This provision may encourage companies interested in acquiring Skillz to negotiate in advance with the Board because the stockholder approval requirement would be avoided if the Board approves either the business combination or the transaction which results in the stockholder becoming an interested stockholder. These provisions also may have the effect of preventing changes in the Board and may make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

***Cumulative Voting***

Under Delaware law, the right to vote cumulatively does not exist unless the certificate of incorporation specifically authorizes cumulative voting. The Charter does not authorize cumulative voting.

**Limitations on Liability and Indemnification of Officers and Directors**

The DGCL authorizes corporations to limit or eliminate the personal liability of directors of corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties, subject to certain exceptions. The Charter includes a provision that eliminates the personal liability of directors for damages for any breach of fiduciary duty as a director where, in civil proceedings, the person acted in good faith and in a manner that person reasonably believed to be in or not opposed to the best interests of Skillz or, in criminal proceedings, where the person had no reasonable cause to believe that his or her conduct was unlawful.

The Bylaws provide that Skillz must indemnify and advance expenses to Skillz's directors and officers to the fullest extent authorized by the DGCL. Skillz also is expressly authorized to carry directors' and officers' liability insurance providing indemnification for Skillz directors, officers, and certain employees for some liabilities. Skillz believes that these indemnification and advancement provisions and insurance are useful to attract and retain qualified directors and executive officers.

The limitation of liability, advancement and indemnification provisions in the Charter and Bylaws may discourage stockholders from bringing lawsuit against directors for breach of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit Skillz and its stockholders. In addition, your investment may be adversely affected to the extent Skillz pays the costs of settlement and damage awards against directors and officer pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of Skillz's directors, officers, or employees for which indemnification is sought.

**Corporate Opportunities**

The Charter provide for the renouncement by Skillz of any interest or expectancy of Skillz in, or being offered an opportunity to participate in any matter, transaction, or interest that is presented to, or acquired, created, or developed by, or which otherwise comes into possession of, any director of Skillz who is not an employee or office of Skillz or any of its subsidiaries, unless such matter, transaction, or interest is presenting to, or acquired, created, or developed by, or otherwise comes into the possession of a director of Skillz expressly and solely in that director's capacity as a director of Skillz.

**Dissenters' Rights of Appraisal and Payment**

Under the DGCL, with certain exceptions, Skillz's stockholders will have appraisal rights in connection with a merger or consolidation of Skillz. Pursuant to the DGCL, stockholders who properly request and perfect appraisal rights in connection with such merger or consolidation will have the right to receive payment of the fair value of their shares as determined by the Delaware Court of Chancery.

**Stockholders' Derivative Actions**

Under the DGCL, any of Skillz's stockholders may bring an action in Skillz's name to procure a judgment in Skillz's favor, also known as a derivative action, provided that the stockholder bringing the action is a holder of Skillz's shares at the time of the transaction to which the action relates or such stockholder's stock thereafter devolved by operation of law.

**Transfer Agent and Registrar**

The transfer agent for our capital stock is Continental Stock Transfer & Trust Company.

13 May 2013

Andrew Paradise
37 Revere Street #2
Boston, MA 02114

*Re: Confidentiality, Non-Competition, Non-Solicitation and Assignment of Inventions Agreement*

Dear Andrew:

As a condition of your employment with Skillz Inc. (the "the Company"), you must sign and return this letter agreement (the "Agreement"). This Agreement confirms your promise to protect and preserve information and property which is confidential and proprietary to the Company, its subsidiaries and affiliates, as well as other terms and conditions of your employment, including your agreement to reasonable limitations on the scope of your employment once your affiliation with the Company ends. Your execution and return of this Agreement is a condition of your employment with the Company.

In consideration of the mutual promises and covenants contained in this Agreement, your employment and/or continued employment with the Company, the compensation arrangement offered to you as part of your employment with the Company, and for other good and valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged, we have agreed as follows:

1. Prohibited Competition.

(a) Certain Acknowledgements and Agreements.

(i) We have discussed, and you recognize and acknowledge the competitive and proprietary aspects of the business of the Company.

