UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

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: 001-39797

Upstart Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**46-4332431**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Upstart Holdings, Inc.
2950 S. Delaware Street, Suite 300
San Mateo, California 94403
(650) 204-1000
(Address of principal executive offices, including zip code)

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

Title of each class:	Trading Symbol	Name of each exchange on which registered:
Common Stock, par value $0.0001 per share	UPST	Nasdaq Global Select Market

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

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

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

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

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

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

As of November 4, 2021 there were 81,957,413 shares of the registrant’s common stock outstanding.

Upstart Holdings, Inc.

FORM 10-Q

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws about us and our industry, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “seek,” “could,” “intend,” “target,” “aim,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential,” or “continue,” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include statements about:

- our future financial performance, including our expectations regarding our revenue, our operating expenses, our ability to determine reserves and our ability to remain profitable;
- our ability to improve the effectiveness and predictiveness of our AI models and our expectations that improvements in our AI models can lead to higher approval rates and lower interest rates;
- our ability to increase the volume of loans facilitated by our AI lending platform;
- our ability to successfully maintain a diversified loan funding strategy, including bank partnerships and whole loan sales and securitization transactions;
- our ability to maintain competitive interest rates offered to borrowers on our platform, while enabling our bank partners to achieve an adequate return over their cost of funding;
- our ability to successfully build our brand and protect our reputation from negative publicity;
- our ability to increase the effectiveness of our marketing strategies, including our direct consumer marketing initiatives;
- the impact of the COVID-19 pandemic and any associated economic downturn on our business and results of operations;
- our expectations and management of future growth, including expanding the number of potential borrowers;
- our ability to successfully adjust our proprietary AI models, products and services in a timely manner in response to changing macroeconomic conditions and fluctuations in the credit market;
- our compliance with applicable local, state and federal laws;
- our ability to comply with and successfully adapt to complex and evolving regulatory environments, including regulation of artificial intelligence and machine learning technology;
- our expectations regarding regulatory support of our approach to AI-based lending, including our ongoing discussions with the Consumer Financial Protection Bureau, or CFPB;
- our expectations regarding the success of our strategic acquisitions, including integration of acquired operations, products, technology, internal controls and personnel;
- our ability to protect against increasingly sophisticated fraudulent borrowing and online theft;
- our ability to service loans and the ability of third-party collection agents, to pursue collection of delinquent and defaulted loans;
- our ability to successfully compete with companies that are currently in, or may in the future enter, the markets in which we operate;
- our expectations regarding new and evolving markets and our ability enter into new markets and introduce new products and services, such as our recent introduction of auto loans;

- our ability to effectively secure and maintain the confidentiality of the information received, accessed, stored, provided and used across our systems;
- our ability to successfully obtain and maintain funding and liquidity to support continued growth and general corporate purposes;
- our ability to attract, integrate and retain qualified employees;
- our ability to effectively manage and expand the capabilities of our operations teams, outsourcing relationships and other business operations;
- our ability to maintain, protect and enhance our intellectual property;
- our expectations regarding outstanding litigation and regulatory investigations; and
- the increased expenses associated with being a public company;

We caution you that the foregoing list may not contain all of the forward-looking statements made in this report.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this report primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors, including those described in the section titled "*Risk Factors*" and elsewhere in this report. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this report. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

Neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. Moreover, the forward-looking statements made in this report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this report to reflect events or circumstances after the date of this report or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this report, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely upon these statements.

Each of the terms the "Company," "we," "our," "us" and similar terms used herein refer collectively to Upstart Holdings, Inc., a Delaware corporation, and its consolidated subsidiaries, unless otherwise stated.

Part 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Upstart Holdings, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

	December 31, 2020	September 30, 2021
Assets		
Cash	$ 250,819	$ 1,041,460
Restricted cash	60,514	130,301
Loans (at fair value)	78,460	129,625
Notes receivable and residual certificates (at fair value)	19,074	10,489
Property, equipment, and software, net	10,032	18,898
Operating lease right of use assets	18,310	70,025
Non-marketable equity securities	—	40,000
Goodwill	—	66,866
Intangible assets, net	—	20,975
Other assets (includes $6,831 and $12,380 at fair value as of December 31, 2020 and September 30, 2021, respectively)	40,046	77,491
Total assets[(a)]	$ 477,255	$ 1,606,130
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 13,775	$ 9,381
Payable to investors	45,501	84,312
Borrowings	62,626	649,222
Accrued expenses and other liabilities (includes $9,530 and $10,522 at fair value as of December 31, 2020 and September 30, 2021, respectively)	35,669	71,951
Operating lease liabilities	19,432	72,175
Total liabilities[(a)]	177,003	887,041
Stockholders' equity:		
Common stock, $0.0001 par value; 700,000,000 shares authorized; 73,314,026 and 81,539,547, shares issued and outstanding as of December 31, 2020 and September 30, 2021, respectively	7	8
Additional paid-in capital	369,467	711,804
Retained earnings (accumulated deficit)	(69,222)	7,277
Total stockholders' equity	300,252	719,089
Total liabilities and stockholders' equity	$ 477,255	$ 1,606,130

(a) The following table presents information on assets and liabilities related to variable interest entities ("VIEs") that are consolidated by Upstart Holdings, Inc. at December 31, 2020 and September 30, 2021. The assets in the table below may only be used to settle obligations of consolidated VIEs and are in excess of those obligations. The holders of the beneficial interests do not have recourse to the general credit of Upstart Holdings, Inc. The assets and liabilities in the table below include third-party assets and liabilities of consolidated VIEs and exclude intercompany balances that eliminate in consolidation.

Upstart Holdings, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

	December 31, 2020	September 30, 2021
Assets		
Restricted cash	$ 12,371	$ 29,131
Loans (at fair value)	75,373	122,022
Notes receivable and residual certificates (at fair value)	17,219	9,545
Other assets	29	303
Total assets	$ 104,992	$ 161,001
Liabilities		
Accounts payable	$ 83	$ 28
Borrowings	42,181	3,100
Other liabilities	32	79
Total liabilities	$ 42,296	$ 3,207

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

Upstart Holdings, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2021**	**2020**	**2021**
Revenue:				
Revenue from fees, net	$ 62,861	$ 210,421	$ 144,179	$ 513,888
Interest income and fair value adjustments, net (includes $0 and $1,014 from related parties expense and $0 and $4,238 of related parties fair value adjustments for the three and nine months ended September 30, 2020, respectively)	2,498	18,029	2,527	29,853
Total revenue	65,359	228,450	146,706	543,741
Operating expenses:				
Sales and marketing	23,725	93,346	65,113	218,638
Customer operations	9,360	34,978	24,792	76,530
Engineering and product development	9,966	37,085	24,651	87,504
General, administrative, and other	10,101	34,442	30,778	80,602
Total operating expenses	53,152	199,851	145,334	463,274
Income from operations	12,207	28,599	1,372	80,467
Other income (expense)	50	22	5,497	(5,196)
Expense on warrants and convertible notes, net	(2,588)	(776)	(2,317)	(807)
Net income before income taxes	9,669	27,845	4,552	74,464
Benefit for income taxes	—	(1,268)	—	(2,035)
Net income before attribution to noncontrolling interests	9,669	29,113	4,552	76,499
Net loss attributable to noncontrolling interests	—	—	(404)	—
Net income attributable to Upstart Holdings, Inc. common stockholders	$ 9,669	$ 29,113	$ 4,956	$ 76,499
Net income per share attributable to Upstart Holdings, Inc. common stockholders, basic	$ 0.12	$ 0.37	$ —	$ 1.00
Net income per share attributable to Upstart Holdings, Inc. common stockholders, diluted	$ 0.10	$ 0.30	$ —	$ 0.81
Weighted-average number of shares outstanding used in computing net income per share attributable to Upstart Holdings, Inc. common stockholders, basic	14,707,717	79,392,600	14,663,623	76,586,395
Weighted-average number of shares outstanding used in computing net income per share attributable to Upstart Holdings, Inc. common stockholders, diluted	26,745,480	96,057,210	14,663,623	94,165,325

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

Upstart Holdings, Inc.

Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)

(In thousands, except share data)

(Unaudited)

Three Months Ended September 30, 2020

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Upstart Holdings, Inc. Stockholders' Deficit	Noncontrolling Interest	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount					
Balance as of June 30, 2020	47,349,577	$ 162,546	14,659,961	$ 2	$ 17,739	$ (79,918)	$ (62,177)	$ —	$ (62,177)
Issuance of common stock upon exercise of stock options	—	—	101,996	—	307	—	307	—	307
Issuance of common stock in connection with an incentive agreement	—	—	282,750	—	1,696	—	1,696	—	1,696
Stock-based compensation expense	—	—	—	—	2,743	—	2,743	—	2,743
Incentive share expense	—	—	—	—	429	—	429	—	429
Net income	—	—	—	—	—	9,669	9,669	—	9,669
Balance as of September 30, 2020	**47,349,577**	**$ 162,546**	**15,044,707**	**$ 2**	**$ 22,914**	**$ (70,249)**	**$ (47,333)**	**$ —**	**$ (47,333)**

Nine Months Ended September 30, 2020

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Upstart Holdings, Inc. Stockholders' Deficit	Noncontrolling Interest	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount					
Balance as of December 31, 2019	47,349,577	$ 162,546	14,561,398	$ 2	$ 12,489	$ (75,205)	$ (62,714)	$ 1,026	$ (61,688)
Issuance of common stock upon exercise of stock options	—	—	200,559	—	510	—	510	—	510
Issuance of common stock in connection with an incentive agreement	—	—	282,750	—	1,696	—	1,696	—	1,696
Stock-based compensation expense	—	—	—	—	7,432	—	7,432	—	7,432
Return of capital to interests in consolidated VIEs	—	—	—	—	—	—	—	(622)	(622)
Incentive share expense	—	—	—	—	787	—	787	—	787
Net income (loss)	—	—	—	—	—	4,956	4,956	(404)	4,552
Balance as of September 30, 2020	**47,349,577**	**$ 162,546**	**15,044,707**	**$ 2**	**$ 22,914**	**$ (70,249)**	**$ (47,333)**	**$ —**	**$ (47,333)**

Upstart Holdings, Inc.

Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)

(In thousands, except share data)

(Unaudited)

Three Months Ended September 30, 2021

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Upstart Holdings, Inc. Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of June 30, 2021	—	$ —	77,626,866	$ 8	$ 737,924	$ (21,836)	$ 716,096	$ —	$ 716,096
Issuance of common stock upon exercise of stock options	—	—	3,656,385	—	6,841	—	6,841	—	6,841
Issuance of common stock upon settlement of restricted stock units	—	—	12,571	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	21,417	—	21,417	—	21,417
Issuance of common stock under employee stock purchase plan	—	—	243,725	—	4,145	—	4,145	—	4,145
Purchase of capped calls	—	—	—	—	(58,523)	—	(58,523)	—	(58,523)
Net income	—	—	—	—	—	29,113	29,113	—	29,113
Balance as of September 30, 2021	**—**	**$ —**	**81,539,547**	**$ 8**	**$ 711,804**	**$ 7,277**	**$ 719,089**	**$ —**	**$ 719,089**

Nine Months Ended September 30, 2021

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Upstart Holdings, Inc. Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of December 31, 2020	—	$ —	73,314,026	$ 7	$ 369,467	$ (69,222)	$ 300,252	$ —	$ 300,252
Issuance of common stock upon exercise of stock options	—	—	4,941,362	—	9,773	—	9,773	—	9,773
Issuance of common stock upon settlement of restricted stock units	—	—	19,017	—	—	—	—	—	—
Exercise of common stock warrants	—	—	72,407	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	52,245	—	52,245	—	52,245
Shares withheld related to net share settlement of restricted stock units	—	—	(1,730)	—	(236)	—	(236)	—	(236)
Issuance of common stock in connection with acquisition	—	—	650,740	—	71,003	—	71,003	—	71,003
Issuance of common stock in connection with follow-on offering, net of underwriting discounts, commissions, and offering costs	—	—	2,300,000	1	263,930	—	263,931	—	263,931
Issuance of common stock under employee stock purchase plan	—	—	243,725	—	4,145	—	4,145	—	4,145
Purchase of capped calls	—	—	—	—	(58,523)	—	(58,523)	—	(58,523)
Net income	—	—	—	—	—	76,499	76,499	—	76,499
Balance as of September 30, 2021	**—**	**—**	**81,539,547**	**$ 8**	**$ 711,804**	**$ 7,277**	**$ 719,089**	**$ —**	**$ 719,089**

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

Upstart Holdings, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2020	**2021**
Cash flows from operating activities		
Net income before attribution to noncontrolling interests	$ 4,552	$ 76,499
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Change in fair value of financial instruments (includes $(4,238) from related parties for the nine months ended September 30, 2020)	18,801	(5,839)
Stock-based compensation	7,102	50,125
Gain on loan servicing arrangements	(1,747)	(4,223)
Depreciation and amortization	1,631	4,984
Incentive share expense	786	—
Noncash interest expense	54	990
Net changes in operating assets and liabilities:		
Purchase of loans for immediate resale	(1,554,705)	(5,872,988)
Proceeds from immediate resale of loans	1,554,705	5,872,988
Purchase of loans held-for-sale	(109,113)	(80,305)
Principal payments received for loans held-for-sale	15,237	4,398
Net proceeds from sale of loans held-for-sale	6,813	90,537
Other assets	(4,843)	(22,806)
Operating lease liability and right-of-use asset	66	1,028
Accounts payable	(592)	(4,556)
Payable to investors	13,137	38,811
Accrued expenses and other liabilities	(4,701)	29,854
Net cash (used in) provided by operating activities	(52,817)	179,497
Cash flows from investing activities		
Principal payments received for loans held by consolidated securitizations	24,018	—
Net proceeds from sale of loans held-for-investment	88,136	10,793
Principal payments received for loans held-for-investment	12,277	14,722
Principal payments received for notes receivable and repayments of residual certificates	11,306	9,115
Purchase of loans held-for-investment	(3,774)	(92,738)
Purchase of non-marketable equity securities	—	(40,000)
Purchase of notes receivable and residual certificates	(4)	—
Purchase of property and equipment	(1,282)	(4,956)
Capitalized software costs	(2,967)	(4,476)
Acquisition, net of cash acquired	—	(16,561)
Net cash (used in) provided by investing activities	127,710	(124,101)
Cash flows from financing activities		
Proceeds from secondary offering, net of underwriting discounts, commissions, and offering costs	—	263,931
Proceeds from issuance of convertible debt	—	661,250
Payment of debt issuance costs	—	(15,727)

Upstart Holdings, Inc.

Condensed Consolidated Statements of Cash Flows (Continued)

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2020	**2021**
Purchase of capped calls	—	(58,523)
Taxes paid related to net share settlement of equity awards	—	(236)
Payments made on securitization notes and certificates (includes $1,034 paid to related parties for the nine months ended September 30, 2020)	(26,126)	—
Repayments of borrowings	(99,835)	(65,412)
Distributions made to noncontrolling interests	(622)	—
Proceeds from borrowings	81,761	5,831
Proceeds from issuance of common stock under employee stock purchase plan	—	4,145
Proceeds from exercise of stock options	510	9,773
Net cash (used in) provided by financing activities	(44,312)	805,032
Net increase in cash and restricted cash	30,581	860,428
Cash and restricted cash at beginning of period	80,067	311,333
Cash and restricted cash at end of period	$ 110,648	$ 1,171,761
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 6,954	$ 2,796
Cash paid for income taxes	—	2,247
Supplemental disclosures of non-cash investing and financing activities		
Issuance of common stock in connection with acquisition	$ —	$ 80,256
Derecognition of loans held-for-investment in consolidated VIE	57,222	—
Derecognition of payable to securitization note holders and residual certificate holders	58,017	—
Capitalized stock-based compensation expense	330	2,120

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

1. Description of Business and Significant Accounting Policies

Description of Business

Upstart Holdings, Inc. and its subsidiaries (together "Upstart", the "Company", "we", or "our") apply modern data science and technology to the process of originating consumer credit. The Company helps bank partners originate credit by providing them with a proprietary, cloud-based, artificial intelligence lending platform. As the Company's technology continues to improve and additional banks adopt the Upstart platform, consumers benefit from improved access to affordable and frictionless credit.

Upstart Network, Inc. was incorporated in Delaware in 2012. Pursuant to a restructuring, Upstart Holdings, Inc. was incorporated in December 2013 and became the holding company of Upstart Network, Inc. The Company currently operates in the United States and is headquartered in San Mateo, California and Columbus, Ohio. The Company's fiscal year ends on December 31.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements included in our Annual Report on Form 10-K and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company's financial position, results of operations, comprehensive income and cash flows for the periods presented, but are not necessarily indicative of the results of operations to be anticipated of any future annual or interim periods.

Certain information and disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2020.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

Significant estimates and assumptions made in the accompanying condensed consolidated financial statements, which management believes are critical in understanding and evaluating the Company's reported financial results include: (i) fair value determinations; (ii) stock-based compensation; (iii) consolidation of VIEs; and (iv) provision for income taxes, net of valuation allowance for deferred tax assets. The Company bases its estimates on various factors it believes to be reasonable under the circumstances. Actual results could differ from those estimates and such differences could affect the results of operations reported in future periods.

Stock-Based Compensation

The Company issues stock options, restricted stock units ("RSUs"), and restricted stock to employees and nonemployees, including directors and third-party service providers, and employee stock purchase rights granted under the Company's employee stock purchase plan ("ESPP"). Stock options and employee stock purchase rights granted under the ESPP are initially measured at fair value at the date of grant using the Black-Scholes option-pricing model. RSUs and restricted stock are measured at the fair market value of our common stock at the grant date. Stock-based compensation expenses are recognized based on their respective grant-date fair values. Forfeitures are estimated at the time of grant and revised, as necessary, in subsequent periods if actual forfeitures differ from initial estimates. Stock-based compensation expense is recorded net of estimated forfeitures, such that the expense is recorded only for those awards that are expected to vest.

Business Combinations

The Company accounts for business combinations using the acquisition method of accounting which requires the fair values of assets acquired and liabilities assumed to be recognized in the interim condensed consolidated financial statements. Assets acquired and liabilities assumed in a business combination are recognized at their estimated fair value as of the acquisition date. The excess purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. The allocation of fair values may be subject to adjustment after the initial allocation for up to a one-year period, with the corresponding offset to goodwill. Acquisition-related costs, such as legal and consulting fees, are recognized separately from the business combination and are expensed as incurred.

Non-marketable Equity Securities

The Company's strategic investment consisting of non-marketable equity securities on the condensed consolidated balance sheets is an investment in a privately held company. Non-marketable equity securities do not have a readily determinable fair value and are measured by the Company at cost less impairment, if any, and adjusted for changes resulting from observable price changes in orderly transactions for an identical or similar investment in the same issuer (the "measurement alternative"). Gains and losses on the investment, realized and unrealized, are recognized in other income (expense), net on our condensed consolidated statements of operations and comprehensive income and a new carrying value is established for the investment upon such recognition of the gains and losses. There have been no unrealized or realized gains and losses or impairments related to non-marketable equity securities accounted for under the measurement alternative for any period presented. As of September 30, 2021, the carrying value of our non-marketable equity securities, which do not have a readily determinable fair value, totaled $40 million. The Company had no such securities as of December 31, 2020.

The determination of whether an orderly transaction is for an identical or similar investment requires significant management judgment. In its evaluation, the Company considers factors such as differences in the rights and preferences of the investment and the extent to which those differences would affect the fair value of the investment. In the event the Company identifies an observable price change from an orderly transaction for an identical or similar investment of the same issuer, the Company must estimate the fair value of its strategic investments using the most recent data available. The Company's impairment analysis encompasses an assessment of both qualitative and quantitative factors.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. Goodwill is reviewed for impairment annually, or more frequently if an event or a change in circumstances indicates that goodwill may be impaired. We first assess qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the Company concludes the fair value of the reporting unit is less than its carrying value, a quantitative test is performed. We perform a quantitative goodwill impairment test by determining the fair value of the reporting unit and comparing it to the carrying value of the reporting unit. If the fair value of the reporting unit is greater than the reporting unit's carrying value, then the carrying value of the reporting unit is deemed to be recoverable. If the carrying value of the reporting unit is greater than the reporting unit's fair value, goodwill is impaired and written down to the reporting unit's fair value.

Acquired intangible assets are recorded at fair value on the date of acquisition and amortized on a straight-line basis over their estimated useful lives. Acquired intangible assets are presented net of accumulated amortization on the condensed consolidated balance sheets. The Company reviews the carrying amounts of intangible assets for impairment whenever an event or change in circumstances indicates that the carrying amount of the assets may not be recoverable. We measure the recoverability of intangible assets by comparing the carrying amount of each asset to the future undiscounted cash flows we expect the asset to generate. Impairment is measured by the amount in which the carrying value of the asset exceeds its fair value. In addition, we periodically evaluate the estimated remaining useful lives of long-lived intangible assets to determine whether events or changes in circumstances warrant a revision to the remaining period of amortization.

Follow-on Offering

On April 13, 2021, the Company completed a follow-on offering, in which 2,300,000 shares of common stock (including the exercise in full of the underwriters' option to purchase 300,000 additional shares) were issued and sold at $120.00 per share. The Company received net proceeds of $263.9 million after deducting underwriting discounts and commissions of $11.0 million and offering expenses of $1.0 million. Offering expenses consisted of incremental accounting, legal, and other fees incurred related to the follow-on offering.

Other Income (Expense)

Other income (expense) primarily consists of dividend income earned by the Company on its unrestricted cash balance which is recognized in the period earned.

In April 2020, the Company received a forgivable loan under the Paycheck Protection Program ("PPP"), totaling $5.3 million with a stated annual interest rate of 1%. All loan payments are deferred for six months if not forgiven under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The loan and accrued interest are forgivable for borrowers who use the loan proceeds for eligible expenses during a twenty-four week period following the borrower's receipt of the loan and maintain payroll and employee headcount. The Company has used the full proceeds of the loan for eligible expenses within the required period. The Company determined that forgiveness of the loan under the CARES Act was reasonably assured and recorded the full amount of proceeds as other income in the condensed consolidated statement of operations and comprehensive income in 2020. In March 2021, the Company voluntarily repaid proceeds received under the Paycheck Protection Program plus accrued interest totaling $5.3 million. The Company recognized the loan principal repayment as an other expense.

Emerging Growth Company Status

The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it is (i) no longer an emerging growth company or (ii) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, the condensed consolidated financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

The Company will no longer qualify as an emerging growth company on the last day of the fiscal year ending December 31, 2021. Accordingly, the Company will be required to comply with the new or revised accounting pronouncements as of the effective dates applicable to public companies that are not emerging growth companies, as disclosed below.

Recently Adopted Accounting Pronouncements

The Company adopted the following accounting standards during the nine months ended September 30, 2021:

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which requires a customer in a hosting arrangement that is a service contract to follow the internal-use software guidance in Topic 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. The standard is effective January 1, 2021 for emerging growth companies that have adopted the private company relief. The amendments in this ASU can be applied either retrospectively or prospectively to all implementation costs after the date of adoption. The guidance became effective on January 1, 2021 and the Company adopted the standard on a prospective basis. The adoption of the standard did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

In August 2020, the FASB issued ASU No. 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. The standard removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception and also simplifies the diluted earnings per share calculation in certain areas. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The amendment is to be adopted through either a fully retrospective or modified retrospective method of transition. Early adoption is permitted. The Company early adopted ASU 2020-06 on January 1, 2021 with no material impact on the Company's condensed consolidated financial statements or related disclosures.

Recently Issued Accounting Pronouncements

In June 2016, the FASB amended guidance related to impairment of financial instruments as part of ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which will be effective January 1, 2023 for emerging growth companies that have adopted the private company relief. The guidance replaces the incurred loss impairment methodology with an expected credit loss model for which a company recognizes an allowance based on the estimate of expected credit loss. The Company accounts for its loans at fair value through net income, which is outside the scope of Topic 326. For available for sale debt securities, the guidance will require recognition of expected credit losses by recognizing an allowance for credit losses when the fair value of the security is below amortized cost and the recognition of this allowance is limited to the difference between the security's amortized cost basis and fair value. The Company is evaluating the impact this ASU will have on its condensed consolidated financial statements and related disclosures. The Company plans to adopt Topic 326 effective as of January 1, 2021 in the Company's Annual Report on Form 10-K for the year ending December 31, 2021.

In March 2020 the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* followed by ASU 2021-01, *Reference Rate Reform, Scop*e issued in January 2021. ASU 2020-04 and ASU 2021-01 provide temporary optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. The guidance in ASU 2020-04 and ASU 2021-01 was effective upon issuance and, once adopted, may be applied prospectively to contract modifications and hedging relationships through December 31, 2022. The Company is currently evaluating the impact of the adoption of ASU 2020-04 and ASU 2021-01 on its condensed consolidated financial statements and related disclosures.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

2. Revenue

Revenue from fees, net

The Company disaggregates revenue from fees by type of service for the periods presented as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Revenue from fees, net:				
Platform and referral fees, net	$ 55,643	$ 191,442	$ 123,485	$ 467,476
Servicing fees, net	7,218	18,979	20,694	46,412
Total revenue from fees, net	$ 62,861	$ 210,421	$ 144,179	$ 513,888

Platform and referral fees, net

The Company enters into contracts with bank partners to provide access to a cloud-based artificial intelligence lending platform developed by the Company (the "Upstart platform") to enable banks to originate unsecured personal and secured auto loans. The Upstart platform includes a cloud-based application (through Upstart.com or a bank-branded program) for submitting loan applications, verifying information provided within submitted applications, risk underwriting (through a series of proprietary technology solutions), delivery of electronic loan offers, and if the offer is accepted by the borrower, an electronic loan documentation signed by the borrower. Bank partners can specify certain parameters of loans they are willing to originate. Under these contracts, bank partners can choose to use Upstart's referral services, which allow them to access new borrowers through Upstart's marketing channels. The Company's contracts with bank partners are non-cancelable and generally have 12-month terms that automatically renew.

After origination, Upstart-powered loans are either retained by bank partners, purchased by the Company for immediate resale to institutional investors under loan sale agreements, or purchased and held by the Company. For loans purchased by the Company, Upstart pays bank partners a one-time loan premium fee upon completion of the minimum holding periods. Upstart also pays bank partners monthly loan trailing fees based on the amount and timing of principal and interest payments made by borrowers of the underlying loans. The monthly loan trailing fees are paid based on the amount and timing of principal and interest payments made by borrowers of the underlying loans. Both the loan premium fees and loan trailing fees are consideration payable to customers and are recorded as a reduction to platform and referral fees, net, which is part of revenue from fees, net, in the condensed consolidated statements of operations and comprehensive income for the periods presented. The Company recognized $1.8 million and $5.6 million, of loan premium fees and loan trailing fees as contra-revenue within platform and referral fees, net for the three and nine months ended September 30, 2020, respectively, and $6.6 million and $16.2 million, for the three and nine months ended September 30, 2021, respectively.

As of December 31, 2020 and September 30, 2021, the Company recorded $1.3 million and $3.3 million of loan trailing fee liability, respectively, which is recorded at fair value and included within accrued expenses other liabilities on the Company's condensed consolidated balance sheets. Refer to "*Note 4. Fair Value Measurement*" for additional information on changes in fair value associated with trailing fee liabilities.

The Company's arrangements for platform and referral services typically consist of an obligation to provide one or both of these services to customers, which are our bank partners, on a when and if needed basis (a stand-ready obligation), and revenue is recognized as such services are performed. Additionally, the services have the same pattern and period of transfer, and when provided individually or together, are accounted for as a single combined performance obligation representing a series of distinct services.

Platform and referral services are typically provided under a fixed or declining (tier-based) price per unit based on volume or as a percentage of the total value of loans originated each period; however, pricing for these services may also be based on minimum usage fees. The tier-based pricing, when offered, resets on a monthly basis and does not accumulate. Given that the nature of the Company's promise is to stand-ready and provide continuous access to and process transactions through the platform, tier-based pricing based on usage represents variable consideration. Since the variable fees relate directly to the day in which such services are provided, they generally meet the criteria for allocating variable consideration entirely to one or more, but not all, performance obligations in a contract. Accordingly, when the requisite criteria are met, variable fees are allocated to and recognized on the day the services are provided. Fees for platform and referrals services are typically billed and paid on a monthly basis. As such, the Company's contracts with customers do not include a significant financing component.

The Company did not recognize revenue from performance obligations related to prior periods for the periods presented. The Company had no material contract assets, contract liabilities, or deferred contract costs recorded as of December 31, 2020 and September 30, 2021. The Company had $8.1 million and $17.0 million of accounts receivable that are included in other assets on the condensed consolidated balance sheets related to contracts with customers as of December 31, 2020 and September 30, 2021, respectively. The Company's allowance for bad debt was immaterial as of December 31, 2020 and September 30, 2021, and the Company's bad debt expense was immaterial for the periods presented.

The Company capitalizes incremental costs of obtaining a contract with a customer, which are certain sales commissions paid to acquire bank partners. Capitalized costs are amortized over the expected period of benefit, which we have determined, based on an analysis, to be three years. The Company applies the practical expedient to expense costs to obtain contracts with customers if the amortization period is one year or less. As of September 30, 2021, the Company had an immaterial amount of contract costs capitalized within other assets on the condensed consolidated balance sheets. For the three and nine months ended September 30, 2021, the Company amortized an immaterial amount of capitalized contracts costs to sales and marketing in the condensed consolidated statements of operations and comprehensive income.

For the three and nine months ended September 30, 2020, the Company had one customer ("Customer A") which accounted for 59% and 65% of the Company's total revenue, respectively, and a second customer ("Customer B") accounted for 21% and 15% of the Company's total revenue, respectively. For the three and nine months ended September 30, 2021, Customer A accounted for 56% and 59%, respectively, of the Company's total revenue, and Customer B accounted for 28% and 25%, respectively, of the Company's total revenue.

One customer accounted for 34% of accounts receivable as of December 31, 2020, and a second customer accounted for 15% of accounts receivable for both December 31, 2020 and September 30, 2021. A third customer accounted for 10% as of September 30, 2021.

Servicing fees, net

The Company also enters into contracts with bank partners and institutional investors to provide loan servicing for the life of Upstart-powered loans. These services commence upon origination of these loans by bank partners and include collection, processing and reconciliations of payments received, investor reporting and borrower customer support as well as distribution of funds to the holders of the loans. The Company charges the loan holder a monthly servicing fee calculated based on a predetermined percentage of the outstanding principal balance. Servicing fees also include certain ancillary fees charged on a per transaction basis for processing late payments and payments declined due to insufficient funds. Servicing fees are recognized in the period the services are provided. Loan servicing fees are not within the scope of ASC 606 and are accounted for under ASC 860, Transfers and servicing of financial assets.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

Servicing fees, net also include gains and losses on assets and liabilities recognized under loan servicing arrangements for loans retained by bank partners or loans sold to institutional investors. Such gains or losses are recognized based on whether the benefits of servicing are expected to more than adequately compensate the Company for carrying out its servicing obligations. Servicing fees also include changes in fair value of loan servicing assets and liabilities in the periods presented. Refer to "*Note 4. Fair Value Measurement*" for additional information on changes in fair value associated with servicing assets and liabilities.

The Company recognized gains related to loan servicing rights upon loan sales for the periods presented as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Net gain related to loan servicing rights	$ 68	$ 2,121	$ 1,747	$ 4,223

The Company generally outsources borrower payment collections for loans that are more than 30 days past due or charged off to third-party collection agencies. The Company charges bank partners and institutional investors for collection agency fees related to their outstanding loan portfolio. The Company has discretion in hiring the collection agencies and determining the scope of their work. As the principal in the arrangement, the Company recognizes gross revenue from collection agency fees in the period that the services are provided. Upstart also receives certain ancillary fees inclusive of late payment fees and ACH fail fees. Revenue from collection agency fees and borrower fees are included in servicing fees, net as part of revenue from fees, net in the Company's condensed consolidated statements of operations and comprehensive income. The total fees charged by collection agencies are also recognized in the period incurred and reported as part of customer operations expenses.

The Company recognized collection agency fees and borrower fees, which are included in servicing fees, net for the periods presented as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Collection agency fees	$ 624	$ 1,214	$ 2,078	$ 3,068
Borrower fees	512	2,062	1,448	4,043

Interest Income and Fair Value Adjustments, Net

Interest income and fair value adjustments, net is comprised of interest income, interest expense and net changes in the fair value of financial instruments, held in the Company's normal course of business at fair value, including loans, notes receivable and residual certificates, payable to securitization note holders and residual certificate holders.

The table below presents components of the interest income and fair value adjustments, net presented in the Company's condensed consolidated statements of operations and comprehensive income:

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Interest income and fair value adjustments, net:				
Interest income	$ 5,797	$ 5,070	$ 22,705	$ 12,020
Interest expense	(1,438)	(269)	(6,952)	(2,796)
Fair value and other adjustments, net	(1,861)	13,228	(13,226)	20,629
Total interest income and fair value adjustments, net	$ 2,498	$ 18,029	$ 2,527	$ 29,853

Amounts above include interest income, interest expense and fair value adjustments, net related to consolidated securitization trusts for the nine months ended September 30, 2020 is as follows:

	Nine Months Ended September 30, 2020
Interest income and fair value adjustments, net related to consolidated securitization trusts:	
Interest income	$ 5,173
Interest expense	(1,074)
Fair value and other adjustments, net	(3,555)
Total interest income and fair value adjustments, net	$ 544

Interest income

Interest income is recognized based on the terms of the underlying agreements with borrowers for loans held on the Company's condensed consolidated balance sheets and is earned over the life of a loan.

Interest income also includes accrued interest earned on outstanding loans but not collected. Loans that have reached a delinquency of over 120 days are classified as non-accrual status and any accrued interest recorded in relation to these loans is reversed in the respective period. As of December 31, 2020 and September 30, 2021, the Company has recorded $0.9 million and $1.4 million of accrued interest income in loans on the condensed consolidated balance sheets, respectively.

Interest expense

Interest expense is primarily related to interest recorded on the Company's borrowings and the notes issued as part of the consolidated securitizations. Interest expense includes accrued interest incurred but not paid. Accrued interest expenses were immaterial as of December 31, 2020 and September 30, 2021.

Fair value and other adjustments, net

Fair value and other adjustments, net include changes in fair value of financial instruments, other than loan servicing assets and liabilities, common stock warrant liabilities, and convertible preferred stock warrant liabilities. These adjustments are recorded in the Company's condensed consolidated statements of operations and comprehensive income and include both realized and unrealized changes to the value of related assets and liabilities. Refer to "*Note 4. Fair Value Measurement*" for additional information.

Fair value and other adjustments, net also include gains received through our securitization programs and amounts received from borrowers for previously charged-off loans held on the Company's condensed consolidated balance sheets. These amounts are recognized in the period received.

3. Securitizations and Variable Interest Entities

Consolidated VIEs

The Company consolidates VIEs in which the Company has a variable interest and is determined to be the primary beneficiary. This determination is based on whether the Company has a variable interest (or combination of variable interests) that provides the Company with (a) the power to direct the activities that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses or right to receive benefits that could be potentially significant to the VIE. The Company continually reassesses whether it is the primary beneficiary of a VIE throughout the entire period the Company is involved with the VIE.

The Company also determines whether decision-maker or service-provider fees are variable interests. Decision-maker or service-provider fees are not considered variable interests when the arrangement does not expose the Company to risks of loss that a potential VIE was designed to pass on to its variable interest holders, the fees are commensurate, the arrangement is at market, and the Company does not have any other interests (including direct interests and certain indirect interests held through related parties) that absorb more than an insignificant amount of a VIE's potential variability. This determination can have a significant impact on the Company's consolidation analysis, as it could affect whether a legal entity is a VIE and whether the Company is the primary beneficiary of a VIE. When the Company's decision-maker or service-provider fee is not a variable interest, the Company is viewed as acting as a fiduciary for the potential VIE.

Warehouse Entity

The Company established Upstart Loan Trust to enter into warehouse credit facilities for the purpose of purchasing Upstart-powered loans. See "*Note 9. Borrowings*" for additional information. The entity is a Delaware statutory trust that is structured to be bankruptcy-remote, with third-party banks operating as trustees.

Consolidated MOAs

The Company sponsored three securitization transactions in August 2018 ("2018-2"), February 2019 ("2019-1") and August 2019 ("2019-2"), respectively. As the retaining sponsor of these transactions, the Company was subject to the RR requirements and satisfied them through Eligible Vertical Interests ("EVIs") in the form of a combination of securitization notes and residual certificates through the established MOAs. The Company concluded that it has a variable interest and is the primary beneficiary of the MOAs associated with these securitization transactions. As a result, the Company consolidated these MOAs as of December 31, 2020 and the MOAs continue to remain consolidated as of September 30, 2021. The Company determined that it is not the primary beneficiary of the trusts which hold the loans associated with these securitization transactions, primarily because the Company's servicing fees are not considered variable interests, and that the transfer of loans as collateral into these securitization transactions met the definition of a sale under Topic 860, Transferring and Servicing. As such, the Company derecognized these loans from the condensed consolidated balance sheets upon the closing of these securitization transactions. Refer to the Unconsolidated Securitizations section below for more information.

Other Consolidated VIEs

Upstart Loan Trust 2, a Delaware statutory trust, holds personal loans facilitated through the Upstart platform. These loans include, but are not limited to, loans which do not satisfy the warehouse requirements or loans that were the result of the Company's repurchases of loans for breaches of representations and warranties made to institutional investors, as described above.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

The following tables present a summary of financial assets and liabilities from the Company's involvement with consolidated VIEs:

	Assets	Liabilities	Net Assets
December 31, 2020			
Warehouse Entity	$ 71,530	$ 35,109	$ 36,421
Majority-owned Affiliates	17,219	7,187	10,032
Other Consolidated VIEs	16,243	—	16,243
Total Consolidated VIEs	$ 104,992	$ 42,296	$ 62,696

	Assets	Liabilities	Net Assets
September 30, 2021			
Warehouse Entity	$ 57,870	$ 1,376	$ 56,494
Majority-owned Affiliates	9,545	1,809	7,736
Other Consolidated VIEs	93,586	22	93,564
Total Consolidated VIEs	$ 161,001	$ 3,207	$ 157,794

The Company's continued involvement in all of its securitizations in which it is the sponsor includes loan servicing rights and obligations for which it receives servicing fees over the life of the underlying loans. The Company monitors its status as the primary beneficiary and in case of reconsideration events, updates the analysis accordingly.

Unconsolidated VIEs

The Company's transactions with unconsolidated VIEs include securitizations of unsecured personal whole loans and sales of whole loans to VIEs. The Company has various forms of involvement with VIEs, including servicing of loans and holding senior or residual interests in the VIEs, however the Company does not hold a significant economic interest in these entities.

As of September 30, 2021, the Company's unconsolidated VIEs include entities established as the issuers and grantor trusts for the 2017-1, 2017-2, 2018-1, 2018-2, 2019-1, and 2019-2 securitization transactions (the "Unconsolidated Securitizations"). The Company's continued involvement in the unconsolidated VIEs is in the form of its role as the sponsor and the servicer of these transactions. For each of the unconsolidated securitizations, the Company determined that it is not the primary beneficiary.

In cases where the VIEs are not consolidated and the transfer of the loans from the Company to the securitization trust meets sale accounting criteria, the Company recognizes a gain or loss on sales of loans. The net proceeds of the sale represent the fair value of any assets obtained or liabilities incurred as part of the transaction. The assets are transferred into a trust such that the assets are legally isolated from the creditors of the Company and are not available to satisfy obligations of the Company. These assets can only be used to settle obligations of the underlying securitization trusts.

The following tables summarize the aggregate carrying value of assets and liabilities of unconsolidated VIEs in which the Company holds a variable interest but is not the primary beneficiary:

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Assets	Liabilities	Net Assets	Maximum Exposure to Losses
December 31, 2020				
Securitizations and other	$ 524,358	$ 430,006	$ 94,352	$ 26,141

	Assets	Liabilities	Net Assets	Maximum Exposure to Losses
September 30, 2021				
Securitizations and other	$ 279,161	$ 214,547	$ 64,614	$ 17,704

The carrying value of assets that relate to variable interests in unconsolidated VIEs consists of $18.9 million and $10.5 million which are included in notes receivable and residual certificates on the condensed consolidated balance sheets as of December 31, 2020 and September 30, 2021, respectively. The Company also had $7.2 million of cash deposits made to reserve accounts for related securitizations, included in other assets on the condensed consolidated balance sheets as of December 31, 2020 and September 30, 2021.

The Company's maximum exposure to loss from its involvement with unconsolidated VIEs represents the estimated loss that would be incurred under severe, hypothetical circumstances, for which the Company believes the possibility is remote, such as where the value of securitization notes and senior and residual certificates the Company holds as part of the RR requirement declines to zero.

Retained Interest in Unconsolidated VIEs

The investors and the securitization trusts have no direct recourse to the Company's assets, and holders of the securities issued by the securitization trusts can look only to the assets of the securitization trusts that issued their securities for payment. The beneficial interests held by the Company and the Company's MOAs are subject principally to the credit and prepayment risk stemming from the underlying unsecured personal whole loans.

Off-Balance Sheet Loans

Off-balance sheet loans relate to securitization transactions for which the Company has some form of continuing involvement, including as servicer. For a loan related to securitization transactions where servicing is the only form of continuing involvement, the Company would only experience a loss if it were required to repurchase such a loan due to a breach in representations and warranties associated with its loan sale or servicing contracts. Additionally, in the unlikely event principal payments on the loans backing a securitization are insufficient to pay senior note holders, any amounts the Company contributed to the securitization reserve accounts may be depleted.

Starting December 2019, the Company co-sponsored several securitization transactions with an investment bank. The Company was not required to retain economic risk in these securitization transactions as the co-sponsor investment bank acted as the retaining sponsor. Similar to 2018-2, 2019-1, and 2019-2, the Company contributed certain loans to this securitization as collateral and recognized this transfer under Topic 860, Transferring and Servicing. The Company is also the servicer of these securitization transactions.

4. Fair Value Measurement

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

The following table presents assets and liabilities measured at fair value and categorized as Level 3 in the fair value hierarchy:

	December 31, 2020	September 30, 2021
Assets		
Loans	$ 78,460	$ 129,625
Notes receivable and residual certificates	19,074	10,489
Loan servicing assets	6,831	12,380
Total assets	$ 104,365	$ 152,494
Liabilities		
Loan servicing liabilities	$ 8,254	$ 7,188
Trailing fee liabilities	1,276	3,334
Total liabilities	$ 9,530	$ 10,522

Financial instruments are categorized in the fair value hierarchy based on the significance of unobservable factors in the overall fair value measurement. Since the Company's loans, notes receivable and residual certificates, other assets, loan servicing assets and liabilities, and trailing fee liabilities do not trade in an active market with readily observable prices, the Company uses significant unobservable inputs to measure the fair value of these assets and liabilities.

There were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy during the periods presented.

Loans

Loans included in the Company's condensed consolidated balance sheets are classified as either held-for-sale or held-for-investment. The Company reclassified loans held by the warehouse entities from held-for-investment to held-for-sale as of January 1, 2020, due to the Company's intent to sell the loans prior to maturity and increasing evidence of their marketability. Other loans held on the Company's condensed consolidated balance sheets retained their classification as held-for-investment. These loans include, but are not limited to, loans which do not satisfy the warehouse requirements and loans held in the consolidated securitizations.

The following table presents the fair value of classes of loans held by the Company:

	December 31, 2020	September 30, 2021
Loans held-for-sale	$ 60,232	$ 31,208
Loans held-for-investment	18,228	98,417
Total	$ 78,460	$ 129,625

Valuation Methodology

Loans held-for-sale and held-for-investment are measured at estimated fair value using a discounted cash flow model. The fair valuation methodology considers projected prepayments and historical defaults, losses and recoveries to project future losses and net cash flows on loans. Net cash flows are discounted using an estimate of market rates of return. The fair value of these loans also includes accrued interest, which was immaterial as of December 31, 2020 and September 30, 2021.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

The Company has elected the measurement alternative under Topic 810, Consolidation, and maximizes the use of observable inputs to estimate the fair value of the financial assets and liabilities of consolidated securitization entities. Under the measurement alternative, the Company measures the financial assets, which consist of held-for-investment and held-for-sale loans in the condensed consolidated balance sheets, and financial liabilities, which consist of securitization notes and residual certificates issued to institutional investors, included in payable to securitization note holders and residual certificate holders in the condensed consolidated balance sheets, using the more observable of the fair value of the financial assets and liabilities. The Company determined the fair value of the amounts payable to securitization note holders and residual certificate holders is more observable than that of the loans. The securitization notes and residual certificates are measured at fair value, and the loans are measured based on the sum of the fair value of the securitization notes and residual certificates, with changes in fair value included in the condensed consolidated statements of operations and comprehensive income.

Significant Inputs and Assumptions

The following table presents quantitative information about the significant unobservable inputs used for the Company's Level 3 fair value measurements for loans held-for-investment and held-for-sale:

	December 31, 2020			September 30, 2021		
	Minimum	Maximum	Weighted-Average (2)	Minimum	Maximum	Weighted-Average (2)
Discount rate	6.80 %	16.99 %	7.44 %	3.39 %	17.26 %	7.13 %
Credit risk rate (1)	0.36 %	52.31 %	19.82 %	0.08 %	50.85 %	17.65 %
Prepayment rate (1)	11.64 %	78.36 %	31.03 %	10.24 %	84.76 %	40.40 %

(1) Expressed as a percentage of the original principal balance of the loans
(2) Unobservable inputs were weighted by relative fair value

Discount rates–The discount rates are rates of return used to discount future expected cash flows to arrive at a present value, which represents the fair value. The discount rates used for the projected net cash flows are the Company's estimates of the rates of return that market participants would require when investing in these financial instruments with cash flows dependent on credit quality of the related loan. A risk premium component is implicitly included in the discount rates to reflect the amount of compensation market participants require due to the uncertainty inherent in the instruments' cash flows resulting from risks such as credit and liquidity.

Credit risk rates–The credit risk rates are an estimate of the net cumulative principal payments that will not be repaid over the entire life of a financial instrument. The credit risk rates are expressed as a percentage of the original principal amount of the instrument. The estimated net cumulative loss represents the sum of the net losses estimated to occur each month of the life of the instrument, net of the average recovery expected to be received.

Prepayment rates–Prepayment rates are an estimate of the cumulative principal prepayments that will occur over the entire life of a loan as a percentage of the original principal amount of the loan. The assumption regarding cumulative prepayments impact the projected balances and expected terms of the loans.

The above inputs are similarly used in estimating fair value of related financial instruments. Refer to the Assets and Liabilities related to Securitization Transactions section below for more information.

Significant Recurring Level 3 Fair Value Input Sensitivity

The below table presents the sensitivity of the loans held-for-sale and held-for-investment to adverse changes in key assumptions used in the valuation model as of December 31, 2020 and September 30, 2021, respectively. The estimated fair value of these loans is not sensitive to adverse changes in expected prepayment rates as such changes would not result in a significant impact on the fair value in either periods.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	December 31, 2020	September 30, 2021
Fair value of loans	$ 78,460	$ 129,625
Discount rates		
100 basis point increase	(979)	(1,760)
200 basis point increase	(1,939)	(3,482)
Expected credit loss rates on underlying loans		
10% adverse change	(1,303)	(1,964)
20% adverse change	(2,611)	(3,929)

Rollforward of Level 3 Fair Values

The following tables include a rollforward of the loans classified within Level 3 of the fair value hierarchy:

	Loans Held-for-Sale	Loans Held-for-Investment	Loans Held-for-Investment (Securitized)	Total
Fair value at June 30, 2020	$ 108,108	$ 15,190	$ —	$ 123,298
Purchases of loans	10,512	980	—	11,492
Purchase of loans for immediate resale	639,471	—	—	639,471
Immediate resale	(639,471)	—	—	(639,471)
Repayments received	(9,036)	(1,496)	—	(10,532)
Changes in fair value recorded in earnings	(1,458)	(104)	—	(1,562)
Other changes	20	(8)	—	12
Fair value at September 30, 2020	$ 108,146	$ 14,562	$ —	$ 122,708

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Loans Held-for-Sale	Loans Held-for-Investment	Loans Held-for-Investment (Securitized)	Total
Fair value at December 31, 2019	$ —	$ 141,555	$ 90,750	$ 232,305
Reclassification of loans from HFI to HFS	125,297	(125,297)	—	—
Purchases of loans	109,113	3,774	—	112,887
Sale of loans	(94,949)	—	—	(94,949)
Purchase of loans for immediate resale	1,554,705	—	—	1,554,705
Immediate resale	(1,554,705)	—	—	(1,554,705)
Repayments received	(23,390)	(4,124)	(24,018)	(51,532)
Changes in fair value recorded in earnings	(7,940)	(1,352)	(9,508)	(18,800)
Other changes	15	6	(2)	19
Changes due to deconsolidation	—	—	(57,222)	(57,222)
Fair value at September 30, 2020	$ 108,146	$ 14,562	$ —	$ 122,708

	Loans Held-for-Sale	Loans Held-for-Investment	Loans Held-for-Investment (Securitized)	Total
Fair value at June 30, 2021	$ 26,741	$ 55,570	$ —	$ 82,311
Purchases of loans	41,994	50,190	—	92,184
Sale of loans	(34,429)	—	—	(34,429)
Purchase of loans for immediate resale	2,458,757	—	—	2,458,757
Immediate resale	(2,458,757)	—	—	(2,458,757)
Repayments received	(1,831)	(6,125)	—	(7,956)
Changes in fair value recorded in earnings	(1,313)	(1,576)	—	(2,889)
Other changes	46	358	—	404
Fair value at September 30, 2021	$ 31,208	$ 98,417	$ —	$ 129,625

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Loans Held-for-Sale	Loans Held-for-Investment	Loans Held-for-Investment (Securitized)	Total
Fair value at December 31, 2020	$ 60,232	$ 18,228	$ —	$ 78,460
Reclassification of loans from HFI to HFS	(26)	26	—	—
Purchases of loans	80,305	92,738	—	173,043
Sale of loans	(101,330)	—	—	(101,330)
Purchase of loans for immediate resale	5,872,988	—	—	5,872,988
Immediate resale	(5,872,988)	—	—	(5,872,988)
Repayments received	(6,867)	(12,253)	—	(19,120)
Changes in fair value recorded in earnings	(961)	(960)	—	(1,921)
Other changes	(145)	638	—	493
Fair value at September 30, 2021	$ 31,208	$ 98,417	$ —	$ 129,625

Assets related to Securitization Transactions

As of December 31, 2020 and September 30, 2021, the Company held notes receivable and residual certificates with an aggregate fair value of $19.1 million and $10.5 million, respectively. The balances consist of securitization notes and residual certificates corresponding to the 5% economic risk retention the Company is required to maintain as the retaining sponsor of the unconsolidated securitizations.

Valuation Methodology

The discounted cash flow methodology is used to estimate the fair value of notes receivable and residual certificates, using the same projected net cash flows as their related loans. This model uses inputs that are inherently judgmental and reflect the Company's best estimates of the assumptions a market participant would use to calculate fair value.

Significant Inputs and Assumptions

The following table presents quantitative information about the significant unobservable inputs used for the Company's Level 3 fair value measurements of assets related to securitization transactions:

	December 31, 2020			September 30, 2021		
	Minimum	Maximum	Weighted-Average [(2)]	Minimum	Maximum	Weighted-Average [(2)]
Notes receivable and residual certificates						
Discount rate	3.01 %	14.00 %	5.84 %	5.80 %	15.70 %	6.54 %
Credit risk rate [(1)]	0.04 %	50.69 %	17.12 %	0.04 %	50.69 %	18.22 %
Prepayment rate [(1)]	15.60 %	36.88 %	27.63 %	15.60 %	36.16 %	27.75 %

(1) Expressed as a percentage of the original principal balance of the loans underlying the financial instruments
(2) Unobservable inputs were weighted by relative fair value

Significant Recurring Level 3 Fair Value Input Sensitivity

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

The securities issued in the securitization transactions are senior or subordinated based on the waterfall criteria of loan payments to each security class, with the residual interest (the "residual certificates") issued being the first to absorb credit losses in accordance with the waterfall criteria. Accordingly, the residual certificates are the most sensitive to adverse changes in credit risk rates. Depending on the specific securitization, a hypothetical increase in the credit risk rate of 10% to 20% would result in significant decreases in the fair value of the residual certificates. On average, a hypothetical increase in the credit risk rate of 20% would result in a 14% decrease in the fair value of the residual certificates as of September 30, 2021. The remaining classes of securities, with the exception of those in 2018-2, are all overcollateralized such that changes in credit risk rates are not expected to have significant impacts on their fair values.