(ii) You acknowledge that a business will be deemed "Competitive" with the Company if it performs any of the services or manufactures or sells any of the products provided or offered by the Company or if it performs any other services and/or engages in the marketing, production, manufacture, distribution or sale of any product or service similar to the services or products which were performed, produced, marketed, manufactured, distributed, sold, under development or planned by the Company during your affiliation with the Company, or which could substitute for such products or services.

(iii) You further acknowledge that, during the course of your affiliation with the Company, the Company will furnish, disclose or make available to you Confidential Information (as defined below) related to the Company's business and that the Company will provide you with unique and specialized training, experiences and opportunities. You also acknowledge that such Confidential Information and such training, experiences and opportunities have been developed and will be developed by the Company through the expenditure by the Company of substantial time, effort and money and that all such Confidential Information and training, experiences and opportunities could be used by you to compete with the Company. You also acknowledge that if you become employed by or affiliated with any competitor of the Company in violation of your obligations to the Company, it is inevitable that you would disclose the Confidential Information to such competitor and would use such Confidential Information, knowingly or unknowingly, on behalf of such competitor. Further, in the course of your employment with the Company, you will be introduced to and collaborate with customers and other business partners of the Company. You acknowledge that any and all "goodwill" created through such relationships belongs exclusively to the Company, including, without limitation, any goodwill created as a result of direct or indirect contacts or relationships between you and any customers or other contacts of the Company.

(iv) For purposes of this Agreement, "Confidential Information," means confidential and proprietary information of the Company, whether in written, oral, electronic or other form, including but not limited to, information and facts concerning business plans, marketing plans, strategies, forecasts, customers, future customers, suppliers, licensors, licensees, partners, investors, affiliates or others, training methods and materials, financial information, pricing models and methods, sales prospects, client and partner lists, inventions, tests, test results, product assessments, improvements, inventions, products, designs, methods, show-how and know-how, techniques, systems, processes, software programs, algorithms, formulae, works of authorship, technical data and specifications, or any other technical or trade secrets of the Company or of any third party provided to you or the Company; provided that, Confidential Information will not include information that is in the public domain other than through any fault or act by you. The phrase, "trade secrets," as used in this Agreement, will be given its broadest possible interpretation under the law of the Commonwealth of Massachusetts and will include, without limitation, anything tangible or intangible or electronically kept or stored, which constitutes, represents, evidences or records any secret scientific, technical, merchandising, production or management information, or any design, process, procedure, formula, invention, improvement or other confidential or proprietary information or documents.

(v) You further acknowledge and agree that the Company exclusively owns and shall exclusively own all rights, title and interest to and in any and all accounts, clients and/or customers that you source, generate, solicit, and/or bring to the Company. You further acknowledge and agree that all business written or serviced for all customers, clients, and/or accounts of the Company, including, but not limited to, any customers, clients and/or accounts that you are responsible for generating business from on behalf of the Company, shall be written, renewed and serviced only through the facilities of the Company and in the name of the Company and shall be owned exclusively by the Company, including, but not limited to, the complete and entire goodwill relationship with the clients, customers, and/or accounts with whom you shall transact business.

(b) Non-Competition; Non-Solicitation. During the period in which you are employed by or otherwise affiliated with the Company and for a period of twelve (12) months following the last day of your affiliation with the Company (the "Restricted Period"), you will not, without the prior written consent of the Company:

(i) For yourself or on behalf of any other person or entity, directly or indirectly, either as principal, partner, stockholder, officer, director, member, employee, consultant, agent, representative or in any other capacity, own, manage, operate or control, or be concerned with, connected with or employed by, or otherwise associate in any manner with, engage in, or have a financial interest in, any business which is directly or indirectly Competitive (as defined in Section 1(a)(ii) above) with the business of the Company, except that nothing contained herein will preclude you from purchasing or owning securities of any such business if such securities are publicly traded, and provided that your holdings do not exceed one percent (1%) of the issued and outstanding securities of any class of securities of such business; or