The fair value of the securities is also sensitive to adverse changes in discount rates, which represent estimates of the rates of return that institutional investors would require when investing in financial instruments with similar risk and return characteristics. On average, a hypothetical 100 basis point increase in discount rates results in a decrease in fair value of the securities (including securitization notes and residual certificates) of 1.23% and 0.77% as of December 31, 2020 and September 30, 2021, respectively. On average, a hypothetical 200 basis point increase in discount rates results in a decrease in fair value of the securities (including securitization notes and residual certificates) of 2.36% and 1.53% as of December 31, 2020 and September 30, 2021, respectively.

The fair value of securitization notes and residual certificates are not sensitive to adverse changes in expected prepayment rates as such changes would not result in a significant impact on the fair value as of December 31, 2020 and September 30, 2021.

Rollforward of Level 3 Fair Values

The following tables include a rollforward of the notes receivable and residual certificates related to securitization transactions classified by the Company within Level 3 of the fair value hierarchy:

	Notes Receivable and Residual Certificates
Fair value at June 30, 2020	$ 24,840
Repayments and settlements	(3,690)
Changes in fair value recorded in earnings	903
Fair value at September 30, 2020	$ 22,053

	Notes Receivable and Residual Certificates
Fair value at December 31, 2019	$ 34,116
Purchases and issuances of securitization notes and residual certificates	4
Repayments and settlements	(11,306)
Changes in fair value recorded in earnings	(761)
Fair value at September 30, 2020	$ 22,053

Upstart Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

(Unaudited)

	Notes Receivable and Residual Certificates
Fair value at June 30, 2021	$ 12,995
Repayments and settlements	(2,766)
Changes in fair value recorded in earnings	260
Fair value at September 30, 2021	$ 10,489

	Notes Receivable and Residual Certificates
Fair value at December 31, 2020	$ 19,074
Repayments and settlements	(9,115)
Changes in fair value recorded in earnings	530
Fair value at September 30, 2021	$ 10,489

Loan Servicing Assets and Liabilities

Valuation Methodology

Loan servicing assets and liabilities are measured at estimated fair value using a discounted cash flow model. The cash flows in the valuation model represent the difference between the contractual servicing fees charged to institutional investors and an estimated market servicing fee. Since contractual servicing fees are generally based on the monthly unpaid principal balance of the underlying loans, the expected cash flows in the model incorporate estimates of net losses and prepayments.

Significant Inputs and Assumptions

The following table presents quantitative information about the significant unobservable inputs used for the Company's Level 3 fair value measurements for loan servicing assets and liabilities:

	December 31, 2020			September 30, 2021		
	Minimum	Maximum	Weighted-Average [2]	Minimum	Maximum	Weighted-Average [2]
Discount rate	15.00 %	35.00 %	22.69 %	13.00 %	20.00 %	17.73 %
Credit risk rate [1]	0.03 %	52.78 %	17.19 %	0.03 %	52.78 %	18.29 %
Market-servicing rate [3][4]	0.75 %	0.75 %	0.75 %	0.62 %	0.62 %	0.62 %
Prepayment rate [1]	9.07 %	89.01 %	31.62 %	5.99 %	92.60 %	34.37 %

(1) Expressed as a percentage of the original principal balance of the loans underlying the servicing arrangement
(2) Unobservable inputs were weighted by relative fair value
(3) Excludes ancillary fees that would be passed on to a third-party servicer
(4) Expressed as a percentage of the outstanding principal balance of the loan

Discount rates–The discount rates are the Company's estimate of the rates of return that market participants in servicing rights would require when investing in similar servicing rights. Discount rates for servicing rights on existing loans are adjusted to reflect the time value of money and a risk premium intended to reflect the amount of compensation market participants would require due to the uncertainty associated with these instruments' cash flows.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

*Credit risk rate*s–The credit risk rates are the Company’s estimate of the net cumulative principal payments that will not be repaid over the entire life of a loan expressed as a percentage of the original principal amount of the loan. The assumption regarding net cumulative losses impact the projected balances and expected terms of the loans, which are used to project future servicing revenues.

Market-servicing rates–Market-servicing rate is an estimated measure of adequate compensation for a market participant, if one was required. The rate is expressed as a fixed percentage of outstanding principal balance per annum. The estimate considers the profit that would be demanded in the marketplace to service the portfolio of outstanding loans subject to the Company’s servicing agreements.

Prepayment rates–Prepayment rates are the Company’s estimate of the cumulative principal prepayments that will occur over the entire life of a loan as a percentage of the original principal amount of the loan. The assumption regarding cumulative prepayments impact the projected balances and expected terms of the loans, which are used to project future servicing revenues.

Significant Recurring Level 3 Fair Value Input Sensitivity

The table below presents the fair value sensitivity of loan servicing assets and liabilities to adverse changes in key assumptions. The fair value of loan servicing assets and liabilities is not sensitive to adverse changes in discount rates as such changes would not result in a significant impact on the fair value as of December 31, 2020 and September 30, 2021, respectively.

	December 31, 2020	September 30, 2021
Fair value of loan servicing assets	$ 6,831	$ 12,380
Expected market-servicing rates		
10% market-servicing rates increase	(19,013)	(3,724)
20% market-servicing rates increase	(38,027)	(7,354)
Expected prepayment rates		
10% adverse change	(2,061)	(169)
20% adverse change	(4,212)	(337)

	December 31, 2020	September 30, 2021
Fair value of loan servicing liabilities	$ 8,254	$ 7,188
Expected market-servicing rates		
10% market-servicing rates increase	22,974	4,939
20% market-servicing rates increase	45,948	9,972
Expected prepayment rates		
10% adverse change	2,491	109
20% adverse change	5,089	216

Rollforward of Level 3 Fair Values

The following tables present a rollforward of the loan servicing assets and liabilities classified by the Company within Level 3 of the fair value hierarchy:

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Loan Servicing Assets	Loan Servicing Liabilities
Fair value at June 30, 2020	$ 5,880	$ 6,615
Sale of loans	1,833	1,766
Changes in fair value recorded in earnings	(1,155)	(1,032)
Fair value at September 30, 2020	$ 6,558	$ 7,349

	Loan Servicing Assets	Loan Servicing Liabilities
Fair value at December 31, 2019	$ 4,725	$ 5,140
Sale of loans	5,003	3,256
Changes in fair value recorded in earnings	(3,170)	(1,047)
Fair value at September 30, 2020	$ 6,558	$ 7,349

	Loan Servicing Assets	Loan Servicing Liabilities
Fair value at June 30, 2021	$ 15,450	$ 11,883
Sale of loans	4,904	2,783
Changes in fair value recorded in earnings	(7,974)	(7,478)
Fair value at September 30, 2021	$ 12,380	$ 7,188

	Loan Servicing Assets	Loan Servicing Liabilities
Fair value at December 31, 2020	$ 6,831	$ 8,254
Sale of loans	14,833	10,610
Changes in fair value recorded in earnings	(9,284)	(11,676)
Fair value at September 30, 2021	$ 12,380	$ 7,188

Trailing Fee Liabilities

The Company pays certain bank partners monthly trailing fees based on the amount and timing of principal and interest payments made by borrowers of the underlying loans. Significant inputs used for estimating the fair value of trailing fee liabilities included discount rates of 6.80% to 16.99% and 3.39% to 17.26% and credit risk rates of 0.36% to 52.31% and 0.08% to 50.85% as of December 31, 2020 and September 30, 2021, respectively.

The fair value sensitivity of trailing fee liabilities to adverse changes in key assumptions would not result in a material impact on the Company's financial position.

Rollforward of Level 3 Fair Values

The following tables include a rollforward of trailing fee liabilities classified by the Company within Level 3 of the fair value hierarchy:

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Trailing Fee Liabilities
Fair value at June 30, 2020	$ 720
Issuances	263
Repayments and settlements	(89)
Fair value at September 30, 2020	$ 894

	Trailing Fee Liabilities
Fair value at December 31, 2019	$ 504
Issuances	632
Repayments and settlements	(219)
Changes in fair value recorded in earnings	(23)
Fair value at September 30, 2020	$ 894

	Trailing Fee Liabilities
Fair value at June 30, 2021	$ 2,513
Issuances	1,148
Repayments and settlements	(350)
Changes in fair value recorded in earnings	23
Fair value at September 30, 2021	$ 3,334

	Trailing Fee Liabilities
Fair value at December 31, 2020	$ 1,276
Issuances	2,753
Repayments and settlements	(766)
Changes in fair value recorded in earnings	71
Fair value at September 30, 2021	$ 3,334

5. Loans at Fair Value

The following table presents the aggregate fair value and aggregate principal outstanding of all loans and loans that were 90 days or more past due included in the condensed consolidated balance sheets:

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Loans		Loans > 90 Days Past Due	
	December 31, 2020	September 30, 2021	December 31, 2020	September 30, 2021
Outstanding principal balance	$ 97,497	$ 149,049	$ 2,018	$ 1,293
Net fair value and accrued interest adjustments	(19,037)	(19,424)	(2,002)	(112)
Fair value[1]	$ 78,460	$ 129,625	$ 16	$ 1,181

(1) Includes $2.4 million and $70.3 million of auto loans as of December 31, 2020 and September 30, 2021, respectively, of which an immaterial amount is 90 days or more past due for each period presented.

The Company places loans on non-accrual status at 120 days past due. Any accrued interest recorded in relation to these loans is reversed in the respective period. The Company charges-off loans no later than 120 days past due.

6. Acquisitions

In April 2021, the Company completed its acquisition of Prodigy Software, Inc. (“Prodigy”). Prodigy provides an e-commerce platform for car dealerships which enables both online and in-store vehicle discovery, credit application, and checkout. Prodigy provides a modern multi-channel car buying experience, helping dealerships serve consumers with a holistic software solution that integrates legacy systems. In addition to modernizing the car buying experience, Prodigy will bring Upstart's AI enabled auto loans to dealerships across the country where a significant number of auto loans are transacted.

The total consideration the Company provided for Prodigy was approximately $89.0 million, comprised of the following:

	April 8, 2021
Fair value of Upstart common stock issued to Prodigy stockholders[1]	$ 70,121
Cash paid to common and preferred stockholders, warrant holders, and vested option holders[2]	17,151
Fair value of assumed Prodigy options attributable to pre-combination service period	889
Transactions costs paid by Upstart on behalf of Prodigy	883
Total purchase consideration	$ 89,044

(1) The fair value is based on 568,539 shares of Company common stock at $123.33 per share, the closing stock price on April 8, 2021, and 87,339 shares are held in escrow as security for certain indemnification obligations of former Prodigy stockholders.
(2) $1.9 million of the cash paid is being held in escrow as security for certain indemnification obligations of former Prodigy stockholders.

Excluded from the total purchase consideration above are 82,201 shares of the Company’s restricted common stock ("restricted stock") with a fair value of $10.1 million issued to certain Prodigy employees. The restricted stock is subject to transfer restrictions and a repurchase option and is contingent upon the employees' continued employment with the Company. The repurchase option will lapse with respect to 1/8th of the shares of restricted stock at the end of each successive three-month period following the closing date of the Prodigy acquisition. The Company will record stock-based compensation expense straight-line over the two-year period that the repurchase option lapses.

The acquisition has been accounted for as a business combination. The purchase consideration was allocated to the tangible and intangible assets and liabilities acquired as of the acquisition date, with the excess recorded to goodwill as shown below. The values assigned to the assets acquired and liabilities assumed are based on preliminary estimates of fair value available as of the date of this Quarterly Report on Form 10-Q and may be adjusted during the measurement period of up to 12 months from the date of acquisition as further information becomes available. Any changes in the fair values of the assets acquired and liabilities assumed during the measurement period may result in adjustments to goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

	April 8, 2021
Goodwill	$ 66,866
Acquisition-related intangible assets	23,200
Cash	1,479
Deferred tax liability, net	(2,328)
Other assets acquired and liabilities assumed, net	(173)
Total purchase consideration	$ 89,044

The goodwill recognized was primarily attributable to the opportunity to bring Upstart's AI enabled auto loans to dealerships across the country where the vast majority of loans are transacted. The goodwill is not deductible for U.S. federal income tax purposes.

The Company recognized acquisition-related costs of approximately $1.2 million in the nine months ended September 30, 2021 which are included in the general and administrative expense in the condensed consolidated statement of operations and comprehensive income. No acquisition-related costs were incurred during the three months ended September 30, 2021.

	Estimated fair values (in thousands)	Estimated useful life (years)
Developed technology	$ 9,400	3.0
Trade name	100	2.0
Customer relationships	13,700	12.0
Total acquisition-related intangible assets	$ 23,200	

The fair values of the acquisition-related intangibles were determined using the following methodologies: replacement cost method, the relief from royalty method, and the with/without method, a form of the income approach, for developed technology, trade name, and customer relationships, respectively. The acquired intangible assets have a total weighted-average amortization period of 8.3 years.

We have included the financial results of the acquired business in our condensed consolidated financial statements from the date of acquisition. Revenues and expenses related to the acquisition for the three and nine months ended September 30, 2021 were not material. Pro forma results of operations have not been presented because the effects of this acquisition were not material to our financial results.

7. Goodwill and Intangible Assets

Goodwill

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

The table below presents changes to the carrying amount of goodwill:

	December 31, 2020	Goodwill Acquired	September 30, 2021
Goodwill	$ —	$ 66,866	$ 66,866

The goodwill acquired during the nine months ended September 30, 2021 is associated with the acquisition of Prodigy. There was no impairment for the periods presented.

Intangible Assets

Acquired intangible assets subject to amortization are as follows:

	September 30, 2021			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Remaining Useful Life (Years)
Developed technology	$ 9,400	$ 1,566	$ 7,834	2.5
Customer relationships	13,700	571	13,129	11.5
	$ 23,100	$ 2,137	$ 20,963	

Amortization expense was $1.1 million and $2.2 million for the three and nine months ended September 30, 2021, respectively, which includes an immaterial write-off of the trade name acquired intangible asset after the Company performed a qualitative impairment assessment in the third quarter of 2021. There were no intangible assets subject to amortization for the year ended December 31, 2020.

Expected future amortization expense for intangible assets as of September 30, 2021 is as follows:

Fiscal Years:	
Remaining 2021	$ 1,069
2022	4,275
2023	4,275
2024	1,925
2025	1,142
Thereafter	8,277
Total	$ 20,963

8. Balance Sheet Components

Other Assets

Other assets consisted of the following:

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	December 31, 2020	September 30, 2021
Servicing fees and other receivables	$ 11,656	$ 29,986
Deposits	7,947	8,272
Prepaid expenses	6,009	17,875
Loan servicing assets (at fair value)	6,831	12,380
Other assets	7,603	8,978
Total other assets	$ 40,046	$ 77,491

Servicing fees and other receivables represent amounts recognized as revenue but not yet collected in relation to servicing and other agreements with institutional investors and bank partners.

Property, Equipment, and Software, Net

Property, equipment, and software, net consisted of the following:

	December 31, 2020	September 30, 2021
Internally developed software	$ 7,906	$ 14,502
Computer equipment	1,285	2,459
Furniture and fixtures	1,770	2,573
Leasehold improvements	2,763	5,803
Total property, equipment, and software	13,724	25,337
Accumulated depreciation and amortization	(3,692)	(6,439)
Total property, equipment, and software, net	$ 10,032	$ 18,898

For the three and nine months ended September 30, 2020, depreciation and amortization expense on property, equipment, and software was immaterial. For the three and nine months ended September 30, 2021, depreciation and amortization expense on property, equipment, and software was $1.0 million and $2.7 million, respectively. Capitalized internally developed software balances, net of accumulated amortization, were $6.0 million and $11.0 million as of December 31, 2020 and September 30, 2021, respectively.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following:

	December 31, 2020	September 30, 2021
Accrued expenses	$ 10,974	$ 33,955
Accrued payroll	13,834	22,570
Loan servicing liabilities (at fair value)	8,254	7,188
Trailing fee liability (at fair value)	1,276	3,334
Other liabilities	1,331	4,904
Total accrued expenses and other liabilities	$ 35,669	$ 71,951

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

9. Borrowings

The following table presents the aggregate principal outstanding of all loans mentioned in this note that are included in the condensed consolidated balance sheets:

	Borrowings	
	December 31, 2020	September 30, 2021
Term loan	$ 15,000	$ —
Revolving credit facility	5,500	—
Warehouse credit facility	34,994	1,291
Risk retention funding loans	7,187	1,809
Convertible senior notes	—	661,250
Total payments due	62,681	664,350
Unamortized debt discount	(55)	(15,128)
Total borrowings	$ 62,626	$ 649,222

Term Loan

In October 2018, the Company and UNI entered into a mezzanine loan and security agreement to obtain a term loan of up to $15.0 million (the "Mezzanine Loan"). The Mezzanine Loan bore interest at the greater of prime rate plus 5.25% or 10.00% per annum, payable monthly. The principal balance was due upon maturity on October 1, 2021.

In June 2021, the Company repaid in full the $15.0 million principal balance outstanding under the Mezzanine Loan, plus accrued interest and prepayment fees, and terminated the Mezzanine Loan. In connection with the termination, the Company recognized the remaining unamortized debt discount and recognized an immaterial loss on debt extinguishment.

Revolving Credit Facility

In September 2018, the Company and UNI entered into a revolving credit facility with a third-party lender for up to $5.5 million (the "UNI Credit Facility"). The UNI Credit Facility bore floating interest at the greater of prime rate plus 1.00% or 4.25% annum, payable monthly, subject to a monthly minimum interest requirement prior to maturity. The UNI Credit Facility had an original termination and maturity date of June 1, 2020. In 2020, the parties agreed to extend the maturity date of the UNI Credit Facility to June 1, 2021. In June 2021, the Company repaid in full the $5.5 million of outstanding principal, plus accrued interest, under the UNI Credit Facility and did not renew such facility.

Warehouse Credit Facility

In November 2015, the Company's consolidated VIE, Upstart Loan Trust ("ULT"), entered into a revolving credit and security agreement with a third-party lender (the "ULT Warehouse Credit Facility"). The credit and security agreement for the ULT Warehouse Credit Facility was amended and restated in its entirety in May 2020 and further amended in June 2021. Under the revolving credit and security agreement, as amended from time to time, ULT may borrow up to $100.0 million (subject to a borrowing base capacity) until the earlier of June 15, 2023 or the occurrence of an accelerated amortization event. An accelerated amortization event includes, but are not limited to, failure to satisfy certain loan performance metrics or the occurrence of an event of default. The proceeds may only be used to purchase unsecured personal loans from Upstart's platform and to pay fees and expenses related to the credit facility. The ULT Warehouse Credit Facility matures on the earlier of June 15, 2024 or acceleration of the facility following an event of default, upon which date 100% of the outstanding principal amount, together with any accrued and unpaid interest, becomes due and payable. The entire amount of the outstanding principal and interest may be prepaid at any time without penalty. The ULT Warehouse Credit Facility bears a floating interest rate of LIBOR (“ the Benchmark Rate”) plus a spread ranging from 1.90% to 4.00% per annum, due and payable monthly in arrears. In the event that LIBOR ceases to be available, the Benchmark Rate will be replaced with an alternative rate such as the Secured Overnight Financing Rate. The Company is subject to additional interest payments under a minimum utilization requirement of $30 million. The maximum advance rate under the ULT Warehouse Credit Facility on outstanding principal of loans held by ULT was 80% as of December 31, 2020 and 85% as of September 30, 2021.

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The ULT Warehouse Credit Facility contains certain financial covenants. As of December 31, 2020 and September 30, 2021, ULT was in compliance with all applicable covenants under the ULT Warehouse Credit Facility. The creditors of ULT have no recourse to the general credit of the Company, except for certain limited obligations of ULT to its creditors that are guaranteed by the Company. The Company does not guarantee the credit performance of the loans owned by ULT, and the loans and other assets owned by ULT are not available to settle the claims of creditors of the Company.

The following table includes the aggregate balances held by ULT that were pledged as collateral for the ULT Warehouse Credit Facility and included in loans at fair value and restricted cash in the condensed consolidated balance sheets, respectively:

	ULT Warehouse Credit Facility	
	December 31, 2020	September 30, 2021
Outstanding borrowings	$ 34,994	$ 1,291
Aggregate outstanding principal of loans pledged as collateral	59,709	2,449
Aggregate fair value of loans purchased and held by ULT	60,231	31,208
Restricted cash pledged as collateral	11,270	26,461

Risk Retention Funding Loans

In October 2018, Upstart RR Funding 2018-2, LLC (the “2018-2 RR entity”), a consolidated VIE of UNI, entered into a loan and security agreement (the “2018-2 RR Financing Agreement”) to finance the Company’s risk retention balance in the Upstart Securitization Trust 2018-2. Under this agreement, the balance borrowed by the 2018-2 RR entity has an interest rate of 4.00% per annum and is repaid using cash proceeds received by the 2018-2 RR entity as part of monthly cash distributions from the 2018-2 securitization on securitization notes and residual certificates. As of December 31, 2020, the outstanding principal balance under the 2018-2 RR Financing Agreement was immaterial. In April 2021, the Company repaid the outstanding principal and accrued interest in full.

In September 2019, Upstart RR Funding 2019-2, LLC (the “2019-2 RR entity”), a consolidated VIE of UNI, entered into a loan and security agreement (the “2019-2 RR Financing Agreement”) to finance the Company’s risk retention balance in the Upstart Securitization Trust 2019-2. Under this agreement, the balance borrowed by the 2019-2 RR entity has an annual interest rate of 4.33% and is repaid using cash proceeds received by the 2019-2 RR entity as part of monthly cash distributions from the 2019-2 securitization on securitization notes and residual certificates. As of December 31, 2020 and September 30, 2021, the outstanding principal balance under the 2019-2 RR Financing Agreement was $6.6 million and $1.8 million, respectively.

The borrowings are solely the obligations of the 2018-2 RR entity and 2019-2 RR entity, respectively, and the Company is not obligated thereon. The securities and other assets owned by each RR entity are not available to settle the claims of creditors of the Company. Assets pledged as collateral for the risk retention funding loans include $12.6 million and $6.0 million of securities held for risk retention for the 2018-2 and 2019-2 securitization transactions, included in notes receivables and residual certificates on the condensed consolidated balance sheets as of December 31, 2020 and September 30, 2021, respectively.

Convertible Senior Notes

On August 20, 2021, the Company issued $661.3 million aggregate principal amount of 0.25% convertible senior notes due 2026 (“Notes”) pursuant to an indenture (the “Indenture”), (including the exercise in full of the initial purchasers’ option of an additional $86.3 million aggregate principal of additional notes) in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from the sale of the Notes were approximately $645.5 million after deducting debt issuance costs.

The Notes represent senior unsecured obligations of the Company and bear interest at a rate of 0.25% per year, payable semiannually in arrears on February 15 and August 15 of each year beginning on February 15, 2022. The Notes mature on August 15, 2026 unless earlier converted, redeemed, or repurchased in accordance with their terms.

The Notes will be convertible at an initial conversion rate of 3.5056 shares of our common stock per $1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately $285.26 per share, subject to adjustment if certain events occur. Following certain corporate events that may occur prior to the maturity date or following our issuance of a notice of redemption, we will increase the conversion rate for a holder who elects to convert its Notes in connection with such corporate event or during the related redemption period in certain circumstances. Additionally, upon the occurrence of a corporate event that constitutes a “fundamental change” per the Indenture, holders of the Notes may require the Company to repurchase for cash all or a portion of their respective notes at a purchase price equal to 100% of the principal amount of the Note plus accrued and unpaid interest.

Holders may convert their Notes at their option any time prior to the close of business on the business day immediately preceding May 15, 2026 only under the following circumstances:

(1) during any calendar quarter commencing after December 31, 2021 (and only during such calendar quarter), if the last reported sale price of the Common Stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

(2) during the five business-day period after any five consecutive trading-day period in which the trading price per $1,000 principal amount of Notes for each trading day of such five consecutive trading-day period was less than 98% of the product of the last reported sale price of the Common Stock and the conversion rate on each such trading day;

(3) if we call any or all of the Notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or

(4) upon the occurrence of specified corporate events.

On or after May 15, 2026, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders of the Notes may convert all or any portion of their Notes regardless of the foregoing conditions. Upon conversion, the Company will pay or deliver, as the case may be, either cash, shares of common stock or a combination of cash and shares of common stock, at our election.

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The Company may not redeem the Notes prior to August 20, 2024. The Company may redeem for cash all or any portion of the Notes, at our option, on or after August 20, 2024, if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading-day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides a notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus any accrued and unpaid interest to, but excluding, the redemption date.

The Company accounted for the issuance of the Notes as a single liability at par as the conversion feature does not require bifurcation as a derivative under ASC 815 and the Notes were not issued at a substantial premium. Debt issuance costs related to the Notes totaled $15.7 million and consisted of underwriting fees and third-party offering costs, which are amortized to interest expense using the effective interest method over the contractual term. For both the three and nine months ended September 30, 2021, the Company recorded $0.8 million of coupon interest expense and amortization of debt issuance costs of $0.6 million on the condensed consolidated statements of operations and comprehensive income. The effective interest rate of the Notes is 0.7% for all periods presented.

Capped Call Transactions

The Company used $58.5 million of the net proceeds from the Notes to enter into privately negotiated capped call instruments ("Capped Calls") with certain financial institutions. The Capped Calls each have an initial strike price of approximately $285.26 per share, subject to certain adjustments, which corresponds to the initial conversion price of the Notes. The Capped calls each have an initial cap price of $400.36 per share. The Capped Calls cover, subject to anti-dilution adjustments, approximately 2.3 million shares of common stock. The Capped Calls are expected to reduce the potential dilution to common stock upon any conversion of Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted Notes, as the case may be, in the event the market price per share of common stock, as measured under the terms of the Capped Call, is greater than the strike price of the Capped Call, with such reduction and/or offset subject to a cap. If, however, the market price per share of the common stock, as measured under the terms of the Capped Call, exceeds the cap price of the Capped Calls, there would be dilution and/or there would not be an offset of such potential cash payments, in each case, to the extent that such market price per share of the common stock exceeds the cap price of the Capped Calls. The Capped Calls expire on August 15, 2026, subject to earlier exercise.

The Capped Calls were determined to be freestanding financial instruments that meet the criteria for classification in equity; as such the Capped Calls were recorded as a reduction of additional paid-in capital within stockholders' equity.

The following table summarizes the aggregate amount of maturities of all borrowings as of September 30, 2021:

	September 30, 2021
Remainder of 2021	$ —
2022	—
2023	1,809
2024	1,291
2025	—
Thereafter	661,250
Total	$ 664,350

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10. Common Stock and Common Stock Warrants

Common Stock

In December 2020, the Company's amended and restated certificate of incorporation became effective, which authorized the issuance of 700,000,000 shares of common stock with a par value of $0.0001 per share.

The Company had reserved shares of common stock for issuance, on an as-converted basis, as follows:

	December 31, 2020	September 30, 2021
Options issued and outstanding	19,600,223	14,906,879
RSUs outstanding	—	1,404,998
Shares available for future issuance under 2020 plan	2,537,181	10,082,123
Shares available for issuance under ESPP	—	1,869,302
Warrants to purchase common stock	75,000	—
Total	22,212,404	28,263,302

Common Stock Warrants

In October 2018, the Company issued stock warrants to purchase 75,000 shares of common stock, with an exercise price of $2.16 per share. The estimated grant date fair value of the common stock warrants was recognized as debt issuance costs in the period granted. The common stock warrant has a contractual term of ten years and expire in October 2028.

In December 2020, the common stock warrant agreement was amended to include a repurchase option in the event of an IPO. Upon the completion of an IPO, or a qualified acquisition of the Company, the common stock warrant holders have the option to require the Company to repurchase the warrant in its entirety for a purchase price of $1.5 million. The repurchase option terminates on the earlier of (i) 30 days after the closing of a qualified sale of the Company or; (ii) 10 business days after the date on which the Company’s IPO price per share is confirmed by the Company’s underwriters.

In December 2020, the repurchase clause for the warrant expired resulting in the fair market value of the stock warrants to purchase 75,000 shares reclassified from liability to equity on the condensed consolidated balance sheets. In January 2021, the warrant holder net exercised the warrant resulting in 72,407 common shares issued by the Company. As of September 30, 2021 no common stock warrants were outstanding.

11. Equity Incentive Plans

Equity Incentive Plans

In 2012, the Company adopted the Equity Incentive Plan (“2012 Equity Incentive Plan”) authorizing the granting of incentive stock options (“ISOs”) and non-statutory stock options (“NSOs”) to eligible participants. Under the 2012 Equity Incentive Plan, the exercise price of an ISO and NSO shall not be less than 100% of the estimated fair value of the shares on the date of grant, as determined by the Board of Directors. The exercise price of an ISO granted to a 10% stockholder shall not be less than 110% of the estimated fair value of the shares on the date of grant, as determined by the Board of Directors. Options generally vest over four years and are exercisable for up to 10 years after the date of grant if the employee provides service to the Company for at least three years.

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In October 2020, our Board of Directors adopted, and in November 2020 our Board of Directors amended and our stockholders approved, our 2020 Equity Incentive Plan which was effective on December 14, 2020. The Company terminated the 2012 Equity Incentive Plan immediately prior to effectiveness of the 2020 Equity Incentive Plan with respect to the grant of future awards. However, our 2012 Equity Incentive Plan continues to govern the terms and conditions of the outstanding awards granted under our 2012 Equity Incentive Plan.

The 2020 Equity Incentive Plan authorizes granting of ISOs, NSOs, stock appreciation rights, restricted stock, restricted stock units, or RSUs, and performance awards. As of September 30, 2021, the Company is authorized to issue up to 10,082,123 shares of common stock under the 2020 Equity Incentive Plan. In addition, the 2020 Equity Incentive Plan also includes any shares subject to awards granted under our 2012 Equity Incentive Plan that, on or after December 15, 2020, expire or otherwise terminate without having been exercised or issued in full, are tendered to or withheld by us for payment of an exercise price or for satisfying tax withholding obligations, or are forfeited to or repurchased by us due to failure to vest. The maximum number of shares that may be added to the 2020 Equity Incentive Plan pursuant to outstanding awards under the 2012 Equity Incentive Plan is 15,000,000 shares. The number of shares available for issuance under our 2020 Equity Incentive Plan also includes an annual increase on the first day of each fiscal year beginning with the 2021 in an amount equal to the lesser of 15,000,000 shares or 5% of the outstanding shares of our common stock on the last day of our immediately preceding fiscal year.

In connection with the Company's acquisition of Prodigy, the Company assumed the Prodigy Software, Inc. 2015 Stock Incentive Plan (the "Prodigy Plan"), under which certain unvested options under the Prodigy Plan were assumed by the Company. The assumed options are subject to the same terms and conditions that were applicable to them under the Prodigy Plan, except that (i) the assumed options relate to shares of Upstart's common stock, and (ii) the number of shares of Upstart's common stock was the result of an adjustment based upon a ratio as described further in the Registration Statement on Form S-8 filed with the SEC on April 16, 2021.

Stock Options

The following table summarized stock option activity for the nine months ended September 30, 2021:

	Number of Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balances at December 31, 2020	19,600,223	$ 4.27	6.8	$ 715,084
Options granted	610,534	105.37		
Options assumed upon acquisition	23,494	9.06		
Options exercised	(4,941,362)	1.98		
Options cancelled and forfeited	(386,010)	7.30		
Balances at September 30, 2021	14,906,879	9.10	6.7	4,581,564
Options exercisable – September 30, 2021	8,598,833	2.48	5.3	2,699,739
Options vested and expected to vest – September 30, 2021	14,753,486	$ 8.78	6.6	$ 4,539,113

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the fair value of the Company's stock as of September 30, 2021. The aggregate intrinsic value of options exercised for the nine months ended September 30, 2020 and 2021, was $2.0 million and $873.9 million, respectively. The weighted-average grant date fair value of options granted during the nine months ended September

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30, 2020 and 2021, was $5.76 and $61.97 per share, respectively. The weighted-average fair value of options assumed in connection with an acquisition was $74.84 per share for the nine months ended September 30, 2021. The total fair value of options vested for the nine months ended September 30, 2020 and 2021, was $4.5 million and $16.7 million, respectively.

In May 2021, the Company amended an employee stock option agreement which resulted in a modification of the vesting of a certain number of option shares. The Company valued the amended stock options as of the modification date. Based on the Black-Scholes option pricing model fair value, incremental stock-based compensation expense of $4.4 million resulting from the modification was recognized during the nine months ended September 30, 2021.

As of September 30, 2021, total unrecognized stock-based compensation expense related to unvested stock options was $63.0 million, which is expected to be recognized over a remaining weighted-average period of 2.0 years.

Restricted Stock Units

During the nine months ended September 30, 2021, the Company began granting RSUs to employees and nonemployees. RSUs vest upon satisfaction of a service-based condition, which is generally satisfied over four years. The following table summarized RSU activity for the nine months ended September 30, 2021:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Unvested at December 31, 2020	—	
RSUs granted	1,465,733	$ 126.95
RSUs vested	(19,051)	118.92
RSUs cancelled and forfeited	(41,684)	$ 100.33
Unvested at September 30, 2021	1,404,998	

As of September 30, 2021, total unrecognized stock-based compensation expense related to outstanding unvested RSUs was $161.3 million, which is expected to be recognized over a remaining weighted-average period of 3.2 years.

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Restricted Stock

In connection with the Prodigy acquisition, 82,201 shares of the Company’s restricted stock were issued to certain Prodigy employees. The restricted stock is subject to restrictions which lapse on a quarterly basis over two years. Refer to “*Note 6. Acquisitions*” for further information.

The following table summarized Restricted Stock activity for the nine months ended September 30, 2021:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Unvested at December 31, 2020	—	
Restricted	82,201	$ 121.65
Vested	10,275	$ 121.65
Unvested at September 30, 2021	71,926	

As of September 30, 2021, total unrecognized stock-based compensation expense related to restricted stock was $7.7 million, which is expected to be recognized over a remaining weighted-average period of 1.6 years.

2020 Employee Stock Purchase Plan

In October 2020, our Board of Directors adopted, and in November 2020 our Board of Directors amended and our stockholders approved, our ESPP which was effective on December 14, 2020. Our ESPP provides for consecutive six-month offering periods. The offering periods are scheduled to start on the first trading day on or after February 15 and August 15 of each year, except the first offering period commenced on December 16, 2020 and will end on the first trading day on or before August 15, 2021. The second offering period will commence on the last trading day on or after August 15, 2021. The ESPP permits participants to purchase shares in the amount of 85% of the lower of the fair market value of our shares of common stock on the first trading day of the offering period or on the exercise date. As of September 30, 2021, 1,869,302 shares remain available for future issuance, in addition to any automatic annual evergreen increase. During the nine months ended September 30, 2021 243,725 shares of common stock were purchased under the ESPP.

As of September 30, 2021, total unrecognized stock-based compensation expense related to the ESPP was $2.4 million, which is expected to be recognized over a remaining weighted-average period of 0.4 years.

Fair Value of Awards Granted

In determining the fair value of the stock-based awards, the Company uses the Black-Scholes option-pricing model and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment.

Fair Value of Common Stock–Prior to the completion of the IPO, the fair value of the shares of common stock was determined by the Company’s Board of Directors as there was no public market for the Company’s common stock. After the completion of the IPO, the fair value of the Company’s common stock is determined by the closing price, on the date of grant, of its common stock, which is traded on the Nasdaq Global Select Market.

Expected Term–The expected term represents the period that the Company’s stock options are expected to be outstanding. We estimate the expected term based on the simplified method, which is the weighted-average time to vesting and the contractual maturity.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

Volatility–Because the Company does not have an active trading market for its common stock for a sufficient period of time, the expected volatility is estimated based on the average volatility for comparable publicly-traded companies, over a period equal to the expected term of the stock option grants.

Risk-free Interest Rate–The risk-free interest rate assumption is based on the U.S. Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of the option.

Dividends–The Company has never paid dividends on its common stock and does not anticipate paying dividends on common stock. Therefore, the Company uses an expected dividend yield of zero.

The following assumptions were used to estimate the fair value of options granted:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Expected term (in years)	5.5 – 10.0	5.8 – 6.7	5.3 – 10.0	5.3 – 6.9
Expected volatility	70.67% – 72.02%	63.03% – 63.53%	53.23% – 72.02%	63.03% – 65.01%
Risk-free interest rate	0.33% – 0.71%	0.93% – 0.93%	0.33% – 1.50%	0.62% – 1.14%
Dividend yield	—%	—%	—%	— %

The following assumptions were used to estimate the fair value of ESPP purchase rights:

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Expected term (in years)	0.5	0.5 - 0.6
Expected volatility	152.95%	61.65% - 152.95%
Risk-free interest rate	0.05%	0.05% - 0.09%
Dividend yield	—%	—%

Stock-Based Compensation

The Company recorded stock-based compensation in the following expense categories in its condensed consolidated statements of operations and comprehensive income for employees and nonemployees:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Sales and marketing	$ 447	$ 1,771	$ 1,136	$ 3,951
Customer operations	221	1,938	625	4,314
Engineering and product development	1,143	10,273	3,181	27,052
General, administrative, and other	807	6,335	2,160	14,808
Total	$ 2,618	$ 20,317	$ 7,102	$ 50,125

Stock-based compensation expense by award type was as follows:

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Stock options	$ 2,618	$ 7,318	$ 7,102	$ 23,703
RSUs	—	9,965	—	18,504
ESPP	—	1,212	—	2,260
Restricted Stock	—	1,822	—	5,658
Total	$ 2,618	$ 20,317	$ 7,102	$ 50,125

12. Leases

The Company's operating leases expire between 2027 and 2032 and are primarily for its corporate headquarters in San Mateo, California and Columbus, Ohio, as well as additional office space for origination and servicing operations in Columbus Ohio. Certain leases have rent abatement, escalating rent payment provisions, lease renewal options, and tenant allowances. Rent expense is recognized on a straight-line basis over the non-cancelable lease term, except when it is reasonably certain that the renewal option will be exercised. For leases where the Company is reasonably certain to exercise a renewal option, such option periods have been included in the determination of the Company's ROU assets and lease liabilities on our condensed consolidated balance sheets.

In connection with one of the leases, a letter of credit was issued on behalf of the Company for the benefit of the landlord in the amount of $2.0 million. The letter of credit is secured by a certificate of deposit which is included in restricted cash on the condensed consolidated balance sheets.

As of September 30, 2021, future minimum lease payments are as follows:

	Operating Leases
Remainder of 2021	$ 1,274
2022	6,863
2023	9,863
2024	11,554
2025	11,878
Thereafter	57,742
Total undiscounted lease payments	99,174
Less: Tenant improvement receivables	(9,675)
Less: Present value adjustment	(17,324)
Operating lease liabilities	$ 72,175

As of September 30, 2021, the Company has entered into a non-cancelable lease agreement with undiscounted future minimum lease payments of $31.6 million. The lease is expected to commence in the fourth quarter of 2021. The Company has not yet recognized the ROU asset and lease liability on our condensed consolidated balance sheets as the lease was not commenced as of September 30, 2021.

As of September 30, 2021 the Company did not have any material finance leases. The Company's operating lease expense consists of rent and variable lease payments. Variable lease payments such as common area maintenance and parking fees, were included in operating expenses. Rent expense for the Company's short-term leases was immaterial for the periods presented. Operating lease expense was as follows:

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Rent expense	$ 1,307	$ 1,772	$ 3,879	$ 4,767
Variable lease payments	330	454	1,033	1,115

Supplemental information related to the Company's operating leases was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Cash paid for amounts included in the measurement of lease liabilities	$ 1,055	$ 1,147	$ 3,101	$ 3,279
Total right-of-use assets capitalized	—	55,149	187	55,149

Supplemental cash flow and noncash information related to the Company's operating leases was as follows:

	September 30, 2021
Weighted-average remaining lease term (in years)	9.25
Weighted-average discount rate	4.01%

13. Commitments and Contingencies

Loan Purchase Obligation

Under the Company's loan agreements with certain bank partners, the banks retain ownership of the loans facilitated through Upstart's platform for three days or longer (the "holding period") after origination, as required under the respective agreements. The Company has committed to purchase the loans at the unpaid principal balance, plus accrued interest, at the conclusion of the required holding period. As of December 31, 2020 and September 30, 2021, the total loan purchase commitment included outstanding principal balance of $39.3 million and $88.8 million, respectively.

Repurchase and Indemnification Contingency

Under the terms of the loan purchase and loan servicing agreements between the Company and institutional investors, as well as in agreements with investors in securitizations where the Company is not the sponsor, the Company may, in certain circumstances, become obligated to repurchase loans from such investors. Generally, these circumstances include the occurrence of verifiable identity theft, the failure of sold loans to meet the terms of certain loan-level representations and warranties that speak as of the time of origination or sale, the failure to comply with other contractual terms with the investors, or a violation of the applicable federal, state, or local lending laws.

The maximum potential amount of future payments associated under this obligation is the outstanding balances of the loans sold to the investors, which at December 31, 2020 and September 30, 2021, is $5,180.7 million and $10,302.1 million, respectively. The Company recognizes a liability for the repurchase obligation based on historical experience when the loans are issued. The liability is subsequently remeasured when a related loss is probable and can be reasonably estimated. Actual payments made relating to the Company's repurchase and indemnification obligations were immaterial historically. The Company has recorded contingent liabilities as of December 31, 2020 and September 30, 2021 of immaterial amounts to cover estimated future obligations related to these contractual terms. These amounts are included in accrued expenses and other liabilities on the Company's condensed consolidated balance sheets.

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Legal

From time to time the Company is subject to, and it is presently involved in, litigation and other legal proceedings. Accounting for contingencies requires the Company to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. The Company records a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. As of December 31, 2020 and September 30, 2021, no loss contingency has been recorded in connection with legal proceedings arising in the ordinary course of business.

Contingencies

Accounting for contingencies requires the Company to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. The Company records a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company discloses material contingencies when it believes a loss is not probable but reasonably possible. Although the Company cannot reasonably determine the outcome of any litigation or tax matters, it does not believe there are currently any such actions that, if resolved unfavorably, would have a material impact on its condensed consolidated financial statements.

Indemnifications

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to vendors, directors, officers and other parties with respect to certain matters. In addition, the Company has entered into indemnification agreements with directors and certain officers and employees that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. No demands have been made upon the Company to provide indemnification under such agreements, and thus, there are no claims that the Company is aware of that could have a material effect on the Company's condensed consolidated financial statements.

14. Income Taxes

The Company's effective tax rates for the three and nine months ended September 30, 2020 and 2021, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2021**	**2020**	**2021**
Benefit for income taxes	$ —	$ (1,268)	$ —	$ (2,035)
Effective tax rate	— %	(4.55)%	— %	(2.73)%

The Company's tax provision and the resulting effective tax rate for interim periods is determined based upon its estimated annual effective tax rate adjusted for the effect of discrete items arising in that quarter. The effective tax rate for the three and nine months ended September 30, 2021, compared to the three and nine months ended September 30, 2020, was impacted by the release of the valuation allowance related to the acquisition of Prodigy. The release of valuation allowance is attributable to ASC 805-740-30-3, acquisitions with deferred tax liabilities that, upon acquisition, allowed us to recognize certain deferred tax assets of approximately $2.3 million during the nine months ended September 30, 2021 that had previously been offset by a valuation allowance and was also impacted by a net decrease in the tax expense in the Company's separate filing state jurisdictions.

15. Related Party Transactions

Since the Company's inception, it has engaged in various transactions with its executive officers and directors, holders of more than 10% of its voting securities, and their affiliates. During the nine months ended September 30, 2020 and 2021, a related party investor and its affiliates participated in securitization transactions co-sponsored and serviced by the Company by contributing loans and purchasing securitization notes or residual certificates.

16. Net Income Per Share Attributable to Upstart Holdings, Inc. Common Stockholders

Basic net income per common share attributable to Upstart Holdings, Inc.'s common stockholders is based on the weighted-average common shares outstanding during the relevant period. Diluted net income per common share attributable to Upstart Holdings, Inc.'s common stockholders is based on the weighted-average common shares outstanding during the relevant period adjusted for the dilutive effect of share-based awards and convertible debt.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Numerator:				
Net income attributable to Upstart Holdings, Inc. common stockholders	$ 9,669	$ 29,113	$ 4,956	$ 76,499
Less: noncumulative dividends to preferred stockholders	(2,348)	—	(4,956)	—
Less: undistributed earnings to participating securities	(5,586)	—	—	—
Net income attributable to common stockholders, basic	1,735	29,113	—	76,499
Add: adjustments to undistributed earnings to participating securities	907	—	—	—
Net income attributable to common stockholders, diluted	$ 2,642	$ 29,113	$ —	$ 76,499
Denominator:				
Weighted-average common shares outstanding used to calculate net income per share attributable to Upstart Holdings, Inc. common stockholders, basic	14,707,717	79,392,600	14,663,623	76,586,395
Weighted-average effect of dilutive securities	12,037,763	16,664,610	—	17,578,930
Weighted-average common shares outstanding used to calculate net income per share attributable to Upstart Holdings, Inc. common stockholders, diluted	26,745,480	96,057,210	14,663,623	94,165,325
Net income per share attributable to Upstart Holdings, Inc. common stockholders, basic	$ 0.12	$ 0.37	$ —	$ 1.00
Net income per share attributable to Upstart Holdings, Inc. common stockholders, diluted	$ 0.10	$ 0.30	$ —	$ 0.81

The following securities were excluded from the computation of diluted net income per share attributable to Upstart Holdings, Inc. common stockholders for the periods presented, because including them would have been anti-dilutive for the three and nine months ended September 30, 2020. These amounts represent the number of instruments outstanding at the end of each respective period:

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Convertible preferred stock	47,349,577	—	47,349,577	—
Options to purchase common stock	7,287,803	5,310	19,356,042	501,476
Unvested RSUs	—	214,481	—	896,131
Purchase rights committed under the ESPP	—	27,746	—	27,746
Warrants to purchase convertible preferred stock	600,208	—	600,208	—
Convertible debt	—	2,318,078	—	2,318,078
Warrants to purchase common stock	319,669	—	319,669	—
Total	55,557,257	2,565,615	67,625,496	3,743,431

17. Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to September 30, 2021, through November 12, 2021, the date which the condensed consolidated financial statements were available to be issued. Based on the evaluation, the Company has determined no subsequent events were required to be recognized or disclosed.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include those identified below and those discussed in the section titled "Risk Factors" and other parts of this Quarterly Report on Form 10-Q. Our historical results are not necessarily indicative of the results that may be expected for any period in the future.

Overview

Upstart applies modern data science and technology to the process of underwriting consumer credit. By providing our bank partners with a proprietary AI-based origination platform, we help them originate credit with higher approval rates, lower loss rates and a high degree of automation. As our technology continues to improve and additional banks adopt our platform, consumers benefit from improved access to affordable and frictionless credit.

We believe that banks and other traditional lenders will continue to be at the forefront of consumer lending in the United States. We believe AI lending will become increasingly critical as this industry continues to undergo a broad digital transformation. Our strategy is to partner with banks, providing them with an exceptional AI lending platform that they can configure as they originate consumer loans under their own brand, according to their own business and regulatory requirements.

Consumers can obtain Upstart-powered loans in one of two ways: either by referral from Upstart.com to one of our bank partners, or directly through our bank partners' own websites, where our lending technology and experience is bank-branded. Our direct bank partner channel represents a small but growing portion of our overall volume, and we believe this portion will continue to grow over time as we onboard new bank partners.

Our bank partners can retain loans that align with their business and risk objectives. For loans that are not retained by our bank partners, we help diversify the funding of these loans to a broad base of institutional investors that invest in Upstart-powered loans. Over the last few years, the percentage of loans funded through our balance sheet has generally decreased, while the percentage of loans purchased by institutional investors has generally increased.

Our Economic Model

Upstart's revenues are primarily earned in the form of three separate usage-based fees, which can be either dollar or percentage based depending on the contractual arrangement. We charge our bank partners a referral fee each time we refer a borrower who obtains a loan. Separately, we charge bank partners a platform fee each time they originate a loan using our platform. These fees are contracted for and charged separately, although they are generally combined for accounting purposes as they usually represent a single performance obligation. We do not charge the borrowers on our platform any referral, platform or other similar fees for our loan matching services.

We also charge the holder of the loan (either a bank or institutional investor) an ongoing annualized servicing fee based on the outstanding principal over the lifetime of the loan for ongoing servicing of the loan. In addition, we earn a small portion of our revenue from interest income and gains received through our securitization programs.

Loans on our platform today are predominantly sourced from Upstart.com. For these loans, we incur variable costs in the form of borrower acquisition costs and borrower verification and servicing costs. Borrower acquisition costs and borrower verification and servicing costs are highly correlated with the Transaction Volume, Number of Loans on our platform have trended upwards on a period-by-period basis. We source a small number of loans directly through bank partners for which we receive no referral fee and incur no acquisition cost. The continued improvements to our level of automation and Conversion Rate achieved through our increasingly sophisticated risk models and our evolving channel mix contribute to improving loan unit economics over time.

COVID-19 Pandemic Impact

Starting in the second half of March 2020, the COVID-19 pandemic impacted origination volumes on our platform. The rapid rise in unemployment in the United States led to a reduction in originations by bank partners and a temporary pause in loan funding from institutions and capital markets. These factors collectively resulted in an 86% reduction in the Transaction Volume, Number of Loans and a 73% reduction in revenue in the second quarter of 2020 compared to the first quarter of 2020.

Beginning in June 2020, origination volumes recovered quickly and have grown since then. For the three months ended September 30, 2021, the Transaction Volume, Number of Loans was 362,780, representing a 348% increase compared to the Transaction Volume, Number of Loans in the three months ended September 30, 2020.

During the peak of the COVID-19 pandemic, we made certain operational changes, including temporary reductions in our marketing activities and certain operational expenses. In order to support borrowers suffering from income loss due to the pandemic, Upstart also worked with its bank partners to offer hardship plans that, among other things, allowed affected borrowers to defer loan payments for up to two months. At the peak, approximately 5.6% of borrowers on our platform had enrolled in a hardship program, less than half the rate of online lending industry benchmarks. As of September 30, 2021, approximately 95% of those impacted borrowers have exited the hardship program and resumed making loan payments. Due to the strength of our AI models, the COVID-19 pandemic has had a minimal impact on the credit performance of Upstart-powered loans, including those originated prior to the second quarter of 2020.

Although significant government assistance was provided during the COVID-19 pandemic, the resilience of our bank partner results during this time provides evidence of the benefits that our AI models can offer to bank lending programs. We believe these benefits are even more compelling and valuable during periods of economic downturn.

Factors Affecting Our Performance

Continued Improvements to Our AI Models

Much of our historical growth has been driven by improvements to our AI models. These models benefit over time from a flywheel effect that is characteristic of machine learning systems: accumulation of repayment data leads to improved accuracy of risk and fraud predictions, which results in higher approval rates and lower interest rates, leading to increased volume, and consequently greater accumulation of repayment data. This virtuous cycle describes an important mechanism by which our business grows simply through model learning and recalibration. We expect to continue to invest significantly in the development of our AI models and platform functionalities.

Beyond the ongoing accumulation of repayment data used to train our models, we also frequently make discrete improvements to model accuracy by upgrading algorithms and incorporating new variables, both of which have historically resulted in higher approval rates, more competitive loan offers, increased automation, and faster growth. As a second order effect, the impact of these improvements on our conversion funnel also allows us to unlock new marketing channels over time that have previously been unprofitable.

We believe that ongoing improvements to our technology in this manner will allow us to further expand access and lower rates for creditworthy borrowers, which will continue to fuel our growth. Should the pace of these improvements slow down or cease, or should we discover forms of model upgrades which improve accuracy at the expense of volume, our growth rates could be adversely affected.

Bank and Market Adoption

Banks play two key roles in Upstart’s ecosystem: funding loans and acquiring new customers. Traditional lenders such as banks tend to enjoy among the most efficient sources of funding due to their expansive base of deposits. As they adopt our technology and fund a growing proportion of our platform transactions, offers made to borrowers will typically improve, generally leading to higher conversion rates and faster growth for our platform.

New bank partners also represent additional acquisition channels through which we can reach and source prospective new borrowers, as these banks develop and implement their own digital and in-branch campaigns to drive traffic from their existing customer base to our platform. We view this emerging growth channel to be additive to the marketing acquisition programs we currently run at Upstart.

To provide funding support for our bank partners, we have built a broad network of institutional investors that can fund Upstart-powered loans through secondary loan purchasing, issuance of pass-through certificates and investment in asset-backed securitizations. This diverse network of capital helps to minimize our reliance on any one funding source. However, any trend towards reduced participation by banks will generally erode the overall competitiveness of the offers on our platform, and any declining trend in the participation of broader institutional investment markets with respect to funding availability for Upstart-powered loans could adversely affect our business.

Product Expansion and Innovation

We intend to continue developing new financial products that address a broader set of consumer needs over time. In the third quarter of 2020, we announced our entry into the auto lending market and in April 2021, we acquired Prodigy Software, Inc. or Prodigy, a leader in automotive commerce software solutions. Prodigy provides a modern multi-channel car buying experience, helping dealerships serve consumers with a holistic software solution that integrates legacy systems. In addition to modernizing the car buying experience, Prodigy will help bring Upstart's AI enabled auto loans to dealerships across the country where the vast majority of auto loans are transacted. In October 2021, we announced the launch of Upstart Auto Retail software, a cloud-based solution that enables dealerships to provide consumers with access to Upstart-powered auto loans by combining Prodigy Software and Upstart intellectual property.

We believe that significant growth opportunities exist to apply our evolving technology to additional segments of credit, such as credit cards, mortgages, student loans, small business loans, small-dollar loans, point-of-sale loans and HELOCs. In addition, we aim to serve a broader role of technology enablement for banks, which we believe will seek more comprehensive technology solutions from their suppliers. We will incur expenses and opportunity cost to develop and launch new products. Monetization prospects for new products are uncertain, and costs associated with integrating, developing and marketing new products might not be recovered, which could weigh on our top-line growth and profitability.

Impact of Macroeconomic Cycles

Economic cycles can impact our financial performance and related metrics, including consumer demand for loans, conversion rates and the interest rates our bank partners and institutional investors are willing to accept. In a potential downturn, we believe consumer lending will generally contract, including the volume transacted on our own platform. However, the performance of Upstart-powered loans through an economic downturn, such as that experienced during the COVID-19 pandemic, will be important in further validating our AI models with banks and institutional investors. If we are able to continue demonstrating the resilience of Upstart-powered loans through future macroeconomic cycles relative to general consumer credit, it could strengthen our competitive positioning as we emerge from such downturns.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

Key Operating and Non-GAAP Financial Metrics

We focus on several key operating and Non-GAAP financial metrics to measure the performance of our business and help determine strategic direction.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Transaction Volume, Dollars	$ 909,205	$ 3,129,652	$ 2,195,699	$ 7,653,314
Transaction Volume, Number of Loans	80,893	362,780	176,983	819,386
Conversion Rate	15.2%	23.0%[1]	14.0%	23.3%[1]
Percentage of Loans Fully Automated	69%	67%	69%	69%
Contribution Profit[2]	$ 33,780	$ 95,913	$ 63,697	$ 248,397
Contribution Margin[2]	54%	46%	44%	48%
Adjusted EBITDA[2]	$ 15,456	$ 59,139	$ 16,022	$ 140,940
Adjusted EBITDA Margin[2]	24%	26%	11%	26%
Adjusted Net Income[2]	$ 12,287	$ 57,446	$ 12,074	$ 137,184
Adjusted Net Income per Share:				
Basic[2]	$ 0.84	$ 0.72	$ 0.82	$ 1.79
Diluted[2]	$ 0.16	$ 0.60	$ 0.17	$ 1.46

(1) Until June 30, 2021, Conversion Rate considered all rate inquiries received on our platform. In the third quarter of 2021, we modified our calculation of Conversion Rate to remove what we believe to be fraudulent loan requests from the total number of rate inquiries received to better reflect actual borrower behavior. Using the prior methodology for calculating Conversion Rate, which did not exclude estimated fraudulent loan requests, our Conversion Rate for the three months ended September 30, 2021 and nine months ended September 30, 2021 would have been 13.5% and 17.7%, respectively. The impact of this change in calculating our Conversion Rate for prior periods is immaterial.

(2) Represents a non-GAAP financial measure. See the section titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Reconciliation of Non-GAAP Financial Measures*" for further information.

Transaction Volume

We define Transaction Volume, Dollars as the total principal of loans transacted on our platform between a borrower and the originating bank during the period presented. We define Transaction Volume, Number of Loans as the number of loans facilitated on our platform between a borrower and the originating bank during the period presented. We believe these metrics is are a good proxies for our overall scale and reach as a platform.

Conversion Rate

We define Conversion Rate as the Transaction Volume, Number of Loans in a period divided by the number of rate inquiries received that we estimate to be legitimate, which we record when a borrower requests a loan offer on our platform. Until June 30, 2021, Conversion Rate considered all rate inquiries received on our platform. In the third quarter of 2021, we experienced a large and coordinated fraud attack. While the attack had no significant impact on our financial results, our borrower funnel conversion metrics were distorted by the volume of unsuccessful attempts to access loans. As a result, we modified our calculation of Conversion Rate to remove what we believe to be fraudulent rate inquiries from the total number of rate inquiries received to better reflect actual borrower behavior. We track this metric to understand the impact of improvements to the efficiency of our borrower funnel on our overall growth. Historically, our Conversion Rate has benefited from improvements to our technology, which have made our evaluation of risk more accurate and our verification process more automated, or from the addition of bank partners that have made our offers more competitive. Our ability to continue to improve our Conversion Rate depends in part on our ability to continue to improve our AI models and Percentage of Loans Fully Automated and the mix of marketing channels in any given period.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

Percentage of Loans Fully Automated

A key driver of our Contribution Margin and operating efficiency is the Percentage of Loans Fully Automated, which is defined as the total number of loans in a given period originated end-to-end (from initial rate request to final funding) with no human involvement divided by the Transaction Volume, Number of Loans in the same period. We have been successful in increasing the level of loan automation on the platform over the past few years while simultaneously holding fraud rates constant and at very low levels. We believe our growth over the last several years has been driven in part by our ability to rapidly streamline and automate the loan application and origination process on our platform. We expect the Percentage of Loans Fully Automated to level off and remain relatively stable in the long term, however the expansion of our loan offerings beyond unsecured personal loans, including auto loans, may cause fluctuations of such percentage from quarter to quarter depending on the loan offering mix.

Contribution Profit and Contribution Margin

To derive Contribution Profit, we subtract from revenue from fees, net our borrower acquisition costs as well as our borrower verification and servicing costs. To calculate Contribution Margin we divide Contribution Profit by revenue from fees, net.

The following table provides a calculation of Contribution Profit and Contribution Margin:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Referral fees, net	$ 38,012	$ 130,121	$ 80,828	$ 319,193
Platform fees, net	17,631	61,321	42,657	148,283
Servicing fees, net	7,218	18,979	20,694	46,412
Revenue from fees, net	62,861	210,421	144,179	513,888
Borrower acquisition costs[(1)]	(21,183)	87,107	(59,464)	204,162
Borrower verification and servicing costs[(2)]	(7,898)	27,401	(21,018)	61,329
Total direct expenses	(29,081)	114,508	(80,482)	265,491
Contribution Profit	$ 33,780	$ 95,913	$ 63,697	$ 248,397
Contribution Margin	54 %	46 %	44 %	48 %

(1) Borrower acquisition costs consist of our sales and marketing expenses adjusted to exclude costs not directly attributable to attracting a new borrower, such as payroll-related expenses for our business development and marketing teams, as well as other operational, brand awareness and marketing activities

(2) Borrower verification and servicing costs consist of payroll and other personnel-related expenses for personnel engaged in loan onboarding, verification and servicing, as well as servicing system costs. It excludes payroll and personnel-related expenses and stock-based compensation for certain members of our customer operations team whose work is not directly attributable to onboarding and servicing loans.

See the section titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Reconciliation of Non-GAAP Financial Measures*" for a reconciliation of income from operations to Contribution Profit.

Adjusted EBITDA and Adjusted EBITDA Margin

We calculate Adjusted EBITDA as net income attributable to Upstart Holdings, Inc. common stockholders adjusted to exclude stock-based compensation expense and certain payroll tax expenses, depreciation and amortization, expense on warrants and convertible notes, net, provision for income taxes and acquisition-related costs. We calculate Adjusted EBITDA Margin as Adjusted EBITDA divided by total revenue. Adjusted EBITDA and Adjusted EBITDA Margin includes interest expense from corporate debt and warehouse credit facility which is incurred in the course of earning corresponding interest income. See the section titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Reconciliation of Non-GAAP Financial Measures*" for a reconciliation of net income attributable to Upstart Holdings, Inc. common stockholders to Adjusted EBITDA and Adjusted EBITDA Margin.

Adjusted Net Income and Adjusted Net Income Per Share

We define Adjusted Net Income as net income exclusive of stock-based compensation expense and certain payroll tax expenses and acquisition-related costs. Adjusted Net Income Per Share is calculated by dividing Adjusted Net Income Per Share by the weighted-average common shares outstanding. See the section titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Reconciliation of Non-GAAP Financial Measures*" for a reconciliation of net income attributable to Upstart Holdings, Inc. common stockholders to Adjusted Net Income and Adjusted Net Income per Share.

Components of Results of Operations

Revenue from Fees, Net

Platform and Referral Fees, Net

We charge our bank partners platform fees in exchange for usage of our AI lending platform, which includes collection of loan application data, underwriting of credit risk, verification and fraud detection, and the delivery of electronic loan offers and associated documentation. We also charge referral fees to our bank partners in exchange for the referral of borrowers from Upstart.com. Referral fees are charged to bank partners on a per borrower basis upon origination of a loan. For bank partners that use our loan funding capabilities, these fees are charged net of any fees the bank partner charges Upstart. Upstart pays these bank partners a one-time loan premium fee upon completion of the minimum holding periods. Upstart also pays bank partners monthly loan trailing fees based on the amount and timing of principal and interest payments made by borrowers of the underlying loans. See "*Note 2. Revenue*" to our consolidated financial statements in Part I, Item 1 of this Form 10-Q for more information about loan premium fees and trailing fees.

Servicing Fees, Net

Servicing fees are calculated as a percentage of outstanding principal and are charged monthly to any entities holding loans facilitated through our platform, to compensate us for activities we perform throughout the loan term, including collection, processing and reconciliations of payments received, investor reporting and borrower customer support. Servicing fees are recorded net of any gains, losses or changes to fair value recognized in the underlying servicing rights and obligations, which are carried as assets and liabilities on our consolidated balance sheets. Upstart currently acts as loan-servicer for substantially all outstanding loans facilitated through the Upstart platform. Borrower payment collections for loans that are more than 30 days past due or charged off are generally outsourced to third-party collection agencies. Upstart charges bank partners and institutional investors for collection agency fees related to their outstanding loan portfolio. Upstart also receives certain ancillary fees on a per transaction basis inclusive of late payment fees and ACH fail fees.

Interest Income and Fair Value Adjustments, Net

Interest income and fair value adjustments, net is comprised of interest income, interest expense and net changes in the fair value of financial instruments held on our consolidated balance sheets as part of our ongoing operating activities, excluding loan servicing assets and liabilities, and historically common stock warrant liabilities and convertible preferred stock warrant liabilities. Interest income and fair value adjustments, net also includes gains received through our securitization programs. Interest income and fair value adjustments, net also historically included the full amount of net interest income and expense incurred by consolidated variable interest entities, or VIEs, the majority of which has been historically allocated to third parties in the line item net loss attributable to noncontrolling interests on our consolidated statements of operations and comprehensive income. Interest income and fair value adjustments, net can fluctuate based on the fair value of financial instruments held on our consolidated balance sheets. This amount has historically been a small percentage of our total revenue, and we do not manage our business with a focus on growing this component of revenue.

Sales and Marketing

Sales and marketing expenses primarily consist of costs incurred across various advertising channels, including expenses for partnerships with third parties providing borrower referrals, direct mail and digital advertising campaigns, as well as other expenses associated with building overall brand awareness and experiential marketing costs. Sales and marketing expenses also include payroll and other personnel-related costs, including stock-based compensation expense. These costs are recognized in the period incurred. We expect that our sales and marketing expenses will increase in absolute dollars and may fluctuate as a percentage of our total revenue from period to period as we hire additional sales and marketing personnel, increase our marketing activities and build greater brand awareness.

Customer Operations

Customer operations expenses include payroll and other personnel-related expenses, including stock-based compensation expense, for personnel engaged in borrower onboarding, loan servicing, customer support and other operational teams. These costs also include systems, third-party services and tools we use as part of loan servicing, information verification, fraud detection and payment processing activities. These costs are recognized in the period incurred. We expect that our customer operations expenses will increase in absolute dollars and may fluctuate as a percentage of our total revenue over time, as we expand our portfolio and increase the Transaction Volume, Number of Loans.

Engineering and Product Development

Engineering and product development expenses primarily consist of payroll and other personnel-related expenses, including stock-based compensation expense, for the engineering and product development teams as well the costs of systems and tools used by these teams. These costs are recognized in the period incurred. We expect that our engineering and product development expenses will increase in absolute dollars and may increase as a percentage of our total revenue over time, as we expand our engineering and product development team to continue to improve our AI models and develop new products and product enhancements.

General, Administrative and Other

General, administrative and other expenses consist primarily of payroll and other personnel-related expenses, including stock-based compensation expense, for legal and compliance, finance and accounting, human resources and facilities teams, as well as depreciation and amortization of property, equipment, software, and intangibles, professional services fees, facilities and travel expenses. These costs are recognized in the period incurred. Following the completion of our initial public offering in December 2020, our general, administrative and other expenses increased as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the SEC, additional insurance expenses, investor relations activities and other administrative and professional services. We also expect to increase the size of our general and administrative function to support the further growth of our business. As a result, we expect that our general, administrative and other expenses will increase in absolute dollars but may fluctuate as a percentage of our total revenue from period to period.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

Other Income (Expense)

Other income (expense) primarily consists of dividend income earned on our unrestricted cash balances. Other income (expense) is recognized in the period earned. In March 2021, we voluntarily repaid the proceeds received under the Paycheck Protection Program , or PPP. The repayment is included as an other expense for the nine months ended September 30, 2021. For additional details, refer to “*Note 1. Description of Business and Significant Accounting Policies*” of our consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Expense on Warrants and Convertible Notes, Net

Expense on warrants and convertible notes, net is primarily comprised of the net changes in the fair value of our common and convertible preferred stock warrant liabilities for the three and nine months ended September 30, 2020 and interest expense on our convertible notes for the three and nine months ended September 30, 2021.

Results of Operations

The following table summarizes our historical consolidated statements of operations data:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Revenue:				
Revenue from fees, net	$ 62,861	$ 210,421	$ 144,179	$ 513,888
Interest income and fair value adjustments, net	2,498	18,029	2,527	29,853
Total revenue	65,359	228,450	146,706	543,741
Operating expenses[1]:				
Sales and marketing	23,725	93,346	65,113	218,638
Customer operations	9,360	34,978	24,792	76,530
Engineering and product development	9,966	37,085	24,651	87,504
General, administrative, and other	10,101	34,442	30,778	80,602
Total operating expenses	53,152	199,851	145,334	463,274
Income from operations	12,207	28,599	1,372	80,467
Other income (expense)	50	22	5,497	(5,196)
Expense on warrants and convertible notes, net	(2,588)	(776)	(2,317)	(807)
Net income before income taxes	9,669	27,845	4,552	74,464
Benefit for income taxes	—	(1,268)	—	(2,035)
Net income before attribution to noncontrolling interests	9,669	29,113	4,552	76,499
Net loss attributable to noncontrolling interests	—	—	(404)	—
Net income attributable to Upstart Holdings, Inc. common stockholders	$ 9,669	$ 29,113	$ 4,956	$ 76,499

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

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Sales and marketing	$ 447	$ 1,771	$ 1,136	$ 3,951
Customer operations	221	1,938	625	4,314
Engineering and product development	1,143	10,273	3,181	27,052
General, administrative, and other	807	6,335	2,160	14,808
Total stock-based compensation	$ 2,618	$ 20,317	$ 7,102	$ 50,125

Revenue

Revenue from Fees, Net

The following table set forth our revenue from fees, net in the periods shown:

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2021	$	%	2020	2021	$	%
Platform and referral fees, net	$ 55,643	$ 191,442	$ 135,799	244 %	$ 123,485	$ 467,476	$ 343,991	279 %
Servicing fees, net	7,218	18,979	11,761	163 %	20,694	46,412	25,718	124 %
Total revenue from fees, net	$ 62,861	$ 210,421	$ 147,560	235 %	$ 144,179	$ 513,888	$ 369,709	256 %

Revenue from fees, net increased $147.6 million, or 235%, in the three months ended September 30, 2021, compared to the same period in 2020, which included an increase of $135.8 million in revenue from platform and referral fees, net and an increase of $11.8 million in servicing fees, net. The increase of the platform and referral fees, net was primarily driven by a 348% increase in the Transaction Volume, Number of Loans from 80,893 in the three months ended September 30, 2020 to 362,780 in the same period in 2021 as well as an increase in prices of our services in response to the market conditions caused by the COVID-19 pandemic. The increase in the servicing fees, net was primarily due to an 136% increase in the outstanding principal of serviced loans.

Revenue from fees, net increased $369.7 million, or 256%, in the nine months ended September 30, 2021, compared to the same period in 2020, which included an increase of $344.0 million in revenue from platform and referral fees, net and an increase of $25.7 million in servicing fees, net. The increase of the platform and referral fees, net was primarily driven by a 363% increase in the Transaction Volume, Number of Loans from 176,983 in the nine months ended September 30, 2020 to 819,386 in the same period in 2021 as well as an increase in prices of our services in response to the market conditions caused by the COVID-19 pandemic. The increase in the servicing fees, net was primarily due to an 106% increase in the outstanding principal of serviced loans, as well as a downward revaluation to the net liability of our servicing obligation.

Interest Income and Fair Value Adjustments, Net

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	**2021**	**$**	**%**	**2020**	**2021**	**$**	**%**
Operating entities[1]:								
Interest income	$ 5,421	$ 4,776	$ (645)	(12)%	$ 16,275	$ 11,064	$ (5,211)	(32)%
Interest expense	(1,317)	(237)	1,080	82 %	(4,655)	(2,646)	2,009	43 %
Fair value adjustments, net	(2,676)	13,159	15,835	592 %	(9,676)	20,454	30,130	311 %
Other consolidated entities[2]:								
Interest income	376	294	(82)	(22)%	6,429	956	(5,473)	(85)%
Interest expense	(121)	(32)	89	74 %	(2,298)	(150)	2,148	93 %
Fair value adjustments, net	815	69	(746)	(92)%	(3,548)	175	3,723	105 %
Total Company:								
Interest income	5,797	5,070	(727)	(13)%	22,705	12,020	(10,685)	(47)%
Interest expense	(1,438)	(269)	1,169	81 %	(6,952)	(2,796)	4,156	60 %
Fair value adjustments, net	(1,861)	13,228	15,089	811 %	(13,226)	20,629	33,855	256 %
Total interest income and fair value adjustments, net	$ 2,498	$ 18,029	$ 15,531	622 %	$ 2,527	$ 29,853	$ 27,326	1,081 %

(1) Consist of balances recognized by entities participating in our ongoing operating activities, including warehouse entities.
(2) Consists of balances recognized by other entities, including securitization entities.

Interest income and fair value adjustments, net increased $15.5 million, or 622% in the three months ended September 30, 2021, compared to the same period in 2020. The increase was primarily driven by a $15.1 million increase in fair value adjustments attributable to $15.8 million increase in net gains on sales received through our securitization programs, partially offset by a $1.2 million reversal of positive fair value adjustments.

For the nine months ended September 30, 2021, interest income and fair value adjustments, net increased $27.3 million, or 1,081%, compared to the same period in 2020. The increase was driven by a $33.9 million increase in fair value adjustments, net partially offset by a $10.7 million decrease in interest income. The increase of the fair value adjustments was primarily attributable to $23.4 million of net gains on sales through our securitization programs and $6.0 million decrease in charged-off loans. Interest income and interest expense recognized by other consolidated entities decreased due to the deconsolidation of the 2018-1 securitization which occurred in the second quarter of 2020.

Operating Expenses

Sales and Marketing

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	**2021**	**$**	**%**	**2020**	**2021**	**$**	**%**
Sales and marketing	$ 23,725	$ 93,346	$ 69,621	293%	$ 65,113	$ 218,638	$ 153,525	236 %
% of revenue	*36 %*	*41 %*			*44 %*	*40 %*		

Sales and marketing expenses increased by $69.6 million, or 293%, in the three months ended September 30, 2021 compared to the same period in 2020. The increase was primarily due to a $65.9 million increase in advertising and other traffic acquisition cost, as well as a $3.9 million increase in payroll and other personnel-related expenses driven by increased headcount. As a percentage of total revenue, sales and marketing expenses increased from 36% to 41%.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

Sales and marketing expenses increased by $153.5 million, or 236%, in the nine months ended September 30, 2021 compared to the same period in 2020. The increase was primarily due to a $144.7 million increase in advertising and other traffic acquisition cost, as well as $8.5 million increase in payroll and other personnel-related expenses driven by increased headcount. As a percentage of total revenue, sales and marketing expenses decreased from 44% to 40%.

Customer Operations

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2021	$	%	2020	2021	$	%
Customer operations	$ 9,360	$ 34,978	$ 25,618	274%	$ 24,792	$76,530	$51,738	209%
% of revenue	*14 %*	*15 %*			*17 %*	*14 %*		

Customer operations expenses increased by $25.6 million, or 274%, in the three months ended September 30, 2021, compared to the same period in 2020. The increase was primarily due to an increase of $14.9 million in payroll and other personnel-related expenses due to an increase in headcount as well as increased spending of $9.3 million in information verification and platform operations due to a growing volume of loans facilitated through our platform. As a percentage of total revenue, customer operations expenses increased from 14% to 15%.

Customer operations expenses increased by $51.7 million, or 209%, in the nine months ended September 30, 2021, compared to the same period in 2020. The increase was primarily due to an increase of $30.4 million in payroll and other personnel-related expenses due to an increase in headcount as well as increased spending of $18.4 million in information verification and platform operations due to a growing volume of loans facilitated through our platform. As a percentage of total revenue, customer operations expenses decreased from 17% to 14%.

Engineering and Product Development

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2021	$	%	2020	2021	$	%
Engineering and product development	$ 9,966	$ 37,085	$ 27,119	272%	$ 24,651	$ 87,504	$ 62,853	255 %
% of revenue	*15 %*	*16 %*			*17 %*	*16 %*		

Engineering and product development expenses increased by $27.1 million, or 272%, For the three months ended September 30, 2021, compared to the same period in 2020. The increase was primarily due to an increase of $24.1 million in payroll and other personnel-related expenses driven by an increase in headcount, as well as a $3.0 million increase in spending on consultants and other engineering support services. As a percentage of total revenue, engineering and product development expenses increased from 15% to 16%.

Engineering and product development expenses increased by $62.9 million, or 255%, for the nine months ended September 30, 2021, compared to the same period in 2020. The increase was primarily due to an increase of $57.0 million in payroll and other personnel-related expenses driven by an increase in headcount, as well as a $5.7 million increase in spending on consultants and other engineering support services. As a percentage of total revenue, engineering and product development expenses decreased from 17% to 16%.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

General, Administrative, and Other

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2021	$	%	2020	2021	$	%
General, administrative, and other	$ 10,101	$ 34,442	$ 24,341	241 %	$ 30,778	$ 80,602	$ 49,824	162 %
% of revenue	*15 %*	*15 %*			*21 %*	*15 %*		

General, administrative, and other expenses increased by $24.3 million, or 241%, in the three months ended September 30, 2021, compared to the same period in 2020. The increase was primarily due to an increase of $12.9 million in payroll and personnel-related costs as a result of increased headcount; an increase of $3.6 million in professional fees; an increase of $3.2 million in office and administrative operation related expenses; and an increase of $1.6 million in depreciation and amortization. As a percentage of total revenue, general, administrative, and other expenses remained flat at 15% for both periods.

General, administrative, and other expenses increased by $49.8 million, or 162%, for the nine months ended September 30, 2021, compared to the same period in 2020. The increase was primarily due to an increase of $27.1 million in payroll and personnel-related costs as a result of increased headcount; an increase of $5.7 million in professional fees; an increase of $4.6 million in insurance costs; and an increase of $3.1 million in legal and compliance-related expenses. As a percentage of total revenue, general, administrative, and other expenses decreased from 21% to 15%.

Other Income (Expense)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2021	$	%	2020	2021	$	%
Other income (expense)	$ 50	$ 22	$ (28)	(56)%	$ 5,497	$ (5,196)	$ (10,693)	(195)%

In the nine months ended September 30, 2021, other income (expense) decreased by $10.7 million, or 195%, compared to the same period in 2020. The decrease was primarily due to the receipt of funds under the PPP loan totaling $5.3 million in the nine months ended September 30, 2020 coupled with our voluntary repayment of proceeds received from the PPP loan during nine months ended September 30, 2021. We used the loan to mitigate the impact of the COVID-19 pandemic on our business in Q2 2020 and fully complied with the forgiveness requirements, including maintaining full employment through the significant transaction volume decline. Our business experienced a strong recovery in the second half of 2020 and continued growing in the first half of 2021, which brought us to a conclusion that the funds received as part of the program were no longer needed for their original intent and should be repaid. We recognized the loan principal repayment as a reduction to other income (expense) totaling $5.3 million.

Expense on Warrants and Convertible Notes, Net

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2021	$	%	2020	2021	$	%
Expense on warrants and convertible notes, net	$ (2,588)	$ (776)	$ 1,812	70 %	$ (2,317)	$ (807)	$ 1,510	65 %

Expense on warrants and convertible notes, net decreased by $1.8 million, or 70%, in the three months ended September 30, 2021, compared to the same period in 2020. The decrease was primarily a result of a $2.6 million increase in the fair value of warrants in the three months ended September 30, 2020, partially offset by a $0.8 million increase in interest expense on convertible notes during the three months ended September 30, 2021. Our warrants were reclassified to equity in the fourth quarter of 2020 and exercised in January 2021. We had no warrants outstanding as of September 30, 2021.

Expense on warrants and convertible notes, net decreased by $1.5 million, or 65%, in the nine months ended September 30, 2021, compared to the same period in 2020. The decrease was primarily a result of a $2.3 million increase in the fair value of warrants, partially offset by a $0.8 million increase in interest expense in convertible notes in the nine months ended September 30, 2021. Our warrants were reclassified to equity in the fourth quarter of 2020 and exercised in January 2021. We had no warrants outstanding as of September 30, 2021.

Reconciliation of Non-GAAP Financial Measures

To supplement our consolidated financial statements prepared and presented in accordance with GAAP, we use the non-GAAP financial measures Contribution Profit, Contribution Margin, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted Net Income and Adjusted Net Income Per Share to provide investors with additional information about our financial performance and to enhance the overall understanding of our past performance and future prospects. We are presenting these non-GAAP financial measures because we believe they provide an additional tool for investors to use in comparing our core financial performance over multiple periods with the performance of other companies.

However, non-GAAP financial measures have limitations in their usefulness to investors because they have no standardized meaning prescribed by GAAP and are not prepared under any comprehensive set of accounting rules or principles. In addition, non-GAAP financial measures may be calculated differently from, and therefore may not be directly comparable to, similarly titled measures used by other companies. As a result, non-GAAP financial measures should be viewed as supplementing, and not as an alternative or substitute for, our consolidated financial statements prepared and presented in accordance with GAAP.

To address these limitations, we provide a reconciliation of Contribution Profit, Contribution Margin, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted Net Income and Adjusted Net Income Per Share to income from operations and net income attributable to Upstart Holdings, Inc. common stockholders, respectively. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view Contribution Profit, Contribution Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, and Adjusted Net Income Per Share in conjunction with their respective related GAAP financial measures.

Contribution Profit and Contribution Margin

We use Contribution Profit and Contribution Margin as part of our overall assessment of our performance, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies, and to communicate with our Board of Directors concerning our financial performance. We believe Contribution Profit and Contribution Margin is useful to investors for period-to-period comparisons of our business and in evaluating and understanding our operating results and ability to scale. Contribution Profit and

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

Contribution Margin are also useful to investors because our management uses Contribution Profit and Contribution Margin, in conjunction with financial measures prepared in accordance with GAAP, to evaluate our operating results and financial performance and the effectiveness of our strategies.

Contribution Profit and Contribution Margin have limitations as an analytical tool, and you should not consider in isolation or as a substitute for analysis of our results as reported under GAAP. Contribution Profit and Contribution Margin are not a GAAP financial measure of, nor does it imply, profitability. Even if our revenue exceeds variable expenses over time, we may not be able to achieve or maintain profitability, and the relationship of revenue to variable expenses is not necessarily indicative of future performance. Contribution Profit and Contribution Margin does not reflect all of our variable expenses and involves some judgment and discretion around what costs vary directly with loan volume. Other companies that present Contribution Profit and Contribution Margin calculate it differently and, therefore, similarly titled measures presented by other companies may not be directly comparable to ours.

The following table presents a reconciliation of income from operations to Contribution Profit and Contribution Margin. We define Operating Margin as our income from operations divided by revenue from fees, net.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Revenue from fees, net	$ 62,861	$ 210,421	$ 144,179	$ 513,888
Income from operations	12,207	28,599	1,372	80,467
Operating Margin	19 %	14 %	1 %	16 %
Sales and marketing, net of borrower acquisition costs[1]	$ 2,542	$ 6,239	$ 5,650	$ 14,476
Customer operations, net of borrower verification and servicing costs[2]	1,462	7,577	3,773	15,201
Engineering and product development	9,966	37,085	24,651	87,504
General, administrative, and other	10,101	34,442	30,778	80,602
Interest income and fair value adjustments, net	(2,498)	(18,029)	(2,527)	(29,853)
Contribution Profit	$ 33,780	$ 95,913	$ 63,697	$ 248,397
Contribution Margin	54 %	46 %	44 %	48 %

(1) Borrower acquisition costs were $21.2 million and $87.1 million for the three months ended September 30, 2020 and 2021, respectively, and were $59.5 million and $204.2 million for the nine months ended September 30, 2020 and 2021, respectively. Borrower acquisition costs consist of our sales and marketing expenses adjusted to exclude costs not directly attributable to attracting a new borrower, such as payroll-related expenses for our business development and marketing teams, as well as other operational, brand awareness and marketing activities.

(2) Borrower verification and servicing costs were $7.9 million and $27.4 million for the three months ended September 30, 2020 and 2021, respectively, and were $21.0 million and $61.3 million for the nine months ended September 30, 2020 and 2021, respectively. Borrower verification and servicing costs consist of payroll and other personnel-related expenses for personnel engaged in loan onboarding, verification and servicing, as well as servicing system costs. It excludes payroll and personnel-related expenses and stock-based compensation for certain members of our customer operations team whose work is not directly attributable to onboarding and servicing loans.

Adjusted EBITDA and Adjusted EBITDA Margin

We believe that Adjusted EBITDA and Adjusted EBITDA Margin are useful for investors to use in comparing our financial performance with the performance of other companies for the following reasons:

- Adjusted EBITDA and Adjusted EBITDA Margin are widely used by investors and securities analysts to measure a company's operating performance without regard to items such as depreciation, and interest expense, that can vary substantially from company to company depending upon their financing and capital structures, and the method by which assets were acquired; and

- Adjusted EBITDA and Adjusted EBITDA Margin eliminates the impact of certain items such as stock-based compensation expense and certain payroll tax expense, warrant expense and acquisition-related costs that may obscure trends in the underlying performance of our business; and
- Adjusted EBITDA and Adjusted EBITDA Margin provides consistency and comparability with our past financial performance, and facilitates comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

Our use of Adjusted EBITDA and Adjusted EBITDA Margin has limitations as an analytical tool, and you should not consider these measures in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are as follows:

- Although depreciation expense is a non-cash charge, the assets being depreciated may have to be replaced in the future, and Adjusted EBITDA and Adjusted EBITDA Margin does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA and Adjusted EBITDA Margin exclude stock-based compensation expense and certain employer payroll taxes on employee stock transactions. Stock-based compensation expense has been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy. The amount of employer payroll tax-related expense on employee stock transactions is dependent on our stock price and other factors that are beyond our control and which not correlate to the operation of the business;
- Adjusted EBITDA and Adjusted EBITDA Margin does not reflect: (1) changes in, or cash requirements for, our working capital needs; (2) interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us; or (3) tax payments that may represent a reduction in cash available to us; and
- the expenses and other items that we exclude in our calculation of Adjusted EBITDA and Adjusted EBITDA Margin may differ from the expenses and other items, if any, that other companies may exclude from Adjusted EBITDA and Adjusted EBITDA Margin when they report their operating results.

Because of these limitations, Adjusted EBITDA and Adjusted EBITDA Margin should be considered along with other operating and financial performance measures presented in accordance with GAAP. The following table provides a reconciliation of net income attributable to Upstart Holdings, Inc. common stockholders to Adjusted EBITDA and net income margin to Adjusted EBITDA Margin. We define Net Income Margin as net income attributable to Upstart Holdings, Inc. common stockholders divided by total revenue.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Total revenue	$ 65,359	$ 228,450	$ 146,706	$ 543,741
Net income attributable to Upstart Holdings, Inc. common stockholders	9,669	29,113	4,956	76,499
Net Income Margin	15 %	13 %	3 %	14 %
Adjusted to exclude the following:				
Stock-based compensation and certain payroll tax expenses[1]	$ 2,618	$ 28,333	$ 7,118	$ 59,448
Depreciation and amortization	581	2,185	1,631	4,984
Expense on warrants and convertible notes, net[2]	2,588	776	2,317	807
Provision for income taxes	—	(1,268)	—	(2,035)
Acquisition-related costs	—	—	—	1,237
Adjusted EBITDA	$ 15,456	$ 59,139	$ 16,022	$ 140,940
Adjusted EBITDA Margin	24 %	26 %	11 %	26 %

(1) In the third quarter of 2021, we began excluding the amount of employer payroll tax-related expense on employee stock transactions, as the amount is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of our business.

(2) Consists of fair value adjustments to our warrant liability for the three and nine months ended September 30, 2020 and interest expense for the three and nine months ended September 30, 2020 and 2021.

Adjusted Net Income and Adjusted Net Income Per Share

We define Adjusted Net Income as net income exclusive of stock-based compensation expense and certain payroll tax expense and acquisition-related costs. Adjusted Net Income Per Share is calculated by dividing Adjusted Net Income Per Share by the weighted-average common shares outstanding. We believe Adjusted Net Income and Adjusted Net Income Per Share are useful measures for investors in evaluating our ability to generate earnings, more readily compare between past and future periods, and provide comparability of our performance with the performance of other companies.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Net income attributable to Upstart Holdings, Inc. common stockholders	$ 9,669	$ 29,113	$ 4,956	$ 76,499
Adjusted to exclude the following:				
Stock-based compensation and certain payroll tax expenses[(1)]	2,618	28,333	7,118	59,448
Acquisition-related costs	—	—	—	1,237
Adjusted Net Income	$ 12,287	$ 57,446	$ 12,074	$ 137,184
Net income per share:				
Basic	$ 0.12	$ 0.37	$ —	$ 1.00
Diluted	$ 0.10	$ 0.30	$ —	$ 0.81
Adjusted Net Income per Share				
Basic	$ 0.84	$ 0.72	$ 0.82	$ 1.79
Diluted	$ 0.16	$ 0.60	$ 0.17	$ 1.46
Weighted-average common shares outstanding:				
Basic	14,707,717	79,392,600	14,663,623	76,586,395
Diluted	74,978,905	96,057,210	72,022,312	94,165,325

(1) In the third quarter 2021, we began excluding the amount of employer payroll tax-related expense on employee stock transactions, as the amount is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of our business.

Liquidity and Capital Resources

Since inception, we have financed our operations, corporate investments, and capital expenditures primarily through the sale of convertible preferred stock, convertible promissory notes, term loans and draws on our revolving credit facilities, and cash generated from operations. In December 2020, we completed our IPO which resulted in $167.4 million of proceeds, net of underwriting discounts and commissions, and before deducting deferred offering costs of $7.9 million. Deferred offering costs consisted primarily of incremental accounting, legal, and other fees related to the IPO. In April 2021, we completed a follow-on offering, in which 2,300,000 shares of common stock (including the exercise in full of the underwriters option to purchase 300,000 shares) were issued and sold at $120.00 per share. We received net proceeds of $263.9 million after deducting underwriting discounts and commissions of $11.0 million and offering expenses of $1.0 million. Offering expenses consisted of incremental accounting, legal, and other fees incurred related to the follow-on offering. In August 2021, we issued $661.3 million aggregate principal amount of 0.25% convertible senior notes due 2026, or the Notes, (including the exercise in full of the initial purchasers’ option of an additional $86.3 million aggregate principal of additional Notes) in a private placement to qualified institutional buyers. The net proceeds from the sale of the Notes were approximately $645.5 million after deducting debt issuance costs.

In June 2021 the UNI Credit Facility matured in which the outstanding principal balance of $5.5 million and accrued interest was due and paid in full, and we did not renew the UNI Credit Facility. In June 2021, we repaid in full the $15.0 million principal balance outstanding, plus accrued interest and prepayment fees, and terminated the Mezzanine Loan. As of September 30, 2021, our outstanding debt consists of borrowings from our warehouse credit facility, our convertible senior notes, and amounts borrowed under a loan and security agreement to finance risk retention balances for an unconsolidated securitization we sponsored, representing an aggregate principal balance of $664.4 million outstanding, none of which is due within the next 12 months. See “*Note 9. Borrowings*” in Part I, Item 1 of this Form 10-Q for further information.

As of September 30, 2021, our primary source of liquidity was cash of $1,041.5 million. Changes in the balance of cash are generally a result of working capital fluctuations or the timing of purchases of loans facilitated through our platform. To finance purchases of certain loans facilitated through our platform, we rely on our warehouse credit facility, which allows us to borrow up to an aggregate of $100.0 million through the special-purpose trust, or the warehouse trust. Loans purchased by the trust are classified as held-for-sale and can be sold to third-party investors or in securitization transactions to generate additional liquidity. As of September 30, 2021, the amount borrowed under this credit facility was $1.3 million.

While we believe that our cash on hand and our cash flow from operations will be sufficient to meet our liquidity needs for at least the next 12 months, our future capital requirements will depend on multiple factors, including our revenue growth, working capital requirements, volume of loan purchases for product development purposes or during market downturns, and our capital expenditures. We may decide to raise additional capital through the sale of equity, equity-inked or debt securities or other debt financing arrangements. If we raise additional funds by issuing equity or equity-linked securities, our stockholders may experience dilution. Future debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any debt or equity financing that we raise may contain terms that are not favorable to us or our stockholders. Further, if we are unable to raise additional capital when our cash balances and cash generated by operations are insufficient to satisfy liquidity needs, our results of operations and financial condition would be materially and adversely impacted.

Warehouse Credit Facility

We have entered into a warehouse credit facility with a third-party lender through our warehouse trust, which is a consolidated VIE. The warehouse credit facility is used to fund purchases of personal whole loans originated by certain bank partners on our platform; the assets of the warehouse trust secure the borrowings provided by the warehouse lender and are not available to settle claims of our general creditors. The warehouse credit facility was amended and restated in its entirety in May 2020 and further amended in June 2021. The warehouse credit facility, with a borrowing limit of $100.0 million, matures in June 2024 when repayment of any outstanding principal, together with any accrued interest and unpaid interest, is due and payable. As of September 30, 2021, we have borrowed $1.3 million under the warehouse credit facility and may continue to borrow under the warehouse credit facility until June 2023. Our warehouse credit facility bears floating interest rates, payable on a monthly basis, and contain certain financial covenants. Failure to comply with these covenants may result in an acceleration of payment on outstanding principal and accrued interest. As of December 31, 2020 and September 30, 2021, we were in compliance with the applicable covenants under the warehouse credit facility.

Risk Retention Funding Loan

We obtained financing under a loan and security agreement to fund the purchase of securitization notes and residual certificates issued by certain of our consolidated VIEs in our sponsored securitization transactions. This purchase was made in the amount required to satisfy the requirements of U.S. risk retention regulations. The loan under this agreement bears interest at 4.33% per annum. Interest is paid using cash distributions received monthly on the related securitization notes and residual certificates held by this entity. As of September 30, 2021, the aggregate outstanding principal amount of the loan was $1.8 million. The borrowings are solely obligations of the related consolidated VIE and are not available to satisfy potential claims of our creditors.

Convertible Senior Notes and Capped Calls

In August 2021, we issued an aggregate of $661.3 million of the 2026 Notes pursuant to an Indenture, dated August 20, 2021. The Notes were offered and sold in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The Notes are senior unsecured obligations and bear interest at a rate of 0.25% per year payable semi-annually in arrears on February 15 and August 15 of each year, beginning on February 15, 2022. The 2026 Notes mature on August 15, 2026, unless earlier converted, redeemed or repurchased. In connection with the offering of the Notes, we entered into privately negotiated capped call instruments, or the Capped Calls. The Capped Calls are expected to reduce the potential dilution to common stock upon any conversion of Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes. See “*Note 9. Borrowings*” in Part I, Item 1 of this Quarterly Report on Form 10-Q for more details on this transaction.

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

Cash Flows

The following table summarizes our cash flows during the years indicated:

	Nine Months Ended September 30,	
	2020	**2021**
Net cash (used in) provided by operating activities	$ (52,817)	$ 179,497
Net cash (used in) provided by investing activities	127,710	(124,101)
Net cash (used in) provided by financing activities	(44,312)	805,032
Net increase in cash and restricted cash	$ 30,581	$ 860,428

Net Cash from Operating Activities

Our main sources of cash provided by operating activities are our revenue from fees earned under contracts with bank partners and loan investors and interest income we receive for loans held on our balance sheet.

Our main uses of cash in our operating activities include payments to marketing partners, vendor payments, payroll and other personnel-related expenses, payments for facilities, and other general business expenditures.

Net cash provided by operating activities was $179.5 million for the nine months ended September 30, 2021, which primarily consisted of net income before attribution to noncontrolling interests of $76.5 million, $57.0 million increase in net operating assets and liabilities, and stock-based compensation of $50.1 million. The increase in net operating assets and liabilities was mainly related to a $90.5 million increase in net proceeds from loans held-for-sale, $38.8 million increase in payable to investors, and a $29.9 increase in accrued expenses and other liabilities, partially offset by $80.3 million of purchases of loans held-for-sale and $22.8 decrease in other assets.

Net cash used in operating activities was $52.8 million for the nine months ended September 30, 2020, which primarily consisted of a $84.0 million change in net operating assets and liabilities, offset by a change in fair value of financial instruments of $18.8 million, net income before attribution to noncontrolling interests of $4.6 million and stock-based compensation of $7.1 million. The change in fair value of financial instruments was primarily related to a decrease in the fair value of loans. The change in net operating assets and liabilities was mainly related to a $109.1 million increase in purchases of loans held for sale.

Net Cash from Investing Activities

Net cash used in investing activities was $124.1 million for the nine months ended September 30, 2021 as a result of $92.7 million purchase of loans held-for-investment, $40.0 million cash paid for non-marketable equity securities, and cash paid for an acquisition, net of cash acquired, of $16.6 million, partially offset by $23.8 million principal payments received for notes receivable and repayments of residual certificates loans held-for-investment and $10.8 million net proceeds from sale of loans held-for-investment.

Net cash provided by investing activities was $127.7 million for the nine months ended September 30, 2020 as a result of $88.1 million of net proceeds from sale of loans and $36.3 million of principal payments received for loans.

Net Cash from Financing Activities

(Tabular Amounts in Thousands, Except Share and Per Share Data and Ratios, or as Noted)

Net cash provided by financing activities was $805.0 million for the nine months ended September 30, 2021 as a result of $645.5 million proceeds from issuance of convertible debt, net of issuance costs and $263.9 million net proceeds from our secondary offering, which was partially offset by $62.5 million payment on borrowings and $58.5 million purchase of capped calls.

Net cash used in financing activities was $44.3 million for the nine months ended September 30, 2020 as a result of $126.0 million in payment on borrowings and securitization notes and certificates, which was partially offset by $81.8 million in net proceeds from borrowings.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

Our principal commitments consist of obligations under our loan purchase agreements, debt obligations related to our convertible senior notes, warehouse credit facility and risk retention funding loan, purchase commitment, and operating leases for office spaces. The following table summarizes our contractual obligations as of September 30, 2021 and the timing and effect that such commitments are expected to have on our liquidity and capital requirements in future periods:

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Loan purchase obligations[(1)]	$ 88,797	$ 88,797	$ —	$ —	$ —
Warehouse credit facility	1,291	—	1,291	—	—
Risk retention funding loan	1,809	—	1,809	—	—
Convertible senior notes[(2)]	669,515	1,653	3,306	664,556	—
Purchase commitment	34,000	—	15,000	19,000	—
Operating lease obligations	99,174	6,086	20,576	23,930	48,582
Total contractual obligations	$ 894,586	$ 96,536	$ 41,982	$ 707,486	$ 48,582

(1) Represents loans facilitated through our platform of which certain of our originating banks retain ownership for the duration of the holding period required by our contracts with the banks. This period is generally equal to three business days. We have committed to purchase the loans for the unpaid principal balance, plus accrued interest, at the conclusion of the required period.

(2) Includes principal and future interest payments related to the convertible senior notes.

For a discussion of our long-term debt obligations, operating lease obligations and loan repurchase agreement as of September 30, 2021, see "*Note 9. Borrowings*," "*Note 12. Leases*," and "*Note 13. Commitments and Contingencies*," respectively, in Part I, Item 1 of this Form 10-Q for further information.

Off-Balance Sheet Arrangements

In the ordinary course of business, we engage in activities that are not reflected on our consolidated balance sheets, generally referred to as off-balance sheet arrangements. These activities involve transactions with unconsolidated VIEs, including our sponsored and co-sponsored securitization transactions, which we contractually service. We use these transactions to provide a source of liquidity to finance our business and to diversify our investor base. When required by law, we retained at least 5% of the credit risk of the securities issued in these securitizations. We provide additional information regarding transactions with unconsolidated VIEs in "*Note 3. Securitizations and Variable Interest Entities*" in Part I, Item 1 of this Form 10-Q.

Critical Accounting Policies and Estimates

The preparation of our condensed consolidated financial statements requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from our estimates. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

Our significant accounting policies are described in Part II, Item 7, “*Critical Accounting Policies and Estimate*s” in our Annual Report on Form 10-K for the year ended December 31, 2020. There have been no material changes in the nine months ended September 30, 2021 to these policies and estimates since our Annual Report on Form 10-K for the year ended December 31, 2020, except for non-marketable equity securities and the estimated fair value of Restricted Stock Units and Employee Stock Purchase Plan purchase rights and policies related to business combinations and goodwill and intangible assets as described in “*Note 1. Description of Business and Significant Accounting Policies*” in Part I, Item 1 of this Form 10-Q.

Recent Accounting Pronouncements

See “*Note 1. Description of Business and Significant Accounting Policies*” in Part I, Item 1 of this Form 10-Q for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as September 30, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business, which primarily relate to fluctuations in market discount rates, credit risks, and interest rates. We are exposed to market risk directly through loans and securities held on our consolidated balance sheets, access to the securitization markets, investor demand for unsecured personal loans facilitated through our platform, and availability of funding under our current credit facilities and term loans. Such fluctuations to date have not been significant.

Discount Rate Risk

Discount rate sensitivity refers to the risk of loss to future earnings, values or future cash flows that may result from changes in market discount rates.

Loans at Fair Value—As of December 31, 2020 and September 30, 2021, we were exposed to market discount rate risk on $78.5 million and $129.6 million, respectively of loans held-for-investment and held-for-sale on our consolidated balance sheets. The fair value of these loans is estimated using a discounted cash flow methodology, where the discount rate represents an estimate of the required rate of return by market participants. The discount rates for loans facilitated through our platform may change due to changes in expected loan performance or changes in the expected returns of similar financial instruments available in the market. Any gains and losses from discount rate changes are recorded in earnings. As of December 31, 2020 a hypothetical 100 basis point and 200 basis point increase in discount rate would result in a $1.0 million and $1.9 million decrease, respectively, in the fair value of these loans. As of September 30, 2021, a hypothetical 100 basis point and 200 basis point increase in discount rate would result in a $1.8 million and $3.5 million decrease, respectively, in the fair value of these loans.

*Assets related to Securitization Transaction*s—As of December 31, 2020 and September 30, 2021, we were exposed to discount rate risk on $19.1 million and $10.5 million, respectively of notes receivable and residual certificates. We assess the sensitivity of securitization notes and residual certificates by reviewing the average impact across all securitization transactions. As of December 31, 2020, a hypothetical 100 basis point and 200 basis point increase in discount rates would result in a decrease in fair value of these securities of 1.23% and 2.36%, respectively, on average across all securitizations. As of September 30, 2021, a hypothetical 100 basis point and 200 basis point increase in discount rates would result in a decrease in fair value of these securities of 0.77% and 1.53% respectively, on average across all securitizations.

Credit Risk

Credit risk refers to the risk of loss arising from individual borrower default due to inability or unwillingness to meet their financial obligations. The performance of certain financial instruments, including loans, securitization notes and residual certificates, on our consolidated balance sheets are dependent on the credit performance of loans facilitated by us. To manage this risk, we monitor borrower payment performance through our lending platform and utilize our AI capabilities to price loans in a manner that we believe is reflective of their credit risk.

The fair values of these loans, securitization notes, and residual certificates are estimated based on a discounted cash flow model which involves the use of significant unobservable inputs and assumptions. These instruments are sensitive to changes in credit risk.

Loans, at Fair Value—As of December 31, 2020 and September 30, 2021, we were exposed to credit risk on $78.5 million and $129.6 million, respectively of loans in held-for-investment and held-for-sale in our consolidated balance sheet. These loans bear fixed interest rates and are carried on our consolidated balance sheets at fair value. As of December 31, 2020, a hypothetical 10% and 20% increase in credit risk would result in a $1.3 million and $2.6 million decrease, respectively, in the fair value of loans held-for-investment (excluding loans held as collateral by consolidated securitizations). As of September 30, 2021, a hypothetical 10% and 20% increase in credit risk would result in a $2.0 million and $3.9 million decrease, respectively.

Assets related to Securitization Transactions— Transactions—As of December 31, 2020 and September 30, 2021, we were exposed to discount rate risk on $19.1 million and $10.5 million, respectively of notes receivable and residual certificates.

The securities issued in the securitizations are senior or subordinated based on the waterfall criteria of loan payments to each security class, with the residual interest, or the residual certificates, issued being the first to absorb credit losses in accordance with the waterfall criteria. Accordingly, the residual certificates are the most sensitive to adverse changes in credit risk rates. Depending on the specific securitization, a hypothetical increase in the credit risk rate of 10% to 20% would result in significant decreases in the fair value of the residual certificates. On average, a hypothetical increase in the credit risk rate of 20% would result in a 14% decrease in the fair value of the residual certificates. The remaining classes of securities, with the exception of those in the August 2018 securitization transaction, are all overcollateralized such that changes in credit risk rates are not expected to have significant impacts on their fair values.

As of December 31, 2020 and September 30, 2021, we are exposed to credit risk of $311.3 million and $1,171.8 million, respectively related to cash and restricted cash held in business checking accounts and interest-bearing deposit accounts at various financial institutions in the United States. We are exposed to credit risk in the event of default by these financial institutions to the extent the amount recorded on our consolidated balance sheets exceeds the insured amounts by the Federal Deposit Insurance Corporation, or FDIC. We reduce credit risk by placing our cash and restricted cash in reputable institutions.

Interest Rate Risk

The interest rates charged on the loans that our bank partners originate are determined based upon a margin above a market benchmark at the time of onboarding. Increases in the market benchmark would result in increases in the interest rates on new loans. Increased interest rates may adversely impact the spending levels of our individual borrowers and their ability and willingness to borrow money. Higher interest rates often lead to higher payment obligations, which may reduce the ability of individual borrowers to remain current on their obligations to our bank partners and, therefore, lead to increased delinquencies, defaults, customer bankruptcies and charge-offs, and decreasing recoveries, all of which could have a material adverse effect on our business.

*Term Loan, Warehouse Credit Facility and Revolving Credit Facilit*y—As of December 31, 2020, we were exposed to interest rate risk on $55.5 million under the term loan, warehouse credit facility, and revolving credit facility arrangements, which bear floating interest rates. As of September 30, 2021, we were exposed to interest rate risk on $1.3 million under our warehouse credit facility, which bears a floating interest rate. Changes in interest rates may impact our cost of borrowing. From time to time, we enter into interest rate hedges in connection with our warehouse credit facilities.

Our inability or failure to manage market risks could harm our business, financial condition or results of operations.

Equity Investment Risk

Our non-marketable equity securities are subject to a wide variety of market-related risks that could substantially reduce or increase the carrying value of our investment.

Our non-marketable equity investment is in equity securities of a privately-held company without a readily determinable fair value. We elected to account for such investment using the measurement alternative which is cost less impairment, if any, and adjusted for changes resulting from observable price changes in orderly transactions for an identical or similar investment in the same issuer. The determination of whether an orderly transaction is for an identical or similar investment requires significant management judgment and is inherently complex due to the lack of readily available market data. We consider factors such as differences in the rights and preferences of the investment and the extent to which those differences would affect the fair values of the investment. We also assess non-marketable equity securities for impairment on a quarterly basis. Our impairment analysis encompasses an assessment of both qualitative and quantitative factors including the investee's financial metrics, market acceptance of the investee's product or technology, general market conditions and liquidity considerations. Adjustments and impairments are recorded in other income (expense), net on the condensed consolidated statements of operations and comprehensive income upon recognition of such adjustments or impairments. As of September 30, 2021, the carrying value of our non-marketable equity securities, which do not have a readily determinable fair value totaled $40.0 million. We had no such securities as of December 31, 2020.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation and supervision our Chief Executive Officer and Chief Financial Officer, have 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. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2021, our disclosure controls and procedures were designed and function effectively to provide reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) that occurred during the quarter ended September 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of disclosure controls and procedures must reflect the fact there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, please see "*Note 13. Commitments and Contingencie*s" in Part I, Item 1 of this Form 10-Q incorporated herein by reference.