(ii) Either individually or on behalf of or through any third party, directly or indirectly, solicit, divert or appropriate or attempt to solicit, divert or appropriate any customer, client, or other business partner of the Company (or any person or entity which was a customer, client, or business partner of the Company at any time during the six (6) month period preceding such actual or attempted solicitation, diversion or appropriation), or any prospective customer, client, or business partner with respect to which the Company has developed or made a sales presentation (or similar offering of services) during the six (6) month period preceding such actual or attempted solicitation, for the purpose of competing with the Company or reducing the Company's relationship with any customers, clients, or other business partners of the Company; or

(iii) Either individually or on behalf of or through any third party, directly or indirectly, (A) solicit, entice or persuade or attempt to solicit, entice or persuade any employee of or consultant to the Company to end or reduce such person's relationship with the Company, or (B) employ, hire, cause to be employed or engaged, or solicit the employment or the engagement as a consultant of any employee of or consultant to the Company while any such person is affiliated with the Company or within six (6) months after any such person ceases to be affiliated with the Company; and/or

(iv) Either individually or on behalf of or through any third party, directly or indirectly, solicit, entice or persuade or attempt to solicit, entice or persuade any third party with whom the Company has a contractual or business relationship (including business referral sources, centers of business influence, and/or strategic business partners) to sever, modify, reduce, or in any way alter their business or contractual relationship with the Company.

(c) Extension of Restricted Period. If you breach any of the terms of Section 1(b) above in any respect, the Restricted Period shall be extended for a period equal to the period that you were in breach.

(d) Reasonableness of Restrictions. You further recognize and acknowledge that (i) the types of employment which are prohibited by this Section 1 are narrow and reasonable in relation to the skills which represent your principal salable assets both to the Company and to other prospective employers, and (ii) the specific but broad geographical scope of the provisions of this Section 1 is reasonable, legitimate and fair to you in light of the nature of the Company's business, the Company's need to market and sell its services and products in an appropriate manner and in light of the limited restrictions on the type of activity prohibited compared to the activities for which you are qualified to earn a livelihood.

(e) Survival of Acknowledgements and Agreements. Your acknowledgements and agreements set forth in this Section 1 shall survive the termination of your affiliation with the Company.

2. Protected Information. You will at all times, both during the period while you are affiliated with the Company and after your affiliation with the Company ends, maintain in confidence and will not, without the prior written consent of the Company, use, except in the course of performance of your duties for the Company or by court order, disclose or give to others any Confidential Information. In the event you are questioned by anyone not employed by or otherwise affiliated with the Company or by an employee of or a consultant to the Company not authorized to receive Confidential Information, in regard to any Confidential Information, or concerning any fact or circumstance relating thereto, you will promptly notify the Company. Upon the termination of your affiliation with the Company for any reason or for no reason, or if the Company otherwise requests, (a) you will return to the Company all tangible Confidential Information and copies thereof (regardless how such Confidential Information or copies are maintained), and (b) you will deliver to the Company any property of the Company which may be in your possession, including, but not limited to, notes, notebooks, memoranda, reports, lists, records, specifications, software programs, data, graphics, computers, equipment, models, tools, cellular telephones, PDAs, pagers, credit and/or calling cards, keys, access cards, documentation or other materials of any nature and in any form, whether written, printed, electronic or in digital format or otherwise, relating to any matter within the scope of the business of the Company or concerning any of its dealings or affairs and any other Company property in your possession, custody or control (whether prepared by you or others). The terms of this Section 2 are in addition to, and not in lieu of, any other contractual, statutory, common law, or legal obligation that you may have relating to the protection of the Company's Confidential Information. The terms of this Section 2 shall survive indefinitely any termination of your affiliation with the Company for any reason or for no reason.