ITEM 1A. RISK FACTORS

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, before making a decision to invest in our common stock. Our business, financial condition, results of operations, or prospects could also be harmed by risks and uncertainties not currently known to us or that we currently do not believe are material. If any of the risks actually occur, our business, financial condition, results of operations, and prospects could be adversely affected. In that event, the market price of our common stock could decline, and you could lose part or all of your investment.

SUMMARY OF RISK FACTORS

The material risks that may affect our business, financial condition or results of operations include, but are not limited to, those relating to the following:

- We are a rapidly growing company with a relatively limited operating history, which may result in increased risks, uncertainties, expenses and difficulties, and makes it difficult to evaluate our future prospects.
- Our revenue growth rate and financial performance in recent periods may not be indicative of future performance and such growth may slow over time.
- The COVID-19 pandemic has harmed our business, financial condition and results of operations and the duration and extent to which it will impact our future results of operations and overall financial performance remains uncertain.
- If we fail to effectively manage our growth, our business, financial condition and results of operations could be adversely affected.
- We have incurred net losses in the past, and we may not be able to maintain or increase our profitability in the future.
- Our quarterly results are likely to fluctuate and as a result may adversely affect the trading price of our common stock.
- If we are unable to continue to improve our AI models or if our AI models contain errors or are otherwise ineffective, our growth prospects, business, financial condition and results of operations would be adversely affected.
- If our existing bank partners were to cease or limit operations with us or if we are unable to attract and onboard new bank partners, our business, financial condition and results of operations could be adversely affected.
- Cross River Bank and one other bank partner account for a substantial portion of the total number of loans facilitated by our platform and our revenue.
- The sales and onboarding process of new bank partners could take longer than expected, leading to fluctuations or variability in expected revenues and results of operations.

- Our business may be adversely affected by economic conditions and other factors that we cannot control.
- Our AI models have not yet been extensively tested during down-cycle economic conditions. If our AI models do not accurately reflect a borrower's credit risk in such economic conditions, the performance of Upstart-powered loans may be worse than anticipated.
- Our business is subject to a wide range of laws and regulations, many of which are evolving, and failure or perceived failure to comply with such laws and regulations could harm our business, financial condition and results of operations.
- We may evaluate and potentially consummate acquisitions or investments in complementary businesses and technologies, which could require significant management attention, consume our financial resources, disrupt our business and adversely affect our results of operations, and we may fail to realize the anticipated benefits of these acquisitions or investments.
- Substantially all of our revenue is derived from a single loan product, and we are thus particularly susceptible to fluctuations in the unsecured personal loan market. We also do not currently offer a broad suite of products that bank partners may find desirable.
- We rely on strategic relationships with loan aggregators to attract applicants to our platform, and if we cannot maintain effective relationships with loan aggregators or successfully replace their services, or if loan aggregators begin offering competing products, our business could be adversely affected.
- If we are unable to maintain a diverse and robust loan funding program, our growth prospects, business, financial condition and results of operations could be adversely affected.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

We are a rapidly growing company with a relatively limited operating history, which may result in increased risks, uncertainties, expenses and difficulties, and makes it difficult to evaluate our future prospects.

We were founded in 2012 and have experienced rapid growth in recent years. Our limited operating history may make it difficult to make accurate predictions about our future performance. Assessing our business and future prospects may also be difficult because of the risks and difficulties we face. These risks and difficulties include our ability to:

- improve the effectiveness and predictiveness of our AI models;
- maintain and increase the volume of loans facilitated by our AI lending platform;
- enter into new and maintain existing bank partnerships;
- successfully maintain a diversified loan funding strategy, including bank partnerships and whole loan sales and securitization transactions that enhance loan liquidity for the bank partners that use our loan funding capabilities;
- successfully fund a sufficient quantity of our borrower loan demand with low cost bank funding to help keep interest rates offered to borrowers competitive;
- maintain competitive interest rates offered to borrowers on our platform, while enabling our bank partners to achieve an adequate return over their cost of funds, whether through their own balance sheets or through our loan funding programs;
- successfully build our brand and protect our reputation from negative publicity;
- increase the effectiveness of our marketing strategies, including our direct consumer marketing initiatives;
- continue to expand the number of potential borrowers;

- successfully adjust our proprietary AI models, products and services in a timely manner in response to changing macroeconomic conditions and fluctuations in the credit market;
- comply with and successfully adapt to complex and evolving regulatory environments;
- protect against increasingly sophisticated fraudulent borrowing and online theft;
- successfully compete with companies that are currently in, or may in the future enter, the business of providing online lending services to financial institutions or consumer financial services to borrowers;
- enter into new markets and introduce new products and services;
- effectively secure and maintain the confidentiality of the information received, accessed, stored, provided and used across our systems;
- successfully obtain and maintain funding and liquidity to support continued growth and general corporate purposes;
- realize the anticipated benefits of our acquisitions of or investments in complementary businesses and technologies;
- attract, integrate and retain qualified employees; and
- effectively manage and expand the capabilities of our operations teams, outsourcing relationships and other business operations.

If we are not able to timely and effectively address these risks and difficulties as well as those described elsewhere in this "*Risk Factors*" section, our business and results of operations may be harmed.

Our revenue growth rate and financial performance in recent years may not be indicative of future performance and such growth may slow over time.

We have grown rapidly over the last several years, and our recent revenue growth rate and financial performance may not be indicative of our future performance. In the nine months ended September 30, 2020 and 2021, our revenue was $146.7 million, and $543.7 million, respectively, representing a period-over-period growth rate of 271%. You should not rely on our revenue for any previous quarterly or annual period as any indication of our revenue or revenue growth in future periods. As we grow our business, our revenue growth rates may slow, or our revenue may decline, in future periods for a number of reasons, which may include slowing demand for our platform offerings and services, increasing competition, a decrease in the growth of our overall credit market, increasing regulatory costs and challenges and our failure to capitalize on growth opportunities. Further, we believe our growth over the last several years has been driven in large part by our AI models and our continued improvements to our AI models. Future incremental improvements to our AI models may not lead to the same level of growth as in past periods. In addition, we believe our growth over the last several years has been driven in part by our ability to rapidly streamline and automate the loan application and origination process on our platform. The Percentage of Loans Fully Automated on our platform was 69% during both the nine months ended September 30, 2020 and 2021. We expect the Percentage of Loans Fully Automated to level off and remain relatively stable in the long term; however the expansion of our loan offerings beyond unsecured personal loans, including auto loans, may cause fluctuations of such percentage from period to period depending on loan offering mix. As a result of these factors, our revenue growth rates may slow, and our financial performance may be adversely affected.

The COVID-19 pandemic has harmed, and could continue to harm, our business, financial condition and results of operations and the duration and extent to which it will impact our future results of operations overall financial performance remains uncertain.

The COVID-19 pandemic has caused extreme societal, economic, and financial market volatility, resulting in business shutdowns, an unprecedented reduction in economic activity and significant dislocation to businesses, the capital markets, and the broader economy. The global macroeconomic effects of the COVID-19 pandemic and related impacts on our business may persist for an indefinite period. In particular, the impact of the COVID-19 pandemic on the finances of borrowers on our platform has been profound, as many have been, and despite widespread vaccination efforts in the United States may continue to be, impacted by unemployment, reduced earnings and/or elevated economic disruption and insecurity. For example, the Delta variant of COVID-19, which appears to be the most transmissible variant to date, has spread in the United States. The impact of the Delta variant, or future variants, cannot be predicted at this time, and could depend on numerous factors, including vaccination rates among the population, the effectiveness of COVID-19 vaccines against such variant and the response by governmental bodies and regulators.

The continuing crisis and the magnitude and duration of the resulting fluctuations in business activity cannot currently be estimated with any degree of certainty and has had several effects on our business and results of operations, including, among other things:

- temporary decreases in origination volumes on our platform;
- the potential for increased losses for new and existing Upstart-powered loans;
- a temporary reduction in the availability of loan funding from institutional investors and the capital markets; and
- restricted sales operations and marketing efforts, and a reduction in the effectiveness of such efforts in some cases.

In response to the impact of the COVID-19 pandemic, we undertook a number of initiatives to support borrowers on our platform who suffered income loss or other hardships as a result of the pandemic. We worked with our bank partners to offer revised hardship and temporary relief plans to support borrowers impacted by the COVID-19 pandemic and adjust credit and underwriting processes and standards. While these changes to our hardship and temporary relief plans were designed to help borrowers impacted by the COVID-19 pandemic, the changes were implemented quickly and may not have had all the intended effects or desired impact. We continue to monitor the situation, assess possible implications to our business and take appropriate actions in an effort to mitigate the adverse consequences of the COVID-19 pandemic. However, there can be no assurances that the initiatives we take will be sufficient or successful.

We also took precautionary measures intended to reduce the risk of the virus spreading to our employees, bank partners, vendors, and the communities in which we operate, including temporarily closing our offices and virtualizing, postponing, or canceling partner bank, employee, or industry events, which may negatively impact our business. Furthermore, as a result of the COVID-19 pandemic, we required all employees who were able to do so to work remotely through the end of the second quarter of 2021 and intend to continue to allow most employees the flexibility to work remotely going forward under our Digital First work model. It is possible that widespread remote work arrangements may have a negative impact on our business. See the risk factor titled "—We have a limited history of operating with a Digital First workforce and the long-term impact on our business, financial condition and results of operations is uncertain."

Further, in response to the market conditions caused by the COVID-19 pandemic, we made certain operational changes, including temporary reductions in our sales and marketing activities and certain operational expenses. We continue to evaluate market and other conditions and may make additional changes to our fees or marketing activities, or implement additional operational changes, in the future.

The extent to which the COVID-19 pandemic continues to impact our business and results of operations will also depend on future developments that are highly uncertain and cannot be predicted, including the emergence of new COVID-19 variants, future spikes of COVID-19 infections resulting in additional preventive measures to contain or mitigate the spread of the virus, the impact on businesses and financial and capital markets, the extent and effectiveness of containment actions, the administration and efficacy of vaccination programs with respect to the prevalent COVID-19 variants or variant strains that will emerge in the future and the impact of further shelter-in-place or other government restrictions that may be imposed. An extended period of economic disruption as a result of the COVID-19 pandemic could have a material negative impact on our business, results of operations, and financial condition, though the full extent and duration is uncertain. To the extent the COVID-19 pandemic continues to adversely affect our business and financial results, it is likely to also have the effect of heightening many of the other risks described in this "Risk Factors" section.

If we fail to effectively manage our growth, our business, financial condition and results of operations could be adversely affected.

Over the last several years, we have experienced rapid growth in our business and the Transaction Volume, Number of Loans on our AI lending platform, and we expect to continue to experience growth in the future. The Transaction Volume, Number of Loans on our platform increased from 176,983 in the nine months ended September 30, 2020 to 819,386 in the nine months ended September 30, 2021, representing a compound annual growth rate of 363%. This rapid growth has placed, and may continue to place, significant demands on our management, processes and operational, technological and financial resources. Our ability to manage our growth effectively and to integrate new employees and technologies into our existing business will require us to continue to retain, attract, train, motivate and manage employees and expand our operational, technological and financial infrastructure. From time to time, we rely on temporary independent contractor programs to scale our operations team. Failure to effectively implement and manage such programs could result in misclassification or other employment related claims or inquiries by governmental agencies. Continued growth could strain our ability to develop and improve our operational, technological, financial and management controls, enhance our reporting systems and procedures, recruit, train and retain highly skilled personnel and maintain user satisfaction. Any of the foregoing factors could negatively affect our business, financial condition and results of operations.

We have incurred net losses in the past, and we may not be able to maintain or increase our profitability in the future.

For the nine months ended September 30, 2020 and 2021 we experienced net income of $5.0 million and $76.5 million, respectively. We intend to continue to expend significant funds to continue to develop and improve our proprietary AI models, improve our marketing efforts to increase the number of borrowers on our platform, enhance the features and overall user experience of our platform, expand the types of loan offerings on our platform and otherwise continue to grow our business, and we may not be able to increase our revenue enough to offset these significant expenditures. We may incur significant losses in the future for a number of reasons, including the other risks described in this section, and unforeseen expenses, difficulties, complications and delays, macroeconomic conditions and other unknown events. Any failure to increase our revenue sufficiently to keep pace with our investments and other expenses could prevent us from maintaining or improving profitability on a consistent basis. If we are unable to successfully address these risks and challenges as we encounter them, our business, financial condition and results of operations could be adversely affected.

Our quarterly results are likely to fluctuate and as a result may adversely affect the trading price of our common stock.

Our quarterly results of operations, including the levels of our revenue, net income and other key metrics, are likely to vary significantly in the future, and period-to-period comparisons of our results of operations may not be meaningful. Accordingly, the results for any one quarter are not necessarily an accurate indication of future performance. Our quarterly financial results may fluctuate due to a variety of factors, many of which are outside of our control. Factors that may cause fluctuations in our quarterly financial results include:

- our ability to improve the effectiveness and predictiveness of our AI models;
- our ability to attract new bank partners and investors of our loan funding programs;
- our ability to maintain relationships with existing bank partners and investors of our loan funding programs;
- our ability to maintain or increase loan volumes, and improve loan mix and the channels through which the loans, bank partners and loan funding are sourced;
- our ability to maintain effective relationships with loan aggregators from which prospective borrowers access our website;

- general economic conditions, including economic slowdowns, recessions and tightening of credit markets, including due to the ongoing economic impact of the COVID-19 pandemic;
- improvements to our AI models that negatively impact transaction volume, such as lower approval rates;
- our ability to identify and prevent fraudulent activity and the impact of fraud prevention measures;
- the timing and success of new products and services;
- the effectiveness of our direct marketing and other marketing channels;
- the amount and timing of operating expenses related to maintaining and expanding our business, operations and infrastructure, including acquiring new and maintaining existing bank partners and investors and attracting borrowers to our platform;
- our cost of borrowing money and access to loan funding sources;
- the number and extent of loans facilitated on our platform that are subject to loan modifications and/or temporary assistance due to disasters or emergencies;
- the number and extent of prepayments of loans facilitated on our platform;
- changes in the fair value of assets and liabilities on our balance sheet;
- network outages or actual or perceived security breaches;
- our involvement in litigation or regulatory enforcement efforts (or the threat thereof) or those that impact our industry generally;
- the length of the onboarding process related to acquisitions of new bank partners;
- changes in laws and regulations that impact our business; and
- changes in the competitive dynamics of our industry, including consolidation among competitors or the development of competitive products by larger well-funded incumbents.

In addition, we experience seasonality in the demand for Upstart-powered loans, which is generally lower in the first quarter. This seasonal slowdown is primarily attributable to high loan demand around the holidays in the fourth quarter and the general increase in borrowers' available cash flows in the first quarter, including cash received from tax refunds, which temporarily reduces borrowing needs. While our growth has obscured this seasonality in our overall financial results, we expect our results of operations to continue to be affected by such seasonality in the future. Such seasonality and other fluctuations in our quarterly results may also adversely affect and, increase the volatility of, the trading price of our common stock.

If we are unable to continue to improve our AI models or if our AI models contain errors or are otherwise ineffective, our growth prospects, business, financial condition and results of operations would be adversely affected.

Our ability to attract potential borrowers to our platform and increase the number of Upstart-powered loans will depend in large part on our ability to effectively evaluate a borrower's creditworthiness and likelihood of default and, based on that evaluation, offer competitively priced loans and higher approval rates. Further, our overall operating efficiency and margins will depend in large part on our ability to maintain a high degree of automation in our loan application process and achieve incremental improvements in the degree of automation. If our AI models fail to adequately predict the creditworthiness of borrowers due to the design of our models or programming or other errors, and our AI models do not detect and account for such errors, or any of the other components of our credit decision process fails, we may experience higher than forecasted loan losses. Any of the foregoing could result in sub-optimally priced loans, incorrect approvals or denials of loans, or higher than expected loan losses, which in turn could adversely affect our ability to attract new borrowers and bank partners to our platform, increase the number of Upstart-powered loans or maintain or increase the average size of loans facilitated on our platform.

Our AI models also target and optimize other aspects of the lending process, such as borrower acquisition, fraud detection, default timing, loan stacking, prepayment timing and fee optimization, and our continued improvements to such models have allowed us to facilitate loans inexpensively and virtually instantly, with a high degree of consumer satisfaction and with an insignificant impact on loan performance. However, such applications of our AI models may prove to be less predictive than we expect, or than they have been in the past, for a variety of reasons, including inaccurate assumptions or other errors made in constructing such models, incorrect interpretations of the results of such models and failure to timely update model assumptions and parameters. Additionally, such models may not be able to effectively account for matters that are inherently difficult to predict and beyond our control, such as macroeconomic conditions, credit market volatility and interest rate fluctuations, which often involve complex interactions between a number of dependent and independent variables and factors. Material errors or inaccuracies in such AI models could lead us to make inaccurate or sub-optimal operational or strategic decisions, which could adversely affect our business, financial condition and results of operations.

Additionally, errors or inaccuracies in our AI models could result in any person exposed to the credit risk of Upstart-powered loans, whether it be us, our bank partners or investors in our loan funding programs, experiencing higher than expected losses or lower than desired returns, which could impair our ability to retain existing or attract new bank partners and investors to participate in our loan funding programs, reduce the number, or limit the types, of loans bank partners and investors are willing to fund, and limit our ability to increase commitments under our warehouse and other debt facilities. Any of these circumstances could reduce the number of Upstart-powered loans and harm our ability to maintain a diverse and robust loan funding program and could adversely affect our business, financial condition and results of operations.

Continuing to improve the accuracy of our AI models is central to our business strategy. However, such improvements could negatively impact transaction volume, such as by lowering approval rates. For example, an upgrade to our AI models in the fourth quarter of 2018 related to prepayment predictions led to a temporary decrease in the total number of loans approved. Additionally, in the third quarter of 2021, we made changes to our AI models in response to an increase in fraudulent activity on our platform. These changes, while effective at preventing fraudulent loans from being transacted, have resulted, and may in the future result in, a decrease in our Conversion Rate. While we believe that continuing to improve the accuracy of our AI models is key to our long-term success, those improvements could, from time to time, lead us to reevaluate the risks associated with certain borrowers, which could in turn cause us to lower approval rates or increase interest rates for any borrowers identified as a higher risk, either of which could negatively impact our growth and results of operations in the short term.

If our existing bank partners were to cease or limit operations with us or if we are unable to attract and onboard new bank partners, our business, financial condition and results of operations could be adversely affected.

In the nine months ended September 30, 2021, approximately 95% of our revenue was generated from platform, referral and servicing fees that we receive from our bank partners. If any of our bank partners were to suspend, limit or cease their operations or otherwise terminate their relationships with us, the number of loans facilitated through our platform could decrease and our revenue and revenue growth rates could be adversely affected. Our sales and onboarding process with new bank partners can be long and unpredictable. If we are unable to timely onboard our bank partners, or if our bank partners are not willing to work with us to complete a timely onboarding process, our results of operations could be adversely affected.

We have entered into separate agreements with each of our bank partners. Our agreements with our bank partners are nonexclusive, generally have 12-month terms that automatically renew, subject to certain early termination provisions and minimum fee amounts, and do not include any minimum origination obligations or origination limits. Our bank partners could decide to stop working with us, ask to modify their agreement terms in a cost prohibitive manner when their agreement is up for renewal or enter into exclusive or more favorable relationships with our competitors. In addition, their regulators may require that they terminate or otherwise limit their business with us, or impose regulatory pressure limiting their ability to do business with us. If the bank partners listed above or any of our other bank partners were to stop working with us, suspend, limit or cease their operations or otherwise terminate their relationship with us, the number of loans facilitated through our platform could decrease and our revenue and revenue growth rates could be adversely affected. We could in the future have disagreements or disputes with any of our bank partners, which could negatively impact or threaten our relationship with them. In our agreements with bank partners, we make certain representations and warranties and covenants concerning our compliance with specific policies of a bank partner, our compliance with certain procedures and guidelines related to laws and regulations applicable to our bank partners, as well as the services to be provided by us. If those representations and warranties were not accurate when made or if we fail to perform a covenant, we may be liable for any resulting damages, including potentially any losses associated with impacted loans, and our reputation and ability to continue to attract new bank partners would be adversely affected. Additionally, our bank partners may engage in mergers, acquisitions or consolidations with each other, our competitors or with third parties, any of which could be disruptive to our existing and prospective relationships with our bank partners.

In addition, our bank partners may retain loans for their own customer base and balance sheet. In general, banks can fund loans at lower rates due to the lower cost of funds available to them from their deposit base than is otherwise available in the broader institutional investment markets. Accordingly, loans retained by the originating bank generally carry lower interest rates for borrowers, which leads to better conversion rates and faster growth for our platform. Separately, as our number of bank partners grows, such banks will increasingly source new prospective borrowers from their own existing customer base and provide an incremental channel to attract borrowers. If we are unable to attract new bank partners or if we are unable to maintain or expand the number of loans held on their balance sheets, our financial performance would suffer.

Cross River Bank and one other bank partner account for a substantial portion of the total number of loans facilitated by our platform and our revenue.

Cross River Bank, or CRB, a New Jersey-chartered community bank, originates a substantial majority of the loans on our platform. In the nine months ended September 30, 2020 and 2021, CRB originated approximately 72% and 58%, respectively, of the Transaction Volume, Number of Loans. CRB also accounts for a large portion of our revenues. In the nine months ended September 30, 2020 and 2021, fees received from CRB accounted for 65% and 59%, respectively, of our total revenue. CRB funds a certain portion of these originated loans by retaining them on its own balance sheet, and sells the remainder of the loans to us, which we in turn sell to institutional investors and to our warehouse trust special purpose entities. Our most recent commercial arrangement with CRB began on January 1, 2019 and has a term of four years with an automatic renewal provision for an additional two years following the initial four year term. Either party may choose to not renew by providing the other party 120 days' notice prior to the end of the initial term or any renewal term. In addition, even during the term of our arrangement, CRB could choose to reduce the volume of Upstart-powered loans that it chooses to fund and retain on its balance sheet or to originate at all. We or CRB may terminate our arrangement immediately upon a material breach and failure to cure such breach within a cure period, if any representations or warranties are found to be false and such error is not cured within a cure period, bankruptcy or insolvency of either party, receipt of an order or judgement by a governmental entity, a material adverse effect, or a change of control whereby such party involved in such change of control provides 90 days' notice to the other and payment of a termination fee of $450,000. If we are unable to continue to increase the number of other bank partners on our platform or if CRB or one of our other bank partners were to suspend, limit or cease their operations or otherwise terminate their relationship with us, our business, financial condition and results of operations would be adversely affected.

In the nine months ended September 30, 2020 and 2021, one of our other bank partners originated approximately 19% and 34% of the Transaction Volume, Number of Loans, respectively. In the nine months ended September 30, 2020 and 2021, the fees received from this bank partner accounted for approximately 15% and 25% of our total revenue, respectively.

The sales and onboarding process of new bank partners could take longer than expected, leading to fluctuations or variability in expected revenues and results of operations.

Our sales and onboarding process with new bank partners can be long and take up to 15 months. As a result, revenues and results of operations may vary significantly from period to period. Prospective bank partners are often cautious in making decisions to implement our platform and related services because of the risk management alignment and regulatory uncertainties related to their use of our AI models, including their oversight, model governance and fair lending compliance obligations associated with using such models. In addition, prospective banks undertake an extensive diligence review of our platform, compliance and servicing activities before choosing to partner with us. Further, the implementation of our AI lending model often involves shifts by the bank partner to a new software and/or hardware platform or changes in their operational procedures, which may involve significant time and expense to implement. Delays in onboarding new bank partners can also arise while prospective bank partners complete their internal procedures to approve expenditures and test and accept our applications. Consequently, we face difficulty predicting the quarter in which new bank partners will begin using our platform and the volume of fees we will receive, which can lead to fluctuations in our revenues and results of operations.

Our business may be adversely affected by economic conditions and other factors that we cannot control.

Uncertainty and negative trends in general economic conditions, including significant tightening of credit markets, historically have created a difficult operating environment for our industry. Many factors, including factors that are beyond our control, may impact our results of operations or financial condition and our overall success by affecting a borrower’s willingness to incur loan obligations or willingness or capacity to make payments on their loans. These factors include interest rates, unemployment levels, conditions in the housing market, immigration policies, gas prices, energy costs, government shutdowns, trade wars and delays in tax refunds, as well as events such as natural disasters, acts of war, terrorism, catastrophes and pandemics.

For example, in response to the initial outbreak of the COVID-19 pandemic, bank partners tightened their credit requirements or paused originations, and investors in our loan funding programs temporarily suspended making investments in Upstart-powered loans. Furthermore, nearly all personal loans presently facilitated through our platform are issued with fixed interest rates. If interest rates rise, potential borrowers could seek to defer loans as they wait for interest rates to stabilize. As a result of these circumstances, bank partners, investors and borrowers may be discouraged from engaging with our platform and as a result, reduce the volume of Upstart-powered loans.

Many new consumers on the Upstart platform have limited or no credit history. Accordingly, such borrowers have historically been, and may in the future become, disproportionately affected by adverse macroeconomic conditions, such as the disruption and uncertainty caused by the COVID-19 pandemic. In addition, major medical expenses, divorce, death or other issues that affect borrowers could affect a borrower’s willingness or ability to make payments on their loans. If borrowers default on loans facilitated on our platform, the cost to service these loans may also increase without a corresponding increase in our servicing fees or other related fees and the value of the loans held on our balance sheet could decline. Higher default rates by these borrowers may lead to lower demand by our bank partners and institutional investors to fund loans facilitated by our platform, which would adversely affect our business, financial condition and results of operations.

During periods of economic slowdown or recession, our current and potential investors in our loan funding programs may reduce the number of loans or interests in loans they purchase or demand terms that are less favorable to us to compensate for any increased risks. A reduction in the volume of the loans and loan financing products we sell would negatively impact our ability to maintain or increase the number of loans facilitated by our platform. Any sustained decline in demand for loans or loan financing products, or any increase in delinquencies, defaults or foreclosures that result from economic downturns, may harm our ability to maintain a robust loan funding program, which would adversely affect our business, financial condition and results of operations.

For example, the onset of the COVID-19 pandemic and other related adverse economic events led to a significant increase in unemployment, comparable, and at times surpassing, the unemployment rates during the peak of the financial crisis in 2008. There can be no assurance that levels of unemployment or underemployment will return to pre-pandemic levels in the near term. The increase in the unemployment rate and other adverse economic effects caused by the COVID-19 pandemic could increase the delinquency rate of borrowers of Upstart-powered loans or increase the rate of borrowers declaring bankruptcy, any of which could adversely affect the attractiveness of Upstart-powered loans to the investors in our loan funding programs. If we are unable to improve our AI platform to account for events like the COVID-19 pandemic and the resulting rise in unemployment, or if our AI platform is unable to more successfully predict the creditworthiness of potential borrowers compared to other lenders, then our business, financial condition and results of operations could be adversely affected.

Furthermore, the COVID-19 pandemic caused some borrowers on our platform to request a temporary extension or modification of the payment schedules of their loans under the temporary relief or loan modification programs, or hardship programs, offered by our bank partners and investors in our loan funding programs. In the future, our bank partners and investors may offer additional hardship programs. If a large number of borrowers seek to participate in such hardship programs, the investment returns of our bank partners and investors in our loan funding programs could decline. Further, if the rate of borrowers that participate in such hardship programs is greater than those experienced by our competitors, then our bank partners and the investors in our loan funding programs may become less interested in purchasing or investing in Upstart-powered loans, which could negatively impact our diversified loan funding strategy or significantly increase the cost of obtaining loan funding. Any of the foregoing could adversely affect our business, financial condition and results of operations.

If there is an economic downturn that affects our current and prospective borrowers or our bank partners and institutional investors, or if we are unable to address and mitigate the risks associated with any of the foregoing, our business, financial condition and results of operations could be adversely affected.

Our AI models have not yet been extensively tested during down-cycle economic conditions. If our AI models do not accurately reflect a borrower’s credit risk in such economic conditions, the performance of Upstart-powered loans may be worse than anticipated.

The performance of loans facilitated by our platform is significantly dependent on the effectiveness of our proprietary AI models used to evaluate a borrower’s credit profile and likelihood of default. While our AI models have been refined and updated to account for the COVID-19 pandemic, the bulk of the data gathered and the development of our AI models have largely occurred during a period of sustained economic growth, and our AI models have not been extensively tested during a down-cycle economy or recession and have not been tested at all during a down-cycle economy or recession without significant levels of government assistance. There is no assurance that our AI models can continue to accurately predict loan performance under adverse economic conditions. If our AI models are unable to accurately reflect the credit risk of loans under such economic conditions, our bank partners, investors in our loan funding programs and we may experience greater than expected losses on such loans, which would harm our reputation and erode the trust we have built with our bank partners and investors in our loan funding programs. In addition, the fair value of the loans on our balance sheet may decline. Any of these factors could adversely affect our business, financial condition and results of operations.

Our business is subject to a wide range of laws and regulations, many of which are evolving, and failure or perceived failure to comply with such laws and regulations could harm our business, financial condition and results of operations.

The legal and regulatory environment surrounding our AI lending platform is relatively new, susceptible to change and may require clarification or interpretive guidance with respect to existing laws and regulations. The body of laws and regulations applicable to our business are complex and subject to varying interpretations, in many cases due to the lack of specificity regarding the application of AI and related technologies to the already highly regulated consumer lending industry. As a result, the application of such laws and regulations in practice may change or develop over time through judicial decisions or as new guidance or interpretations are provided by regulatory and governing bodies, such as federal, state and local administrative agencies.

Since we launched our AI lending platform, we have been proactively working with the federal government and regulatory bodies to ensure that our AI lending platform and other services are in compliance with applicable laws and regulations. For example, after significant collaboration with the Consumer Financial Protection Bureau, or CFPB, the CFPB issued Upstart the first no-action letter in 2017 and, upon its expiration, we received a second no-action letter regarding the use of our Al model to underwrite and price unsecured closed-end loans. The current no-action letter expires on November 30, 2023, unless terminated by the CFPB earlier for one of the bases provided for by the no-action letter, and we can provide no assurance that the CFPB will continue to permit us to operate under its current no-action letter policies beyond that date, or will not change its position regarding supervisory or enforcement action against us in the future. Further, this no-action letter does not extend to other credit products offered on Upstart's platform. We plan to continue working and collaborating closely with regulators to provide visibility into AI and related emerging technologies and the potential benefits such technologies can have on the consumer lending industry, while also addressing the related risks. New laws and regulations and changes to existing laws and regulations continue to be adopted, implemented and interpreted in response to our industry and the emergence of AI and related technologies. As we expand our business into new markets, introduce new loan products on our platform and continue to improve and evolve our AI models, regulatory bodies or courts may claim that we are subject to additional requirements. Such regulatory bodies could reject our applications for licenses or deny renewals, delay or impede our ability to operate, charge us fees or levy fines or penalties, or otherwise disrupt our ability to operate our AI lending platform, any of which could adversely affect our business, financial condition and results of operations.

Recent financial, political and other events may increase the level of regulatory scrutiny on financial technology companies. Regulatory bodies may enact new laws or promulgate new regulations or view matters or interpret laws and regulations differently than they have in the past, or commence investigations or inquiries into our business practices. For example, in February 2020, we received a letter from five members of the U.S. Senate asking questions in connection with claims of discriminatory lending made by an advocacy group. We responded to this inquiry, and in July 2020, three of the Senators issued their findings from this inquiry, writing a letter to the Director of the CFPB recommending the CFPB further review Upstart's use of educational variables in its model and requesting that the CFPB stop issuing no-action letters related to the Equal Credit Opportunity Act, or ECOA. Further, the recently appointed CFPB Director indicated in remarks in October 2021 that safeguarding against algorithmic bias is a priority for the CFPB under the new leadership. We have been subject to other governmental inquiries on this topic including an inquiry in June 2020 from the North Carolina Department of Justice. See the risk factor titled "—We have been in the past and may in the future be subject to federal and state regulatory inquiries regarding our business" for more information. Any such investigations or inquiries, whether or not accurate or warranted, or whether concerning us or one of our competitors, could negatively affect our brand and reputation and the overall market acceptance of and trust in our AI lending platform. Any of the foregoing could harm our business, financial condition and results of operations.

Substantially all of our revenue is derived from a single loan product, and we are thus particularly susceptible to fluctuations in the unsecured personal loan market. We also do not currently offer a broad suite of products that bank partners may find desirable.

In 2020, we expanded the type of loan products offered on our platform to include auto loans, however the vast majority of loan originations facilitated through our platform are unsecured personal loans. The market for unsecured personal loans has grown rapidly in recent years, and it is unclear to what extent such market will continue to grow, if at all. A wide variety of factors could impact the market for unsecured personal loans, including macroeconomic conditions, competition, regulatory developments and other developments in the credit market. For example, in 2020, FICO changed its methodology in calculating credit scores in a manner that potentially penalizes borrowers who take out personal loans to pay off or consolidate credit card debt. This change could negatively affect the overall demand for personal loans. Our success will depend in part on the continued growth of the unsecured personal loan market, and if such market does not further grow or grows more slowly than we expect, our business, financial condition and results of operations could be adversely affected.

In addition, bank partners may in the future seek partnerships with competitors that are able to offer them a broader array of credit products. Over time, in order to preserve and expand our relationships with our existing bank partners, and enter into new bank partnerships, it may become increasingly important for us to be able to offer a wider variety of products than we currently provide. We are also susceptible to competitors that may intentionally underprice their loan products, even if such pricing practices lead to losses. Such practices by competitors would negatively affect the overall demand for personal loans facilitated on our platform.

Further, because such personal loans are unsecured, there is a risk that borrowers will not prioritize repayment of such loans, particularly in any economic downcycle. To the extent borrowers have or incur other indebtedness that is secured, such as a mortgage, a home equity line of credit or an auto loan, borrowers may choose to repay obligations under such secured indebtedness before repaying their Upstart-powered personal loans. In addition, borrowers may not view Upstart-powered loans, which were originated through an online lending platform, as having the same significance as other credit obligations arising under more traditional circumstances, such as loans from banks or other commercial financial institutions. Any of the foregoing could lead to higher default rates and decreased demand by our bank partners and institutional investors to fund loans facilitated by our platform, which would adversely affect our business, financial condition and results of operations.

We are also more susceptible to the risks of changing and increased regulations and other legal and regulatory actions targeted towards the unsecured personal loan market. It is possible that regulators may view unsecured personal loans as high risk for a variety of reasons, including that borrowers will not prioritize repayment of such loans due to the unsecured nature of such loans or because existing laws and regulations may not sufficiently address the benefits and corresponding risks related to financial technology as applied to consumer lending. If we are unable to manage the risks associated with the unsecured personal loan market, our business, financial condition and results of operations could be adversely affected.

We are continuing to develop new loan products and services offerings, and if we are unable to manage the related risks, our growth prospects, business, financial condition and results of operations could be adversely affected.

In 2020, we began offering auto loans and a credit decision application programming interface to allow our bank partners to utilize our AI underwriting models to support their loan origination process for personal, auto, and student loans. We are continuing to invest in developing new loan products and service offerings, which may include credit cards, mortgages, student loans, small business loans, point-of-sale loans and HELOCs. New initiatives are inherently risky, as each involves unproven business strategies, new regulatory requirements and new financial products and services with which we, and in some cases our bank partners, have limited or no prior development or operating experience.

We cannot be sure that we will be able to develop, commercially market and achieve market acceptance of any new products and services. In addition, our investment of resources to develop new products and services may either be insufficient or result in expenses that are excessive in light of revenue actually derived from these new products and services. If the profile of loan applicants using any new products and services is different from that of those currently served by our existing loan products, our AI models may not be able to accurately evaluate the credit risk of such borrowers, and our bank partners and investors in our loan funding programs may in turn experience higher levels of delinquencies or defaults. Failure to accurately predict demand or growth with respect to our new products and services could have an adverse impact on our reputation and business, and there is always risk that new products and services will be unprofitable, will increase our costs, decrease operating margins or take longer than anticipated to achieve target margins. In addition, any new products or services may raise new and potentially complex regulatory compliance obligations, which would increase our costs and may cause us to change our business in unexpected ways. Further, our development efforts with respect to these initiatives could distract management from current operations and will divert capital and other resources from our existing business.

We may also have difficulty with securing adequate funding for any such new loan products and services, and if we are unable to do so, our ability to develop and grow these new offerings and services will be impaired. If we are unable to effectively manage the foregoing risks, our growth prospects, business, financial condition and results of operations could be adversely affected.

Our reputation and brand are important to our success, and if we are unable to continue developing our reputation and brand, our ability to retain existing and attract new bank partners, our ability to attract borrowers to our platform and our ability to maintain and improve our relationship with regulators of our industry could be adversely affected.

We believe maintaining a strong brand and trustworthy reputation is critical to our success and our ability to attract borrowers to our platform, attract new bank partners and maintain good relations with regulators. Factors that affect our brand and reputation include: perceptions of artificial intelligence, our industry and our company, including the quality and reliability of our AI lending platform; the accuracy of our AI models; perceptions regarding the application of artificial intelligence to consumer lending specifically; our loan funding programs; changes to the Upstart platform; our ability to effectively manage and resolve borrower complaints; collection practices; privacy and security practices; litigation; regulatory activity; and the overall user experience of our platform. Negative publicity or negative public perception of these factors, even if inaccurate, could adversely affect our brand and reputation.

For example, consumer advocacy groups, politicians and certain government and media reports have, in the past, advocated governmental action to prohibit or severely restrict consumer loan arrangements where banks contract with a third-party platform such as ours to provide origination assistance services to bank customers. These arrangements have sometimes been criticized as “renting-a-bank charter.” Such criticism has frequently been levied in the context of payday loan marketers, though other entities operating programs through which loans similar to Upstart-powered loans are originated have also faced criticism. The perceived improper use of a bank charter by these entities has been challenged by both governmental authorities and private litigants, in part because of the high rates and fees charged to consumers in certain payday and high-rate, small-dollar lending programs. Bank regulators have even required banks to exit third-party programs that the regulators determined involved unsafe and unsound practices. The payday loans that have been subject to more frequent criticism and challenge are fundamentally different from Upstart-powered loans in many ways, including that Upstart-powered loans typically have lower interest rates and longer terms, and Upstart-powered loans do not renew. In particular, interest rates of Upstart-powered loans have always been and are currently less than 36%, as compared to the triple-digit interest rates of many payday or small dollar loans that have been subject to such criticism. If we are nevertheless associated with such payday or high-rate, small-dollar consumer loans, or if we are associated with increased criticism of non-payday loan programs involving relationships between bank originators and non-bank lending platforms and program managers, demand for Upstart-powered loans could significantly decrease, which could cause our bank partners to reduce their origination volumes or terminate their arrangements with us, impede our ability to attract new bank partners or delay the onboarding of bank partners, impede our ability to attract institutional investors to participate in our loan funding programs or reduce the number of potential borrowers who use our platform. Any of the foregoing could adversely affect our results of operations and financial condition.

Any negative publicity or public perception of Upstart-powered loans or other similar consumer loans or the consumer lending service we provide may also result in us being subject to more restrictive laws and regulations and potential investigations and enforcement actions. In addition, regulators may decide they are no longer supportive of our AI lending platform if there is enough negative perception surrounding such practices. We may also become subject to lawsuits, including class action lawsuits, or other challenges such as government enforcement or arbitration, against our bank partners or us for loans originated by our bank partners on our platform, loans we service or have serviced. If there are changes in the laws or in the interpretation or enforcement of existing laws affecting consumer loans similar to those offered on our platform, or our marketing and servicing of such loans, or if we become subject to such lawsuits, our business, financial condition and results of operations would be adversely affected.

Artificial intelligence and related technologies are subject to public debate and heightened regulatory scrutiny. For example, the recently appointed CFPB Director indicated in remarks in October 2021 that safeguarding against algorithmic bias is a priority for the CFPB under the new leadership. Any negative publicity or negative public perception of artificial intelligence could negatively impact demand for our AI lending platform, hinder our ability to attract new bank partners or slow the rate at which banks adopt our AI lending platform. From time to time, certain advocacy groups have made claims that unlawful or unethical discriminatory effects may result from the use of AI technology by various companies, including ours. Such claims, whether or not accurate, and whether or not concerning us or our AI lending platform, may harm our ability to attract prospective borrowers to our platform, retain existing and attract new bank partners and achieve regulatory acceptance of our business.

For example, in February 2020, we received a letter from five members of the U.S. Senate asking questions in connection with claims of discriminatory lending made by an advocacy group. We responded to this inquiry, and in July 2020, three of the Senators issued their findings from this inquiry, writing a letter to the Director of the CFPB recommending the CFPB further review Upstart’s use of educational variables in its model and requesting that the

CFPB stop issuing no-action letters related to ECOA. On December 1, 2020, in connection with these inquiries, we entered into an agreement with the NAACP Legal Defense and Education Fund, or the LDF, and the Student Borrower Protection Center, or the SBPC, in which we agree to participate in fair lending reviews of our AI model, including, but not limited to, its use of educational variables. The agreement provides for our engagement of a neutral third-party firm to perform periodic fair lending assessments over a two year period. Under the agreement, we have agreed to cooperate with, and provide data to, the third-party firm to conduct fair lending testing of our underwriting model, and we, the LDF and the SBPC will provide input to the third-party firm on, among other things, the testing methodologies to be employed. The fair lending testing will be designed to assess lending outcomes from our underwriting model to determine if the model causes or results in a disparate impact on any protected class, and if so, whether there are less discriminatory alternative practices that maintain the model's predictiveness. We have also agreed to implement the auditor's recommendations, for modifications to our AI model that may promote more equitable outcomes while maintaining the model's predictiveness and meet any other legitimate business needs of Upstart. The third-party firm will also prepare and make public periodic reports, the first of which was published on April 14, 2021, that summarize any general findings, recommendations and best practices, as well as any aspects of our AI model that raise particular fair lending concerns or implicate novel insights on educational equity that serve the public interest. While we will have input on these reports, and the agreement provides that the third-party firm and the parties to the agreement will collaborate to reach agreement on any recommendations, we could become involved in disagreements with the third-party firm, the LDF or the SBPC regarding the information we must provide, the contents of the reports or particular recommendations that may be made, the manner in which they should be implemented, if at all, and whether they would maintain the predictiveness of our AI model. It is possible, however, that changes implemented in our AI model could negatively impact its predictiveness. In addition, if we do not implement any recommendation, the LDF and/or the SBPC could terminate the agreement with us. Although we believe that this agreement will support our objective of providing visibility into AI and related emerging technologies and the potential benefits such technologies can have for the consumer lending industry, if reports under the agreement were to raise significant fair lending concerns, raise questions about the use of AI or otherwise be viewed negatively for any reason, or if the third-party firm terminates its agreement with us and/or the agreement with the LDF and/or the SBPC is terminated for any reason, our brand and reputation and the overall market acceptance of, and trust in, our AI lending platform could suffer, and we could be subject to increased regulatory and litigation risk. In addition, the publication of information arising from our agreement with the LDF or the SBPC could lead to additional regulatory scrutiny for our bank partners.

We have been subject to other governmental inquiries on this topic including an inquiry in June 2020 from the North Carolina Department of Justice. See the risk factor titled "—We have been in the past and may in the future be subject to federal and state regulatory inquiries regarding our business" for more information. Negative public perception, actions by advocacy groups or legislative and regulatory interest groups could lead to lobbying for and enactment of more restrictive laws and regulations that impact the use of AI technology in general, AI technology as applied to lending operations generally or as used in our applications more specifically. Any of the foregoing could negatively impact our business, financial condition and results of operations.

Harm to our reputation can also arise from many other sources, including employee or former employee misconduct, misconduct by outsourced service providers or other counterparties, failure by us or our bank partners to meet minimum standards of service and quality, and inadequate protection of borrower information and compliance failures and claims. If we are unable to protect our reputation, our business, financial condition and results of operations would be adversely affected.

If we do not compete effectively in our target markets, our business, results of operations and financial condition could be harmed.

The consumer lending market is highly competitive and increasingly dynamic as emerging technologies continue to enter into the marketplace. With the introduction of new technologies and the influx of new entrants, competition may persist and intensify in the future, which could have an adverse effect on our operations or business.

Our inability to compete effectively could result in reduced loan volumes, reduced average size of loans facilitated on our platform, reduced fees, increased marketing and borrower acquisition costs or the failure of the Upstart platform to achieve or maintain more widespread market acceptance, any of which could have an adverse effect on our business and results of operations.

Consumer lending is a vast and competitive market, and we compete to varying degrees with all other sources of unsecured consumer credit. This can include banks, non-bank lenders including retail-based lenders and other financial technology lending platforms. Because personal loans often serve as a replacement for credit cards, we also compete with the convenience and ubiquity that credit cards represent. Many of our competitors operate with different business models, such as lending-as-a-service, have different cost structures or regulatory obligations, or participate selectively in different market segments. They may ultimately prove more successful or more adaptable to new regulatory, economic, technological and other developments, including utilizing new data sources or credit models. We may also face competition from banks or companies that have not previously competed in the consumer lending market, including companies with access to vast amounts of consumer-related information that could be used in the development of their own credit risk models. Our current or potential competitors may be better at developing new products due to their large and experienced data science and engineering teams, who are able to respond more quickly to new technologies. Many of our current or potential competitors have significantly more resources, such as financial, technical and marketing resources, than we do and may be able to devote greater resources to the development, promotion, sale and support of their platforms and distribution channels. We face competition in areas such as compliance capabilities, commercial financing terms and costs of capital, interest rates and fees (and other financing terms) available to consumers from our bank partners, approval rates, model efficiency, speed and simplicity of loan origination, ease-of-use, marketing expertise, service levels, products and services, technological capabilities and integration, borrower experience, brand and reputation, and terms available to our loan funding investor base. Our competitors may also have longer operating histories, lower commercial financing costs or costs of capital, more extensive borrower bases, more diversified products and borrower bases, operational efficiencies, more versatile or extensive technology platforms, greater brand recognition and brand loyalty, broader borrower and partner relationships, more extensive and/or more diversified loan funding investor bases than we have, and more extensive product and service offerings than we have. Furthermore, our existing and potential competitors may decide to modify their pricing and business models to compete more directly with us. Our ability to compete will also be affected by our ability to provide our bank partners with a commensurate or more extensive suite of loan products than those offered by our competitors. In addition, current or potential competitors, including financial technology lending platforms and existing or potential bank partners, may also acquire or form strategic alliances with one another, which could result in our competitors being able to offer more competitive loan terms due to their access to lower-cost capital. Such acquisitions or strategic alliances among our competitors or potential competitors could also make our competitors more adaptable to a rapidly evolving regulatory environment. To stay competitive, we may need to increase our regulatory compliance expenditures or our ability to compete may be adversely affected.

Our industry is driven by constant innovation. We utilize artificial intelligence and machine learning, which is characterized by extensive research efforts and rapid technological progress. If we fail to anticipate or respond adequately to technological developments, our ability to operate profitably could suffer. There can be no assurance that research, data accumulation and development by other companies will not result in AI models that are superior to our AI models or result in products superior to those we develop or that any technologies, products or services we develop will be preferred to any existing or newly-developed technologies, products or services. If we are unable to compete with such companies or fail to meet the need for innovation in our industry, the use of the Upstart platform could stagnate or substantially decline, or our loan products could fail to maintain or achieve more widespread market acceptance, which could harm our business, results of operations and financial condition.

If we are unable to manage the risks associated with fraudulent activity, our brand and reputation, business, financial condition and results of operations could be adversely affected.

Fraud is prevalent in the financial services industry and is likely to increase as perpetrators become more sophisticated. We are subject to the risk of fraudulent activity associated with borrowers and third parties handling borrower information and in limited situations cover certain fraud losses of our bank partners and investors in our loan funding programs. For example, in the third quarter of 2021, we experienced a temporary increase in fraudulent activity. Fraud rates could also increase in a downcycle economy. We use several identity and fraud detection tools, including tools provided by third-party vendors and our proprietary AI models, to predict and otherwise validate or authenticate applicant-reported data and data derived from third-party sources. If such efforts are insufficient to accurately detect and prevent fraud, the level of fraud-related losses of Upstart-powered loans could increase, which would decrease confidence in our AI lending platform. In addition, our bank partners, investors in our loan funding programs or we may not be able to recover amounts disbursed on loans made in connection with inaccurate statements, omissions of fact or fraud, which could erode the trust in our brand and negatively impact our ability to attract new bank partners and investors in our loan funding programs.

High profile fraudulent activity also could negatively impact our brand and reputation. In addition, significant increases in fraudulent activity could lead to regulatory intervention, which could increase our costs and also negatively impact our brand and reputation. Further, if there is any increase in fraudulent activity that increases the need for human intervention in screening loan application data, the level of automation on our platform could decline and negatively affect our unit economics. If we are unable to manage these risks, our business, financial condition and results of operations could be adversely affected.

We depend on our key personnel and other highly skilled personnel, and if we fail to attract, retain and motivate our personnel, our business, financial condition and results of operations could be adversely affected.

Our success significantly depends on the continued service of our senior management team, including Dave Girouard, our Co-Founder and Chief Executive Officer, and Paul Gu, our Co-Founder and SVP of Product and Data Science, and other highly skilled personnel. Our success also depends on our ability to identify, hire, develop, motivate and retain highly qualified personnel for all areas of our organization.

Competition for highly skilled personnel, including engineering and data analytics personnel, is extremely intense, particularly in the San Francisco Bay Area where one of our headquarters is located. While we have transitioned to a Digital First work model which allows us to recruit nationwide, we have experienced, and expect to continue to face, some difficulty identifying and hiring qualified personnel, especially as we pursue our growth strategy. We may not be able to hire or retain such personnel at compensation or flexibility levels consistent with our existing compensation and salary structure and policies. Many of the companies with which we compete for experienced employees have greater resources than we have and may be able to offer more attractive terms of employment. In particular, candidates making employment decisions, specifically in high-technology industries, often consider the value of any equity they may receive in connection with their employment. Any significant volatility in the price of our stock may adversely affect our ability to attract or retain highly skilled technical, financial and marketing personnel.

In addition, we invest significant time and expense in training our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring and training their replacements. While we are in the process of training their replacements, the quality of our services and our ability to serve our bank partners, investors and borrowers whose loans we service may suffer, resulting in an adverse effect on our business.

Security breaches of borrowers' confidential information that we store may harm our reputation, adversely affect our results of operations and expose us to liability.

We are increasingly dependent on information technology systems and infrastructure to operate our business. In the ordinary course of our business, we collect, process, transmit and store large amounts of sensitive information, including personal information, credit information and other sensitive data of borrowers and potential borrowers. It is critical that we do so in a manner designed to maintain the confidentiality, integrity and availability of such sensitive information. We also have arrangements in place with certain of our third-party vendors that require us to share consumer information. We have outsourced elements of our operations (including elements of our information technology infrastructure) to third parties, and as a result, we manage a number of third-party vendors who may have access to our computer networks and sensitive or confidential information. In addition, many of those third parties may in turn subcontract or outsource some of their responsibilities to other third parties. As a result, our information technology systems, including the functions of third parties that are involved or have access to those systems, are large and complex, with many points of entry and access. While all information technology operations are inherently vulnerable to inadvertent or intentional security breaches, incidents, attacks and exposures, the size, complexity, accessibility and distributed nature of our information technology systems, and the large amounts of sensitive information stored on those systems, make such systems potentially vulnerable to unintentional or malicious, internal and external attacks. Any vulnerabilities can be exploited from inadvertent or intentional actions of our employees, third-party vendors, bank partners, loan investors, or by malicious third parties. Attacks of this nature are increasing in their frequency, levels of persistence, sophistication and intensity, and are being conducted by sophisticated and organized groups and individuals with a wide range of motives (including, but not limited to, industrial espionage) and expertise, including organized criminal groups, “hacktivists,” nation states and others. In addition to the extraction of sensitive information, such attacks could include the deployment of harmful malware, ransomware, denial-of-service attacks, social engineering and other means to affect service reliability and threaten the confidentiality, integrity and availability of information and systems. In addition, the prevalent use of mobile devices increases the risk of data security incidents. Further, our shift to a Digital First working environment could increase the risk of a security breach. Significant disruptions of our, our bank partners and third-party vendors’ and/or other business partners’ information technology systems or other similar data security incidents could adversely affect our business operations and result in the loss, misappropriation, or unauthorized access, use or disclosure of, or the prevention of access to, sensitive information, which could result in financial, legal, regulatory, business and reputational harm to us.

Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, we and our vendors may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, many governments have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach are costly to implement and often lead to widespread negative publicity following a breach, which may cause borrowers and potential borrowers to lose confidence in the effectiveness of our data security measures on our platform. Any security breach, whether actual or perceived, would harm our reputation and ability to attract new borrowers to our platform.

We also face indirect technology, cybersecurity and operational risks relating to the borrowers, bank partners, investors, vendors and other third parties with whom we do business or upon whom we rely to facilitate or enable our business activities, including vendors, payment processors, and other parties who have access to confidential information due to our agreements with them. In addition, any security compromise in our industry, whether actual or perceived, or information technology system disruptions, whether from attacks on our technology environment or from computer malware, natural disasters, terrorism, war and telecommunication and electrical failures, could interrupt our business or operations, harm our reputation, erode borrower confidence, negatively affect our ability to attract new borrowers, or subject us to third-party lawsuits, regulatory fines or other action or liability, which could adversely affect our business and results of operations.

Like other financial services firms, we have been and continue to be the subject of actual or attempted unauthorized access, mishandling or misuse of information, computer viruses or malware, and cyber-attacks that could obtain confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, distributed denial of service attacks, data breaches and other infiltration, exfiltration or other similar events.

While we regularly monitor data flow inside and outside the company, attackers have become very sophisticated in the way they conceal access to systems, and we may not be aware that we have been attacked. Any event that leads to unauthorized access, use or disclosure of personal information or other sensitive information that we or our vendors maintain, including our own proprietary business information and sensitive information such as personal information regarding borrowers, loan applicants or employees, could disrupt our business, harm our reputation, compel us to comply with applicable federal and/or state breach notification laws and foreign law equivalents, subject us to time consuming, distracting and expensive litigation, regulatory investigation and oversight, mandatory corrective action, require us to verify the correctness of database contents, or otherwise subject us to liability under laws, regulations and contractual obligations, including those that protect the privacy and security of personal information. This could result in increased costs to us and result in significant legal and financial exposure and/or reputational harm. In addition, any failure or perceived failure by us or our vendors to comply with our privacy, confidentiality or data security-related legal or other obligations to our bank partners or other third parties, actual or perceived security breaches, or any security incidents or other events that result in the unauthorized access, release or transfer of sensitive information, which could include personally identifiable information, may result in governmental investigations, enforcement actions, regulatory fines, litigation, or public statements against us by advocacy groups or others, and could cause our bank partners and other third parties to lose trust in us or we could be subject to claims by our bank partners and other third parties that we have breached our privacy- or confidentiality-related obligations, which could harm our business and prospects. Moreover, data security incidents and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above. There can be no assurance that our security measures intended to protect our information technology systems and infrastructure will successfully prevent service interruptions or security incidents. For example, in April 2020, we were made aware of a software error which allowed access to certain consumers' accounts through the Upstart website without providing such consumers' passwords. As a result, certain of such consumers' personal information, such as their name, address and job information (but not full social security information), could be accessed by a third party. We promptly deployed an update to our software to address such vulnerability and are conducting an internal investigation. Thus far, we are not aware of any information being compromised as a result of this error. We cannot provide any assurance that similar vulnerabilities will not arise in the future as we continue to expand the features and functionalities of our platform and introduce new loan products on our platform, and we expect to continue investing substantially to protect against security vulnerabilities and incidents.

We maintain errors, omissions, and cyber liability insurance policies covering certain security and privacy damages. However, we cannot be certain that our coverage will continue to be available on economically reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that an insurer will not deny coverage as to any future claim, or that any insurer will be adequately covered by reinsurance or other risk mitigants or that any insurer will offer to renew policies at an affordable rate or offer such coverage at all in the future. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have an adverse effect on our business, financial condition and results of operations.

If we are unable to manage the risks related to our loan servicing and collections obligations, our business, financial condition and results of operations could be adversely affected.

The vast majority of Upstart-powered loans are not secured by any collateral, guaranteed or insured by any third party or backed by any governmental authority. As a result, we are limited in our ability to collect on such loans on behalf of our bank partners and investors of our loan funding programs if a borrower is unwilling or unable to repay them. Substantially all our collection duties and obligations for loans we service that are more than 30 days past due are subcontracted to several collection agencies. If such collection agencies do not perform as expected under our agreements with them or if these collection agents act unprofessionally and otherwise harm the user experience for borrowers of Upstart-powered loans, our brand and reputation could be harmed and our ability to attract potential borrowers to our platform could be negatively impacted. For example, during periods of increased delinquencies caused by economic downturns or otherwise, it is important that the collection agents are proactive and consistent in contacting a borrower to bring a delinquent balance current and ultimately avoid the related loan becoming charged off, which in turn makes it extremely important that the collection agents are properly staffed and trained to take prompt and appropriate action. If the collection agents are unable to maintain a high quality of service, or fulfill their servicing obligations at all due to resource constraints resulting from the increased delinquencies, it could result in increased delinquencies and charge-offs on the loans, which could decrease fees payable to us, cause our bank partners to decrease the volume of Upstart-powered loans kept on their balance sheets, erode trust in our platform or increase the costs of our loan funding programs.

While auto loans issued through our new auto lending platform will be secured by collateral, auto loans are inherently risky, as they are often secured by assets that may be difficult to locate and can depreciate rapidly. We generally begin the repossession process for auto loans that become 75 days past due. We have engaged a third-party auto repossession vendor to handle all repossession activity. Following a repossession, if a borrower fails to redeem their vehicle or reinstate their loan agreement, the repossessed vehicle is sold at an auction and the proceeds are applied to the unpaid balance of the loan and related expenses. If the proceeds do not cover the unpaid balance of the loan and any related expenses, the deficiency would be charged-off. Further, if a vehicle cannot be located, repossession and sale of the vehicle would not be possible, which could also lead to delinquencies and charge-offs. A significant number of delinquencies and charge-offs could decrease fees payable to us, cause our bank partners to decrease the volume of Upstart-powered auto loans kept on their balance sheets, erode trust in our platform and increase the costs of our loan funding programs.

Additionally, if such repossession vendors do not perform consistent with agreements entered into with us, or if vendors act unprofessionally or otherwise harm the user experience for borrowers of Upstart-powered loans, our brand and reputation could be harmed and our ability to attract potential borrowers to our platform could be negatively impacted. We may also become subject to regulatory scrutiny and potential litigation based on the conduct of our repossession vendors.

In addition, loan servicing is a highly manual process and an intensely regulated activity. Errors in our servicing activities, or failures to comply with our servicing obligations, could affect our internal and external reporting of the loans that we service, adversely affect our business and reputation and expose us to liability to borrowers, bank partners or investors in our loan funding programs. In addition, the laws and regulations governing these activities are subject to change. For example, at points during the COVID-19 pandemic certain states prohibited or restricted collection activities. If we are unable to comply with such laws and regulations, we could lose one or more of our licenses or authorizations, become subject to greater scrutiny by regulatory agencies or become subject to sanctions or litigation, which may have an adverse effect on our ability to perform our servicing obligations or make our platform available to borrowers in particular states. Any of the foregoing could adversely affect our business, financial condition and results of operations.

We primarily rely on a small number of third party collection agencies to perform substantially all of our duties as the servicer for delinquent and defaulted loans. One or more collection agents could take actions that result in our arrangements becoming cost prohibitive or enter into exclusive or more favorable relationships with our competitors. If any of our collection agencies were to suspend or cease operations, or our relationship with one or more of them were to otherwise terminate, such as in the case of resource constraints caused by an economic downturn, we may need to implement substantially similar arrangements with other collection agencies on terms that may not be commercially attractive. Transitioning this aspect of loan servicing to a new collection agency may result in disruptions to our ability to service the loans made on our platform and loan performance may be impacted as a result. If we are unsuccessful in maintaining our relationships with our current collection agencies, our business, financial condition or results of operations may be adversely affected.

In addition, we charge our loan holders a fixed percentage servicing fee based on the outstanding balance of loans serviced. If we fail to efficiently service such loans and the costs incurred exceed the servicing fee charged, our results of operations would be adversely affected.

We may evaluate and potentially consummate acquisitions or investments in complementary business and technologies, which could require significant management attention, consume our financial resources, disrupt our business and adversely affect our results of operations, and we may fail to realize the anticipated benefits of these acquisitions or investments.

Our success will depend, in part, on our ability to grow our business. In some circumstances, we may determine to do so through the acquisition of or investments in complementary businesses and technologies rather than through internal development. For example, we recently completed the acquisition of Prodigy. The identification of suitable acquisition candidates can be difficult, time-consuming, and costly, and we may not be able to successfully complete identified acquisitions. In the future, we may acquire assets or businesses. The risks we face in connection with acquisitions include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- utilization of our financial resources for acquisitions or investments that may fail to realize the anticipated benefits;
- inability of the acquired technologies, products or businesses to achieve expected levels of revenue, profitability, productivity or other benefits;
- coordination of technology, product development and sales and marketing functions and integration of administrative systems;
- transition of the acquired company's borrowers to our systems;
- retention of employees from the acquired company;
- regulatory risks, including maintaining good standing with existing regulatory bodies or receiving any necessary approvals, as well as being subject to new regulators with oversight over an acquired business;
- attracting financing;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- the need to implement or improve controls, procedures and policies at a business that prior to the acquisition may have lacked effective controls, procedures and policies;
- potential write-offs of loans or intangibles or other assets acquired in such transactions that may have an adverse effect on our results of operations in a given period;
- liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;
- assumption of contractual obligations that contain terms that are not beneficial to us, require us to license or waive intellectual property or increase our risk for liability; and
- litigation, claims or other liabilities in connection with the acquired company.

Our failure to address these risks or other problems encountered in connection with any future acquisitions and strategic investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities and harm our business generally. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses or the write-off of goodwill, any of which could harm our financial condition.

Strategic investments in which we have a minority ownership stake and that we do not control may from time to time have economic, business, or legal interests or goals that are inconsistent with our goals. As a result, business decisions or other actions or omissions of controlling shareholders, management, or other persons or entities who control companies in which we invest may adversely affect the value of our investment, result in litigation or regulatory action against us, or otherwise damage our reputation and brand.

Borrowers may prepay a loan at any time without penalty, which could reduce our servicing fees and deter our bank partners and investors from investing in loans facilitated by our platform.

A borrower may decide to prepay all or a portion of the remaining principal amount on a loan at any time without penalty. If the entire or a significant portion of the remaining unpaid principal amount of a loan is prepaid, we would not receive a servicing fee, or we would receive a significantly lower servicing fee associated with such prepaid loan. Prepayments may occur for a variety of reasons, including if interest rates decrease after a loan is made. If a significant volume of prepayments occurs, the amount of our servicing fees would decline, which could harm our business and results of operations. Our AI models are designed to predict prepayment rates. However, if a significant volume of prepayments occur that our AI models do not accurately predict, returns targeted by our bank partners and investors in our loan funding programs would be adversely affected and our ability to attract new bank partners and investors in our loan funding programs would be negatively affected.

Our marketing efforts and brand promotion activities may not be effective.

Promoting awareness of our AI lending platform is important to our ability to grow our business, attract new bank partners, increase the number of potential borrowers on our platform and attract investors to participate in our loan funding programs. We believe that the importance of brand recognition will increase as competition in the consumer lending industry expands. However, because our bank partners are increasingly adopting our bank-branded version of our AI lending platform through their own websites, potential borrowers may not be aware they are experiencing our AI lending platform, which may hinder recognition of our brand. Successful promotion of our brand will depend largely on the effectiveness of marketing efforts and the overall user experience of our bank partners and potential borrowers on the Upstart platform, which factors are outside our control. The marketing channels that we employ may also become more crowded and saturated by other lending platforms, which may decrease the effectiveness of our marketing campaigns and increase borrower acquisition costs. Also, the methodologies, policies and regulations applicable to marketing channels may change. For example, internet search engines could revise their methodologies, which could adversely affect borrower volume from organic ranking and paid search. Search engines may also implement policies that restrict the ability of companies such as us to advertise their services and products, which could prevent us from appearing in a favorable location or any location in the organic rankings or paid search results when certain search terms are used by the consumer.

Our brand promotion activities may not yield increased revenues. If we fail to successfully build trust in our AI lending platform and the performance and predictability of Upstart-powered loans, we may lose existing bank partners and investors in our loan funding programs to our competitors or be unable to attract new bank partners and investors in our loan funding programs, which in turn would harm our business, results of operations and financial condition. Even if our marketing efforts result in increased revenue, we may be unable to recover our marketing costs through increases in loan volume, which could result in a higher borrower acquisition cost per account. Any incremental increases in loan servicing costs, such as increases due to greater marketing expenditures, could have an adverse effect on our business, financial condition and results of operations.

Unfavorable outcomes in legal proceedings may harm our business and results of operations.

We are, and may in the future become, subject to litigation, claims, examinations, investigations, legal and administrative cases and proceedings, whether civil or criminal, or lawsuits by governmental agencies or private parties, which may affect our results of operations. These claims, lawsuits, and proceedings could involve labor and employment, discrimination and harassment, commercial disputes, intellectual property rights (including patent, trademark, copyright, trade secret, and other proprietary rights), class actions, general contract, tort, defamation, data privacy rights, antitrust, common law fraud, government regulation, or compliance, alleged federal and state securities and “blue sky” law violations or other investor claims, and other matters. Due to the consumer-oriented nature of our business and the application of certain laws and regulations, participants in our industry are regularly named as defendants in litigation alleging violations of federal and state laws and regulations and consumer law torts, including fraud. Many of these legal proceedings involve alleged violations of consumer protection laws. In addition, we have been in the past and may in the future be subject to litigation, claims, examinations, investigations, legal and administrative cases and proceedings related to the offer and sale of Upstart-powered loans.

In particular, lending programs that involve originations by a bank in reliance on origination-related services being provided by non-bank lending platforms and/or program managers are subject to potential litigation and government enforcement claims based on “rent-a-charter” or “true lender” theories, particularly where such programs involve the subsequent sale of such loans or interests therein to the platform. See—“If loans facilitated through our platform for one or more bank partners were subject to successful challenge that the bank partner was not the “true lender,” such loans may be unenforceable, subject to rescission or otherwise impaired, we or other program participants may be subject to penalties, and/or our commercial relationships may suffer, each which would adversely affect our business and results of operations,” below. In addition, loans originated by banks (which are exempt from certain state requirements under federal banking laws), followed by the sale, assignment, or other transfer to non-banks of such loans are subject to potential litigation and government enforcement claims based on the theory that transfers of loans from banks to non-banks do not transfer the ability to enforce contractual terms such as interest rates and fees from which only banks benefit under federal preemption principles. See—"If loans originated by our bank partners were found to violate the laws of one or more states, whether at origination or after sale by the originating bank partner, loans facilitated through our platform may be unenforceable or otherwise impaired, we or other program participants may be subject to, among other things, fines and penalties, and/or our commercial relationships may suffer, each of which would adversely affect our business and results of operations," below. In addition, the recent inquiries related to our model's use of education variables in assessing credit risk could prompt potential litigation and government enforcement claims based on perceived violations of ECOA. See—"We have been in the past and may in the future be subject to federal and state regulatory inquiries regarding our business" below. If we were subject to such litigation or enforcement, then any unfavorable results of pending or future legal proceedings may result in contractual damages, usury related claims, fines, penalties, injunctions, the unenforceability, rescission or other impairment of loans originated on our platform or other censure that could have an adverse effect on our business, results of operations and financial condition. Even if we adequately address the issues raised by an investigation or proceeding or successfully defend a third-party lawsuit or counterclaim, we may have to devote significant financial and management resources to address these issues, which could harm our business, financial condition and results of operations.

We have a limited history of operating with a Digital First workforce, and the long-term impact on our business, financial condition and results of operations is uncertain.

In June 2021, we announced a new Digital First work model pursuant to which remote work with less time in the office will become the primary experience for most of our employees, and we expect that our workforce will become more distributed over time. However, we have a limited history of operating with a Digital First workforce and, although we anticipate that this shift will have a long-term positive impact on our business, financial condition and results of operations, the impact remains uncertain. There is no guarantee that we will realize any anticipated benefits to our business from this model, including cost savings, operational efficiencies, or productivity.

Our shift to a Digital First model could have a negative impact on our operations, the execution of our business plans and sales and marketing efforts, our company culture, or the productivity and retention of key personnel and other employees necessary to conduct our business, or otherwise cause operational failures due to changes in our past business practices. If a natural disaster, power outage, connectivity issue, or other event were to occur that impacted our employees' ability to work remotely, it may be difficult or, in certain cases, impossible, for us to continue our business for a substantial period of time. The increase in remote working may also result in increased exposure to consumer privacy and data security incidents, or fraudulent activity. Further, our understanding of applicable legal and regulatory requirements, as well as the latest guidance from regulatory authorities in connection with the COVID-19 pandemic, may be subject to legal or regulatory challenge, particularly as regulatory guidance evolves in response to future developments. If we are unable to successfully address the foregoing risks and challenges as we encounter them, our business, financial condition and results of operations could be adversely affected.

Our business is subject to the risks of natural disasters and other catastrophic events, and to interruption by man-made problems.

Significant natural disasters or other catastrophic events, such as earthquakes, fires, hurricanes, blizzards, or floods (many of which are becoming more acute and frequent as a result of climate change), or interruptions by strikes, crime, terrorism, epidemics, pandemics, cyber-attacks, computer viruses, internal or external system failures, telecommunications failures, power outages or increased risk of cybersecurity breaches due to a swift transition to remote work brought about by a catastrophic event, could have an adverse effect on our business, results of operations and financial condition. For example, the outbreak of the COVID-19 pandemic beginning in early 2020 had a significant impact on the global economy and consumer confidence. Although people in the United States began to receive vaccines in December 2020, a significant number of people have not yet been vaccinated and it is not clear whether or when a significant number of people will receive the vaccines. New variants of the virus that cause COVID-19 have been identified around the world and such variants may reduce the effectiveness of the

COVID-19 vaccines. The presence of such variants in the United States may lead to a resurgence of COVID-19 cases and deaths. In the event that such a COVID-19 resurgence occurs, it could adversely impact the economy and negatively impact consumer confidence, and could negatively impact our operations and our platform, which could seriously harm our business. In addition, it is possible that continued widespread remote work arrangements may have a negative impact on our operations, the execution of our business plans, the productivity and availability of key personnel and other employees necessary to conduct our business, or otherwise cause operational failures. Additionally, remote work arrangements may make it more difficult to scale our operations efficiently, as the recruitment, onboarding and training of new employees may be prolonged or delayed. If a natural disaster, power outage, connectivity issue, or other event occurred that impacted our employees' ability to work remotely, it may be difficult or, in certain cases, impossible, for us to continue our business for a substantial period of time. The increase in remote working may also result in privacy, data protection, data security, and fraud risks. Further, one of our headquarters is located in the San Francisco Bay Area, a region known for seismic activity and wildfires, and our other headquarters is located in Columbus, Ohio, a region subject to blizzards.

In addition, acts of war and other armed conflicts, disruptions in global trade, travel restrictions and quarantines, terrorism and other civil, political and geo-political unrest could cause disruptions in our business and lead to interruptions, delays or loss of critical data. Any of the foregoing risks may be further increased if our business continuity plans prove to be inadequate and there can be no assurance that both personnel and non-mission critical applications can be fully operational after a declared disaster within a defined recovery time. If our personnel, systems or data centers are impacted, we may suffer interruptions and delays in our business operations. In addition, to the extent these events impact the ability of borrowers to timely repay their loans, our business could be negatively affected.

We may not maintain sufficient business interruption or property insurance to compensate us for potentially significant losses, including potential harm to our business that may result from interruptions in our ability to provide our financial products and services.

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

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires our management to make estimates and assumptions that affect the amounts reported and disclosed in our consolidated financial statements and accompanying notes. We base our estimates and assumptions on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to fair value determinations, stock-based compensation, consolidation of variable interest entities, and provision for income taxes, net of valuation allowance for deferred tax assets. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of industry or financial analysts and investors, resulting in a decline in the trading price of our common stock.

Additionally, we regularly monitor our compliance with applicable financial reporting standards and review new pronouncements and drafts thereof that are relevant to us. As a result of new standards, or changes to existing standards, and changes in their interpretation, we might be required to change our accounting policies, alter our operational policies and implement new or enhance existing systems so that they reflect new or amended financial reporting standards, or we may be required to restate our published financial statements. Such changes to existing standards or changes in their interpretation may have an adverse effect on our reputation, business, financial condition, and profit and loss, or cause an adverse deviation from our revenue and operating profit and loss target, which may negatively impact our results of operations.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of the applicable listing standards of the Nasdaq Global Select Market. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming, and costly, and place significant strain on our personnel, systems, and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs, and significant management oversight. Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business.

Further, weaknesses in our disclosure controls and internal control over financial reporting have been discovered in the past and may be discovered in the future. For example, we identified a material weakness in our internal control over financial reporting that contributed to the revision of our previously-issued 2017 and 2018 financial statements. 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 our annual or interim financial statements will not be prevented or detected on a timely basis. This material weakness principally related to a lack of adequate review processes and controls within our accounting and finance organization and a lack of sufficient financial reporting and accounting personnel with the technical expertise to appropriately account for certain transactions including loan servicing and securitizations. During 2019 and 2020, we took a number of actions to improve our internal control over financial reporting, such as hiring external specialists and personnel with technical accounting expertise, designing additional review procedures in our accounting and finance organization, and identifying and implementing improved processes and controls. Our management believes that these and other actions taken during this time have been fully implemented and such enhancements to our internal controls are operating effectively. Due to our remediation efforts in 2019, we concluded that the previously-identified material weakness in our internal controls was remediated as of December 31, 2019.

However, 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 identify or prevent future material weaknesses or deficiencies. The nature of our business is such that our financial statements involve a number of complex accounting policies, many of which involve significant elements of judgment, including determinations regarding the consolidation of variable interest entities, determinations regarding the fair value of financial assets and liabilities (including loans, notes receivable, payable to securitization note holders and residual certificate holders, servicing assets and liabilities, and trailing fee liabilities) and the appropriate classification of various items within our financial statements. See Note 1 to our consolidated financial statements for more information about our significant accounting policies. The inherent complexity of these accounting matters and the nature and variety of transactions in which we are involved require that we have sufficient qualified accounting personnel with an appropriate level of experience and controls in our financial reporting process commensurate with the complexity of our business. While we believe we have sufficient internal accounting personnel and external resources and appropriate controls to address the demands of our business, we expect that the growth and development of our business will place significant additional demands on our accounting resources. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our results of operations or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting could also adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the Nasdaq Global Select Market. We are not currently required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. As a public company, we are required to provide an annual management report on the effectiveness of our internal control over financial reporting. There can be no assurance that we will maintain internal control over financial reporting sufficient to enable us to identify or avoid material weaknesses in the future.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until after we are no longer an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed, or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could materially and adversely affect our business, results of operations, and financial condition and could cause a decline in the trading price of our common stock. We will lose our “emerging growth company” status on the last date of our fiscal year ending December 31, 2021.

Some of our estimates, including our key metrics in this report, are subject to inherent challenges in measurement, and any real or perceived inaccuracies may harm our reputation and negatively affect our business.

Certain estimates and growth forecasts included in this report, including those we have generated ourselves, are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The estimates and forecasts in this report relating to the size and expected growth of our target market may prove to be inaccurate. It is impossible to offer every loan product, term or feature that every customer wants or that any given bank partner is necessarily capable of supporting, and our competitors may develop and offer loan products, terms or features that we do not offer. Even if the markets in which we compete meet the size estimates and growth forecasted in this report, we may be unable to address these markets successfully and our business could fail to grow for a variety of reasons outside of our control, including competition in our industry. We regularly review and may adjust our processes for calculating our key metrics to improve their accuracy. For example, in the third quarter of 2021, we adjusted our process for calculating Conversion Rate to account for an increase in fraudulent applications. Our key metrics may differ from estimates published by third parties or from similarly titled metrics of our competitors due to differences in methodology. If investors or analysts do not perceive our metrics to be accurate representations of our business, or if we discover material inaccuracies in our metrics, our reputation, business, results of operations, and financial condition would be adversely affected.

We have implemented “sell-to-cover” in which shares of our common stock are sold into the market on behalf of RSU holders upon vesting of RSUs to cover tax withholding liabilities and such sales will result in dilution to our stockholders.

Under U.S. tax laws, employment tax withholding and remittance obligations for restricted stock units or (RSUs,) arise in connection with their vesting. To fund the tax withholding and remittance obligations arising in connection with the vesting of RSUs, we use the “sell-to-cover” method, under which shares with a market value equivalent to the tax withholding obligation are sold by a broker on behalf of the holder of the RSUs upon vesting to cover the tax withholding liability and the cash proceeds from such sales will be remitted by us to the taxing authorities. The tax withholding due in connection with such RSU vesting is based on the then-current value of the underlying shares of our common stock. Such sales do not result in the expenditure of additional cash by us to satisfy the tax withholding obligations for RSUs, but do cause dilution to our stockholders and, to the extent a large number of shares are sold in connection with any vesting event, such sales volume may cause our price to fluctuate.

RISKS RELATED TO OUR INTELLECTUAL PROPERTY AND PLATFORM DEVELOPMENT

It may be difficult and costly to protect our intellectual property rights, and we may not be able to ensure their protection.

Our ability to operate our platform depends, in part, upon our proprietary technology. We may be unable to protect our proprietary technology effectively which would allow competitors to duplicate our AI models or AI lending platform and adversely affect our ability to compete with them. We rely on a combination of copyright, trade secret, patent, trademark laws and other rights, as well as confidentiality procedures, contractual provisions and our information security infrastructure to protect our proprietary technology, processes and other intellectual property. While we have two patent applications pending, we do not yet have patent protection and our patent applications may not be successful. The steps we take to protect our intellectual property rights may be inadequate. For example, a third party may attempt to reverse engineer or otherwise obtain and use our proprietary technology without our consent. The pursuit of a claim against a third party for infringement of our intellectual property could be costly, and there can be no guarantee that any such efforts would be successful. Our failure to secure, protect and enforce our intellectual property rights could adversely affect our brand and adversely impact our business.

Our proprietary technology, including our AI models, may actually or may be alleged to infringe upon third-party intellectual property, and we may face intellectual property challenges from such other parties. We may not be successful in defending against any such challenges or in obtaining licenses to avoid or resolve any intellectual property disputes. If we are unsuccessful, such claims or litigation could result in a requirement that we pay significant damages or licensing fees, or we could in some circumstances be required to make changes to our business to avoid such infringement, which would negatively impact our financial performance. We may also be obligated to indemnify parties or pay substantial settlement costs, including royalty payments, in connection with any such claim or litigation and to modify applications or refund fees, which could be costly. Even if we were to prevail in such a dispute, any litigation regarding our intellectual property could be costly and time consuming and divert the attention of our management and key personnel from our business operations.

Moreover, it has become common in recent years for individuals and groups to purchase intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from companies such as ours. Even in instances where we believe that claims and allegations of intellectual property infringement against us are without merit, defending against such claims is time consuming and expensive and could result in the diversion of time and attention of our management and employees. In addition, although in some cases a third party may have agreed to indemnify us for such costs, such indemnifying party may refuse or be unable to uphold its contractual obligations. In other cases, our insurance may not cover potential claims of this type adequately or at all, and we may be required to pay monetary damages, which may be significant.

Furthermore, our technology may become obsolete or inadequate, and there is no guarantee that we will be able to successfully develop, obtain or use new technologies to adapt our models and systems to compete with other technologies as they develop. If we cannot protect our proprietary technology from intellectual property challenges, or if our technology becomes obsolete or inadequate, our ability to maintain our model and systems, facilitate loans or perform our servicing obligations on the loans could be adversely affected.

Any significant disruption in our AI lending platform could prevent us from processing loan applicants and servicing loans, reduce the effectiveness of our AI models and result in a loss of bank partners or borrowers.

In the event of a system outage or other event resulting in data loss or corruption, our ability to process loan applications, service loans or otherwise facilitate loans on our platform would be adversely affected. We also rely on facilities, components, and services supplied by third parties, including data center facilities and cloud storage services. We host our AI lending platform using Amazon Web Services, or AWS, a provider of cloud infrastructure services. In the event that our AWS service agreements are terminated, or there is a lapse of service, interruption of internet service provider connectivity or damage to AWS data centers, we could experience interruptions in access to our platform as well as delays and additional expense in the event we must secure alternative cloud infrastructure services. Any interference or disruption of our technology and underlying infrastructure or our use of third-party services could adversely affect our relationships with our bank partners and investors in our funding programs, and the overall user experience of our platform. Also, as our business grows, we may be required to expand and improve the capacity, capability and reliability of our infrastructure. If we are not able to effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and infrastructure to reliably support our business, our business, financial condition and results of operations could be adversely affected.

Additionally, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses incurred. Our disaster recovery plan has not been tested under actual disaster conditions, and we may not have sufficient capacity to recover all data and services in the event of an outage or other event resulting in data loss or corruption. These factors could prevent us from processing or posting payments on the loans, damage our brand and reputation, divert our employees' attention, subject us to liability and cause borrowers to abandon our business, any of which could adversely affect our business, results of operations and financial condition.

Our platform and internal systems rely on software that is highly technical, and if our software contains undetected errors, our business could be adversely affected.

Our platform and internal systems rely on software that is highly technical and complex. In addition, our platform and internal systems depend on the ability of such software to store, retrieve, process and manage high volumes of data. The software in which we rely has contained, and may now or in the future contain, undetected errors or bugs. Some errors may only be discovered after the code has been released for external or internal use. Errors or other design defects within the software on which we rely may result in failure to accurately predict a loan applicant's creditworthiness, failure to comply with applicable laws and regulations, approval of sub-optimally priced loans, incorrectly displayed interest rates to applicants or borrowers, or incorrectly charged interest to borrowers or fees to bank partners or institutional investors, failure to present or properly display regulatory disclosures to applicants for an extended period of time, failure to detect fraudulent activity on our platform, a negative experience for consumers or bank partners, delayed introductions of new features or enhancements, or failure to protect borrower data or our intellectual property. Any errors, bugs or defects discovered in the software on which we rely could result in harm to our reputation, loss of consumers or bank partners, increased regulatory scrutiny, fines or penalties, loss of revenue or liability for damages, any of which could adversely affect our business, financial condition and results of operations. Furthermore, updates made to our software to remediate any errors discovered may prove to be ineffective, resulting in repeated issues and further harm to our business.

Some aspects of our business processes include open source software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect our business.

We incorporate open source software into processes supporting our business. Such open source software may include software covered by licenses like the GNU General Public License and the Apache License. The terms of various open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that limits our use of the software, inhibits certain aspects of our systems and negatively affects our business operations.

Some open source licenses contain requirements that we make source code available at no cost for modifications or derivative works we create based upon the type of open source software we use.

We may face claims from third parties claiming ownership of, or demanding the release or license of, such modifications or derivative works (which could include our proprietary source code or AI models) or otherwise seeking to enforce the terms of the applicable open source license. If portions of our proprietary AI models are determined to be subject to an open source license, or if the license terms for the open source software that we incorporate change, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our model or change our business activities, any of which could negatively affect our business operations and potentially our intellectual property rights. If we were required to publicly disclose any portion of our proprietary models, it is possible we could lose the benefit of trade secret protection for our models.

In addition to risks related to license requirements, the use of open source software can lead to greater risks than the use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the 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 breach our website and systems that rely on open source software. Many of the risks associated with the use of open source software cannot be eliminated and could adversely affect our business.

RISKS RELATED TO OUR DEPENDENCE ON THIRD PARTIES

We rely on strategic relationships with loan aggregators to attract applicants to our platform, and if we cannot maintain effective relationships with loan aggregators or successfully replace their services, or if loan aggregators begin offering competing products, our business could be adversely affected.

A significant number of consumers that apply for a loan on Upstart.com learn about and access Upstart.com through the website of a loan aggregator, typically with a hyperlink from such loan aggregator’s website to a landing page on our website. For example, the nine months ended September 30, 2020 and 2021, 52% and 44%, respectively, of loan originations were derived from traffic from Credit Karma. Our most recent agreement with Credit Karma dated November 6, 2020 provides that either party may terminate our arrangement immediately upon a material breach of any provision of the agreement or at any time, with or without cause, by providing no less than 30 days’ notice. Even during the term of our agreement, our agreement does not require Credit Karma to display offers from lenders on Upstart.com nor prohibit them from working with our competitors or from offering competing services. In this regard in 2020, Credit Karma began directing more customer traffic to a program that hosts and aggregates the credit models of other loan providers directly on its platform for the purpose of giving credit offers. In late 2020, we experienced a reduction in the number of loan applicants directed to the Upstart platform by Credit Karma and a corresponding decrease in the number of loans originated on our platform because we had limited participation in this program. If traffic from Credit Karma decreases again in the future as a result of this program or for other reasons, our loan originations and results of operations would be adversely affected. There is also no assurance that Credit Karma will continue its contract with us on commercially reasonable terms or at all. Further, on December 3, 2020, Credit Karma was acquired by Intuit Inc. It is possible Intuit may not continue our agreement on commercially reasonable terms or at all, which would adversely affect our business.

While we are planning to move towards more direct acquisition channels, we anticipate that we will continue to depend in significant part on relationships with loan aggregators to maintain and grow our business. Our current agreements with these loan aggregators do not require them to display offers from lenders on Upstart.com nor prohibit them from working with our competitors or from offering competing services. Further, there is no assurance that a loan aggregator will renew its contract with us on commercially reasonable terms or at all. Our competitors may be effective in providing incentives to loan aggregators to favor their products or services or in reducing the volume of loans facilitated through our platform. Loan aggregators may not perform as expected under our agreements with them, and we may have disagreements or disputes with them, which could adversely affect our brand and reputation. If we cannot successfully enter into and maintain effective strategic relationships with loan aggregators, our business could be adversely affected.

In addition, the limited information such loan aggregators collect from applicants does not always allow us to offer rates to applicants that we would otherwise be able to through direct applicant traffic to Upstart.com. Typically, the rates offered to borrowers who come to Upstart.com directly are lower and more competitive than those rates offered through aggregators. In the event we do not successfully optimize direct traffic, our ability to attract borrowers would be adversely affected.

Such loan aggregators also face litigation and regulatory scrutiny for their part in the consumer lending ecosystem, and as a result, their business models may require fundamental change or may not be sustainable in the future. For example, loan aggregators are increasingly required to be licensed as loan brokers or lead generators in many states, subjecting them to increased regulatory supervision and more stringent business requirements. While we require loan aggregators to make certain disclosures in connection with our bank partners’ offers and restrict how loan aggregators may display such loan offers, loan aggregators may nevertheless alter or even remove these required disclosures without notifying us, which may result in liability to us. Further, we do not have control over any content on loan aggregator websites, and it is possible that our brand and reputation may be adversely affected by being associated with such content. An unsatisfied borrower could also seek to bring claims against us based on the content presented on a loan aggregator's website. Such claims could be costly and time consuming to defend and could distract management's attention from the operation of the business.

Our proprietary AI models rely in part on the use of loan applicant and borrower data and other third-party data, and if we lose the ability to use such data, or if such data contain inaccuracies, our business could be adversely affected.

We rely on our proprietary AI models, which are statistical models built using a variety of data-sets. Our AI models rely on a wide variety of data sources, including data collected from applicants and borrowers, credit bureau data and our credit experience gained through monitoring the payment performance of borrowers over time. Under our agreements with our bank partners, we receive licenses to use data collected from loan applicants and borrowers. If we are unable to access and use data collected from applicants and borrowers, data received from credit bureaus, repayment data collected as part of our loan servicing activities, or other third-party data used in our AI models, or our access to such data is limited, our ability to accurately evaluate potential borrowers, detect fraud and verify applicant data would be compromised. Any of the foregoing could negatively impact the accuracy of our pricing decisions, the degree of automation in our loan application process and the volume of loans facilitated on our platform.

Third-party data sources on which we rely include the consumer reporting agencies regulated by the CFPB and other alternative data sources. Such data is electronically obtained from third parties and used in our AI models to price applicants and in our fraud models to verify the accuracy of applicant-reported information. Data from national credit bureaus and other consumer reporting agencies, as well as other information that we receive from third parties about an applicant or borrower, may be inaccurate or may not accurately reflect the applicant or borrower's creditworthiness for a variety of reasons, including inaccurate reporting by creditors to the credit bureaus, errors, staleness or incompleteness. For example, loan applicants' credit scores may not reflect such applicants' actual creditworthiness because the credit scores may be based on outdated, incomplete or inaccurate consumer reporting data, including, as a consequence of us utilizing credit reports for a specific period of time after issuance before such reports are deemed to be outdated. Similarly, the data taken from an applicant's credit report may also be based on outdated, incomplete or inaccurate consumer reporting data. Although we use numerous third-party data sources and multiple credit factors within our proprietary models, which helps mitigate this risk, it does not eliminate the risk of an inaccurate individual report.

Further, although we attempt to verify the income, employment and education information provided by certain selected applicants, we cannot guarantee the accuracy of applicant information. Our fraud models rely in part on data we receive from a number of third-party verification vendors, data collected from applicants, and our experience gained through monitoring the performance of borrowers over time. Information provided by borrowers may be incomplete, inaccurate or intentionally false. Applicants may also misrepresent their intentions for the use of loan proceeds. We do not verify or confirm any statements by applicants as to how loan proceeds are to be used after loan funding. If an applicant supplied false, misleading or inaccurate information and our fraud detection processes do not flag the application, repayments on the corresponding loan may be lower, in some cases significantly lower, than expected, leading to losses for the bank partner or investor.

In addition, if third party data used to train and improve our AI models is inaccurate, or access to such third-party data is limited or becomes unavailable to us, our ability to continue to improve our AI models would be adversely affected. Any of the foregoing could result in sub-optimally and inefficiently priced loans, incorrect approvals or denials of loans, or higher than expected loan losses, which in turn could adversely affect our ability to attract new borrowers and partners to our platform or increase the number of Upstart-powered loans and adversely affect our business, financial condition and results of operations.

We rely on third-party vendors 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 third-party vendors. In some cases, third-party vendors are one of a limited number of sources. For example, we rely on national consumer reporting agencies, such as TransUnion, for a large portion of the data used in our AI models. In addition, we rely on third-party verification technologies and services that are critical to our ability to maintain a high level of automation on our platform. In addition, because we are not a bank, we cannot belong to or directly access the ACH payment network. As a result, we rely on one or more banks with access to the ACH payment network to process collections on Upstart-powered loans. Most of our vendor agreements are terminable by either party without penalty and with little notice. If any of our third-party vendors 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 may not be able to secure similar terms or replace such providers in an acceptable timeframe. We also rely on other software and services supplied by vendors, such as communications, analytics and internal software, and our business may be adversely affected to the extent such software and services do not meet our expectations, contain errors or vulnerabilities, are compromised or experience outages. Any of these risks could increase our costs and adversely affect our business, financial condition and results of operations. Further, any negative publicity related to any of our third-party partners, including any publicity related to quality standards or safety 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 the intellectual property rights of others or that the suppliers and licensors have sufficient rights to the technology in all jurisdictions in which we may operate. 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 the technology or enter into new agreements on commercially reasonable terms, our ability to develop our platform containing that technology 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 loan products or service 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 platform and service offerings, which could adversely affect our business, financial condition and results of operations.

Failure by our third-party vendors or our failure to comply with legal or regulatory requirements or other contractual requirements could have an adverse effect on our business.

We have significant vendors that provide us with a number of services to support our platform. If any third-party vendors fail to comply with applicable laws and regulations or comply with their contractual requirements, including failure to maintain adequate systems addressing privacy and data protection and security, we could be subject to regulatory enforcement actions and suffer economic and reputational harm that could harm our business. Further, we may incur significant costs to resolve any such disruptions in service or failure to provide contracted services, which could adversely affect our business.

The CFPB and each of the prudential bank regulators that supervise our bank partners have issued guidance stating that institutions under their supervision may be held responsible for the actions of the companies with which they contract. As a service provider to those supervised entities, we must ensure we have implemented an adequate vendor management program. We or our bank partners could be adversely impacted to the extent our vendors fail to comply with the legal requirements applicable to the particular products or services being offered. Our use of third-party vendors is subject to increasing regulatory attention.

The CFPB and other regulators have also issued regulatory guidance that has focused on the need for financial institutions to perform increased due diligence and ongoing monitoring of third-party vendor relationships, thus increasing the scope of management involvement in connection with using third-party vendors. Moreover, if regulators conclude that we or our bank partners have not met the heightened standards for oversight of our third-party vendors, we or our bank partners could be subject to enforcement actions, civil monetary penalties, supervisory orders to cease and desist or other remedial actions, which could have an adverse effect on our business, financial condition and results of operations. Furthermore, in July 2021, the prudential bank regulators issued a proposal to significantly revise bank oversight of service providers, which could impact the way in which we are monitored or reviewed where we provide services to those banks.

If loans originated by our bank partners were found to violate the laws of one or more states, whether at origination or after sale by the originating bank partner, loans facilitated through our platform may be unenforceable or otherwise impaired, we or other program participants may be subject to, among other things, fines and penalties, and/or our commercial relationships may suffer, each of which would adversely affect our business and results of operations.

When establishing the interest rates and structures (and the amounts and structures of certain fees constituting interest under federal banking law, such as origination fees, late fees and non-sufficient funds fees) that are charged to borrowers on loans originated on our platform, our bank partners rely on certain authority under federal law to export the interest rate requirements of the state where each bank partner is located to borrowers in all other states. Further, certain of our bank partners and institutional investors rely on the ability of subsequent holders to continue charging such rate and fee structures and enforce other contractual terms agreed to by our bank partners which are permissible under federal banking laws following the acquisition of the loans. The current maximum annual percentage rate of the loans facilitated through our platform is 35.99%. In some states, the interest rates of certain Upstart-powered loans exceed the maximum interest rate permitted for consumer loans made by non-bank lenders to borrowers residing in, or that have nexus to, such states. In addition, the rate structures for Upstart-powered loans may not be permissible in all states for non-bank lenders and/or the amount or structures of certain fees charged in connection with Upstart-powered loans may not be permissible in all states for non-bank lenders. Furthermore, other states have enacted additional limitations on interest rates and fees, such as the March 2021 Illinois law that capped interest rates on loans at an “all-in” 36% APR.

Usury, fee, and disclosure related claims involving Upstart-powered loans may be raised in multiple ways. Program participants may face litigation, government enforcement or other challenge, for example, based on claims that bank lenders did not establish loan terms that were permissible in the state they were located or did not correctly identify the home or host state in which they were located for purposes of interest exportation authority under federal law. Alternatively, we or our investors may face litigation, government enforcement or other challenge, for example, based on claims that rates and fees were lawful at origination and through any period during which the originating bank partner retained the loan and interests therein, but that subsequent purchasers were unable to enforce the loan pursuant to its contracted-for terms, or that certain disclosures were not provided at origination because while such disclosures are not required of banks they may be required of non-bank lenders.

In Madden v. Midland Funding, LLC, 786 F.3d 246 (2d Cir. 2015), cert. denied, 136 S.Ct. 2505 (June 27, 2016), for example, the United States Court of Appeals for the Second Circuit held that the non-bank purchaser of defaulted credit card debt could not rely on preemption standards under the National Bank Act applicable to the originator of such debt in defense of usury claims. Madden addressed circumstances under which a defaulted extension of credit under a consumer credit card account was assigned, following default, to a non-bank debt buyer that then attempted to collect the loan and to continue charging interest at the contracted-for rate. The debtor filed a suit claiming, among other claims, that the rate charged by the non-bank collection entity exceeded the usury rates allowable for such entities under New York usury law. Reversing a lower court decision, the Second Circuit held that preemption standards under the National Bank Act applicable to the bank that issued the credit card were not available to the non-bank debt buyer as a defense to usury claims. Following denial of a petition for rehearing by the Second Circuit, the defendant sought review by the United States Supreme Court. Following the United States Supreme Court’s request that the Solicitor General file a brief setting forth the government’s position on whether the Supreme Court should hear the case in 2016, the Solicitor General filed its brief recommending that the petition for a writ of certiorari be denied for certain vehicle suitability reasons, although the Solicitor General’s brief concluded that the Second Circuit’s decision was substantively incorrect as a matter of law. The Supreme Court denied certiorari on June 27, 2016, such that the Second Circuit’s decision remains binding on federal courts in the Second Circuit (which include all federal courts in New York, Connecticut, and Vermont). Upon remand to the District Court for consideration of additional issues, including whether a choice of law provision in the debtor’s credit card agreement was enforceable to displace New York usury law and class certification, the parties settled the matter in 2019.

The scope and validity of the Second Circuit's Madden decision remain subject to challenge and clarification. For example, the Colorado Administrator of the Colorado Uniform Consumer Credit Code, or the UCCC, reached a settlement with respect to complaints against two online lending platforms whose operations share certain commonalities with ours, including with respect to the role of bank partners and sale of loans to investors. The complaints included, among other claims, allegations, grounded in the Second Circuit's Madden decision, that the rates and fees for certain loans could not be enforced lawfully by non-bank purchasers of bank-originated loans. Under the settlement, these banks and nonbank partners committed to, among other things, limit the annual percentage rates, or APR, on loans to Colorado consumers to 36% and take other actions to ensure that the banks were in fact the true lenders. The nonbanks also agreed to obtain and maintain a Colorado lending license. In Colorado, this settlement should provide a helpful model for what constitutes an acceptable bank partnership model. However, the settlement may also invite other states to initiate their own actions, and set their own regulatory standards through enforcement.

In addition, in June 2019 private plaintiffs filed class action complaints against multiple traditional credit card securitization programs, including, Petersen, et al. v. Chase Card Funding, LLC, et al., (No. 1:19-cv-00741-LJV-JJM (W.D.N.Y. June 6, 2019)) and Cohen, et al. v. Capital One Funding, LLC et al., (No. 19-03479 (E.D.N.Y. June 12, 2019)). In Petersen, the plaintiffs sought class action status against certain defendants affiliated with a national bank that have acted as special purpose entities in securitization transactions sponsored by the bank. The complaint alleges that the defendants' acquisition, collection and enforcement of the bank's credit card receivables violated New York's civil usury law and that, as in Madden, the defendants, as non-bank entities, are not entitled to the benefit of federal preemption of state usury law. The complaint sought a judgment declaring the receivables unenforceable, monetary damages and other legal and equitable remedies, such as disgorgement of all sums paid in excess of the usury limit. Cohen was a materially similar claim against a separate national bank. On January 22, 2020, the magistrate judge in Petersen issued a report and recommendation responding to the defendants' motion to dismiss. The magistrate recommended that the motion to dismiss be granted as to both of the plaintiffs' claims (usury and unjust enrichment). On September 21, 2020, the District Court accepted the magistrate's recommendation and dismissed all claims. The District Court found that the usury claims were expressly preempted by the National Bank Act and referenced the OCC's recent rulemaking (discussed further below) that "[i]nterest on a loan that is permissible under [the National Bank Act] shall not be affected by the sale, assignment, or other transfer of the loan." Among other things, the Court deferred to the "OCC's reasoned judgment that enforcing New York's usury laws against the Chase defendants would significantly interfere with [the bank's] exercise of its [National Bank Act] powers." The Cohen case was dismissed on September 29, 2020. The plaintiffs in both Cohen and Petersen filed, but ultimately dropped, their appeals of the decision to the second circuit.

As noted above, federal prudential regulators have also taken actions to address the Madden decision. On May 29, 2020, the OCC issued a final rule clarifying that, when a national bank or savings association sells, assigns, or otherwise transfers a loan, interest permissible before the transfer continues to be permissible after the transfer. That rule took effect on August 3, 2020. As discussed further below, the OCC also issued a rule pertaining to the "true lender" issue, which was challenged by state attorneys general in a complaint filed January 5, 2021, and subsequently repealed through the Congressional Review Act on June 30, 2021. Similarly, the FDIC finalized on June 25, 2020 its 2019 proposal declaring that the interest rate for a loan is determined when the loan is made, and will not be affected by subsequent events. On July 29, 2020, California, New York and Illinois filed suit in the U.S. District Court for the Northern District of California to enjoin enforcement of the OCC rule (Case No. 20-CV-5200) and, similarly in the same court, on August 20, 2020 California, Illinois, Massachusetts, Minnesota, New Jersey, New York, North Carolina, and the District of Columbia sought to enjoin enforcement of the FDIC rule (Case No. 20-CV-5860), in each case related to permissible interest rates post-loan transfer on the grounds that the OCC and FDIC exceeded their authority when promulgating those rules.

There are factual distinctions between our program and the circumstances addressed in the Second Circuit's Madden decision, as well as the circumstances in the Colorado UCCC settlement, credit card securitization litigation, and similar cases. As noted above, there are also bases on which the Madden decision's validity might be subject to challenge or the Madden decision may be addressed by federal regulation or legislation. Nevertheless, there can be no guarantee that a Madden-like claim will not be brought successfully against us or other Upstart program participants.

Additionally, Maine recently updated its Consumer Credit Code to include a statutory “true lender” test, providing that an entity is a “lender” subject to certain requirements of the Consumer Credit Code if the person, among other things: (i) has the predominant economic interest in a loan; (ii) brokers, arranges, or facilitates a loan and has the right to purchase the loan; or (iii) based on the totality of the circumstances, appears to be the lender, and the transaction is structured to evade certain statutory requirements. Me. Rev. Stat. § 2-702 . It is possible that other states may follow suit, instituting similar statutory “true lender” tests, which may impact the risk of true lender litigation in certain jurisdictions, as well as the tests applied by courts and regulators in determining the true lender. While such provisions provide additional clarity with respect to jurisdictional requirements, they may also result in increased usury and licensing risk. For example, Hawaii recently broadened its oversight of installment lenders, and other states may take different paths to promulgate similar “true lender” restrictions, and if not through a legislative path, impacted parties may have little to no advance notice of new restrictions and compliance obligations.

If a borrower or any state agency were to successfully bring a claim against us, our bank partners, our securitization vehicles and/or the trustees of such vehicles or our institutional investors for a state usury law or fee restriction violation and the rate or fee at issue on the loan was impermissible under applicable state law, we, our bank partners, securitization vehicles and/or trustees or investors in our loan funding programs may face various commercial and legal repercussions, including that such parties would not receive the total amount of interest expected, and in some cases, may not receive any interest or principal, may hold loans that are void, voidable, rescindable, or otherwise impaired or may be subject to monetary, injunctive or criminal penalties. Were such repercussions to apply to us, we may suffer direct monetary loss or may be a less attractive candidate for bank partners, securitization trustees or institutional investors to enter into or renew relationships; and were such repercussions to apply to our bank partners or institutional investors, such parties could be discouraged from using our platform. We may also be subject to payment of damages in situations where we agreed to provide indemnification, as well as fines and penalties assessed by state and federal regulatory agencies.

If loans facilitated through our platform for one or more bank partners were subject to successful challenge that the bank partner was not the “true lender,” such loans may be unenforceable, subject to rescission or otherwise impaired, we or other program participants may be subject to penalties, and/or our commercial relationships may suffer, each which would adversely affect our business and results of operations.

Upstart-powered loans are originated in reliance on the fact that our bank partners are the “true lenders” for such loans. That true lender status determines various Upstart-powered loan program details, including that we do not hold licenses required solely for being the party that extends credit to consumers, and Upstart-powered loans may involve interest rates and structures (and certain fees and fees structures) permissible at origination only because the loan terms and lending practices are permissible only when the lender is a bank, and/or the disclosures provided to borrowers would be accurate and compliant only if the lender is a bank. Because the loans facilitated by our platform are originated by our bank partners, many state consumer financial regulatory requirements, including usury restrictions (other than the restrictions of the state in which a bank partner originating a particular loan is located) and many licensing requirements and substantive requirements under state consumer credit laws, are treated as inapplicable based on principles of federal preemption or express exemptions provided in relevant state laws for certain types of financial institutions or loans they originate.

Certain recent litigation and regulatory enforcement has challenged, or is currently challenging, the characterization of bank partners as the “true lender” in connection with programs involving origination and/or servicing relationships between a bank partner and non-bank lending platform or program manager. As noted above, the Colorado Administrator has entered into a settlement agreement with certain banks and non-banks that addresses this true lender issue. Specifically, the settlement agreement sets forth a safe harbor indicating that a bank is the true lender if certain specific terms and conditions are met. However, other states could also bring lawsuits based on these types of relationships. For example, on June 5, 2020, the Washington, DC Attorney General filed a lawsuit against online lender Elevate for allegedly deceptively marketing high-cost loans with interest rates above the

Washington, DC usury cap. The usury claim is based on an allegation that Elevate, which was not licensed in Washington, DC, and not its partner bank, originated these loans, and were therefore in violation of the state's usury laws. Additionally, on April 5, 2021, the Washington DC Attorney General filed a similar complaint against online lender Opportunity Financial, LLC, alleging that it rather than a bank originated these loans and the loans were therefore in violation of Washington, DC usury laws. The Maryland Office of the Commissioner of Financial Regulation also recently alleged in the context of a civil suit that a state chartered bank and its fintech partners engaged in a bank partnership program that violated various state licensing and credit statutes. In June 2021, a putative class action lawsuit was filed against the online lender Marlette Funding LLC in the Court of Common Pleas of Allegheny County, Pennsylvania, alleging that the company, doing business as Best Egg, was the true lender of usurious loans, with a rate of interest far in excess of the 6% rate permitted to be charged in Pennsylvania by unlicensed non-banks, originated through a partnership with Cross River Bank (Case No. GD-21-007229). There is an ongoing risk that government agencies and private plaintiffs will seek to challenge these types of relationships.