3. Ownership of Ideas, Copyrights and Patents.

(a) Property of the Company. All inventions, ideas, discoveries, creations, manuscripts and properties, work modifications, processes, software programs, works of authorship, documentation, innovations, improvements, know-how, show-how inventions, designs, developments, apparatus, trade secrets, techniques, methods, technical specifications, technical data, concepts, expressions, and formulae (collectively the "Inventions"), which may be used in the business of the Company, whether or not such Inventions are patentable, copyrightable, or registrable under copyright, trademark or similar statutes (including but not limited to The Semiconductor Chip Act), which you may conceive, make, author, devise, discover, reduce to practice, or develop (whether alone or in conjunction with another or others) during the period while you are affiliated with the Company and which in any way relate to the Company's business, will be the sole and exclusive property of the Company, and you agree to promptly disclose to the Company all such matters, as well as any such matters which you conceive, make, author, devise, discover, reduce to practice or develop during the six (6) month period following the end of your affiliation with the Company. You agree that you will not publish any of the Inventions without the prior written consent of the Company or its designee. Without limiting the foregoing, you also acknowledge that all original works of authorship which are made by you (solely or jointly with others) within the scope of your employment or which relate to the business of the Company or a Company affiliate and which are protectable by copyright are "works made for hire" pursuant to the United States Copyright Act (17 U.S.C. Section 101). You hereby assign to the Company or its designee all of your right, title and interest in and to all of the foregoing. You further represent that, to the best of your knowledge and belief, none of the Inventions will violate or infringe upon any right, patent, copyright, trademark or right of privacy, or constitute libel or slander against or violate any other rights of any person, firm or corporation, and that you will use your best efforts to prevent any such violation.

(b) Cooperation. At any time during or after the period during which you are affiliated with the Company, you will fully cooperate with the Company and its attorneys and agents in the preparation and filing of all papers and other documents as may be required to perfect the Company's rights in and to any such Inventions, including, but not limited to, joining in any proceeding to obtain letters patent, copyrights, trademarks or other legal rights with respect to any such Inventions in the United States and in any and all other countries, provided that the Company will bear the expense of such proceedings, and that any patent or other legal right so issued to you personally will be assigned by you to the Company or its designee without charge by you.

(c) Licensing and Use of Innovations. With respect to any Inventions, and work of any similar nature (from any source), whenever created, which you have not prepared or originated in the performance of your employment, but which you provide to the Company or incorporate in any Company product or system, you hereby grant to the Company a royalty-free, fully paid-up, non-exclusive, perpetual and irrevocable license throughout the world to use, modify, create derivative works from, disclose, publish, translate, reproduce, deliver, perform, dispose of, and to authorize others so to do, all such Inventions. You will not include in any Inventions you deliver to the Company or use on its behalf, without the prior written approval of the Company, any material which is or will be patented, copyrighted or trademarked by you or others unless you provide the Company with the written permission of the holder of any patent, copyright or trademark owner for the Company to use such material in a manner consistent with then-current Company policy.

(d) Inventions Assigned to the United States. In addition, you agree to assign to the United States government any and all right, title, and interest that you may have in and/or to any and all Inventions whenever such full title is required to be assigned to the United States by a contract between the Company and the United States or any of its agencies.

(e) Maintenance of Records. You agree to keep and maintain adequate and current written records of all Inventions made by you (solely or jointly with others) during the term of your employment with the Company. The records will be in the form of notes, sketches, drawings, laboratory notebooks, and/or any other format that may be required by the Company. The records will be available to and remain the sole property of the Company at all times.

(f) Prior Inventions. Patented or unpatented inventions, if any, which you made prior to the commencement of your employment with the Company are excluded from the scope of this Agreement. To preclude any possible uncertainty, you have set forth on Exhibit A attached hereto a complete list of all inventions that you have, alone or jointly with others, conceived, developed or reduced to practice or caused to be conceived, developed or reduced to practice prior to the commencement of your employment with the Company, that you wish to have excluded from the scope of this Agreement (collectively referred to as "Prior Inventions"). If disclosure of any such Prior Invention would cause you to violate any prior confidentiality agreements that you are a party to, you understand that you are not to list such Prior Invention on Exhibit A. Instead, you are to disclose in the applicable space on Exhibit A, only a cursory name for each such invention, a listing of the party(s) to whom it belongs and the fact that full disclosure as to such invention has not been made for that reason. If no inventions are listed on Exhibit A, you acknowledge and agree that that there are no Prior Inventions. You further agree that you shall not incorporate, or permit to be incorporated, Prior Inventions in any Company Inventions without the Company's prior written consent; provided that, if, in the course of your employment with the Company, you incorporate (whether intentionally or inadvertently) a Prior Invention into a Company product, process, machine, or Invention, you hereby grant the Company a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license (with rights to sublicense through multiple tiers of sublicensees) to make, have made, modify, use and sell such Prior Invention.