We note that the OCC issued on October 27, 2020, a final rule to address the "true lender" issue for lending transactions involving a national bank. For certain purposes related to federal banking law, including the ability of a national bank to "export" interest-related requirements from the state from which they lend, the rule would treat a national bank as the "true lender" if it is named as the lender in the loan agreement or funds the loan. However, the rule was subsequently challenged by the Attorneys General from seven states and ultimately repealed by Congress pursuant to the Congressional Review Act on June 30, 2021. No similar rule applicable to state-chartered banks was issued by the FDIC, and thus there is no longer a clear federal standard.

We, bank partners, securitization vehicles and similarly situated parties could become subject to challenges like that presented by the Colorado settlement and, if so, we could face penalties and/or Upstart-powered loans may be void, voidable or otherwise impaired in a manner that may have adverse effects on our operations (directly, or as a result of adverse impact on our relationships with our bank partners, institutional investors or other commercial counterparties). However, we have taken steps to confirm that our business model conforms with the requirements of the Colorado safe harbor. We have also taken additional steps to facilitate compliance with that above-described law recently enacted in Maine.

There have been no formal proceedings against us or indication of any proceedings against us to date, but there can be no assurance that the Colorado Administrator will not make assertions similar to those made in its present actions with respect to the loans facilitated by our platform in the future.

It is also possible that other state agencies or regulators could make similar assertions. If a court, or a state or federal enforcement agency, were to deem Upstart, rather than our bank partners, the "true lender" for loans originated on our platform, and if for this reason (or any other reason) the loans were deemed subject to and in violation of certain state consumer finance laws, we could be subject to fines, damages, injunctive relief (including required modification or discontinuation of our business in certain areas) and other penalties or consequences, and the loans could be rendered void or enforceable in whole or in part, any of which could have a material adverse effect on our business (directly, or as a result of adverse impact on our relationships with our bank partners, institutional investors or other commercial counterparties).

The capped call transactions may affect the value of our common stock.

In connection with the issuance of the Notes (as defined below), we entered into capped call transactions with the counterparties. The capped call transactions cover, subject to customary adjustments, the number of shares of our common stock initially underlying the Notes. The capped call transactions are expected generally to reduce the potential dilution to our common stock upon any conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be.

From time to time, the counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the notes. This activity could also cause or prevent an increase or a decrease in the market price of our common stock or the Notes.

We are subject to counterparty risk with respect to the capped call transactions.

The counterparties to the capped call transactions entered into in connection with the offering of the Notes (as defined below) are financial institutions, and we are subject to the risk that one or more of the counterparties may default or otherwise fail to perform, or may exercise certain rights to terminate, their obligations under the capped call transactions. Our exposure to the credit risk of the counterparties will not be secured by any collateral. Global economic conditions have in the past resulted in the actual or perceived failure or financial difficulties of many financial institutions. If a counterparty to one or more capped call transactions becomes subject to bankruptcy or other insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under such transactions. Our exposure will depend on many factors but, generally, our exposure will increase if the market price or the volatility of our common stock increases. In addition, upon a default or other failure to perform, or a termination of obligations, by a counterparty, the counterparty may fail to deliver the shares of our common stock required to be delivered to us under the capped call transactions and we may suffer adverse tax consequences or experience more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the counterparties.

RISKS RELATED TO OUR REGULATORY ENVIRONMENT

Litigation, regulatory actions and compliance issues could subject us to significant fines, penalties, judgments, remediation costs and/or requirements resulting in increased expenses.

In the ordinary course of business, we have been named as a defendant in various legal actions, including a class action lawsuit and other litigation. Generally, this litigation arises from the dissatisfaction of a consumer with the products or services offered on our platform; some of this litigation, however, has arisen from other matters, including claims of violation of laws related to do-not-call, credit reporting and collections. All such legal actions are inherently unpredictable and, regardless of the merits of the claims, litigation is often expensive, time-consuming, disruptive to our operations and resources, and distracting to management. In addition, certain actions may include claims for indeterminate amounts of damages. Our involvement in any such matter also could cause significant harm to our or our bank partners' reputations and divert management attention from the operation of our business, even if the matters are ultimately determined in our favor. If resolved against us, legal actions could result in excessive verdicts and judgments, injunctive relief, equitable relief, and other adverse consequences that may affect our financial condition and how we operate our business.

In addition, a number of participants in the consumer financial services industry have been the subject of putative class action lawsuits, state attorney general actions and other state regulatory actions, federal regulatory enforcement actions, including actions relating to alleged unfair, deceptive or abusive acts or practices, violations of state licensing and lending laws, including state usury and disclosure laws, actions alleging discrimination on the basis of race, ethnicity, gender or other prohibited bases, and allegations of noncompliance with various state and federal laws and regulations relating to originating, servicing, and collecting consumer finance loans and other consumer financial services and products. The current regulatory environment, increased regulatory compliance efforts and enhanced regulatory enforcement have resulted in us undertaking significant time-consuming and expensive operational and compliance improvement efforts, which may delay or preclude our or our bank partners' ability to provide certain new products and services. There is no assurance that these regulatory matters or other factors will not, in the future, affect how we conduct our business and, in turn, have a material adverse effect on our business. In particular, legal proceedings brought under state consumer protection statutes or under several of the various federal consumer financial services statutes may result in a separate fine assessed for each statutory and regulatory violation or substantial damages from class action lawsuits, potentially in excess of the amounts we earned from the underlying activities.

Some of our agreements used in the course of our business include arbitration clauses. If our arbitration agreements were to become unenforceable for any reason, we could experience an increase to our consumer litigation costs and exposure to potentially damaging class action lawsuits, with a potential material adverse effect on our business and results of operations.

We contest our liability and the amount of damages, as appropriate, in each pending matter. The outcome of pending and future matters could be material to our results of operations, financial condition and cash flows, and could materially adversely affect our business.

In addition, from time to time, through our operational and compliance controls, we identify compliance issues that require us to make operational changes and, depending on the nature of the issue, result in financial remediation to impacted borrowers. These self-identified issues and voluntary remediation payments could be significant, depending on the issue and the number of borrowers impacted, and could generate litigation or regulatory investigations that subject us to additional risk.

We are subject to or facilitate compliance with a variety of federal, state, and local laws, including those related to consumer protection and loan financings.

We must comply with regulatory regimes or facilitate compliance with regulatory regimes on behalf of our bank partners that are independently subject to federal and/or state oversight by bank regulators, including those applicable to our referral and marketing services, consumer credit transactions, loan servicing and collection activities and the purchase and sale of whole loans and other related transactions. The current presidential administration has brought an increased focus on enforcement of federal consumer protection laws and has appointed consumer-oriented regulators at federal agencies such as the CFPB and the OCC. It is possible that regulators in the presidential administration could promulgate rulemakings and bring enforcement actions that materially impact our business and the business of our originating bank partners. For example, the recently appointed CFPB Director indicated in remarks in October 2021 that safeguarding against algorithmic bias is a priority for the CFPB under the new leadership. These regulators may augment requirements that apply to loans facilitated by our platform, or impose new programs and restrictions, including forbearance initiatives related to the COVID-19 pandemic, and could otherwise revise or create new regulatory requirements that apply to us (or our bank partners), impacting our business, operations, and profitability.

Certain state laws generally regulate interest rates and other charges and require certain disclosures. In addition, other federal and state laws may apply to the origination, servicing and collection of loans originated on our platform, the purchase and sale of whole loans or asset-backed securitizations. In particular, certain laws, regulations and rules we or our bank partners are subject to include:

- state lending laws and regulations that require certain parties to hold licenses or other government approvals or filings in connection with specified activities, and impose requirements related to loan disclosures and terms, fees and interest rates, credit discrimination, credit reporting, servicemember relief, debt collection, repossession, unfair or deceptive business practices and consumer protection, as well as other state laws relating to privacy, information security, conduct in connection with data breaches and money transmission;
- the Truth-in-Lending Act and Regulation Z promulgated thereunder, and similar state laws, which require certain disclosures to borrowers regarding the terms and conditions of their loans and credit transactions, require creditors to comply with certain lending practice restrictions, limit the ability of a creditor to impose certain loan terms and impose disclosure requirements in connection with credit card origination;
- the Equal Credit Opportunity Act and Regulation B promulgated thereunder, and similar state fair lending laws, which prohibit creditors from discouraging or discriminating against credit applicants on the basis of race, color, sex, age, religion, national origin, marital status, the fact that all or part of the applicant’s income derives from any public assistance program or the fact that the applicant has in good faith exercised any right under the federal Consumer Credit Protection Act;
- the Fair Credit Reporting Act and Regulation V promulgated thereunder, imposes certain obligations on users of consumer reports and those that furnish information to consumer reporting agencies, including obligations relating to obtaining consumer reports, marketing using consumer reports, taking adverse action

on the basis of information from consumer reports, addressing risks of identity theft and fraud and protecting the privacy and security of consumer reports and consumer report information;

- Section 5 of the Federal Trade Commission Act, which prohibits unfair and deceptive acts or practices in or affecting commerce, and Section 1031 of the Dodd-Frank Act, which prohibits unfair, deceptive or abusive acts or practices in connection with any consumer financial product or service, and analogous state laws prohibiting unfair, deceptive or abusive acts or practices;
- the Credit Practices Rule which (i) prohibits lenders from using certain contract provisions that the Federal Trade Commission has found to be unfair to consumers; (ii) requires lenders to advise consumers who co-sign obligations about their potential liability if the primary obligor fails to pay; and (iii) prohibits certain late charges;
- the Fair Debt Collection Practices Act, Regulation F, and similar state debt collection laws, which provide guidelines and limitations on the conduct of third-party debt collectors (and some limitation on creditors collecting their own debts) in connection with the collection of consumer debts;
- the Gramm-Leach-Bliley Act and Regulation P promulgated thereunder, which includes limitations on financial institutions' disclosure of nonpublic personal information about a consumer to nonaffiliated third parties, in certain circumstances requires financial institutions to limit the use and further disclosure of nonpublic personal information by nonaffiliated third parties to whom they disclose such information and requires financial institutions to disclose certain privacy notices and practices with respect to information sharing with affiliated and unaffiliated entities as well as to safeguard personal borrower information, and other privacy laws and regulations;
- the Bankruptcy Code, which limits the extent to which creditors may seek to enforce debts against parties who have filed for bankruptcy protection;
- the Servicemembers Civil Relief Act, which allows military members to suspend or postpone certain civil obligations, requires creditors to reduce the interest rate to 6% on loans to military members under certain circumstances, and imposes restrictions on enforcement of loans to servicemembers, so that the military member can devote his or her full attention to military duties;
- the Military Lending Act, which requires those who lend to "covered borrowers", including members of the military and their dependents, to only offer Military APRs (a specific measure of all-in-cost-of-credit) under 36%, prohibits arbitration clauses in loan agreements, and prohibits certain other loan agreement terms and lending practices in connection with loans to military servicemembers, among other requirements, and for which violations may result in penalties including voiding of the loan agreement;
- the Electronic Fund Transfer Act and Regulation E promulgated thereunder, which provide guidelines and restrictions on the electronic transfer of funds from consumers' bank accounts, including a prohibition on a creditor requiring a consumer to repay a credit agreement in preauthorized (recurring) electronic fund transfers and disclosure and authorization requirements in connection with such transfers;
- the Telephone Consumer Protection Act and the regulations promulgated thereunder, which impose various consumer consent requirements and other restrictions in connection with telemarketing activity and other communication with consumers by phone, fax or text message, and which provide guidelines designed to safeguard consumer privacy in connection with such communications;
- the Federal Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 and the Telemarketing Sales Rule and analogous state laws, which impose various restrictions on marketing conducted use of email, telephone, fax or text message;
- the Electronic Signatures in Global and National Commerce Act and similar state laws, particularly the Uniform Electronic Transactions Act, which authorize the creation of legally binding and enforceable agreements utilizing electronic records and signatures and which require creditors and loan servicers to obtain a consumer's consent to electronically receive disclosures required under federal and state laws and regulations;

- the Right to Financial Privacy Act and similar state laws enacted to provide the financial records of financial institution customers a reasonable amount of privacy from government scrutiny;
- the Bank Secrecy Act and the USA PATRIOT Act, which relate to compliance with anti-money laundering, borrower due diligence and record-keeping policies and procedures;
- the regulations promulgated by the Office of Foreign Assets Control under the U.S. Treasury Department related to the administration and enforcement of sanctions against foreign jurisdictions and persons that threaten U.S. foreign policy and national security goals, primarily to prevent targeted jurisdictions and persons from accessing the U.S. financial system;
- federal and state securities laws, including, among others, the Securities Act of 1933, as amended, or the Securities Act, the Exchange Act, the Investment Advisers Act of 1940, as amended, or the IAA, and the Investment Company Act of 1940, as amended, or the Investment Company Act, rules and regulations adopted under those laws, and similar state laws and regulations, which govern how we offer, sell and transact in our loan financing products; and
- other state-specific and local laws and regulations.

We may not always have been, and may not always be, in compliance with these and other applicable laws, regulations and rules. Compliance with these requirements is also costly, time-consuming and limits our operational flexibility. Additionally, Congress, the states and regulatory agencies, as well as local municipalities, could further regulate the consumer financial services industry in ways that make it more difficult or costly for us to offer our AI lending platform and related services or facilitate the origination of loans for our bank partners. These laws also are often subject to changes that could severely limit the operations of our business model. For example, in 2019, a bill was introduced in the U.S. Senate that would create a national cap of the lesser of 15% APR or the maximum rate permitted by the state in which the consumer resides. Although such a bill may never be enacted into law, if such a bill were to be enacted, it would greatly restrict the number of loans that could be funded through our platform. Further, changes in the regulatory application or judicial interpretation of the laws and regulations applicable to financial institutions also could impact the manner in which we conduct our business. The regulatory environment in which financial institutions operate has become increasingly complex, and following the financial crisis that began in 2008, supervisory efforts to apply relevant laws, regulations and policies have become more intense. Additionally, states are increasingly introducing and, in some cases, passing laws that restrict interest rates and APRs on loans similar to the loans made on our platform. For example, on March 23, 2021, Illinois enacted a law to cap interest rates at an “all-in” 36% APR. Further, in late 2020, California created a “mini-CFPB,” which could increase its oversight over bank partnership relationships and strengthen state consumer protection authority of state regulators to police debt collections and unfair, deceptive or abusive acts and practices. Voter referendums also have been introduced and, in some cases, passed, restrictions on interest rates and/or APRs. If such legislation or bills were to be propagated, or state or federal regulators seek to restrict regulated financial institutions such as our bank partners from engaging in business with Upstart in certain ways, our bank partners’ ability to originate loans in certain states could be greatly reduced, and as a result, our business, financial condition and results of operations would be adversely affected.

Where applicable, we seek to comply with state broker, credit service organization, small loan, finance lender, servicing, collection, money transmitter and similar statutes. Nevertheless, if we are found to not comply with applicable laws, we could lose one or more of our licenses or authorizations, become subject to greater scrutiny by other state regulatory agencies, face other sanctions or be required to obtain a license in such jurisdiction, which may have an adverse effect on our ability to continue to facilitate loans, perform our servicing obligations or make our platform available to consumers in particular states, which may harm our business. Further, failure to comply with the laws and regulatory requirements applicable to our business and operations may, among other things, limit our ability to collect all or part of the principal of or interest on Upstart-powered loans. In addition, non-compliance could subject us to damages, revocation of required licenses, class action lawsuits, administrative enforcement actions, rescission rights held by investors in securities offerings and civil and criminal liability, all of which would harm our business.

Internet-based loan origination processes may give rise to greater risks than paper-based processes and may not always be allowed under state law.

We use the internet to obtain application information and distribute certain legally required notices to applicants and borrowers, and to obtain electronically signed loan documents in lieu of paper documents with actual borrower signatures. These processes may entail greater risks than would paper-based loan origination processes, including risks regarding the sufficiency of notice for compliance with consumer protection laws, risks that borrowers may challenge the authenticity of loan documents, and risks that despite internal controls, unauthorized changes are made to the electronic loan documents. In addition, our software could contain “bugs” that result in incorrect calculations or disclosures or other non-compliance with federal or state laws or regulations. If any of those factors were to cause any loans, or any of the terms of the loans, to be unenforceable against the borrowers, or impair our ability to service loans, the performance of the underlying promissory notes could be adversely affected.

For auto loans issued under our new auto lending platform, certain state laws may not allow for electronic lien and title transfer, which would require us to use a paper-based title process to secure title to the underlying collateral. While this process may help mitigate some of the risks associated with online processes, because it is outside of our usual practices and titling rules can vary by state, we may encounter greater difficulty complying with the proper procedures. If we fail to effectively follow such procedures we may, among other things, be limited in our ability to secure the collateral associated with loans issued under our auto lending platform.

If we are found to be operating without having obtained necessary state or local licenses, our business, financial condition and results of operations could be adversely affected.

Certain states have adopted laws regulating and requiring licensing by parties that engage in certain activities regarding consumer finance transactions, including facilitating and assisting such transactions in certain circumstances. Furthermore, certain states and localities have also adopted laws requiring licensing for consumer debt collection or servicing and/or purchasing or selling consumer loans. While we believe we have obtained or are in the process of obtaining all necessary licenses, the application of some consumer finance licensing laws to our AI lending platform and the related activities we perform, as well as to our banking partners, is unclear. In addition, state licensing requirements may evolve over time, including, in particular, recent trends toward increased licensing requirements and regulation of parties engaged in loan solicitation and student loan servicing activities. States also maintain licensing requirements pertaining to the transmission of money, and certain states may broadly interpret such licensing requirements to cover loan servicing and the transmission of funds to investors. If we or one of our banking partners were found to be in violation of applicable state licensing requirements by a court or a state, federal, or local enforcement agency, we could be subject to fines, damages, injunctive relief (including required modification or discontinuation of our business in certain areas), criminal penalties and other penalties or consequences, and the loans originated by our bank partners on our platform could be rendered void or unenforceable in whole or in part, any of which could have a material adverse effect on our business.

The CFPB has sometimes taken expansive views of its authority to regulate consumer financial services, creating uncertainty as to how the agency’s actions or the actions of any other agency could impact our business.

The CFPB, which commenced operations in July 2011, has broad authority to create and modify regulations under federal consumer financial protection laws and regulations, such as the Truth in Lending Act and Regulation Z, ECOA and Regulation B, the Fair Credit Reporting Act, the Electronic Funds Transfer Act and Regulation E, among other regulations, and to enforce compliance with those laws. The CFPB supervises banks, thrifts and credit unions with assets over $10 billion and examines certain of our bank partners. Further, the CFPB is charged with the examination and supervision of certain participants in the consumer financial services market, including short-term, small dollar lenders, and larger participants in other areas of financial services. The CFPB is also authorized to prevent “unfair, deceptive or abusive acts or practices” through its rulemaking, supervisory and enforcement authority. To assist in its enforcement, the CFPB maintains an online complaint system that allows consumers to log complaints with respect to various consumer finance products, including our loan products. This system could inform future CFPB decisions with respect to its regulatory, enforcement or examination focus. The CFPB may also request reports concerning our organization, business conduct, markets and activities and conduct on-site examinations of our business on a periodic basis if the CFPB were to determine, through its complaint system, that we were engaging in activities that pose risks to consumers.

There continues to be uncertainty about the future of the CFPB and as to how its strategies and priorities, including in both its examination and enforcement processes, will impact our business and our results of operations going forward. This uncertainty is increased in light of the fact that the new director of the CFPB has new examination and enforcement priorities, including safeguarding against algorithmic bias. Our current no-action letter expires on November 30, 2023, unless terminated by the CFPB earlier for one of the bases provided for by the no-action letter, and there is no assurance that the CFPB will permit us to continue to operate under its current no-action letter policies or that it will not change its position regarding supervisory or enforcement action against us in the future. Further, this no-action letter does not extend to other credit products offered on Upstart's platform. In addition, evolving views regarding the use of alternative variables and machine learning in assessing credit risk could result in the CFPB taking actions that result in requirements to alter or cease offering affected financial products and services, making them less attractive and restricting our ability to offer them. For example, in response to a February 2020 inquiry, three members of the U.S. Senate recommended as part of their findings, that the CFPB further review Upstart's use of educational variables in its model. The CFPB could also implement rules that restrict our effectiveness in servicing our financial products and services.

Although we have committed resources to enhancing our compliance programs, future actions by the CFPB (or other regulators) against us, our bank partners or our competitors could discourage the use of our services or those of our bank partners, which could result in reputational harm, a loss of bank partners, borrowers or investors in our loan funding programs, or discourage the use of our or their services and adversely affect our business. If the CFPB changes regulations that were adopted in the past by other regulators and transferred to the CFPB by the Dodd-Frank Act, or modifies through supervision or enforcement past regulatory guidance or interprets existing regulations in a different or stricter manner than they have been interpreted in the past by us, the industry or other regulators, our compliance costs and litigation exposure could increase materially. This is particularly true with respect to the application of ECOA and Regulation B to credit risk models that rely upon alternative variables and machine learning, an area of law where regulatory guidance is currently uncertain and still evolving, and for which there are not well-established regulatory norms for establishing compliance.

The new presidential administration has appointed and is expected to continue to appoint consumer-oriented regulators at federal agencies such as the CFPB, Federal Trade Commission, the OCC and the FDIC and the government's focus on enforcement of federal consumer protection laws is expected to increase. It is possible that these newly appointed regulators could promulgate rulemakings and bring enforcement actions that materially impact our business and the business of our bank partners. If future regulatory or legislative restrictions or prohibitions are imposed that affect our ability to offer certain of our products or that require us to make significant changes to our business practices, and if we are unable to develop compliant alternatives with acceptable returns, these restrictions or prohibitions could have a material adverse effect on our business. If the CFPB, or another regulator, were to issue a consent decree or other similar order against us, this could also directly or indirectly affect our results of operations.

Our compliance and operational costs and litigation exposure could increase if and when the CFPB or another agency amends or finalizes any proposed regulations, including the regulations discussed above or if the CFPB or other regulators enact new regulations, change regulations that were previously adopted, modify, through supervision or enforcement, past regulatory guidance, or interpret existing regulations in a manner different or stricter than have been previously interpreted.

We have been in the past and may in the future be subject to federal and state regulatory inquiries regarding our business.

We have, from time to time in the normal course of our business, received, and may in the future receive or be subject to, inquiries or investigations by state and federal regulatory agencies and bodies such as the CFPB, FTC, state Attorneys General, the SEC, state financial regulatory agencies and other state or federal agencies or bodies regarding the Upstart platform, including the marketing of loans for lenders, underwriting and pricing of consumer loans for our bank partners, our fair lending compliance program and licensing and registration requirements. We have addressed these inquiries directly and engaged in open dialogue with regulators. For example, following constructive and transparent discussions with the CFPB regarding the manner in which our platform operates in compliance with federal fair lending laws, we applied for and received a no-action letter from the CFPB that stated the CFPB had no present intent to recommend initiation of supervisory or enforcement action against us with respect to ECOA as it pertains to the use of our AI model to underwrite applicants for unsecured non-revolving credit. Under the terms of the 2020 no-action letter, we are required to continue to share certain information with the CFPB regarding the updates to our model and the variables it considers, loan performance reports, the results of fair lending tests we conduct, and research we conduct to identify less discriminatory alternatives, as well as information on how our AI models expand access to credit for traditionally underserved populations. We must also update the CFPB of material changes to information included in our no-action letter application or if our products or services are not performing as expected in a material way. Such no-action letter expires on November 30, 2023, unless terminated by the CFPB earlier for one of the bases provided for by the no-action letter. We can provide no assurance that the CFPB will continue to provide such relief, and it is possible the CFPB will change its position regarding supervisory or enforcement action against us in the future. Further, this no-action letter does not extend to other credit products offered on Upstart's platform. Moreover, were we determined to be conducting business contrary to the facts presented to, and relied on, by the CFPB in issuing the no-action letter, we would be subject to heightened enforcement risk by the CFPB. We have also received an inquiry from the North Carolina Department of Justice regarding our role in facilitating the origination of loans for educational purposes. We have provided information in response to that inquiry, and cannot provide any assurances regarding the outcome of that inquiry.

We have also received inquiries from state regulatory agencies regarding requirements to obtain licenses from or register with those states, including in states where we have determined that we are not required to obtain such a license or be registered with the state, and we expect to continue to receive such inquiries. Any such inquiries or investigations could involve substantial time and expense to analyze and respond to, could divert management's attention and other resources from running our business, and could lead to public enforcement actions or lawsuits and fines, penalties, injunctive relief, and the need to obtain additional licenses that we do not currently possess. Our involvement in any such matters, whether tangential or otherwise and even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation, lead to additional investigations and enforcement actions from other agencies or litigants, and further divert management attention and resources from the operation of our business. Formal enforcement actions are generally made public, which carries reputational risk. The market price of our common stock could decline as a result of the initiation of a CFPB investigation of Upstart or even the perception that such an investigation could occur, even in the absence of any finding by the CFPB that we have violated any state or federal law. As a result, the outcome of legal and regulatory actions arising out of any state or federal inquiries we receive could be material to our business, results of operations, financial condition and cash flows and could have a material adverse effect on our business, financial condition or results of operations.

For nonbank financial institutions, the FTC is also a primary regulator, and in recent years the FTC has been focused on practices of financial technology companies. Based on publicly available actions, the FTC's primary focus has been with respect to financial technology company marketing and disclosure practices. For instance, in October 2018 the FTC took action against student loan refinance lender SoFi, claiming that the company made prominent false statements regarding the average savings a consumer would realize over the lifetime of the loan if they refinanced with SoFi. In addition, SoFi allegedly exaggerated claims of anticipated borrower savings by excluding certain customer populations from the analysis. In addition, in July 2021 the FTC settled litigation with LendingClub regarding, among other things, the adequacy of its disclosures of an origination fee associated with the product. Based upon statements by FTC officials, we believe this scrutiny will continue in the near future. While we maintain policies and procedures that require our marketing and loan application and servicing operations comply with UDAP standards, we may not be successful in our efforts to achieve compliance either due to internal or external factors, such as resource allocation limitations or a lack of vendor cooperation.

The collection, processing, storage, use and disclosure of personal data could give rise to liabilities as a result of existing or new governmental regulation, conflicting legal requirements or differing views of personal privacy rights.

We receive, transmit and store a large volume of personally identifiable information and other sensitive data from applicants and borrowers. Each bank partner can access information about their respective borrowers and declined applicants via daily loan reports and other reporting tools that are provided via the platform. For loan investors, while we generally limit access to personally identifiable information, we do share some personally identifiable information about borrowers with certain investors in our loan funding programs. There are federal, state and foreign laws regarding privacy and the storing, sharing, use, disclosure and protection of personally identifiable information and sensitive data. Specifically, cybersecurity and data privacy issues, particularly with respect to personally identifiable information are increasingly subject to legislation and regulations to protect the privacy and security of personal information that is collected, processed and transmitted. For example, the Gramm-Leach-Bliley Act includes limitations on financial institutions' disclosure of nonpublic personal information about a consumer to nonaffiliated third parties, in certain circumstances requires financial institutions to limit the use and further disclosure of nonpublic personal information by nonaffiliated third parties to whom they disclose such information and requires financial institutions to disclose certain privacy notices and practices with respect to information sharing with affiliated and unaffiliated entities as well as to safeguard personal borrower information. Privacy requirements under the GLBA are enforced by the CFPB, as well as the Federal Trade Commission, or FTC, and under Section 5 of the Federal Trade Commission Act, we and our bank partners are prohibited from engaging in unfair and deceptive acts and practices, or UDAP.

In addition, the California Consumer Privacy Act, or the CCPA, which went into effect on January 1, 2020, requires, among other things, that covered companies provide disclosures to California consumers and afford such consumers new abilities to opt-out of certain sales or retention of their personal information by us. Aspects of the CCPA and its interpretation remain unclear. We cannot fully predict the impact of the CCPA on our business or operations, but it may require us to further modify our data infrastructure and data processing practices and policies and to incur additional costs and expenses in an effort to continue to comply. In addition, California voters approved Proposition 24 in the November 2020 election to create the California Privacy Rights Act, which amends and purports to strengthen the CCPA and will create a state agency to enforce privacy laws. The CPRA creates obligations relating to consumer data beginning on January 1, 2022, with implementing regulations expected on or before July 1, 2022, and enforcement beginning July 1, 2023. Following the enactment of the CCPA, in 2021, Virginia enacted the Virginia Consumer Data Protection Act of 2021, or VCDPA, and Colorado enacted the Colorado Privacy Act, or CPA. Several other states are considering enacting similar legislation. Additionally, other U.S. states are proposing and enacting laws and regulations that impose obligations similar to the CCPA or that otherwise involve significant obligations and restrictions. Compliance with current and future borrower privacy data protection and information security laws and regulations could result in higher compliance, technical or operating costs. Further, any actual or perceived violations of these laws and regulations may require us to change our business practices, data infrastructure or operational structure, address legal claims and regulatory investigations and proceedings and sustain monetary penalties and/or other harms to our business. We could also be adversely affected if new legislation or regulations are adopted or if existing legislation or regulations are modified such that we are required to alter our systems or change our business practices or privacy policies.

As the regulatory framework for artificial intelligence and machine learning technology evolves, our business, financial condition and results of operations may be adversely affected.

The regulatory framework for artificial intelligence and machine learning technology is evolving and remains uncertain. It is possible that new laws and regulations will be adopted in the United States, or existing laws and regulations may be interpreted in new ways, that would affect the operation of our platform and the way in which we use artificial intelligence and machine learning technology, including with respect to fair lending laws. Further, the cost to comply with such laws or regulations could be significant and would increase our operating expenses, which could adversely affect our business, financial condition and results of operations. For example, on March 29, 2021, the federal financial regulators issued a request for information to enable them to better understand how artificial intelligence and machine learning are utilized in financial services, and the information and views obtained could serve as a basis for future regulations.

If we are required to register under the Investment Company Act, our ability to conduct business could be materially adversely affected.

The Investment Company Act contains substantive legal requirements that regulate the manner in which "investment companies" are permitted to conduct their business activities. In general, an "investment company" is a company that holds itself out as an investment company or holds more than 40% of the total value of its assets (minus cash and government securities) in "investment securities." We believe we are not an investment company. We do not hold ourselves out as an investment company. We understand, however, that the loans held on our balance sheet could be viewed by the SEC or its staff as "securities," which could in turn cause the SEC or its staff to view Upstart Holdings, Inc., Upstart Network, Inc., or an affiliate as an "investment company" subject to regulation under the Investment Company Act. To provide clarity on this issue, we applied for and, on December 1, 2020, received an exemptive order from the SEC exempting us from regulation under the Investment Company Act, subject to certain conditions. Notwithstanding the exemptive order, we believe that we have never been an investment company because, among other reasons, we are primarily engaged in the business of providing an AI-based lending platform to banks.

Exemptive orders provided by the SEC under the Investment Company Act may cease to be effective if the facts and analysis upon which they are based materially change or the recipient of the order fails to comply with conditions outlined in the order. Although not currently anticipated, it is possible that our business will change in the future in a way that causes the exemptive order to no longer apply to our business, either because the facts of how we conduct our business change or because we no longer meet the conditions outlined in the order. If the exemptive order ceases to apply to our business, we could be deemed an investment company and may be required to institute burdensome compliance requirements, restricting our activities in a way that could adversely affect our business, financial condition and results of operations. If we were ever deemed to be in non-compliance with the Investment Company Act, we could also be subject to various penalties, including administrative or judicial proceedings that might result in censure, fine, civil penalties, cease-and-desist orders or other adverse consequences, as well as private rights of action, any of which could materially adversely affect our business.

If we are required to register under the Investment Advisers Act, our ability to conduct business could be materially adversely affected.

The IAA contains substantive legal requirements that regulate the manner in which "investment advisers" are permitted to conduct their business activities. We do not believe that we or our affiliates are required to register as an investment adviser with either the SEC or any of the various states, because our business consists of providing a platform for consumer lending and loan financing for which investment adviser registration and regulation does not apply under applicable federal or state law. However, one of our affiliates, Upstart Network, Inc., has notice filed as an exempt reporting adviser with the state of California based on its limited activities advising two funds.

While we believe our current practices do not require us or any of our other affiliates subsidiaries to register or notice file as an investment adviser, or require us to extend regulations related to Upstart Network, Inc.'s status as an exempt reporting adviser to our other operations, if a regulator were to disagree with our analysis with respect to any portion of our business, we or a subsidiary may be required to register or notice file as an investment adviser and to comply with applicable law. Registering as an investment adviser could adversely affect our method of operation and revenues. For example, the IAA requires that an investment adviser act in a fiduciary capacity for its clients. Among other things, this fiduciary obligation requires that an investment adviser manage a client's portfolio in the best interests of the client, have a reasonable basis for its recommendations, fully disclose to its client any material conflicts of interest that may affect its conduct and seek best execution for transactions undertaken on behalf of its client. The IAA also limits the ways in which a company can market its services and offerings. It could be difficult for us to comply with these obligations without meaningful changes to our business operations, and there is no guarantee that we could do so successfully. If we were ever deemed to be in non-compliance with applicable investment adviser regulations, we could also be subject to various penalties, including administrative or judicial proceedings that might result in censure, fine, civil penalties, cease-and-desist orders or other adverse consequences, as well as private rights of action, any of which could materially adversely affect our business.

If our transactions with investors in our loan funding programs are found to have been conducted in violation of the Securities Act or similar state law, or we have generally violated any applicable law, our ability to obtain financing for loans facilitated through our platform could be materially adversely affected, and we could be subject to private or regulatory actions.

Certain transactions in our loan funding programs or related to acquisitions may rely or have relied on exemptions from the registration requirements of the Securities Act provided for in Regulation D or Section 4(a)(2) of the Securities Act. If any of these transactions were found to not be in compliance with the requirements necessary to qualify for these exemptions from Securities Act registration, or otherwise found to be in violation of the federal or state securities laws, our business could be materially adversely affected. The SEC or state securities regulators could bring enforcement actions against us, or we could be subject to private litigation risks as a result of any violation of the federal or state securities laws, which could result in civil penalties, injunctions and cease and desist orders from further violations, as well as monetary penalties of disgorgement, pre-judgment interest, rescission of securities sales, or civil penalties, any of which could materially adversely affect our business.

If we are found to be in violation of state or federal law generally, we also may be limited in our ability to conduct future transactions. For example, we could in the future become ineligible to sell securities under Regulation D if we become subject to “bad actor” disqualification pursuant to Rule 506(d) of Regulation D. Under Rule 506(d), issuers are ineligible “bad actors” if they or certain related persons, including directors and certain affiliates, are subject to disqualifying events, including certain cease-and-desist orders obtained by the SEC. If we were subject to this or other “bad actor” provisions of the securities laws, we may not be able to continue sales of whole loans, fractional interests in loans, or asset-backed securities, or we could be subject to significant additional expense associated with making our offerings, which would adversely affect our business, financial condition and results of operations.

If we are required to register with the SEC or under state securities laws as a broker-dealer, our ability to conduct business could be materially adversely affected.

We are not currently registered with the SEC as a broker-dealer under the Exchange Act or any comparable state law. The SEC heavily regulates the manner in which broker-dealers are permitted to conduct their business activities. We believe we have conducted, and we intend to continue to conduct, our business in a manner that does not result in our being characterized as a broker-dealer, based on guidance published by the SEC and its staff. Among other reasons, this is because we do not believe we take any compensation that would be viewed as being based on any transactions in securities in any of our business lines. To the extent that the SEC or its staff publishes new or different guidance with respect to these matters, we may be required to adjust our business operations accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could inhibit our ability to conduct our business operations. There can be no assurance that the laws and regulations governing our broker-dealer status or that SEC guidance will not change in a manner that adversely affects our operations. If we are deemed to be a broker-dealer, we may be required to institute burdensome compliance requirements and our activities may be restricted, which would adversely affect our business, financial condition and results of operations. We may also be subject to private litigation and potential rescission of certain investments investors in our loan financing products have made, which would harm our operations as well.

Similarly, we do not believe that our sales of whole loans and asset-backed securities will subject us to broker-dealer registration in any state in which we operate, primarily because we do not accept compensation that we believe could be viewed as transaction-based. However, if we were deemed to be a broker-dealer under a state’s securities laws, we could face civil penalties, or costly registration requirements, that could adversely affect our business.

Anti-money laundering, anti-terrorism financing, anti-corruption and economic sanctions laws could have adverse consequences for us.

We maintain a compliance program designed to enable us to comply with all applicable anti-money laundering and anti-terrorism financing laws and regulations, including the Bank Secrecy Act and the USA PATRIOT Act and U.S. economic sanctions laws administered by the Office of Foreign Assets Control. This program includes policies, procedures, processes and other internal controls designed to identify, monitor, manage and mitigate the risk of money laundering and terrorist financing and engaging in transactions involving sanctioned countries, persons and entities. These controls include procedures and processes to detect and report suspicious transactions, perform borrower due diligence, respond to requests from law enforcement, and meet all recordkeeping and reporting requirements related to particular transactions involving currency or monetary instruments. During 2020, we failed to file timely reports of suspicious transactions as required with appropriate regulatory agencies. We remediated the failure to file and have added additional resources to support our compliance with these reporting requirements. We are also subject to anti-corruption and anti-bribery and similar laws, such as the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, and the U.S. Travel Act, which prohibit companies and their employees and agents from promising, authorizing, making, or offering improper payments or other benefits to government officials and others in the private sector in order to influence official action, direct business to any person, gain any improper advantage, or obtain or retain business. We have implemented an anti-corruption policy to ensure compliance with these anti-corruption and anti-bribery laws. No assurance is given that our programs and controls will be effective to ensure compliance with all applicable anti-money laundering and anti-terrorism financing and anti-corruption laws and regulations, and our failure to comply with these laws and regulations could subject us to significant sanctions, fines, penalties, contractual liability to our bank partners or institutional investors, and reputational harm, all of which could harm our business.

Our securitizations, whole loan sales and warehouse facilities expose us to certain risks, and we can provide no assurance that we will be able to access the securitization or whole loan sales markets, or secured warehouse credit facilities, in the future, which may require us to seek more costly financing.

We have facilitated the securitizations, and may in the future facilitate securitizations, of certain loans acquired from our bank partners in order to allow certain of our originating bank partners, our whole loan purchasers and ourselves to liquidate their loans through the asset-backed securities markets or through other capital markets products. In term asset-backed securities transactions, we sell and convey pools of loans to a special purpose entity, or SPE. We likewise fund certain loans on our balance sheet by selling loans to warehouse trust SPEs, which loan sales are partially financed with associated warehouse credit facilities from banks. Concurrently, each securitization SPE issues notes or certificates pursuant to the terms of indentures and trust agreements, or in the case of the warehouse facilities, the warehouse trust SPE borrows money from banks pursuant to credit and security agreements. The securities issued by the SPEs in asset-backed securitization transactions and the lines of credit borrowed by the warehouse SPEs are each secured by the pool of loans owned by the applicable SPE. In exchange for the sale of a portion of a given pool of loans to the SPE, we and/or our whole loan purchasers who contribute loans to the transactions receive cash and/or securities representing equity interests in such SPE, which are the proceeds from the sale of the securities. The equity interests the SPEs are residual interests in that they entitle the equity owners of such SPEs, including us, to a certain proportion of the residual cash flows, if any, from the loans and to any assets remaining in such SPEs once the notes are satisfied and paid in full (or in the case of a revolving loan, paid in full and all commitments terminated). As a result of challenging credit and liquidity conditions, the value of the subordinated securities we or other transaction participants retain in such SPEs might be reduced or, in some cases, eliminated.

During periods of financial disruption, such as the financial crisis that began in 2008 and the COVID-19 pandemic that began in early 2020, the securitization market has constrained, and this could continue or occur again in the future. In addition, other matters, such as (i) accounting standards applicable to securitization transactions and (ii) capital and leverage requirements applicable to banks and other regulated financial institutions holding asset-backed securities, could result in decreased investor demand for securities issued through our securitization transactions, or increased competition from other institutions that undertake securitization transactions. In addition, compliance with certain regulatory requirements, including the Dodd-Frank Act, the Investment Company Act and the so-called “Volcker Rule,” may affect the type of securitizations that we are able to complete.

If it is not possible or economical for us to securitize loans in the future, we would need to seek alternative financing to support our loan funding programs and to meet our existing debt obligations. Such funding may not be available on commercially reasonable terms, or at all. If the cost of such loan funding mechanisms were to be higher than that of our securitizations, the fair value of the loans would likely be reduced, which would negatively impact our results of operations. If we are unable to access such financing, our ability to originate loans and our results of operations, financial condition and liquidity would be materially adversely affected.

The gain on sale and related servicing fees generated by our whole loan sales, and the servicing fees based on sales of asset-backed securities and interests in our legacy fractional loan program, also represent a significant source of our earnings. We cannot assure you that our loan purchasers will continue to purchase loans or interests in loans on our platform (either through whole loan sales or asset-backed securities) or that they will continue to purchase loans in transactions that generate the same spreads and/or fees that we have historically obtained. Factors that may affect loan purchaser demand for loans include:

- competition among loan originators that can sell either larger pools of loans than we are able to sell or pools of loans that have characteristics that are more desirable to certain loan purchasers than the characteristics that our loan pools have;
- the extent to which servicing fees and other expenses may reduce overall net return on purchased pools of loans;
- the actual or perceived credit performance and loan grade and term mix of the portfolios of loans offered for sale;
- loan purchasers’ sector and company investment diversification requirements and strategies;
- higher yielding investment opportunities at a risk profile deemed similar to our sold loan portfolios;
- borrower prepayment behavior within the underlying pools;
- regulatory or investment practices related to maintaining net asset value, mark-to-market and similar metrics surrounding pools of purchased loans; and
- the ability of our loan purchasers to access funding and liquidity channels, including securitization markets, on terms they find acceptable to deliver an appropriate return net of funding costs, as well as general market trends that affect the appetite for loan financing investments.

Potential investors in our loan funding programs may also reduce the prices investors in those products are willing to pay for the loans or interests in loans they purchase during periods of economic slowdown or recession to compensate for any increased risks. A reduction in the sale price of the loans and loan financing products we sell would negatively impact our operations and returns. Any sustained decline in demand for loans or loan financing products, or any increase in delinquencies, defaults or losses that result from economic downturns, may also reduce the price we receive on future loan sales.

Our securitizations are subject to regulation under federal law, and failure to comply with those laws could adversely affect our business.

Our loan securitizations and sales of asset-backed securities are subject to regulation under federal law, and banks and other regulated financial institutions acquiring and holding asset-based securities, including asset-backed securities sponsored by us, are subject to capital and leverage requirements. These requirements, which are costly to comply with, could decrease investor demand for securities issued through our securitization transactions. For example, the Credit Risk Retention rule, codified as Regulation RR under the Exchange Act, was jointly adopted by the SEC, the Department of the Treasury, the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, and the Department of Housing and Urban Development in 2014. Regulation RR generally requires the sponsor of asset-backed securities to retain not less than five percent of the credit risk of the assets collateralizing the securities, and generally prohibits the sponsor or its affiliate from directly or indirectly hedging or otherwise selling or transferring the retained credit risk for a specified period of time, depending on the type of asset that is securitized. Some aspects of these risk retention rules have not been the subject of significant separate guidance. We believe, but cannot be certain, that we have conducted our business, and will continue to conduct our business, in such a way that we are compliant with these risk retention rules. However, if we have failed to comply, or should fall out of compliance with these rules, it could adversely affect our source of funding and our business.

We may also face regulatory risks related to compliance with Section 13 of the Bank Holding Company Act, commonly known as the “Volcker Rule,” which prohibits banking entities from acquiring an ownership interest in entities that are investment companies for purposes of the Investment Company Act, or would be investment companies but for Sections 3(c)(1) or 3(c)(7) of the Investment Company Act, which are generally known as “private funds.” This means that in order for a banking entity regulated under the Volcker Rule to purchase certain asset-backed securities issued by our affiliates, such affiliates may need to rely on another exemption or exception from being deemed “investment companies” if they wish to continue selling to banking entities. Currently, those affiliates generally rely on Rule 3a-7 under the Investment Company Act, which provides an exclusion to the definition of an investment company for issuers that pool income-producing assets and issue securities backed by those assets. However, if a regulator or other third party were to find or assert that our analysis under Rule 3a-7 (or, where applicable, some other exemption or exemption) is incorrect, banks that have purchased asset-backed securities may be able to rescind those sales, which would adversely affect our business. We believe, but cannot guarantee, that we have conducted our business, and will continue to conduct our business, in such a way that enables our applicable banking entity investors to be compliant with the Volcker Rule.

RISKS RELATED TO LOAN FUNDING AND INDEBTEDNESS

If we are unable to maintain a diverse and robust loan funding program, our growth prospects, business, financial condition and results of operations could be adversely affected.

Our business depends on sourcing and maintaining a diverse and robust loan funding program to fund Upstart-powered loans that our bank partners are unable or unwilling to retain on their balance sheets. Our loan funding program includes whole loan sales to institutional investors, asset-backed securitization transactions, and utilization of committed and uncommitted warehouse credit facilities. While our loan funding program is diverse, only a limited portion of such funding sources are committed or guaranteed. We cannot be sure that these funding sources will continue to be available on reasonable terms or at all beyond the current maturity dates of our existing securitizations and debt financing arrangements.

Further, events of default or breaches of financial, performance or other covenants, or worse than expected performance of certain pools of loans underpinning our asset-backed securitizations or other debt facilities, could reduce or terminate our access to funding from institutional investors. Loan performance is dependent on a number of factors, including the predictiveness of our AI models and social and economic conditions. The availability and capacity of certain loan funding sources also depends on many factors that are outside of our control, such as credit market volatility and regulatory reforms. For example, at the start of the COVID-19 pandemic, the availability of most of our loan funding sources was significantly reduced. In the event of another sudden or unexpected shortage or restriction on the availability of loan funding sources, we may not be able to maintain the necessary levels of funding to retain current loan volume without incurring substantially higher funding costs, which could adversely affect our business, financial condition and results of operations.

In connection with our loan funding programs, we make representations and warranties concerning the loans sold, and if such representations and warranties are not accurate when made, we could be required to repurchase the loans.

In our loan funding programs, including asset-backed securitizations and whole loan sales, we make numerous representations and warranties concerning the characteristics of the Upstart-powered loans sold and transferred in connection with such transactions, including representations and warranties that the loans meet the eligibility requirements of those facilities and of investors in our loan funding programs. If those representations and warranties were not accurate when made, we may be required to repurchase the underlying loans. Failure to repurchase so-called ineligible loans when required could constitute an event of default or termination event under the agreements governing our various loan funding programs. Through September 30, 2021, the number of repurchased Upstart-powered loans as a result of inaccurate representations and warranties represents less than 0.22% of all Upstart-powered loans. While only a small number of Upstart-powered loans have been historically repurchased by us, there can be no assurance that we would have adequate cash or other qualifying assets available to make such repurchases if and when required. Such repurchases could be limited in scope, relating to small pools of loans, or significant in scope, across multiple pools of loans. If we were required to make such repurchases and if we do not have adequate liquidity to fund such repurchases, our business, financial condition and results of operations could be adversely affected.

Corporate and asset-backed debt ratings could adversely affect our ability to fund loans through our loan funding programs at attractive rates, which could negatively affect our results of operations, financial condition and liquidity.

Our unsecured senior corporate debt currently has no rating, and we have never issued unsecured debt securities in the capital markets. Asset-backed securities sponsored or co-sponsored by us are currently rated by a limited number of debt rating agencies. Structured finance ratings reflect these rating agencies' opinions of our receivables credit performance and ability of the receivables cash flows to pay interest on a timely basis and repay the principal of such asset-backed securitizations, as well as our ability to service the receivables and comply with other obligations under such programs, such as the obligation to repurchase loans subject to breaches of loan-level representations and warranties. Such ratings also reflect the rating agencies' opinions of other service providers in such transactions, such as trustees, back-up servicers, charged-off loan purchasers and others.

Any future downgrade or non-publication of ratings may increase the interest rates that are required to attract investment in such asset-backed securities, adversely impacting our ability to provide loan liquidity to our bank partners and whole loan purchasers. As a result, our lack of parent debt rating and any possible downgrades to the ratings of our asset-backed securities could negatively impact our business, financial condition and results of operations.

We rely on borrowings under our warehouse credit facility to fund certain aspects of our operations, and any inability to meet our obligations as they come due or to comply with various covenants could harm our business.

We, through our warehouse trust special purpose entities, have entered into a warehouse credit facility to partially finance the purchase of loans from certain banks that originate loans through our platform, which credit facilities are secured by the purchased loans. We generally hold these loans on our balance sheet until we can contribute them into term securitization transactions or otherwise liquidate them. Occasionally some of these loans may stay on our balance sheet indefinitely, including some loans that are the result of product development activities.

Under our warehouse credit facility, we may borrow up to $100.0 million until June 2023, and any outstanding principal, together with any accrued and unpaid interest, are due and payable by the warehouse trust special purpose entity in June 2024. As of September 30, 2021, the amount borrowed under this credit facility was $1.3 million, and $2.4 million of aggregated fair value of loans purchased were pledged as collateral.

Our warehouse credit facility imposes operating and financial covenants on the warehouse trust special purpose entity, and under certain events of default, the lender could require that all outstanding borrowings become immediately due and payable or terminate their agreement with us. We have in the past, and may in the future, fail to comply with certain operating or financial covenants in our warehouse credit facility, requiring a waiver from our lenders. If we are unable to repay our obligations at maturity or in the event of default, the borrowing warehouse trust special purpose entity may have to liquidate the loans held as collateral at an inopportune time or price or, if the lender liquidated the loans, such warehouse trust would have to pay any amount by which the original purchase price exceeded their sale price. An event of default would negatively impact our ability to purchase loans from our platform and require us to rely on alternative funding sources, which might increase our costs or which might not be available when needed. If we were unable to arrange new or alternative methods of financing on favorable terms, we might have to curtail our loan funding programs, which could have an adverse effect on our bank partners' ability or willingness to originate new loans, which in turn would have an adverse effect on our business, results of operations and financial condition.

Some of our borrowings carry a floating rate of interest linked to the London Inter-bank Offered Rate, or LIBOR. On July 27, 2017, the United Kingdom Financial Conduct Authority, or FCA, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. On March 5, 2021, the FCA announced that all LIBOR settings will either cease to be provided by any administrator, or no longer be representative immediately after December 31, 2021, for all GBP, EUR, CHF and JPY LIBOR settings and one-week and two-month US dollar LIBOR settings, and immediately after June 30, 2023 for the remaining US dollar LIBOR settings, including three-month US dollar LIBOR. As a result, while the FCA and the submitting LIBOR banks have indicated they will support the LIBOR indices through 2021 to allow for an orderly transition to an alternative reference rate, it is possible that beginning in 2022, LIBOR will no longer be available as a reference rate. In particular, the interest rate of borrowings under our warehouse credit facilities and certain related interest rate hedging arrangements are predominately based upon LIBOR. While these agreements generally include alternative rates to LIBOR, if a change in indices results in interest rate increases on our debt, debt service requirements will increase, which could adversely affect our cash flow and results of operations. We do not expect a materially adverse change to our financial condition or liquidity as a result of any such changes or any other reforms to LIBOR that may be enacted in the United Kingdom or elsewhere.

We may need to raise additional funds in the future, including through equity, debt or convertible debt financings, to support business growth and those funds may not be available on acceptable terms, or at all.

We may continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new loan products, enhance our AI models, improve our operating infrastructure, acquire complementary businesses and technologies, or make strategic investments. Accordingly, we may need to engage in equity, debt or convertible debt financings to secure additional funds. If we raise additional funds by issuing equity securities or securities convertible into equity securities, our stockholders may experience dilution. For example, if we elect to deliver shares of our common stock to settle the conversion (other than paying cash in lieu of delivering any fractional share) of the Notes (as defined below), it may have a dilutive effect on our stockholders' equity holdings. Further, debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any debt or additional equity financing that we raise may contain terms that are not favorable to us or our stockholders.

If we are unable to obtain adequate financing or on terms satisfactory to us when we require it, we may be unable to pursue certain business opportunities and our ability to continue to support our business growth and to respond to business challenges could be impaired and our business may be harmed.

In addition, in August 2021, we issued $661.3 million aggregate principal amount of 0.25% convertible senior notes due 2026, or Notes (including the exercise in full of the initial purchasers' option of an additional $86.3 million aggregate principal of additional Notes). We may not have the ability to raise the funds necessary to settle conversions of the Notes in cash, to repurchase the Notes upon a fundamental change or to repay the Notes in cash at their maturity (if not earlier converted, redeemed or repurchased), and our future debt may contain limitations on our ability to pay cash upon the conversion of the Notes at their maturity or to repurchase the Notes. Holders of the Notes may require us to purchase all or a portion of their Notes upon the occurrence of a fundamental change before the maturity date at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any. Additionally, upon conversion of the notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. Moreover, we will be required to pay the Notes in cash at their maturity unless earlier converted, redeemed or repurchased. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of the Notes surrendered therefor or pay cash for Notes being converted or at their maturity. In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness at the time. Our failure to repurchase Notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the Notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or pay cash with respect to Notes being converted or at maturity of the Notes.

Provisions in the indenture for the Notes may deter or prevent a business combination that may be favorable to you.

If a fundamental change occurs prior to the maturity date of the Notes, holders of the Notes will have the right, at their option, to require us to repurchase all or a portion of their Notes. In addition, if a make-whole fundamental change occurs prior to the maturity date of the Notes, we will in some cases be required to increase the conversion rate for a holder that elects to convert its Notes in connection with such make-whole fundamental change in the manner specified in the indenture. Furthermore, the indenture will prohibit us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes. These and other provisions in the indenture could deter or prevent a third party from acquiring us even when the acquisition may be favorable to you.

The accounting method for the Notes could adversely affect our financial condition and operating results.

In August 2020, the Financial Accounting Standards Board published an Accounting Standards Update, or ASU 2020-06, which amends the accounting standards for convertible debt instruments that may be settled entirely or partially in cash upon conversion. ASU 2020-06 eliminates requirements to separately account for liability and equity components of such convertible debt instruments, unless the conversion feature is required to be bifurcated and accounted for as a derivative or the debt is issued at a substantial premium, and eliminates the ability to use the treasury stock method when calculating diluted earnings per share. Instead, ASU 2020-06 requires application of the “if-converted” method for calculating diluted earnings per share. Under the “if-converted” method, diluted earnings per share will generally be calculated assuming that all the notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be anti-dilutive, which could adversely affect our diluted earnings per share. However, if the principal amount of the convertible debt security being converted is required to be paid in cash and only the excess is permitted to be settled in shares, the if-converted method will produce a similar result as the “treasury stock” method prior to the adoption of ASU 2020-06 for such convertible debt security.

We early adopted ASU 2020-06 as of January 1, 2021 and as such we did not bifurcate the liability and equity components of the notes on our condensed consolidated balance sheet and we expect to used the if-converted method of calculating diluted earnings per share.

RISKS RELATED TO TAXES

Our ability to use our deferred tax assets to offset future taxable income may be subject to certain limitations that could subject our business to higher tax liability.

We may be limited in the portion of net operating loss carryforwards, or NOLs, that we can use in the future to offset taxable income for U.S. federal and state income tax purposes. The Tax Cuts and Jobs Act, or the Tax Act, made broad and complex changes to U.S. tax law, including changes to the uses and limitations of NOLs. For example, in the Tax Act, as modified by the CARES Act, NOLs arising in taxable years beginning after December 31, 2017 and before January 1, 2021 may be carried back to each of the five taxable years preceding the taxable year of such loss, but NOLs arising in taxable years beginning after December 31, 2020 may not be carried back. Additionally, under the Tax Act, as modified by the CARES Act, NOLs from taxable years that began after December 31, 2017 may offset no more than 80% of current taxable income annually for taxable years beginning after December 31, 2020, but the 80% limitation on the use of NOLs from taxable years that began after December 31, 2017 does not apply for taxable income in taxable years beginning before January 1, 2021. NOLs arising in taxable years ending after December 31, 2017 can be carried forward indefinitely, but NOLs generated in taxable years ending before January 1, 2018 will continue to have a two-year carryback and twenty-year carryforward period. A lack of future taxable income would adversely affect our ability to utilize these NOLs. In addition, under

Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its NOLs to offset future taxable income. Future changes in our stock ownership, including this or future offerings, as well as other changes that may be outside of our control, could result in additional ownership changes under Section 382 of the Code. Our NOLs may also be impaired under similar provisions of state law. We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. On the basis of this evaluation, a full valuation allowance has historically been recorded to recognize only deferred tax assets that are more likely than not to be realized. Certain of our deferred tax assets may expire unutilized or underutilized, which could prevent us from offsetting future taxable income.

Changes in tax laws could have a material adverse effect on our business, financial condition and results of operations.

Changes in tax laws could have a material adverse effect on our business, financial condition and results of operations. For example, the Tax Act contained significant changes to U.S. tax law, including a reduction in the corporate tax rate and a transition to a new territorial system of taxation. The primary impact of the Tax Act on our provision for income taxes was a reduction of the future tax benefits of our deferred tax assets as a result of the reduction in the corporate tax rate. The impact of the Tax Act may be subject to ongoing technical guidance and accounting interpretation, which we will continue to monitor and assess. As we expand the scale of our business activities, any changes in the U.S. taxation of such activities may increase our effective tax rate and harm our business, financial condition and results of operations.

We are subject to taxes in the United States under federal, state and local jurisdictions in which we operate. The governing tax laws and applicable tax rates vary by jurisdiction and are subject to interpretation and macroeconomic, political or other factors. For example, the results of the recent U.S Presidential and Congressional elections may lead to tax law changes. We may be subject to examination in the future, by federal, state and local authorities on income, employment, sales and other tax matters. While we regularly assess the likelihood of adverse outcomes from such examinations and the adequacy of our provision for taxes, there can be no assurance that such provision is sufficient and that a determination by a tax authority would not have an adverse effect on our business, financial condition and results of operations. Various tax authorities may disagree with tax positions we take and if any such tax authorities were to successfully challenge one or more of our tax positions, the results could adversely affect our financial condition. Further, the ultimate amount of tax payable in a given financial statement period may be impacted by sudden or unforeseen changes in tax laws, changes in the mix and level of earnings by taxing jurisdictions, or changes to existing accounting rules or regulations. The determination of our overall provision for income and other taxes is inherently uncertain as it requires significant judgment around complex transactions and calculations. As a result, fluctuations in our ultimate tax obligations may differ materially from amounts recorded in our financial statements and could adversely affect our business, financial condition and results of operations in the periods for which such determination is made.

Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, gross receipts, value added or similar taxes and may successfully impose additional obligations on us, and any such assessments or obligations could adversely affect our business, financial condition and results of operations.

The application of indirect taxes, such as sales and use tax, value-added tax, goods and services tax, business tax and gross receipts tax, to platform businesses is a complex and evolving issue. Many of the fundamental statutes and regulations that impose these taxes were established before the adoption and growth of the Internet and e-commerce. Significant judgment is required on an ongoing basis to evaluate applicable tax obligations and as a result amounts recorded are estimates and are subject to adjustments. In many cases, the ultimate tax determination is uncertain because it is not clear how new and existing statutes might apply to our business. In addition, governments are increasingly looking for ways to increase revenue, which has resulted in discussions about tax reform and other legislative action to increase tax revenue, including through indirect taxes. Such taxes could adversely affect our financial condition and results of operations.

We may face various indirect tax audits in various U.S. jurisdictions. In certain jurisdictions, we collect and remit indirect taxes. However, tax authorities may raise questions about or challenge or disagree with our calculation, reporting or collection of taxes and may require us to collect taxes in jurisdictions in which we do not currently do so or to remit additional taxes and interest, and could impose associated penalties and fees. A successful assertion by one or more tax authorities requiring us to collect taxes in jurisdictions in which we do not currently do so or to collect additional taxes in a jurisdiction in which we currently collect taxes, could result in substantial tax liabilities, including taxes on past sales, as well as penalties and interest, could harm our business, financial condition and results of operations. Although we have reserved for potential payments of possible past tax liabilities in our financial statements, if these liabilities exceed such reserves, our financial condition will be harmed.

As a result of these and other factors, the ultimate amount of tax obligations owed may differ from the amounts recorded in our financial statements and any such difference may adversely impact our results of operations in future periods in which we change our estimates of our tax obligations or in which the ultimate tax outcome is determined.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

The trading price of our common stock may be volatile, and you could lose all or part of your investment.

The trading price of our common stock may be volatile and could be subject to fluctuations in response to various factors, some of which are beyond our control. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the trading prices and trading volumes of financial technology stocks;
- changes in operating performance and stock market valuations of other financial technology companies and technology companies that offer services to financial institutions;
- sales of shares of our common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- announcements by us or our competitors of new products, features, or services;
- the public’s reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our results of operations or fluctuations in our results of operations;
- changes in prevailing interest rates;
- quarterly fluctuations in demand for the loans we facilitate through our platform;
- fluctuations in the trading volume of our shares or the size of our public float;
- actual or anticipated developments in our business, our competitors’ businesses or the competitive landscape generally;
- litigation involving us, our industry, or both, or investigations by regulators into our operations or those of our competitors;
- compliance with government policies or regulations;
- the issuance of any cease-and-desist orders from regulatory agencies that we are subject to;

- developments or disputes concerning our intellectual property or other proprietary rights;
- actual or perceived data security breaches or other data security incidents;
- announced or completed acquisitions of businesses, products, services, or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- recruitment or departure of key personnel;
- other events or factors, including those resulting from war, incidents of terrorism, political unrest, natural disasters, pandemics or responses to these events; and
- general economic conditions and slow or negative growth of our markets.

The stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of listed companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the overall market and the market prices of particular companies' securities, securities class action litigation has often been instituted against these companies. Litigation of this type, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

The capped call transactions may affect the price of our common stock.

In connection with the issuance of the Notes, we entered into privately negotiated capped call transactions with certain financial institutions as counterparties. The capped call transactions initially cover, subject to customary adjustments, the number of shares of our common stock initially underlying the Notes. The capped call transactions are expected to offset the potential dilution and/or offset any cash payments we make in excess of the aggregate principal amount of converted Notes, as the case may be, as a result of conversion of the Notes.

From time to time, the counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of the Notes). This activity could also cause or prevent an increase or a decrease in the market price of our common stock.

Certain insiders have significant voting power, which could limit your ability to influence the outcome of key transactions, including a change of control.

Our directors, officers, and each of our stockholders who own greater than 5% of our outstanding capital stock and their affiliates, in the aggregate, beneficially own a majority of the outstanding shares of our capital stock. As a result, these stockholders, if acting together, are able to influence matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions, or other extraordinary transactions. They may also 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 concentration of ownership may have the effect of delaying, preventing or deterring a change of control, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale, and might ultimately affect the trading price of our common stock.

The large number of shares of our capital stock eligible for public sale or subject to rights requiring us to register them for public sale could depress the market price of our common stock.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market, and the perception that these sales could occur may also depress the market price of our common stock. Certain stockholders are entitled, under our investors' rights agreement, to require us to register shares owned by them for public sale in the United States. In addition, we may file a registration statement to register shares reserved for future issuance under our equity compensation plans. As a result, subject to the satisfaction of applicable exercise periods, the shares issued upon exercise of outstanding stock options will be available for immediate resale in the United States in the open market.

Sales of our shares may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the trading price of our common stock to fall and make it more difficult for you to sell shares of our common stock.

Our common stock does not provide any rights directly related to the loans we hold.

Investors in our common stock own a form of equity that may provide returns based on either an increase in the value of the stock or any distributions made to common stockholders. Investors will not, however, receive any interest in or fees based on the loans or other assets we hold on our balance sheet. In particular, investors in our common stock will not receive any distributions directly based on principal or interest payments made by borrowers on the loans we hold. Those loans are not directly related in any way to the common stock investors' purchase.

You may be diluted by the future issuance of additional common stock in connection with our equity incentive plans, acquisitions or otherwise.

Our amended and restated certificate of incorporation authorizes us to issue our 618,460,453 shares of authorized but unissued common stock and rights relating to common stock for the consideration and on the terms and conditions established by our Board of Directors in its sole discretion, whether in connection with acquisitions or otherwise. We have reserved 10,082,123 shares for issuance under our 2020 Equity Incentive Plan subject to adjustment in certain events. Any common stock that we issue, including under our 2020 Equity Incentive Plan or other equity incentive plans that we may adopt in the future, could dilute the percentage ownership held by the investors in our common stock.

Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer, or proxy contest difficult, thereby depressing the market price of our common stock.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult, including the following:

- our Board of Directors is classified into three classes of directors with staggered three-year terms and directors are only able to be removed from office for cause;
- vacancies on our Board of Directors will be able to be filled only by our Board of Directors and not by stockholders;
- only the Chair of our Board of Directors, our Chief Executive Officer, or a majority of our entire Board of Directors are authorized to call a special meeting of stockholders;
- certain litigation against us can only be brought in Delaware;
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders; and
- any amendment of the above anti-takeover provisions in our amended and restated certificate of incorporation or amended and restated bylaws will require the approval of two-thirds of the combined vote of our then-outstanding shares of our common stock.

These anti-takeover defenses could discourage, delay, or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions they desire, any of which, under certain circumstances, could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock, and could also affect the price that some investors are willing to pay for our common stock.

Our amended and restated bylaws designate a state or federal court located within the State of Delaware as the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to choose the judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by law, the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our stockholders, (iii) any action arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation, or our amended and restated bylaws, or (iv) any other action asserting a claim that is governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware), in all cases subject to the court having jurisdiction over indispensable parties named as defendants.

Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated bylaws also provide that the federal district courts of the United States of America is the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. We note, however, that investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder, and that there is uncertainty as to whether a court would enforce this exclusive forum provision. Further, the enforceability of similar choice of forum provisions in other companies' charter documents has been challenged in legal proceedings, and it is possible that a court could find these types of provisions to be inapplicable or unenforceable. For example, in December 2018, the Court of Chancery of the State of Delaware determined that a provision stating that U.S. federal district courts are the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act is not enforceable. Although this decision was reversed by the Delaware Supreme Court in March 2020, other courts may still find these provisions to be inapplicable or unenforceable.

Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to this provision. This exclusive-forum provision may limit a stockholder's ability to bring a claim in a judicial forum of its choosing for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. This exclusive forum provision does not apply to any causes of action arising under the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. If a court were to find either exclusive-forum provision in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could harm our results of operations.

Our common stock market price and trading volume could decline if equity or industry analysts do not publish research or publish inaccurate or unfavorable research about our business.

The trading market for our common stock will depend in part on the research and reports that equity or industry analysts publish about us or our business. The analysts' estimates are based upon their own opinions and are often different from our estimates or expectations. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, the price of our securities would likely decline. If few securities analysts commence coverage of us, or if one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our securities could decrease, which might cause the price and trading volume of our common stock to decline.

We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. In addition, under the JOBS Act, emerging growth companies can delay the adoption of certain new or revised accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will not be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies or that have opted out of using such extended transition period, which may make comparison of our financial statements with those of other public companies more difficult. We may take advantage of these exemptions for so long as we are an "emerging growth company." We cannot predict if investors will find our common stock less attractive to the extent that we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and the price of our common stock may be more volatile. We will lose our "emerging growth company" status on the last day of our fiscal year ending December 31, 2021.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the Nasdaq Global Select Market and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources, especially once we are no longer an "emerging growth company." The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and results of operations. In addition, we expect that our management and other personnel will need to divert attention from operational and other business matters to devote substantial time to these public company requirements. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

Being a public company also makes it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage, incur substantially higher costs to obtain coverage or only obtain coverage with a significant deductible. These factors could also make it more difficult for us to attract and retain qualified executive officers and qualified members of our Board of Directors, particularly to serve on our audit committee and compensation committee.

In addition, 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. These laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If, notwithstanding our efforts, we fail to comply with new laws, regulations and standards or our efforts 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 our business may be adversely affected.

Our management team has limited experience managing a public company.

Our management team has limited experience managing a publicly traded company, interacting with public company investors, and complying with the increasingly complex laws pertaining to public companies. These new obligations and constituents require significant attention from our management team and may divert their attention away from the day-to-day management of our business, which could harm our business, results of operations, and financial condition.

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

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. In addition, the terms of our existing corporate debt agreements do, and any future debt agreements may, preclude us from paying dividends. As a result, capital appreciation of our common stock, if any, will be the only way for stockholders to realize any future gains on their investment for the foreseeable future.

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

Unregistered Sales of Equity Securities

Restricted Stock Issuances

On April 8, 2021, as partial consideration for our acquisition of Prodigy, we issued 82,201 shares of restricted common stock to certain Prodigy employees. The restricted common stock is subject to transfer restrictions and a repurchase option and is contingent upon the employees' continued employment with us. The repurchase option will lapse with respect to 1/8th of the shares of restricted stock at the end of each successive three-month period following the closing date of the Prodigy acquisition.

The issuance was made in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act, as the transactions did not involve a public offering and the recipients of the securities in this transaction represented their intention to acquire the securities for investment only and not for sale in connection with any distribution thereof, and had adequate access to information about us, through their relationships with us or otherwise.

Use of Proceeds

Initial Public Offering

On December 18, 2020, we closed our initial public offering. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-249860), which was declared effective by the SEC on December 15, 2020. There has been no material change in the planned use of proceeds from the IPO as described in our final prospectus filed with the SEC on December 16, 2020 pursuant to Rule 424(b)(4) of the Securities Act.

Follow-on Offering

On April 13, 2021, we closed our follow-on offering. The offer and sale of all of the shares in the follow-on offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-255073), which was declared effective by the SEC on April 8, 2021. There has been no material change in the planned use of proceeds from the follow-on offering as described in our final prospectus filed with the SEC on April 12, 2021 pursuant to Rule 424(b)(4) of the Securities Act.

Convertible Senior Notes

On August 17, 2021, we entered into a purchase agreement, or the Purchase Agreement, with several banks as representatives of the several initial purchasers, or collectively, the Initial Purchasers, to issue and sell $575.0 million in aggregate principal amount of Notes. In addition, we granted the Initial Purchasers an option to purchase up to an additional $86.3 million in aggregate principal amount of Notes on the same terms and conditions. The Initial Purchasers exercised their option in full on August 18, 2021. The Purchase Agreement includes customary representations, warranties, and covenants by us and customary closing conditions. Under the terms of the Purchase Agreement, we have agreed to indemnify the Initial Purchasers against certain liabilities.

We offered and sold the Notes to the Initial Purchasers in reliance on the exemption from the registration requirements provided by Section 4(a)(2) of the Securities Act of 1933, as amended, or the Securities Act, and for resale by the Initial Purchasers to qualified institutional buyers pursuant to the exemption from registration requirements provided by Rule 144A under the Securities Act. We relied on these exemptions from registration based in part on representations made by the Initial Purchasers in the Purchase Agreement . The shares of the common stock issuable upon conversion of the Notes, if any, have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements.

To the extent that any shares of the common stock are issued upon conversion of the Notes, they will be issued in transactions anticipated to be exempt from registration under the Securities Act by virtue of Section 3(a)(9) thereof, because no commission or other remuneration is expected to be paid in connection with conversion of the Notes and any resulting issuance of shares of the common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The exhibits listed below are filed as part of this Quarterly Report on Form 10-Q or are incorporated herein by reference, in each case as indicated below.

EXHIBIT INDEX

			Incorporated by Reference		
Exhibit Number	**Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**
4.1	Indenture, dated August 20, 2021, between Upstart Holdings, Inc. and U.S. Bank National Association	8-K	001-39797	4.1	August 20, 2021
4.2	Form of 0.25% Convertible Senior Note due 2026 (included in Exhibit 4.1)	8-K	001-39797	4.2	August 20, 2021
10.1*+	Upstart Holdings, Inc. 2020 Equity Incentive Plan and related form agreements.				

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date
		Incorporated by Reference			
10.2	Form of Capped Call Confirmation	8-K	001-39797	10.1	August 20, 2021
10.3*	Amendment Sublease dated September 13, 2021, to the Master Lease agreement dated October 7, 2016, between Upstart Network, Inc. and Open Text, Inc.				
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1*	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS*	Inline XBRL Instance Document				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

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* Filed herewith.
\+ Indicates management contract or compensatory plan.
^ Portions of this exhibit (indicated by asterisk) have been excluded because such information is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this Quarterly Report on Form 10-Q has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: November 12, 2021

Upstart Holdings, Inc

Date: November 12, 2021	By:	/s/ Dave Girouard
		Dave Girouard Chief Executive Officer (Principal Executive Officer)
Date: November 12, 2021	By:	/s/ Sanjay Datta
		Sanjay Datta Chief Financial Officer (Principal Financial Officer)

Exhibit 10.1

UPSTART HOLDINGS, INC.

2020 EQUITY INCENTIVE PLAN

(As of July 19, 2021)

1. Purposes of the Plan; Award Types.

(a) Purposes of the Plan. The purposes of this Plan are to attract and retain personnel for positions with the Company Group, to provide additional incentive to Employees, Directors, and Consultants (collectively, "Service Providers"), and to promote the success of the Company's business.

(b) Award Types. The Plan permits the grant of Incentive Stock Options to any ISO Employee and the grant of Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, and Performance Awards to any Service Provider.

2. Definitions. The following definitions are used in this Plan:

(a) "Administrator" means Administrator as defined in Section 4(a).

(b) "Applicable Laws" means the legal and regulatory requirements relating to the administration of equity-based awards, including but not limited to the related issuance of Shares under U.S. federal and state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and, only to the extent applicable with respect to an Award or Awards, the tax, securities, exchange control, and other laws of any jurisdictions other than the United States where Awards are, or will be, granted under the Plan. Reference to a section of an Applicable Law or regulation related to that section shall include such section or regulation, any valid regulation issued under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(c) "Award" means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, or Performance Awards.

(d) "Award Agreement" means the written or electronic agreement setting forth the terms applicable to an Award granted under the Plan. The Award Agreement is subject to the terms of the Plan.

(e) "Board" means the Board of Directors of the Company.

(f) "Change in Control" means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company; provided, that for this subsection, the acquisition of additional stock by any one Person, who prior to such acquisition is considered to own more than 50% of the total voting power of the stock of the Company will not be considered a Change in Control and provided, further, that any change in the ownership of the stock of the Company as a result of a private financing of the Company that is approved by the Board also will not be considered a Change in Control. Further, if the stockholders of the Company immediately before such change in ownership continue to retain immediately after the change in ownership, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately prior to the change in ownership, direct or indirect beneficial ownership of 50% or more of the total voting power of the stock of the Company or of the ultimate parent entity of the Company, such event shall not be considered a Change in Control under this Section 2(f)(i). For this purpose, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company, as the case may be, either directly or through one or more subsidiary corporations or other business entities; or

(ii) A change in the effective control of the Company which occurs on the date a majority of members of the Board is replaced during any 12-month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the appointment or election. For purposes of this Section 2(f)(ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, that for this Section 2(f)(iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets:

(1) a transfer to an entity controlled by the Company's stockholders immediately after the transfer, or

(2) a transfer of assets by the Company to:

(A) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock,

(B) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company,

(C) a Person, that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company, or

(D) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person described in Section 2(f)(iii)(2)(A) to Section 2(f)(iii)(2)(C).

For this definition, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. For this definition, persons will be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. For the avoidance of doubt, wholly-owned subsidiaries of the Company shall not be considered "Persons" for purposes of this Section 2(f).

1. For purposes of this Section 2(f), persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. For the avoidance of doubt, wholly-owned subsidiaries of the Company shall not be considered "Persons" for purposes of this Section 2(f).

(iv) A transaction will not be a Change in Control:

(1) unless the transaction qualifies as a change in control event within the meaning of Code Section 409A; or

(2) if its primary purpose is to (1) change the jurisdiction of the Company's incorporation, or (2) create a holding company owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(g) "Code" means the U.S. Internal Revenue Code of 1986, as amended. Reference to a section of the Code or regulation related to that section shall include such section or regulation, any valid regulation issued or other official applicable guidance of general or direct applicability promulgated under such section or regulation, and any comparable provision of any future legislation, regulation or official guidance of general or direct applicability amending, supplementing or superseding such section or regulation.

(h) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board.

(i) "Common Stock" means the common stock of the Company.

(j) "Company" means Upstart Holdings, Inc., a Delaware corporation, or any of its successors.

(k) "Company Group" means the Company, any Parent or Subsidiary, and any entity that, from time to time and at the time of any determination, directly or indirectly, is in control of, is controlled by or is under common control with the Company.

(l) "Consultant" means any natural person engaged by a member of the Company Group to render bona fide services to such entity, provided the services (i) are not in connection with the offer or sale of securities in a capital raising transaction, and (ii) do not directly promote or maintain a market for the Company's securities. A Consultant must be a person to whom the issuance of Shares registered on Form S-8 under the Securities Act is permitted.

(m) “Director” means a member of the Board.

(n) “Disability” means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(o) “Employee” means any person, including Officers and Directors, providing services as an employee to the Company or any member of the Company Group. However, with respect to Incentive Stock Options, an Employee must be employed by the Company or any Parent or Subsidiary of the Company (such an Employee, an “ISO Employee”). Notwithstanding, Options awarded to individuals not providing services to the Company or a Subsidiary of the Company should be carefully structured to comply with the payment timing rule of Code Section 409A. Neither service as a Director nor payment of a director’s fee by the Company will constitute “employment” by the Company.

(p) “Exchange Act” means the U.S. Securities Exchange Act of 1934.

(q) “Exchange Program” means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for awards of the same type (which may have higher or lower Exercise Prices and different terms), awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the Exercise Price of an outstanding Award is increased or reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion.

(r) “Exercise Price” means the price payable per share to exercise an Award.

(s) “Expiration Date” means the last possible day on which an Option or Stock Appreciation Right may be exercised. Any exercise must be completed before midnight U.S. Pacific Time between the Expiration Date and the following date; provided, however, that any broker-assisted cashless exercise of an Option granted hereunder must be completed by the close of market trading on the Expiration Date.

(t) “Fair Market Value” means, as of any date, the value of a Share, determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market of The NASDAQ Stock Market, the Fair Market Value will be the closing sales price for a Share (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported by such source as the Administrator determines to be reliable. If the determination date for the Fair Market Value occurs on a non-Trading Day (i.e., a weekend or holiday), the Fair Market Value will be such price on the immediately preceding Trading Day, unless otherwise determined by the Administrator;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination (or, if no bids and asks were reported on that date on the last Trading Day such bids and asks were reported), as reported by such source as the Administrator determines to be reliable;

(iii) For any Awards granted on the Registration Date, the Fair Market Value will be the initial price to the public set forth in the final prospectus included within the registration statement on Form S-1 filed with the United States Securities and Exchange Commission for the initial public offering of the Common Stock; or

(iv) Absent an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

Notwithstanding the foregoing, if the determination date for the Fair Market Value occurs on a weekend, holiday or other day other than a Trading Day, the Fair Market Value will be the price as determined under subsections (t)(i) or (t)(ii) above on the immediately preceding Trading Day, unless otherwise determined by the Administrator. In addition, for purposes of determining the fair market value of shares for any reason other than the determination of the Exercise Price of Options or Stock Appreciation Rights, fair market value will be determined by the Administrator in a manner compliant with Applicable Laws and applied consistently for such purpose. Note that the determination of fair market value for purposes of tax withholding may be made in the Administrator's sole discretion subject to Applicable Laws and is not required to be consistent with the determination of Fair Market Value for other purposes.

(u) "Fiscal Year" means a fiscal year of the Company.

(v) "Grant Date" means Grant Date as defined in Section 4(c).

(w) "Incentive Stock Option" means an Option that is intended to qualify and does qualify as an incentive stock option within the meaning of Code Section 422.

(x) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(y) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

(z) "Option" means a stock option to acquire Shares granted under Section 6.

(aa) "Outside Director" means a Director who is not an Employee.

(ab) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Code Section 424(e).

(ac) "Participant" means the holder of an outstanding Award.

(ad) "Performance Awards" means an Award which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which may be cash- or stock-denominated and may be settled for cash, Shares or other securities or a combination of the foregoing under Section 10.

(ae) "Performance Period" means Performance Period as defined in Section 10(a)

(af) "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock is subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.

(ag) "Plan" means this 2020 Equity Incentive Plan.

(ah) "Registration Date" means the effective date of the first Registration Statement.

(ai) "Registration Statement" means a registration statement filed by the Company and declared effective under Section 12(b) of the Exchange Act, with respect to any class of the Company's securities.

(aj) "Restricted Stock" means Shares issued under an Award granted under Section 8 or issued as a result of the early exercise of an Option.

(ak) "Restricted Stock Unit" means a bookkeeping entry representing an amount equal to the Fair Market Value, granted under Section 9. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(al) "Securities Act" means U.S. Securities Act of 1933.

(am) "Service Provider" means an Employee, Director or Consultant.

(an) "Share" means a share of the Common Stock as adjusted in accordance with Section 13 of the Plan.

(ao) "Stock Appreciation Right" means an Award granted under Section 7.

(ap) "Subsidiary" means a "subsidiary corporation" as defined in Code Section 424(f), in relation to the Company.

(aq) "Tax Withholdings" means tax, social insurance and social security liability or premium obligations in connection with the Awards, including, without limitation, (i) all federal, state, and local income, employment and any other taxes (including the Participant's U.S. Federal Insurance Contributions Act (FICA) obligation) that are required to be withheld by the Company or a member of the Company Group, (ii) the Participant's and, to the extent required by the Company, the fringe benefit tax liability of the Company or a member of the Company Group, if any, associated with the grant, vesting, or exercise of an Award or sale of Shares issued under the Award, and (iii) any other taxes or social insurance or social security liabilities or premium the responsibility for which the Participant has, or has agreed to bear, with respect to such Award, the Shares subject to, or other amounts or property payable under, an Award, or otherwise associated with or related to participation in the Plan and with respect to which the Company or the applicable member of the Company Group has either agreed to withhold or has an obligation to withhold.

(ar) "Ten Percent Owner" means Ten Percent Owner as defined in Section 6(b)(i).

(as) "Trading Day" means a day on which the primary stock exchange or national market system (or other trading platform, as applicable) on which the Common Stock trades is open for trading.

(at) "Transaction" means Transaction as defined in Section 14(a).

3. Shares Subject to the Plan.

(a) Allocation of Shares to Plan. The maximum aggregate number of Shares that may be issued under the Plan is:

(i) 5,520,000 Shares, plus

(ii) any Shares subject to awards granted under the Company's 2012 Stock Plan (the "Existing Plan") that, on or after the Registration Date, expire or otherwise terminate without having been exercised in full, are tendered to or withheld by the Company for payment of an exercise price or for tax withholding obligations, or are forfeited to or repurchased by the Company due to failure to vest, with the maximum number of Shares to be added to the Plan under this clause (ii) equal to 23,000,000 Shares, plus

(iii) any additional Shares that become available for issuance under the Plan under Sections 3(b) and 3(c).

The Shares may be authorized but unissued Common Stock or Common Stock issued and then reacquired by the Company.

(b) Automatic Share Reserve Increase. The number of Shares available for issuance under the Plan will be increased on the first day of each Fiscal Year beginning with the 2021 Fiscal Year, in an amount equal to the least of:

(i) 15,000,000 Shares,

(ii) 5% of the total number of shares of all classes of common stock of the Company outstanding on the last day of the immediately preceding Fiscal Year, and

(iii) a lesser number of Shares determined by the Administrator.

(c) Share Reserve Return.

(i) Options and Stock Appreciation Rights. If an Option or Stock Appreciation Right expires or becomes unexercisable without having been exercised in full or is surrendered under an Exchange Program, the unissued Shares subject to the Option or Stock Appreciation Right will become available for future issuance under the Plan.

(ii) Stock Appreciation Rights. Only Shares actually issued pursuant to a Stock Appreciation Right (i.e., the net Shares issued) will cease to be available under the Plan; all remaining Shares originally subject to the Stock Appreciation Right will remain available for future issuance under the Plan.

(iii) Full-Value Awards. Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, or stock-settled Performance Awards that are reacquired by the Company due to failure to vest or are forfeited to the Company will become available for future issuance under the Plan.

(iv) Withheld Shares. Shares used to pay the Exercise Price of an Award or to satisfy Tax Withholdings related to an Award will become available for future issuance under the Plan.

(v) Cash-Settled Awards. If any portion of an Award under the Plan is paid to a Participant in cash rather than Shares, that cash payment will not reduce the number of Shares available for issuance under the Plan.

(d) Incentive Stock Options. The maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal 200% of the aggregate Share number stated in Section 3(a) plus, to the extent allowable under Code Section 422, any Shares that become available for issuance under the Plan under Sections 3(b) and 3(c).

(e) Adjustment. The numbers provided in Sections 3(a), 3(b), and 3(d) will be adjusted as a result of changes in capitalization and any other adjustments under Section 13.

(f) Substitute Awards. If the Committee grants Awards in substitution for equity compensation awards outstanding under a plan maintained by an entity acquired by or becomes a part of any member of the Company group, the grant of those substitute Awards will not decrease the number of Shares available for issuance under the Plan.

(g) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) The Plan will be administered by the Board or a Committee (the "Administrator"). Different Administrators may administer the Plan with respect to different groups of Service Providers. The Board may retain the authority to concurrently administer the Plan with a Committee and may revoke the delegation of some or all authority previously delegated.

(ii) To the extent permitted by Applicable Laws, the Board or a Committee may delegate to one or more subcommittees of the Board or a Committee or officers the authority to grant Awards to Employees of the Company or any of its Subsidiaries, provided that the delegation must comply with any limitations on the authority required by Applicable Laws, including the total number of

Shares that may be subject to the Awards granted by such officer(s). This delegation may be revoked at any time by the Board or Committee.

(b) Powers of the Administrator. Subject to the terms of the Plan, any limitations on delegations specified by the Board, and any requirements imposed by Applicable Laws, the Administrator will have the authority, in its sole discretion, to make any determinations and perform any actions deemed necessary or advisable to administer the Plan including:

(i) to determine the Fair Market Value;

(ii) to approve forms of Award Agreements for use under the Plan;

(iii) to select the Service Providers to whom Awards may be granted and grant Awards to such Service Providers;

(iv) to determine the number of Shares to be covered by each Award granted;

(v) to determine the terms and conditions, consistent with the Plan, of any Award granted. Such terms and conditions may include, but are not limited to, the Exercise Price, the time(s) when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating to an Award;

(vi) to institute and determine the terms and conditions of an Exchange Program;

(vii) to construe interpret the Plan and make any decisions necessary to administer the Plan, including but not limited to determining whether and when a Change in Control has occurred;

(viii) to establish, amend and rescind rules and regulations and adopt sub-plans relating to the Plan, including rules, regulations and sub-plans for the purposes of facilitating compliance with foreign laws, easing the administration of the Plan and/or obtaining tax-favorable treatment for Awards granted to Service Providers located outside the U.S., in each case as the Administrator may deem necessary or advisable;

(ix) to interpret, modify or amend each Award (subject to Section 18), including extending the Expiration Date and the post-termination exercisability period of such modified or amended Awards;

(x) to allow Participants to satisfy tax withholding obligations in any manner permitted by Section 15;

(xi) to delegate ministerial duties to any of the Company’s employees;

(xii) to authorize any person to take any steps and execute, on behalf of the Company, any documents required for an Award previously granted by the Administrator to be effective;

(xiii) to temporarily suspend the exercisability of an Award if the Administrator deems such suspension to be necessary or appropriate for administrative purposes, provided that, unless prohibited by Applicable Laws, such suspension shall be lifted in all cases not less than 10 Trading Days before the last date that the Award may be exercised;

(xiv) to allow Participants to defer the receipt of the payment of cash or the delivery of Shares otherwise due to any such Participants under an Award; and

(xv) to make any determinations necessary or appropriate under Section 13

(c) Grant Date. The grant date of an Award ("Grant Date") will be the date that the Administrator makes the determination granting such Award or may be a later date if such later date is designated by the Administrator on the date of the determination or under an automatic grant policy. Notice of the determination will be provided to each Participant within a reasonable time after the Grant Date.

(d) Waiver. The Administrator may waive any terms, conditions or restrictions.

(e) Fractional Shares. Except as otherwise provided by the Administrator, any fractional Shares that result from the adjustment of Awards will be canceled. Any fractional Shares that result from vesting percentages will be accumulated and vested on the date that an accumulated full Share is vested.

(f) Electronic Delivery. The Company may deliver by e-mail or other electronic means (including posting on a website maintained by the Company or by a third party under contract with the Company or another member of the Company Group) all documents relating to the Plan or any Award and all other documents that the Company is required to deliver to its security holders (including prospectuses, annual reports and proxy statements).

(g) Choice of Law; Choice of Forum. The Plan, all Awards and all determinations made and actions taken under the Plan, to the extent not otherwise governed by the laws of the United States, will be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law. For purposes of litigating any dispute that arises under this Plan, a Participant's acceptance of an Award is his or her consent to the jurisdiction of the State of Delaware, and agreement that any such litigation will be conducted in Delaware Court of Chancery, or the federal courts for the United States for the District of Delaware, and no other courts, regardless of where a Participant's services are performed.

(h) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

5. Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units and Performance Awards may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Stock Options.

(a) Stock Option Award Agreement. Each Option will be evidenced by an Award Agreement that will specify the number of Shares subject to the Option, per share Exercise Price, its Expiration Date, and such other terms and conditions as the Administrator determines. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. An Option not designated as an Incentive Stock Option is a Nonstatutory Stock Option.

(b) Exercise Price. The Exercise Price for the Shares to be issued upon exercise of an Option will be determined by the Administrator and stated in the Award Agreement, subject to the following:

(i) In the case of an Incentive Stock Option:

(1) granted to an ISO Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Parent or Subsidiary (a "Ten Percent Owner"), the Exercise Price for the Shares to be issued will be no less than 110% of the Fair Market Value per Share on the date of grant; and

(2) granted to any ISO Employee other than a Ten Percent Owner, the Exercise Price for the Shares to be issued will be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the Exercise Price for the Shares to be issued will be no less than 100% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with an Exercise Price of less than 100% of the Fair Market Value per Share on the date of grant (i) pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code or (ii) to a Service Provider that is not a U.S. taxpayer.

(c) Form of Consideration. The Administrator will determine the acceptable form(s) of consideration for exercising an Option. Unless the Administrator determines otherwise, the consideration may consist of any one or more or combination of the following, to the extent permitted by Applicable Laws:

(i) cash;

(ii) check or wire transfer;

(iii) promissory note, if and to the extent approved by the Company;

(iv) other Shares that have a fair market value on the date of surrender equal to the aggregate Exercise Price of the Shares as to which such Option will be exercised. To the extent not prohibited by the Administrator, this shall include the ability to tender Shares to exercise the Option and then use the Shares received on exercise to exercise the Option with respect to additional Shares;

(v) consideration received by the Company under a cashless exercise arrangement (whether through a broker or otherwise) implemented by the Company for the exercise of Options that has been approved by the Administrator, if and to the extent permitted by the Company with respect to a particular Award;

(vi) consideration received by the Company under a net exercise program under which Shares are withheld from otherwise deliverable Shares that has been approved by the Administrator, if and to the extent permitted by the Company with respect to a particular Award; and

(vii) any other consideration or method of payment to issue Shares (provided that other forms of considerations may only be approved by the Administrator).

2. The Administrator has the power to remove or limit any of the above forms of consideration for exercising an Option except for the payment of cash at any time in its sole discretion.

(d) Term of Option. The term of each Option will be determined by the Administrator and stated in the Award Agreement, provided that, in the case of an Incentive Stock Option: (a) granted to a Ten Percent Owner, the Option may not be exercisable after the expiration of 5 years from the date such Option is granted, or such shorter term as may be provided in the Award Agreement; and (b) granted to an ISO Employee other than a Ten Percent Owner, the Option may not be exercisable after the expiration of 10 years from the date such Option is granted term, or such shorter term as may be provided in the Award Agreement.

(e) Incentive Stock Option Limitations.

(i) To the extent that the aggregate fair market value of the shares with respect to which incentive stock options under Code Section 422(b) are exercisable for the first time by a Participant during any calendar year (under all plans and agreements of the Company Group) exceeds $100,000, the incentive stock options whose value exceeds $100,000 will be treated as nonstatutory stock options. Incentive stock options will be considered in the order in which they were granted. For this purpose, the fair market value of the shares subject to an option will be determined as of the grant date of each option.

(ii) If an Option is designated in the Administrator action that granted it as an Incentive Stock Option but the terms of the Option do not comply with Sections 6(b) and 6(d), then the Option will not qualify as an Incentive Stock Option.

(f) Exercise of Option. An Option is exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable tax withholdings). Shares issued upon exercise of an Option will be issued in the name of the Participant. Until the Shares are issued (as evidenced by the entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, despite the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. An Option may not be exercised for a fraction of a Share. Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan (except as provided in Section 3(c) and for purchase under the Option, by the number of Shares as to which the Option is exercised.

(i) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's termination as the result of the Participant's death or Disability, the Participant may exercise his or her Option within thirty (30) days of termination, or such longer period of time as is specified in the Award Agreement or in writing by the Administrator (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement) to the extent that the Option is vested on the date of termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(ii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within six (6) months of termination, or such longer period of time as is specified in the Award Agreement (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement) to the extent the Option is vested on the date of termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised within six (6) months following the Participant's death, or within such longer period of time as is specified in the Award Agreement (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement) to the extent that the Option is vested on the date of death, by the Participant's designated beneficiary, provided the Administrator has permitted the designation of a beneficiary and provided such beneficiary has been designated prior to the Participant's death in a form (if any) acceptable to the Administrator. If the Administrator has not permitted the designation of the beneficiary or if no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. If the Option is exercised pursuant to this Section 6(f)(iii), Participant's designated beneficiary or personal representative shall be subject to the terms of this Plan and the Award Agreement, including but not limited to the restrictions on transferability and forfeitability applicable to the Service Provider. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(g) Expiration of Options. Subject to Section 6(d), an Option's Expiration Date will be set forth in the Award Agreement. An Option may expire before its expiration date under the Plan (including pursuant to Sections 6(f), 13, 14, or 16(d)) or under the Award Agreement.

(h) Tolling of Expiration. If exercising an Option prior to its expiration is not permitted because of Applicable Laws, other than the rules of any stock exchange or quotation system on which the Common Stock is listed or quoted, the Option will remain exercisable until 30 days after the first date on which exercise no longer would be prevented by such provisions; provided, however, that this tolling of expiration shall not apply if and to the extent the holder of such Option is a United States taxpayer and the tolling would result in a violation of Section 409A such that the Option would be subject to additional taxation or interest under Section 409A. If this would result in the Option remaining exercisable past its Expiration Date, then unless earlier terminated pursuant to Section 14, the Option will remain exercisable only until the end of the later of (x) the first day on which its exercise would not be prevented by Section 19(a) and (y) its Expiration Date.

7. Stock Appreciation Rights.

(a) Stock Appreciation Right Award Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the number of Shares subject to the Stock Appreciation Right, its per share Exercise Price, its Expiration Date, and such other terms and conditions as the Administrator determines.

(b) Exercise Price. The Exercise Price of a Stock Appreciation Right will be determined by the Administrator, provided that in the case of a Stock Appreciation Right granted to a U.S. taxpayer, the Exercise Price will be no less than 100% of the Fair Market Value of a Share on the date of grant.

(c) Payment of Stock Appreciation Right Amount. Payment upon Stock Appreciation Right exercise may be made in cash, in Shares (which, on the date of exercise, have an aggregate Fair Market Value equal to the amount of payment to be made under the Award), or any combination of cash and Shares, with the determination of form of payment made by the Administrator. When a Participant exercises a Stock Appreciation Right, he or she will be entitled to receive a payment from the Company equal to:

(i) the excess, if any, between the fair market value on the date of exercise over the Exercise Price multiplied by

(ii) the number of Shares with respect to which the Stock Appreciation Right is exercised.

(d) Exercise of Stock Appreciation Right. A Stock Appreciation Right is exercised when the Company receives a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Stock Appreciation Right. Shares issued upon exercise of a Stock Appreciation Right will be issued in the name of the Participant. Until the Shares are issued (as evidenced by the entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to a Stock Appreciation Right, despite the exercise of the Stock Appreciation Right. The Company will issue (or cause to be issued) such Shares promptly after the Stock Appreciation Right is exercised. A Stock Appreciation Right may not be exercised for a fraction of a Share. Exercising a Stock Appreciation Right in any manner will decrease (x) the number of Shares thereafter available under the Stock Appreciation Right by the number of Shares as to which the Stock Appreciation Right is exercised and (y) the number of Shares thereafter available under the Plan by the number of Shares issued upon such exercise.

(e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right's Expiration Date will be set forth in the Award Agreement. A Stock Appreciation Right may expire before its expiration date under the Plan (including pursuant to Sections 13, 14, or 16(c)) or under the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(d) relating to the maximum term and Section 6(f) relating to exercise also will apply to Stock Appreciation Rights.

(f) Tolling of Expiration. If exercising a Stock Appreciation Right prior to its expiration is not permitted because of Applicable Laws, other than the rules of any stock exchange or quotation system on which the Common Stock is listed or quoted, the Stock Appreciation Right will remain exercisable until 30 days after the first date on which exercise no longer would be prevented by such provisions; provided, however, that this tolling of expiration shall not apply if and to the extent the holder of such Stock Appreciation Right is a United States taxpayer and the tolling would result in a violation of Section 409A such that the Stock Appreciation Right would be subject to additional taxation or interest under Section 409A. If this would result in the Stock Appreciation Right remaining exercisable past its Expiration Date, then unless earlier terminated pursuant to Section 14, the Stock Appreciation Right will remain exercisable only until the end of the later of (x) the first day on which its exercise would not be prevented by Section 19(a) and (y) its Expiration Date.

8. Restricted Stock.

(a) Restricted Stock Award Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the number of Shares subject to the Award of Restricted Stock and such other terms and conditions as the Administrator determines. For the avoidance of doubt, Restricted Stock may be granted without any Period of Restriction (e.g., vested stock bonuses). Unless the Administrator determines otherwise, Shares of Restricted Stock will be held in escrow while unvested.

(b) Restrictions.

(i) Except as provided in this Section 8(b) or the Award Agreement, while unvested, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated.

(ii) While unvested, Service Providers holding Shares of Restricted Stock may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(iii) Service Providers holding a Share covered by an Award of Restricted Stock will not be entitled to receive dividends and other distributions paid with respect to such Shares while such Shares are unvested, unless the Administrator provides otherwise. If the Administrator provides that dividends and distributions will be received and any such dividends or distributions are paid in cash they will be subject to the same provisions regarding forfeitability as the Shares with respect to which they were paid and if such dividend or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares with respect to which they were paid and, unless the Administrator determines otherwise, the Company will hold such dividends until the restrictions on the Shares with respect to which they were paid have lapsed.

(iv) Except as otherwise provided in this Section 8(b) or an Award Agreement, a Share covered by each Award of Restricted Stock made under the Plan will be released from escrow when practicable after the last day of the applicable Period of Restriction.

(v) The Administrator may impose, prior to grant, or remove any restrictions on Shares covered by an Award of Restricted Stock.

9. Restricted Stock Units.

(a) Restricted Stock Unit Award Agreement. Each Award of Restricted Stock Units will be evidenced by an Award Agreement that will specify the number of Restricted Stock Units subject to the Award of Restricted Stock Units and such other terms and conditions as the Administrator determines.

(b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria, if any, that, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, divisional, business unit, or individual goals (that may include continued employment or service) or any other basis determined by the Administrator in its sole discretion.

(c) Earning Restricted Stock Units. Upon meeting any applicable vesting criteria, the Participant will have earned the Restricted Stock Units and will be paid as determined in Section 9(d). The Administrator may reduce or waive any criteria that must be met to earn the Restricted Stock Units.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made at the time(s) set forth in the Award Agreement and determined by the Administrator. Unless otherwise provided in the Award Agreement, the Administrator may settle earned Restricted Stock Units in cash, Shares, or a combination of both.

10. Performance Awards.

(a) Award Agreement. Each Performance Award will be evidenced by an Award Agreement that will specify the specify any time period during which any performance objectives or other vesting provisions, if any, will be measured ("Performance Period"), and such other terms and conditions as the Administrator determines.

(b) Objectives or Vesting Provisions and Other Terms. The Administrator will set objectives or vesting provisions that, depending on the extent to which the objectives or vesting provisions are met, will determine the value of the payout for the Performance Awards. The Administrator may set vesting criteria based upon the achievement of Company-wide, divisional, business unit, or individual goals (that may include continued employment or service) or any other basis determined by the Administrator in its sole discretion.

(c) Form and Timing of Payment. Payment of earned Performance Awards will be made at the time(s) specified in the Award Agreement. Payment with respect to earned Performance Awards will be made in cash, in Shares of equivalent value, or any combination of cash and Shares, with the determination of form of payment made by the Administrator at the time of payment or, in the discretion of the Administrator, at the time of grant.

(d) Value of Performance Awards. Each Performance Award's threshold, target, and maximum payout values will be established by the Administrator on or before the Grant Date.

(e) Earning Performance Awards. After an applicable Performance Period has ended, the holder of a Performance Award will be entitled to receive a payout for the Performance Award earned by the Participant over the Performance Period. The Administrator may reduce or waive any performance objectives or other vesting provisions for such Performance Award.

11. Leaves of Absence/ Reduced or Part-time Work Schedule/Transfer Between Locations/Change of Status.

(a) Leaves of Absence/ Reduced or Part-time Work Schedule/Transfer Between Locations. Unless the Administrator provides otherwise or as otherwise required by Applicable Laws, vesting of Awards granted hereunder will be adjusted or suspended during any unpaid leave of absence in accordance with the Company's leave of absence policy in effect at the time of such leave. A Participant will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or within the Company Group. In addition, unless the Administrator provides otherwise or as otherwise required by Applicable Laws, if, after the date of grant of a Participant's Award, the Participant commences working on a part-time or reduced work schedule basis, the vesting of such Award will be adjusted in accordance with the Company's reduced work schedule/ part-time policy then in effect. Adjustments or suspensions of vesting pursuant to this Section shall be accomplished in a manner that is exempt from or complies with the requirements of Code Section 409A and the regulations and guidance thereunder.

(b) Employment Status. A Participant will not cease to be a Service Provider in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company (or member of the Company Group) or between the Company or any member of the Company Group.

(c) Incentive Stock Options. With respect to Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months following the first (1^{st}) day of such leave any Incentive Stock Option held by a Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

12. Transferability of Awards. Unless determined otherwise by the Administrator, or otherwise required by Applicable Laws, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, the Award will be limited by any additional terms and conditions imposed by the Administrator. Any unauthorized transfer of an Award will be void.

13. Adjustments; Dissolution or Liquidation.

(a) Adjustments. If any extraordinary dividend or other extraordinary distribution (whether in cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, reclassification, repurchase, or exchange of Shares or other securities of the Company, other change in the corporate structure of the Company affecting the Shares, or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any of its successors) affecting the Shares occurs (including a Change in Control), the Administrator, to prevent diminution or enlargement of the benefits or potential benefits intended to be provided under the Plan, will adjust the number and class of shares that may be delivered under the Plan and/or the number, class, and price of shares covered by each outstanding Award, and the numerical Share limits in Section 3. Notwithstanding the foregoing, the conversion of any convertible securities of the Company and ordinary course repurchases of Shares or other securities of the Company will not be treated as an event that will require adjustment.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant, at such time prior to the effective date of such proposed transaction as the Administrator determines. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

14. Change in Control or Merger.

(a) Administrator Discretion. If a Change in Control or a merger of the Company with or into another corporation or other entity occurs (each, a "Transaction"), each outstanding Award will be treated as the Administrator determines (subject to the provisions of this Section), without a Participant's consent, including that such Award be continued by the successor corporation or a Parent or Subsidiary of the successor corporation (or an affiliate thereof) or that the vesting of any such Awards may accelerate automatically upon consummation of a Transaction.

(b) Identical Treatment Not Required. The Administrator need not take the same action or actions with respect to all Awards or portions thereof or with respect to all Participants. The Administrator may take different actions with respect to the vested and unvested portions of an Award. The Administrator will not be required to treat all Awards similarly in the Transaction.

(c) Continuation. An Award will be considered continued if, following the Change in Control or merger:

(i) the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Transaction, the consideration (whether stock, cash, or other securities or property) received in the Transaction by holders of Shares for each Share held on the effective date of the Transaction (and if holders were offered a choice of consideration, the type of consideration received by the holders of a majority of the outstanding Shares) and the Award otherwise is continued in accordance with its terms (including vesting criteria, subject to Section 14(c)(iii) below and Section 13(a); provided that if the consideration received in the Transaction is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon exercising an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, or Performance Award, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Transaction; or

(ii) the Award is terminated in exchange for an amount of cash and/or property, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights as of the date of the occurrence of the Transaction. Any such cash or property may be subjected to any escrow applicable to holders of Common Stock in the Change in Control. If as of the date of the occurrence of the Transaction the Administrator determines that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment. The amount of cash or property can be subjected to vesting and paid to the Participant over the original vesting schedule of the Award.