4. Disclosure to Future Employers. You will provide, and the Company, in its discretion, may provide, a copy of this Agreement to any business or enterprise which you may directly or indirectly own, manage, operate, finance, join, control or in which you may participate in the ownership, management, operation, financing, or control, or with which you may be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise.

5. No Conflicting Agreements. You hereby represent and warrant that you have no commitments or obligations inconsistent with this Agreement and you will indemnify and hold the Company harmless against loss, damage, liability or expense arising from any claim based upon circumstances alleged to be inconsistent with such representation and warranty. In addition:

(a) You represent that you have no agreement or other legal obligation with any prior employer or any other person or entity that restricts your ability to perform any function for the Company.

(b) You have been advised by the Company that at no time should you divulge to or use for the benefit of the Company any trade secret or confidential or proprietary information of any previous employer. You have not divulged or used any such information for the benefit of the Company.

(c) You have not and will not misappropriate any Invention that you played any part in creating while working for any former employer.

(d) You recognize that the Company has received, and in the future will receive, confidential or proprietary information from third parties subject to a duty on the Company to maintain the confidentiality of such information and to use it only for certain limited purposes. You agree to hold all such confidential and proprietary information in the strictest confidence and not to disclose it to any person or entity or to use it except as necessary to carry out your work for the Company consistent with the Company's agreement with such third parties.

(e) You acknowledge that the Company has based important business decisions on these representations, and affirm that all of the statements included herein are true.

6. General.

(a) Agreement Enforceable Upon Material Job Change. You acknowledge and agree that if you should transfer between or among any affiliates of the Company, wherever situated, or be promoted, demoted, reassigned to functions other than your present functions, or have your job duties changed, altered or modified in any way, all terms of this Agreement shall continue to apply with full force.

(b) Notices. All notices, requests, consents and other communications hereunder will be in writing, will be addressed to the receiving party's address set forth above or to such other address as a party may designate by notice hereunder, and will be either delivered by hand, sent by overnight courier, or sent by registered mail, return receipt requested, postage prepaid. All notices, requests, consents and other communications hereunder will be deemed to have been given either (i) if by hand, at the time of the delivery thereof to the receiving party at the address of such party set forth above, (ii) if sent by overnight courier, on the next business day following the day such notice is delivered to the courier service, or (iii) if sent by registered mail, on the fifth business day following the day such mailing is made.

(c) Entire Agreement. This Agreement embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement of any kind not expressly set forth in this Agreement will affect, or be used to interpret, change or restrict, the express terms and provisions of this Agreement.

(d) Modifications and Amendments. The terms and provisions of this Agreement may be modified or amended only by written agreement executed by the parties hereto.

(e) Waivers and Consents. The terms and provisions of this Agreement may be waived, or consent for the departure therefrom granted, only by written document executed by the party waiving or consenting to such terms or provisions. No such waiver or consent will be deemed to be or will constitute a waiver or consent with respect to any other terms or provisions of this Agreement, whether or not similar. Each such waiver or consent will be effective only in the specific instance and for the purpose for which it was given, and will not constitute a continuing waiver or consent.

(f) Assignment. The Company, in its sole and absolute discretion, may assign its rights and obligations hereunder to any person or entity. You may not assign your rights and obligations under this Agreement without the prior written consent of the Company and any such attempted assignment by you without the prior written consent of the Company will be void.

(g) Benefit. All statements, representations, warranties, covenants and agreements in this Agreement will be binding on the parties hereto and will inure to the benefit of the respective successors and permitted assigns of each party hereto. Nothing in this Agreement will be construed to create any rights or obligations except between the Company and you, and no person or entity other than the Company will be regarded as a third-party beneficiary of this Agreement.

(h) Governing Law. This Agreement shall be deemed to have been made in the Commonwealth of Massachusetts, shall take effect as an instrument under seal within Massachusetts, and the validity, interpretation and performance of this Agreement shall be governed by, and construed in accordance with, the internal law of Massachusetts, without giving effect to conflict of law principles, and specifically excluding any conflict or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The parties acknowledge that the last act necessary to render this Agreement enforceable is its execution by the Company in Massachusetts, and that the Agreement shall be maintained in Massachusetts.

(i) Jurisdiction, Venue and Service of Process. Any legal action or proceeding with respect to this Agreement must be brought in the courts of the Commonwealth of Massachusetts or in the United States District Court for the District of Massachusetts and shall be subject to the jurisdiction of such courts only. By execution and delivery of this Agreement, each of the parties hereto accepts for itself and in respect of its property, generally and unconditionally, the exclusive jurisdiction of the aforesaid courts.

(j) Waiver of Jury Trial. Any action, demand, claim or counterclaim arising under or relating to this Agreement will be resolved by a judge alone and each of the Company and you waive any right to a jury trial thereof.

(k) Severability. The parties intend this Agreement to be enforced as written. However, (i) if any portion or provision of this Agreement is to any extent declared illegal or unenforceable by a duly-authorized court having jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, will not be affected thereby, and each portion and provision of this Agreement will be valid and enforceable to the fullest extent permitted by law, and (ii) if any provision, or part thereof, is held to be unenforceable because of the duration of such provision or the geographic area covered thereby, the court making such determination will have the power to reduce the duration and/or geographic area of such provision, and/or to delete specific words and phrases ("blue-pencilling"), and in its reduced or blue-pencilled form such provision will then be enforceable and will be enforced.

(l) Headings and Captions. The headings and captions of the various subdivisions of this Agreement are for convenience of reference only and will in no way modify or affect the meaning or construction of any of the terms or provisions hereof.

(m) Injunctive Relief and Legal Fees. You hereby expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in Section 1, 2 or 3 of this Agreement will result in substantial, continuing and irreparable injury to the Company. Therefore, you acknowledge and agree that in addition to any other remedy that may be available to the Company, the Company will be entitled to injunctive or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of Section 1, 2 or 3 of this Agreement. In addition, in the event that the Company brings any action to enforce the terms of this Agreement in a court of competent jurisdiction, the Company shall be entitled, in addition to any other relief which may be awarded, to recover from you its reasonable attorneys' fees, together with such other costs and reasonable expenses incurred in connection with such litigation.

(n) No Waiver of Rights, Powers and Remedies. No failure or delay by a party hereto in exercising any right, power or remedy under this Agreement, and no course of dealing between the parties hereto or in any trade or industry, will operate as a waiver of any such right, power or remedy of the party. No single or partial exercise of any right, power or remedy under this Agreement by a party hereto, nor any abandonment or discontinuance of steps to enforce any such right, power or remedy, will preclude such party from any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. The election of any remedy by a party hereto will not constitute a waiver of the right of such party to pursue other available remedies. No notice to or demand on a party not expressly required under this Agreement will entitle the party receiving such notice or demand to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the party giving such notice or demand to any other or further action in any circumstances without such notice or demand.

(o) Employment at Will. You understand that neither this Agreement nor any other document that you have signed with the Company constitutes an implied or written employment contract or guarantee of continued employment and that your employment with the Company is on an "at-will" basis. Accordingly, you understand and agree that your employment with the Company may be terminated by either you or the Company, at any time, and for any or no reason.

(p) Survival. This entire Agreement and your obligations hereunder, shall survive any termination or cessation of your affiliation with the Company (for any or no reason).

(q) Counterparts. This Agreement may be executed in two or more counterparts, and by different parties hereto on separate counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

(r) Opportunity to Review. You hereby acknowledge that you have had adequate opportunity to review these terms and conditions and to reflect upon and consider the terms and conditions of this Agreement, and that you have had the opportunity to consult with counsel of your own choosing regarding such terms. You further acknowledge that you fully understand the terms of this Agreement and have voluntarily executed this Agreement.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

If the foregoing accurately sets forth our agreement, please so indicate by signing and returning to us the enclosed copy of this letter.

Very truly yours,

Skillz Inc

By: ______________________

Name: Andrew Paradise

Title: CEO

Accepted and Agreed:

______________________

Andrew Paradise

Dated: 5/28/13

**EXHIBIT A**

TO: Skillz Inc.

FROM: Andrew Paradise

SUBJECT: Previous Inventions

1. Except as listed in Section 2 below, the following is a complete list of all inventions or improvements relevant to the subject matter of my employment by Skillz Inc. (the "Company") that have been made or conceived or first reduced to practice by me alone or jointly with others prior to my engagement by the Company:

☑ No inventions or improvements.

☐ See below:

________________________________________

________________________________________

________________________________________

☐ Additional sheets attached.

2. Due to a prior confidentiality agreement, I cannot complete the disclosure under Section 1 above with respect to inventions or improvements generally listed below, the proprietary rights and duty of confidentiality with respect to which I owe to the following party(ies):

| | Invention or Improvement | Party(ies) | Relationship |
|---|---|---|---|
| 1. | | | |
| 2. | | | |
| 3. | | | |

☐ Additional sheets attached.

______________________________

Andrew Paradise

**Exhibit 21.1**

**SKILLZ INC.**
**LIST OF SUBSIDIARIES**
**(as of December 31, 2022)**

| Name of Subsidiary | Jurisdiction |
|---|---|
| Skillz Platform Inc. | Delaware |
| Skillz Platform Canada Inc. | Canada |
| Aarki, LLC | Delaware |
| ARND CJSC | Armenia |
| Beijing Aarki Technology Co. Ltd. | China |
| Aarki LLC – Philippines Branch | Philippine |
| Aarki Kabushiki-Kaisha | Japan |
| Aarki (UK) Limited | United Kingdom |

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-258662) pertaining to the 2010 Stock Plan of Aarki Inc., and
2. Registration Statement (Form S-8 No. 333-253394) pertaining to the 2020 Omnibus Incentive Plan and the 2020 Employee Stock Purchase Plan of Skillz Inc.;

of our reports dated March 31, 2023, with respect to the consolidated financial statements of Skillz Inc. and the effectiveness of internal control over financial reporting of Skillz Inc. included in this Annual Report (Form 10-K) of Skillz Inc. for the year ended December 31, 2022.

/s/ Ernst & Young LLP

San Mateo, California
March 31, 2023

**Exhibit 31.1**

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

I, Andrew Paradise, certify that:

1. I have reviewed this Annual Report on Form 10-K of Skillz Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2023

/s/ Andrew Paradise

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

**Exhibit 31.2**

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

I, Alvin Lobo, certify that:

1. I have reviewed this Annual Report on Form 10-K of Skillz Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 31, 2023

/s/ Alvin Lobo

Alvin Lobo
Chief Financial Officer
(Principal Financial and Accounting Officer)

**Exhibit 32.1**

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

In connection with this Annual Report on Form 10-K of Skillz Inc. (the "Company") for the period ended December 31, 2022, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Executive Officer and Chairman of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | | |
|---|---|---|---|
| Date: | March 31, 2023 | Signed: | /s/ Andrew Paradise |
| | | | Andrew Paradise |
| | | | Chief Executive Officer and Chairman |

**Exhibit 32.2**

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

In connection with this Annual Report on Form 10-K of Skillz Inc. (the "Company") for the period ended December 31, 2022, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | | |
|---|---|---|---|
| Date: | March 31, 2023 | Signed: | /s/ Alvin Lobo |
| | | | Alvin Lobo |
| | | | Chief Financial Officer |