(iii) Notwithstanding anything in this Section 14(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent, in all cases, unless specifically provided otherwise under the applicable Award Agreement or other written agreement authorized by the Administrator between the Participant and the Company or any of its Subsidiaries or Parents, as applicable; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Transaction corporate structure will not invalidate an otherwise valid Award assumption.

(d) Modification. The Administrator will have authority to modify Awards in connection with a Change in Control or merger:

(i) in a manner that causes the Awards to lose their tax-preferred status,

(ii) to terminate any right a Participant has to exercise an Option prior to vesting in the Shares subject to the Option (i.e., "early exercise"), so that following the closing of the Transaction the Option may only be exercised only to the extent it is vested;

(iii) to reduce the Exercise Price subject to the Award in a manner that is disproportionate to the increase in the number of Shares subject to the Award, as long as the amount that would be received upon exercise of the Award immediately before and immediately following the closing of the Transaction is equivalent and the adjustment complies with U.S. Treasury Regulation Section 1.409A-1(b)(v)(D); and

(iv) to suspend a Participant's right to exercise an Option during a limited period of time preceding and or following the closing of the Transaction without Participant consent if such suspension is administratively necessary or advisable to permit the closing of the Transaction.

(e) Non-Continuation. If the successor corporation does not continue an Award (or some portion such Award), the Participant will fully vest in (and have the right to exercise) 100% of the then-unvested Shares subject to his or her outstanding Options and Stock Appreciation Rights, all restrictions on 100% of the Participant's outstanding Restricted Stock and Restricted Stock Units will lapse, and, regarding 100% of Participant's outstanding Awards with performance-based vesting, all performance goals or other vesting criteria will be treated as achieved at 100% of target levels and all other terms and conditions met, in all cases, unless specifically provided otherwise under the applicable Award Agreement or other written agreement authorized by the Administrator between the Participant and the Company or any of its Subsidiaries or Parents, as applicable, as applicable. In no event will vesting of an Award accelerate as to more than 100% of the Award. Unless specifically provided otherwise under the applicable Award Agreement or other written agreement authorized by the Administrator between the Participant and the Company or any of its Subsidiaries or Parents, as applicable, if Options or Stock Appreciation Rights are not continued when a Change in Control or a merger of the Company with or into another corporation or other entity occurs, the Administrator will notify the Participant in writing or electronically that the Participant's vested Options or Stock Appreciation Rights (after considering the foregoing vesting acceleration, if any) will be exercisable for a period of time determined by the Administrator in its sole discretion and all of the Participant's Options or Stock Appreciation Rights will terminate upon the expiration of such period (whether vested or unvested).

(f) Outside Director Grants.

(i) With respect to Awards granted to an Outside Director, in the event of a Change in Control, the Participant will fully vest in and have the right to exercise outstanding Options and/or Stock Appreciation Rights as to all of the Shares underlying such Award, including those Shares which otherwise would not be vested or exercisable, all restrictions on other outstanding Awards will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels and all other terms and conditions met, unless specifically provided otherwise under the applicable Award Agreement, a Company policy related to Director compensation, or other written agreement authorized by the Administrator between the Participant and the Company or any of its Subsidiaries or Parents, as applicable, that specifically references this default rule.

(ii) No Outside Director may be paid, issued or granted, in any Fiscal Year, cash compensation and equity awards (including any Awards issued under this Plan) with an aggregate value greater than $1,000,000, increased to $2,000,000 in connection with his or her initial service (with the value of each equity award based on its grant date fair value (determined in accordance with U.S. generally accepted accounting principles)). Any cash compensation paid or Awards granted to an individual for his or her services as an Employee, or for his or her services as a Consultant (other than as an Outside Director), will not count for purposes of the limitation under this Section 14(f)(ii).

15. Tax Matters.

(a) Withholding Requirements. Prior to the delivery of any Shares or cash under an Award (or exercise thereof) or such earlier time as any Tax Withholding are due, the Company may deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy any Tax Withholding with respect to such Award or Shares subject to an Award (including upon exercise of an Award).

(b) Withholding Arrangements. The Administrator, in its sole discretion and under such procedures as it may specify from time to time, may elect to satisfy such Tax Withholding, in whole or in part (including in combination) by (without limitation) (i) requiring the Participant to pay cash, (ii) withholding otherwise deliverable cash (including cash from the sale of Shares issued to the Participant) or Shares having a fair market value equal to the amount required to be withheld or such greater amount (including up to a maximum statutory amount) as the Administrator may determine or permit if such amount does not result in unfavorable financial accounting treatment, as the Administrator determines in its sole discretion, (iii) forcing the sale of Shares issued pursuant to an Award (or exercise thereof) having a fair market value equal to the minimum statutory amount applicable in a Participant's jurisdiction or a greater amount as the Administrator may determine or permit if such greater amount would not result in unfavorable financial accounting treatment, as the Administrator determines in its sole discretion, (iv) requiring the Participant to deliver to the Company already-owned Shares having a fair market value equal to the minimum statutory amount required to be withheld or a greater amount as the Administrator may determine or permit if such greater amount would not result in unfavorable financial accounting treatment, as the Administrator determines in its sole discretion, (v) requiring the Participant to engage in a cashless exercise transaction (whether through a broker or otherwise) implemented by the Company in connection with the Plan, (vi) having the Company or a Parent or Subsidiary withhold from wages or any other cash amount due or to become due to the Participant and payable by the Company or any Parent or Subsidiary, or (vii) such other consideration and method of payment for the meeting of Tax Withholding as the Administrator may determine to the extent permitted by Applicable Laws, provided that, in all instances, the satisfaction of the Tax Withholding will not result in any adverse accounting consequence to the Company, as the Administrator may determine in its sole discretion. The fair market value of the Shares to be withheld or delivered will be determined as of the date the amount of tax to be withheld is calculated or such other date as Administrator determines is applicable or appropriate with respect to the Tax Withholding calculation.

(c) Compliance With Code Section 409A. Unless the Administrator determines that compliance with Code Section 409A is not necessary, it is intended that Awards will be designed and operated so that they are either exempt or excepted from the application of Code Section 409A or comply with any requirements necessary to avoid the imposition of additional tax under Code Section 409A(a)(1)(B) so that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A and the Plan and each Award Agreement will be interpreted consistent with this intent. This Section 15(c) is not a guarantee to any Participant of the consequences of his or her Awards. In no event will the Company have any responsibility, liability or obligation to reimburse, indemnify or hold harmless Participant for any taxes that may be imposed or other costs that may be incurred, as a result of Section 409A.

16. Other Terms.

(a) No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right regarding continuing the Participant's relationship as a Service Provider with the Company or member of the Company Group, nor will they interfere with the Participant's right, or the Participant's employer's right, to terminate such relationship with or without cause, to the extent permitted by Applicable Laws.

(b) Interpretation and Rules of Construction. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation."

(c) Plan Governs. In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of any Grant Agreement, the terms and conditions of the Plan will prevail.

(d) Forfeiture Events.

(i) All Awards granted under the Plan will be subject to recoupment under any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other Applicable Laws. In addition, the Administrator may impose such other clawback, recovery or recoupment provisions in an Award Agreement as the Administrator determines necessary or appropriate, including to a reacquisition right regarding previously acquired Shares or other cash or property. Unless this Section 16(d)(i) is specifically mentioned and waived in an Award Agreement or other document, no recovery of compensation under a clawback policy or otherwise will be an event that triggers or contributes to any right of a Participant to resign for "good reason" or "constructive termination" (or similar term) under any agreement with the Company or a member of the Company Group.

(ii) The Administrator may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award will be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but will not be limited to, termination of such Participant's status as Service Provider for cause or any specified action or inaction by a Participant that would constitute cause for termination of such Participant's status as a Service Provider.

17. Term of Plan. Subject to Section 20, the Plan will become effective upon the business day immediately prior to the Registration Date. It will continue in effect until terminated under Section 18, but no Incentive Stock Options may be granted after ten (10) years from the date the Plan is adopted by

the Board and Section 3(b) will operate only until the tenth (10^{th}) anniversary of the date the Plan is adopted by the Board.

18. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Administrator may amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary or desirable to comply with Applicable Laws.

(c) Consent of Participants Generally Required. Subject to Section 18(d) below, no amendment, alteration, suspension or termination of the Plan or an Award under it will materially impair the rights of any Participant without a signed, written agreement authorized by the Administrator between the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it regarding Awards granted under the Plan prior to such termination.

(d) Exceptions to Consent Requirement.

(i) A Participant's rights will not be deemed to have been impaired by any amendment, alteration, suspension or termination if the Administrator, in its sole discretion, determines that the amendment, alteration, suspension or termination taken as a whole, does not materially impair the Participant's rights; and

(ii) Subject to any limitations of Applicable Laws, the Administrator may amend the terms of any one or more Awards without the affected Participant's consent even if it does materially impair the Participant's right if such amendment is done

(ii) in a manner specified by the Plan,

(iii) to maintain the qualified status of the Award as an Incentive Stock Option under Code Section 422,

(iv) to change the terms of an Incentive Stock Option, if such change results in impairment of the Award only because it impairs the qualified status of the Award as an Incentive Stock Option under Code Section 422,

(v) to clarify the manner of exemption from Code Section 409A or compliance with any requirements necessary to avoid the imposition of additional tax or interest under Code Section 409A(a)(1)(B), or

(vi) to comply with other Applicable Laws.

19. Conditions Upon Issuance of Shares.

(a) Legal Compliance. The Company will make good faith efforts to comply with all Applicable Laws related to the issuance of Shares. Shares will not be issued pursuant to an Award, including without limitation upon exercise or vesting thereof, as applicable, unless the issuance and delivery of such Shares and exercise or vesting of the Award, as applicable, will comply with Applicable Laws. If required by the Administrator, issuance will be further subject to the approval of counsel for the Company with respect to such compliance. If the Company determines it to be impossible or impractical to obtain authority from any regulatory body having jurisdiction or to complete or comply with the requirements of any Applicable Laws, registration or other qualification of the Shares under any state, federal or foreign law or under the rules and regulations of the U.S. Securities and Exchange Commission, the stock exchange on which Shares of the same class are then listed, or any other governmental or regulatory body, which authority, registration, qualification or rule compliance is deemed by the Company's counsel to be necessary or advisable for the issuance and sale of any Shares hereunder, the Company will be relieved of any liability regarding the failure to issue or sell such Shares as to which such authority, registration, qualification or rule compliance was not obtained and the Administrator reserves the authority, without the consent of a Participant, to terminate or cancel Awards with or without consideration in such a situation.

(b) Investment Representations. As a condition to the exercise or vesting of an Award, the Company may require the person exercising such Award to represent and warrant during any such exercise or vesting that the Shares are being purchased only for investment and with no present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

(c) Failure to Accept Award. If a Participant has not accepted an Award to the extent such acceptance has been requested or required by the Company or has not taken all administrative and other steps (e.g., setting up an account with a broker designated by the Company) necessary for the Company to issue Shares upon the vesting, exercise, or settlement of the Award prior to the first date the Shares subject to such Award are scheduled to vest, then the portion of the Award scheduled to vest on such date will be cancelled on such date and such Shares subject to the Award immediately will revert to the Plan for no additional consideration unless otherwise provided by the Administrator.

20. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within 12 months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

21. Death. In the event a Participant ceases to be a Service Provider due to the Participant's death, the Participant's outstanding and unvested Awards will accelerate and fully vest. With respect to Awards with performance-based vesting that accelerate pursuant to this Section 21, unless specifically provided otherwise under the applicable Award Agreement, a Company policy applicable to the Participant, or other written agreement between the Participant and the Company, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels and all other terms and conditions met.

(Adopted on October 23, 2020 and effective as of December 15, 2020; as amended and restated on November 12, 2020; and further amended and restated on July 19, 2021)

UPSTART HOLDINGS, INC.
2020 EQUITY INCENTIVE PLAN

NOTICE OF RESTRICTED STOCK UNIT AWARD AND

RESTRICTED STOCK UNIT AGREEMENT

Capitalized terms that are not defined in this Notice of Restricted Stock Unit Award and Restricted Stock Unit Agreement (the "Notice of Grant"), the Terms and Conditions of Restricted Stock Unit Award and all other exhibits to these documents (all together, the "Agreement") have the meanings given to them in the Upstart Holdings, Inc. 2020 Equity Incentive Plan (the "Plan").

The Participant has been granted this Restricted Stock Unit ("RSU") award according to the terms below and subject to the terms and conditions of the Plan and this Agreement, as follows:

Participant __

Participant I.D. __

Grant Number __

Grant Date __

Vesting Commencement Date__

Number of RSUs Granted __

Vesting Schedule:

Subject to the acceleration of vesting provisions herein, the RSUs subject to this Agreement will vest as follows:

[__________________]

If the Participant ceases to be a Service Provider for any or no reason, other than due to the Participant's death, before he or she fully vests in these RSUs, the unvested RSUs will terminate according to the terms of Section 5 of this Agreement. In the event the Participant ceases to be a Service Provider due to the Participant's death, 100% of the then-outstanding and unvested RSUs subject to this Agreement will accelerate and fully vest.

The Participant's signature below (or Participant's electronic signature or other electronic acknowledgement or acceptance of this Agreement or Award) indicates that:

(i) He or she agrees that this Restricted Stock Unit award is granted under and governed by the terms and conditions of the Plan and this Agreement, including their exhibits and appendices.

(ii) He or she understands that the Company is not providing any tax, legal, or financial advice and is not making any recommendations regarding his or her participation in the Plan or his or her acquisition or sale of Shares.

(iii) He or she has reviewed the Plan and this Agreement, has had an opportunity to obtain the advice of personal tax, legal, and financial advisors prior to signing this Agreement, and fully understands all provisions of the Plan and Agreement. He or she will consult with his or her own personal tax, legal, and financial advisors before taking any action related to the Plan.

(iv) He or she has read and agrees to each provision of Section 9 of this Agreement.

(v) He or she will notify the Company of any change to the contact address below.

(vi) He or she acknowledges and agrees that unless otherwise required to comply with Applicable Laws, these RSUs will be subject to recoupment under any clawback policy that the Company adopts pursuant to Section 16(d) of the Plan.

PARTICIPANT

__

Signature

Address:__

__

____

EXHIBIT A

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARD

1. Grant. The Company grants the Participant an award of RSUs as described in the Notice of Grant. If there is a conflict between the Plan, this Agreement, or any other agreement with the Participant governing these RSUs, those documents will take precedence and prevail in the following order: (a) the Plan, (b) the Agreement, and (c) any other agreement between the Company and the Participant governing these RSUs.

2. Company's Obligation to Pay. Each RSU is a right to receive a Share or, in the sole discretion of the Administrator, an amount in cash equal to the Fair Market Value of one Share, on the date it vests. Until an RSU vests, the Participant has no right to payment of the Share. Before a vested RSU is paid, the RSU is an unsecured obligation of the Company, payable (if at all) only from the Company's general assets. A vested RSU will be paid to the Participant (or in the event of his or her death, to his or her estate or such other person as specified in Section 6 below) in whole Shares or cash. Subject to the provisions of Section 4(b) and notwithstanding anything in the Plan to the contrary, each vested RSU that has met all requirements for settlement under this Agreement (including with respect to RSUs that the Administrator determines will be settled in cash) will be settled no later than the applicable Settlement Deadline. "Settlement Deadline" with respect to a particular vested RSU means as soon as practicable after vesting (but no later than sixty (60) days following the vesting date (or, if earlier, no later than March 15 of the calendar year following the calendar year in which occurs the first date on which the applicable RSU is no longer subject to a substantial risk of forfeiture for purposes of Section 409A)). If any RSU has not met all the requirements for settlement under this Agreement in a manner that would allow it to be settled by the applicable Settlement Deadline, such RSU will be forfeited as of immediately following the applicable Settlement Deadline. In no event will Participant be permitted, directly or indirectly, to specify the taxable year or date of settlement of any RSUs under this Agreement. For the avoidance of doubt, there may be multiple Settlement Deadlines, with each such Settlement Deadline corresponding to a particular RSU.

3. Vesting. These RSUs will vest only under the Vesting Schedule in the Notice of Grant, Section 4 of this Agreement, or Section 13 of the Plan. RSUs scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest unless the Participant continues to be a Service Provider until the time such vesting is scheduled to occur.

4. Acceleration; Amendment.

   (a) Discretionary Acceleration or Amendment. The Administrator may, pursuant to its authority under, and in accordance with, Section 4(b)(v), Section 4(b)(ix), Section 4(b)(xiv) and Section 9(c) of the Plan, in its discretion, unilaterally (x) accelerate, in whole or in part, the vesting of these RSUs, (y) waive or decrease some or all of the requirements required for vesting of unvested RSUs at any time, or (z) waive or decrease some or all of the requirements for settlement of RSUs at any time, in each case, subject to the terms of the Plan but without the need for Participant consent in any instance, and subject to Section 13(j) of this Agreement; provided, however, that no such acceleration, waiver or decrease shall occur or be effective unless such modification would result in this RSU award remaining exempt or excepted from the requirements of Code Section 409A pursuant to the "short-term deferral" exception or another exception or exemption under Code Section 409A, or otherwise complying with Code Section 409A, in each case such that none of this Agreement, the RSUs provided under this Agreement, or Shares issuable hereunder will be subject to the additional tax imposed under Code Section 409A. If so modified, the vesting date with respect to the applicable RSUs will be deemed for all purposes of this Agreement to be the date specified by the Administrator (provided, that, for purposes of determining the applicable settlement deadline under Section 1 of this Agreement with respect to such RSUs, the vesting date will be deemed to be no later than the first date on which the RSUs are no longer subject to a substantial risk of forfeiture for purposes of Code Section 409A). The settlement of RSUs through Shares pursuant to this Section 4(a) shall in all cases be no later than the applicable settlement deadline as set forth in Section 1 of this Agreement and at a time or in a manner that is exempt from, or complies with, Code Section 409A. The prior sentence may be superseded in a future agreement or amendment to this Agreement only by direct and specific reference to such sentence.

(b) The Company's intent is that this RSU award be exempt or excepted from the requirements of Code Section 409A. However, in an abundance of caution, the Company is including in this subsection, certain Code Section 409A rules that only apply if these RSUs are not exempt or excepted, and then only in certain circumstances. Specifically, Code Section 409A contains rules that must apply to these RSUs if (a) they are not exempt or excepted from Code Section 409A, (b) the Company has any stock that is publicly traded on an established securities market or otherwise at the time Participant's service terminates, (c) Participant receives acceleration of vesting of these RSUs in connection with a termination of service, and (d) at the time of such termination, Participant is considered a "specified employee" under the Code Section 409A rules. Should these rules ever become applicable to Participant's RSUs, then notwithstanding anything in the Plan, this Agreement or any other agreement (whether entered into before, on or after the Grant Date) to the contrary, if the vesting of these RSUs is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Code Section 409A, as determined by the Company), other than due to Participant's death, and if (x) Participant is a U.S. taxpayer and a "specified employee" within the meaning of Code Section 409A at the time of such termination as a Service Provider and (y) the settlement of such accelerated RSUs will result in the imposition of additional tax under Code Section 409A if such settlement is on or within the six (6) month period following Participant's termination as a Service Provider, then the settlement of such accelerated RSUs will not occur until the date six (6) months and one (1) day following the date of Participant's termination as a Service Provider, unless the Participant dies following his or her termination as a Service Provider, in which case, the Shares subject to these RSUs will be settled and issued to the Participant's administrator or executor of his or her estate as soon as practicable following his or her death (subject to Section 6).

5. Forfeiture upon Cessation of Status as a Service Provider. Upon the Participant's termination as a Service Provider for any reason, other than due to the Participant's death, these RSUs will immediately stop vesting and any of these RSUs that have not yet vested will be forfeited by the Participant for no consideration upon the date that Participant ceases to be a Service Provider for any reason, in all cases, subject to Applicable Laws. For the avoidance of doubt, service during any portion of the vesting period shall not entitle the Participant to vest in a pro rata portion of unvested RSUs. For purposes of the RSUs, the Participant's status as a Service Provider will be considered to be terminated as of the date the Participant is no longer providing services to the Company, or if different, the Participant's employer (the "Employer") or the Subsidiary or Parent to which the Participant is providing services (the Employer, Subsidiary or Parent, as applicable, the "Service Recipient") or other member of the Company Group (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is a Service Provider or the terms of the Participant's employment or service agreement, if any). The Administrator shall have the exclusive discretion to determine when the Participant is no longer providing services for purposes of the RSUs (including whether the Participant may still be considered to be providing services while on a leave of absence).

6. Death of Participant. Any distribution or delivery to be made to the Participant under this Agreement will, if he or she is then deceased, be made to the administrator or executor of his or her estate or, if the Administrator permits, his or her designated beneficiary, unless otherwise required to comply with Applicable Laws. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations that apply to the transfer.

7. Tax Obligations.

(a) **Tax Withholding**.

(i) No Shares will be issued to the Participant until he or she makes satisfactory arrangements (as determined by the Administrator) for the payment of Tax Withholdings. If the Participant is a non-U.S. employee, the method of payment of Tax Withholdings may be restricted by any Appendix (as defined below). If the Participant fails to make satisfactory arrangements for the payment of any Tax Withholdings under this Agreement when any of these RSUs otherwise are supposed to vest or Tax Withholdings related to RSUs otherwise are due, he or she will permanently forfeit the applicable RSUs and any right to receive Shares under such RSUs, and such RSUs will be returned to the Company at no cost to the Company, to the extent permitted by Applicable Laws.

(ii) The Company has the right (but not the obligation) to satisfy any Tax Withholdings by withholding from proceeds of a sale of Shares acquired upon payment of these RSUs arranged by the Company (on the Participant's behalf pursuant to this authorization without further consent), and this will be the method by which such tax withholding obligations are satisfied until the Company determines otherwise, subject to Applicable Laws.

(iii) The Company also has the right (but not the obligation) to satisfy any Tax Withholdings: (a) by reducing the number of Shares otherwise deliverable to the Participant; (b) by requiring payment by cash or check made payable to the Company and/or any Service Recipient with respect to which the withholding obligation arises; (c) by deduction of such amount from salary, wages or other compensation payable to the Participant; or (d) in any combination of the foregoing, or any other method determined by the Administrator to be compliance with Applicable Laws.

(iv) The Company may withhold or account for Tax Withholdings by considering statutory or other withholding rates, including minimum or maximum rates applicable in the Participant's jurisdiction(s). In the event of over-withholding, the Participant may receive a refund of any over-withheld amount in cash (with no entitlement to the equivalent in Common Stock), or if not refunded, the Participant may seek a refund from the local tax authorities. In the event of under-withholding, the Participant may be required to pay any additional Tax Withholdings directly to the applicable tax authority or to the Company and/or the Employer(s). If the obligation for Tax Withholdings is satisfied by withholding in Shares, for tax purposes, the Participant will be deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares is held back solely for the purpose of paying the Tax Withholdings.

(v) Further, if the Participant is subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, the Company or the Employer(s) or former Employer(s) may withhold or account for tax in more than one jurisdiction.

(vi) Regardless of any action of the Company or the Employer(s), the Participant acknowledges that the ultimate liability for all Tax Withholdings and any and all additional taxes related to the Award, the Shares or other amounts or property delivered under the Award and the Participant's participation in the Plan is and remains his or her responsibility and may exceed the amount actually withheld by the Company or the Employer(s). The Participant further acknowledges that the Company and the Employer(s) (1) make no representations or undertakings regarding the treatment of any Tax Withholdings in connection with any aspect of these RSUs and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of these RSUs to reduce or eliminate his or her liability for Tax Withholdings or achieve any particular tax result.

(b) **Code Section 409A**. It is the intent of this Agreement that it and all issuances and benefits to U.S. taxpayers hereunder be exempt or excepted from the requirements of Code Section 409A pursuant to the "short-term deferral" exception under Code Section 409A, or otherwise be exempted or excepted from, or comply with, Code Section 409A, so that none of this Agreement, the RSUs provided under this Agreement, or Shares issuable thereunder will be subject to the additional tax imposed under Code Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to be so exempt or excepted, or to so comply. Each issuance upon settlement of the RSUs under this Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). In no event will any member of the Company Group have any liability or obligation to reimburse, indemnify, or hold harmless Participant for any taxes that may be imposed, or other costs incurred, on Participant as a result of Code Section 409A.

8. Rights as Stockholder. The Participant's or any other person's rights as a stockholder of the Company (including the right to vote and to receive dividends and distributions) will not begin until Shares have been issued and recorded on the records of the Company or its transfer agents or registrars.

9. Acknowledgements and Agreements. The Participant's signature on the Notice of Grant accepting these RSUs indicates that:

(a) HE OR SHE ACKNOWLEDGES AND AGREES THAT THE VESTING OF THESE RSUS IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AND THAT BEING HIRED OR BEING GRANTED THESE RSUS WILL NOT RESULT IN VESTING.

(b) HE OR SHE FURTHER ACKNOWLEDGES AND AGREES THAT THESE RSUS AND THIS AGREEMENT DO NOT CREATE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL AND WILL NOT INTERFERE IN ANY WAY WITH HIS OR HER RIGHT OR THE RIGHT OF THE EMPLOYER(S) TO TERMINATE HIS OR HER RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE, SUBJECT TO APPLICABLE LAWS.

(c) The Participant agrees that this Agreement and its incorporated documents reflect all agreements on its subject matters and that he or she is not accepting this Agreement based on any promises, representations, or inducements other than those reflected in the Agreement.

(d) The Participant agrees that the Company's delivery of any documents related to the Plan or these RSUs (including the Plan, the Agreement, the Plan's prospectus, and any reports of the Company provided generally to the Company's stockholders) to him or her may be made by electronic delivery, which may include but does not necessarily include the delivery of a link to a Company intranet or to the Internet site of a third party involved in administering the Plan, the delivery of the document via email, or any other means of electronic delivery specified by the Company. If the attempted electronic delivery of such documents fails, the Participant will be provided with a paper copy of the documents. The Participant acknowledges that he or she may receive from the Company a paper copy of any documents that were delivered electronically at no cost to him or her by contacting the Company by telephone or in writing. The Participant may revoke his or her consent to the electronic delivery of documents or may change the electronic mail address to which such documents are to be delivered (if the Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised email address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents.

(e) The Participant may deliver any documents related to the Plan or these RSUs to the Company by e-mail or any other means of electronic delivery approved by the Administrator, but he or she must provide the Company or any designated third party administrator with a paper copy of any documents if his or her attempted electronic delivery of such documents fails.

(f) The Participant accepts that all good faith decisions or interpretations of the Administrator regarding the Plan and Awards under the Plan are binding, conclusive, and final. No member of the Administrator will be personally liable for any such decisions or interpretations.

(g) The Participant agrees that the Plan is established voluntarily by the Company, is discretionary in nature, and may be amended, suspended, or terminated by the Company at any time, to the extent permitted by the Plan.

(h) The Participant agrees that the grant of these RSUs is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of restricted stock units or benefits in lieu of restricted stock units, even if restricted stock units have been granted in the past.

(i) The Participant agrees that any decisions regarding future Awards will be in the Company's sole discretion.

(j) The Participant agrees that he or she is voluntarily participating in the Plan.

(k) The Participant agrees that these RSUs and any Shares acquired under these RSUs, and the income from and value of same, are not intended to replace any pension rights or compensation.

(l) The Participant agrees that these RSUs, any Shares acquired under these RSUs, and the income from and value of same, are not part of normal or expected compensation for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, holiday pay, long-service awards, pension or retirement or welfare benefits, or similar payments.

(m) The Participant agrees that the future value of the Shares underlying these RSUs is unknown, indeterminable, and cannot be predicted with certainty.

(n) The Participant agrees that no member of the Company Group is liable for any foreign exchange rate fluctuation between the Participant's local currency and the United States Dollar that may affect the value of these RSUs or of any amounts due to him or her from the payment of these RSUs or the subsequent sale of any Shares acquired upon such payment.

(o) Unless otherwise provided in the Plan or by the Administrator in its discretion, the RSUs and the benefits evidenced in this Agreement do not create any entitlement to have the RSUs or any such benefits transferred to, or assumed by, another company, nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares.

(p) The Participant agrees that he or she has no claim or entitlement to compensation or damages from any forfeiture of these RSUs resulting from the termination of his or her status as a Service Provider (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where he or she is a Service Provider or the terms of his or her service agreement, if any).

10. Data Privacy.

(a) The Participant voluntarily consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this Agreement and any other Award materials ("Data") by and among, as applicable, the Employer(s), the Company and any member of the Company Group for the exclusive purpose of implementing, administering, and managing his or her participation in the Plan.

(b) The Participant understands that the Company and the Employer(s) may hold certain personal information about him or her, including, but not limited to, his or her name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all equity awards or any other entitlement to stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the exclusive purpose of implementing, administering, and managing the Plan.

(c) The Participant understands that Data will be transferred to one or more stock plan service provider(s) selected by the Company, which may assist the Company with the implementation, administration, and management of the Plan. The Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than his or her country. The Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Participant authorizes the Company and any other possible recipients that may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and

transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing his or her participation in the Plan.

(d) *The Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Participant understands that if he or she resides in certain jurisdictions outside the United States, to the extent required by Applicable Laws, he or she may, at any time, request access to Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents given by accepting these RSUs, in any case without cost, by contacting in writing his or her local human resources representative. Further, the Participant understands that he or she is providing these consents on a purely voluntary basis. If the Participant does not consent or if he or she later seeks to revoke his or her consent, his or her engagement as a Service Provider with the Employer(s) will not be adversely affected; the only consequence of refusing or withdrawing his or her consent is that the Company will not be able to grant him or her awards under the Plan or administer or maintain awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect his or her ability to participate in the Plan (including the right to retain these RSUs). The Participant understands that he or she may contact his or her local human resources representative for more information on the consequences of his or her refusal to consent or withdrawal of consent.*

11. Insider Trading Restrictions/Market Abuse Laws. The Participant acknowledges that he or she may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions including, but not limited to, the United States and the Participant's country of residence, which may affect the Participant's ability to acquire or sell Shares or rights to Shares (e.g., RSUs) under the Plan during such time as the Participant is considered to have "inside information" regarding the Company (as defined by the laws in the applicable jurisdictions). Local insider trading laws and regulations may prohibit the cancellation or amendment of orders the Participant placed before the Participant possessed inside information. Furthermore, the Participant could be prohibited from (i) disclosing the inside information to any third party and (ii) "tipping" third parties or causing them otherwise to buy or sell securities. The Participant should keep in mind third parties includes fellow employees. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable insider trading policy of the Company. The Participant is responsible for ensuring compliance with any applicable restrictions and should consult with his or her personal legal advisor on this matter.

12. Foreign Asset/Account Reporting Requirements. Depending on the Participant's country, the Participant may be subject to foreign asset/account, exchange control and/or tax reporting requirements as a result of the vesting of the RSUs, the acquisition, holding and/or transfer of Shares or cash resulting from participation in the Plan and/or the opening and maintaining of a brokerage or bank account in connection with the Plan. The Participant may be required to report such assets, accounts, account balances and values, and/or related transactions to the applicable authorities in his or her country. The Participant may also be required to repatriate sale proceeds or other funds received as a result of his or her participation in the Plan to his or her country

through a designated bank or broker and/or within a certain time after receipt. The Participant acknowledges that he or she is responsible for ensuring compliance with any applicable foreign asset/account, exchange control and tax reporting and other requirements. The Participant further understands that he or she should consult the Participant's personal tax and legal advisors, as applicable on these matters.

13. Miscellaneous.

(a) Address for Notices. Any notice to be given to the Company under the terms of this Agreement must be addressed to the Company at Upstart Holdings, Inc., 2950 S. Delaware Street, Suite 300, San Mateo, CA 94403, USA, and a copy of such notice must be delivered to the Company through electronic mail addressed to notice@upstart.com, until the Company designates another address in writing.

(b) Non-Transferability of RSUs. These RSUs may not be transferred other than by will or the applicable laws of descent or distribution.

(c) **Binding Agreement**. If any RSUs are transferred, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors, and assigns of the parties to this Agreement.

(d) **Additional Conditions to Issuance of Stock**. If at any time the Company determines, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any U.S. or non-U.S. federal, state or local law the tax Code and related regulations or under the rulings or regulations of the United States Securities and Exchange Commission or any other governmental regulatory body or the clearance, consent or approval of the United States Securities and Exchange Commission or any other governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, clearance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. If any such listing, registration, qualification, rule compliance, clearance, consent or approval has not been completed by the applicable Settlement Deadline with respect to a Restricted Stock Unit in a manner that would allow it to be settled by the applicable Settlement Deadline, such Restricted Stock Unit will be forfeited as of immediately following the Settlement Deadline for no consideration and at no cost to the Company. Subject to the terms of this Agreement and the Plan, the Company shall not be required to issue any certificate or certificates for Shares hereunder prior to the lapse of such reasonable period of time following the date of vesting of a Restricted Stock Unit as the Administrator may establish from time to time for reasons of administrative convenience and any such certificate may be in book entry form.

(e) **Captions**. Captions provided in this Agreement are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

(f) **<u>Agreement Severable</u>**. If any provision of this Agreement is held invalid or unenforceable, that provision will be severed from the remaining provisions of this Agreement and the invalidity or unenforceability will have no effect on the remainder of the Agreement.

(g) **<u>Non-U.S. Appendix</u>**. These RSUs are subject to any special terms and conditions set forth in any appendix to this Agreement for the Participant's country (the "**<u>Appendix</u>**"). If the Participant relocates to a country included in such Appendix, the special terms and conditions for that country will apply to him or her to the extent the Company determines that applying such terms and conditions is necessary or advisable for legal or administrative reasons.

(h) **<u>Imposition of Other Requirements</u>. The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the RSUs and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing; provided, however, that no such imposition of other requirements shall occur or be effective unless such imposition would result in these RSUs remaining exempt or excepted from the requirements of Code Section 409A pursuant to the "short-term deferral" exception or another exception or exemption under Code Section 409A, or otherwise complying with Code Section 409A, in each case such that none of this Agreement, the RSUs provided under this Agreement, or Shares, cash or other property issuable hereunder will be subject to the additional tax imposed under Code Section 409A.**

(i) **<u>Choice of Law; Choice of Forum</u>.** The Plan, this Agreement, these RSUs, and all determinations made and actions taken under the Plan, to the extent not otherwise governed by the laws of the United States, will be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law. For purposes of litigating any dispute that arises under the Plan, the Participant's acceptance of these RSUs is his or her consent to the jurisdiction of the State of Delaware and his or her agreement that any such litigation will be conducted in the Delaware Court of Chancery or the federal courts for the United States for the District of Delaware and no other courts, regardless of where he or she is performing services.

(j) **<u>Modifications to the Agreement</u>**. The Plan and this Agreement constitute the entire understanding of the parties on the subjects covered. The Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything in the Plan or this Agreement to the contrary, but subject to Section 13(h), the Administrator may, without the consent of the Participant, modify this Agreement in any of the following manners: (a) take any action permitted by Section 4 of this Agreement, including to waive or decrease, in whole or in part, some or all of the requirements required for vesting of all or a portion of the unvested RSUs; or (b) waive or decrease some or all of the requirements for settlement of RSUs. The Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Participant, to comply with Code Section 409A, to otherwise avoid imposition of any additional tax or income recognition under Code Section 409A in connection with these RSUs, or to comply with other Applicable Laws.

(k) **Waiver**. The Participant acknowledges that a waiver by the Company of a breach of any provision of this Agreement will not operate or be construed as a waiver of any other provision of this Agreement or of any subsequent breach of this Agreement by him or her.

(l) Language. The Participant acknowledges that the Participant is sufficiently proficient in English, or has consulted with an advisor who is sufficiently proficient in English, so as to allow the Participant to understand the terms of this Agreement. If Participant has received this Agreement, or any other document related to these RSUs and/or the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

UPSTART HOLDINGS, INC.
2020 EQUITY INCENTIVE PLAN

NOTICE OF STOCK OPTION GRANT AND STOCK OPTION AGREEMENT

Capitalized terms that are not defined in this Notice of Stock Option Grant and Stock Option Agreement (the "Notice of Grant"), the Terms and Conditions of Stock Option Grant and all other exhibits to these documents (all together, the "Agreement") have the meanings given to them in the Upstart Holdings, Inc. 2020 Equity Incentive Plan (the "Plan").

The Participant has been granted an Option according to the terms below and subject to the terms and conditions of the Plan and this Agreement:

Participant __

Participant I.D. __

Grant Number __

Grant Date __

Vesting Commencement Date__

Number of Shares Granted __

Exercise Price per Share __

Total Exercise Price __

Type of Option __ Incentive Stock Option

__ Nonstatutory Stock Option

Expiration Date __

Vesting Schedule:

Subject to the conditions set forth in this Agreement, this Option shall be exercisable, in whole or in part, according to the following vesting schedule (as such vesting schedule may be amended or modified from time to time in accordance with this Agreement and the Plan):

[______________]

Notwithstanding the foregoing, in the event the Participant ceases to be a Service Provider due to the Participant's death, 100% of the then-outstanding and unvested Shares subject to this Option will accelerate and fully vest.

For the avoidance of doubt, in the event of any conflict, discrepancy, or inconsistency between the vesting schedule set forth above and the document or action of the Board or its authorized committee approving this Option pursuant to the Plan (the "Approval"), the Approval shall govern the initial vesting terms. Any portion of this Option that shall vest on a monthly basis per such vesting schedule shall vest on the same day of the applicable vesting month as the Vesting Commencement Date set forth above (and if there is no corresponding day, on the last day of such month), subject to Participant continuing to be a Service Provider through each such date.

In addition to the vesting terms set forth above for this award, this Option's vesting will be accelerated in accordance with any vesting acceleration provisions approved by the Administrator. If the Participant ceases to be a Service Provider for any or no reason before he or she fully vests in this Option, the unvested portion of this Option will terminate according to the terms of Section 4 of this Agreement.

Adjustments to Vesting Schedule:

Notwithstanding the aforementioned vesting schedule, in accordance with Section 11 of the Plan, unless the Administrator provides otherwise or as otherwise required by Applicable Laws, (a) the vesting schedule of this Option will be adjusted or suspended during any leave of absence in accordance with the Company's leave of absence and/or reduced work schedule and/or part-time policy in effect at the time of such leave and (b) if, after the Grant Date of this Option, Participant commences working on a part-time or reduced work schedule basis, the vesting schedule will be adjusted in accordance with the Company's reduced work schedule/ part-time policy then in effect.

Exercise of Option:

(a) If the Participant dies or his or her status as a Service Provider is terminated due to his or her Disability, the vested portion of this Option will remain exercisable for twelve (12) months after the Participant ceases to be a Service Provider. For any other termination of status as a Service Provider, the vested portion of this Option will remain exercisable for three (3) months after the Participant ceases to be a Service Provider.

(b) If a Transaction occurs, Section 14 of the Plan may further limit this Option's exercisability.

(c) This Option will not be exercisable after the Expiration Date, except as may be permitted in accordance with Section 6(h) of the Plan (which tolls expiration in very limited cases when there are legal restrictions on exercise).

The Participant's signature below (or Participant's electronic signature or other electronic acknowledgement or acceptance of this Agreement or Award) indicates that:

(vii) He or she agrees that this Option is granted under and governed by the terms and conditions of the Plan and this Agreement, including their exhibits and appendices.

(viii) He or she understands that the Company is not providing any tax, legal, or financial advice and is not making any recommendations regarding his or her participation in the Plan or his or her acquisition or sale of Shares.

(ix) He or she has reviewed the Plan and this Agreement, has had an opportunity to obtain the advice of personal tax, legal, and financial advisors prior to signing this Agreement, and fully understands all provisions of the Plan and Agreement. He or she will consult with his or her own personal tax, legal, and financial advisors before taking any action related to the Plan.

(x) He or she has read and agrees to each provision of Section 10 of this Agreement.

(xi) He or she will notify the Company of any change to the contact address below.

(xii) He or she acknowledges and agrees that this Option will be subject to recoupment under any clawback policy that the Company adopts pursuant to Section 16(d) of the Plan.

PARTICIPANT

__

Signature

Address:__

__

__

EXHIBIT A

TERMS AND CONDITIONS OF STOCK OPTION GRANT

14. Grant. The Company grants the Participant an Option to purchase Shares of Common Stock as described in the Notice of Grant. If there is a conflict between the Plan, this Agreement, or any other agreement with the Participant governing this Option, those documents will take precedence and prevail in the following order: (a) the Plan, (b) the Agreement, and (c) any other agreement between the Company and the Participant governing this Option.

If the Notice of Grant designates this Option as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an ISO under Code Section 422. Even if this Option is designated an ISO, to the extent it first become exercisable as to more than $100,000 in any calendar year, the portion in excess of $100,000 is not an ISO under Code Section 422(d) and that portion will be a Nonstatutory Stock Option ("NSO"). In addition, if the Participant exercises this Option after three (3) months have passed since he or she ceased to be an employee of the Company or a Parent or Subsidiary of the Company, it generally will no longer be an ISO (however, different rules apply to cessation of employee status due to death or Disability). If there is any other reason this Option (or a portion of it) will not qualify as an ISO, to the extent of such nonqualification, this Option will be an NSO. The Participant understands that he or she will have no recourse against the Administrator, any member of the Company Group, or any officer or director of a member of the Company Group if any portion of this Option is not an ISO.

15. Vesting. This Option will only be exercisable (also referred to as vested) under the Vesting Schedule in the Notice of Grant, Section 3 of this Agreement, or Section 14 of the Plan. Shares scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest unless the Participant continues to be a Service Provider until the time such vesting is scheduled to occur.

16. Administrator Discretion. The Administrator has the discretion to accelerate the vesting of any portion of this Option. In that case, this Option will be vested as of the date and to the extent specified by the Administrator.

17. Forfeiture upon Cessation of Status as a Service Provider. Upon the Participant's termination as a Service Provider for any reason, this Option will immediately stop vesting and any portion of this Option that has not yet vested will be immediately forfeited for no consideration upon the date that Participant ceases to be a Service Provider for any reason, in all cases, subject to Applicable Laws. For purposes of this Option, the Participant's status as a Service Provider will be considered to be terminated as of the date the Participant is no longer providing services to the Company, or if different, the Participant's employer (the "Employer") or the Subsidiary or Parent to which the Participant is providing services (the Employer, Subsidiary or Parent, as applicable, the "Service Recipient") or other member of the Company Group (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Participant is a Service Provider or the terms of the Participant's employment or service agreement, if any). The Administrator shall have the exclusive discretion

to determine when the Participant is no longer providing services for purposes of this Option (including whether the Participant may still be considered to be providing services while on a leave of absence).

18. Death of Participant. Any distribution or delivery to be made to the Participant under this Agreement will, if he or she is then deceased, be made to the administrator or executor of his or her estate or, if the Administrator permits, his or her designated beneficiary, unless otherwise required to comply with Applicable Laws. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations that apply to the transfer.

19. Exercise of Option.

(a) **Right to Exercise**. This Option may be exercised only before its Expiration Date and only under the Plan and this Agreement.

(b) Method of Exercise. To exercise this Option, the Participant must deliver and the Administrator must receive an exercise notice according to procedures determined by the Administrator. The exercise notice must:

(i) state the number of Shares as to which this Option is being exercised ("Exercised Shares"),

(ii) make any representations or agreements required by the Company,

(iii) be accompanied by a payment of the total exercise price for all Exercised Shares, and

(iv) be accompanied by a payment of all required Tax Withholdings for all Exercised Shares.

This Option is exercised when both the exercise notice and payments due under Sections 6(b)(iii) and 6(b)(iv) have been received by the Company for all Exercised Shares. The Administrator may designate a particular exercise notice to be used, but until a designation is made, the exercise notice attached to this Agreement as Exhibit B may be used.

20. Method of Payment. The Participant may pay the total exercise price for Exercised Shares by any of the following methods or a combination of methods:

(a) cash;

(b) check;

(c) wire transfer;

(d) consideration received by the Company under a formal cashless exercise program adopted by the Company; or

(e) surrender of other Shares, as long as the Company determines that accepting such Shares does not result in any adverse accounting consequences to the Company. If Shares are surrendered, the value of those Shares will be the fair market value for those Shares on the date they are surrendered.

A non-U.S. resident's methods of exercise may be restricted by the terms and condition of any appendix to this Agreement for the Participant's country (the "Appendix").

21. Tax Obligations.

(a) Tax Withholding.

(i) No Shares will be issued to the Participant until he or she makes satisfactory arrangements (as determined by the Administrator) for the payment of Tax Withholdings. If the Participant is a non-U.S. employee, the method of payment of Tax Withholdings may be restricted by any Appendix. If the Participant fails to make satisfactory arrangements for the payment of any Tax Withholdings under this Agreement at the time of an attempted Option exercise, the Company may refuse to honor the exercise and refuse to deliver the Shares, to the extent permitted by Applicable Laws.

(ii) The Company also has the right (but not the obligation) to satisfy any Tax Withholdings: (a) by reducing the number of Shares otherwise deliverable to the Participant; (b) by requiring payment by cash or check made payable to the Company and/or any Service Recipient with respect to which the withholding obligation arises; (c) by deduction of such amount from salary, wages or other compensation payable to the Participant; or (d) in any combination of the foregoing, or any other method determined by the Administrator to be compliance with Applicable Laws.

(iii) The Company may withhold or account for Tax Withholdings by considering statutory or other withholding rates, including minimum or maximum rates applicable in the Participant's jurisdiction(s). In the event of over-withholding, the Participant may receive a refund of any over-withheld amount in cash (with no entitlement to the equivalent in Common Stock), or if not refunded, the Participant may seek a refund from the local tax authorities. In the event of under-withholding, the Participant may be required to pay any additional Tax Withholdings directly to the applicable tax authority or to the Company and/or the Employer(s). If the obligation for Tax Withholdings is satisfied by withholding in Shares, for tax purposes, the Participant will be deemed to have been issued the full number of Shares exercised, notwithstanding that a number of the Shares is held back solely for the purpose of paying the Tax Withholdings.

(iv) Further, if the Participant is subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, the Company or the Employer(s) or former Employer(s) may withhold or account for tax in more than one jurisdiction.

(v) Regardless of any action of the Company or the Employer(s), the Participant acknowledges that the ultimate liability for all Tax Withholdings and any and all additional taxes related to the Option, the Shares or other amounts or property delivered under the Option and the Participant's participation in the Plan is and remains his or her responsibility and may exceed the amount actually withheld by the Company or the Employer(s). The Participant further acknowledges that the Company and the Employer(s) (1) make no representations or undertakings regarding the treatment of any Tax Withholdings in connection with any aspect of this Option; and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of this Option to reduce or eliminate his or her liability for Tax Withholdings or achieve any particular tax result.

(vi) For U.S. taxpayers, under Code Section 409A, a stock right (such as this Option) that vests after December 31, 2004 (or that vested on or prior to such date but which was materially modified after October 3, 2004) that was granted with a per share exercise price that is determined by the U.S. Internal Revenue Service (the "IRS") to be less than the fair market value of an underlying share on the date of grant (a "discount option") may be considered "deferred compensation." A stock right that is a "discount option" may result in (1) income recognition by the recipient of the stock right prior to the exercise of the stock right, (2) an additional 20% U.S. federal income tax, and (3) potential penalty and interest charges. The "discount option" may also result in additional U.S. state income, penalty and interest tax to the recipient of the stock right. Participant is hereby notified that the Company cannot and has not guaranteed that the IRS and/or applicable state tax enforcement agencies will agree that the per Share exercise price of this Option equals or exceeds the fair market value of a Share on the Grant Date in a later examination. Participant is hereby notified that if the IRS and/or applicable state tax enforcement agencies determine that this Option was granted with a per Share exercise price that was less than the fair market value of a Share on the Grant Date, Participant shall be solely responsible for Participant's costs related to such a determination.

(b) Tax Reporting. This Section 8(b) applies if the Participant is a U.S. income taxpayer. If this Option is partially or wholly an ISO, and if the Participant sells or otherwise disposes of any the Shares acquired by exercising the ISO portion on or before the later of (i) the date two (2) years after the Grant Date, or (ii) the date one (1) year after the date of exercise, he or she may be subject to withholding of Tax Withholdings by the Company on the compensation income recognized by him or her and must immediately notify the Company in writing of the disposition.

22. <u>Rights as Stockholder. The Participant's or any other person's rights as a stockholder of the Company (including the right to vote and to receive dividends and distributions) will not begin until Shares have been issued and recorded on the records of the Company or its transfer agents or registrars.</u>

23. <u>Acknowledgements and Agreements. The Participant's signature on the Notice of Grant accepting this Option indicates that:</u>

(a) HE OR SHE ACKNOWLEDGES AND AGREES THAT THE VESTING OF THIS OPTION IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AND THAT BEING HIRED, GRANTED THIS OPTION, AND EXERCISING THIS OPTION WILL NOT RESULT IN VESTING.

(b) HE OR SHE FURTHER ACKNOWLEDGES AND AGREES THAT THIS OPTION AND AGREEMENT DO NOT CREATE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH HIS OR HER RIGHT OR THE RIGHT OF THE EMPLOYER(S) TO TERMINATE HIS OR HER RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE, SUBJECT TO APPLICABLE LAWS.

(c) The Participant agrees that this Agreement and its incorporated documents reflect all agreements on its subject matters and that he or she is not accepting this Agreement based on any promises, representations, or inducements other than those reflected in the Agreement.

(d) The Participant understands that exercise of this Option is governed strictly by Sections 6, 7, and 8 of this Agreement and that failure to comply with those Sections could result in the expiration of this Option, even if an attempt was made to exercise.

(e) The Participant agrees that the Company's delivery of any documents related to the Plan or this Option (including the Plan, the Agreement, the Plan's prospectus and any reports of the Company provided generally to the Company's stockholders) to him or her may be made by electronic delivery, which may include but does not necessarily include the delivery of a link to a Company intranet or the Internet site of a third party involved in administering the Plan, the delivery of the document via e-mail, or any other means of electronic delivery specified by the Company. If the attempted electronic delivery of such documents fails, the Participant will be provided with a paper copy of the documents. The Participant acknowledges that he or she may receive from the Company a paper copy of any documents that were delivered electronically at no cost to him or her by contacting the Company by telephone or in writing. The Participant may revoke his or her consent to the electronic delivery of documents or may change the electronic mail address to which such documents are to be delivered (if the Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised email address by telephone, postal service or electronic mail. Finally, the

Participant understands that he or she is not required to consent to electronic delivery of documents.

(f) The Participant may deliver any documents related to the Plan or this Option to the Company by e-mail or any other means of electronic delivery approved by the Administrator, but he or she must provide the Company or any designated third party administrator with a paper copy of any documents if his or her attempted electronic delivery of such documents fails.

(g) The Participant accepts that all good faith decisions or interpretations of the Administrator regarding the Plan and Awards under the Plan are binding, conclusive, and final. No member of the Administrator will be personally liable for any such decisions or interpretations.

(h) The Participant agrees that the Plan is established voluntarily by the Company, is discretionary in nature, and may be amended, suspended, or terminated by the Company at any time, to the extent permitted by the Plan.

(i) The Participant agrees that the grant of this Option is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted in the past.

(j) The Participant agrees that any decisions regarding future Awards will be in the Company's sole discretion.

(k) The Participant agrees that he or she is voluntarily participating in the Plan.

(l) The Participant agrees that this Option and any Shares acquired under the Plan are not intended to replace any pension rights or compensation.

(m) The Participant agrees that this Option, any Shares acquired under the Plan, and their income and value are not part of normal or expected compensation for any purpose, including for calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, holiday pay, long-service awards, pension or retirement or welfare benefits, or similar payments.

(n) The Participant agrees that the future value of the Shares underlying this Option is unknown, indeterminable, and cannot be predicted with certainty.

(o) The Participant understands that if the underlying Shares do not increase in value, this Option will have no intrinsic monetary value.

(p) The Participant understands that if this Option is exercised, the value of each Share received on exercise may increase or decrease in value, even below the Exercise Price.

(q) The Participant agrees that no member of the Company Group is liable for any foreign exchange rate fluctuation between the Participant's local currency and the United States

Dollar that may affect the value of this Option or of any amounts due to him or her from the exercise of this Option or the subsequent sale of any Shares acquired upon exercise.

(r) Unless otherwise provided in the Plan or by the Administrator in its discretion, this Option and the benefits evidenced in this Agreement do not create any entitlement to have this Option or any such benefits transferred to, or assumed by, another company, nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares.

(s) The Participant agrees that he or she has no claim or entitlement to compensation or damages from any forfeiture of this Option resulting from the termination of his or her status as a Service Provider (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where he or she is a Service Provider or the terms of his or her service agreement, if any).

24. Data Privacy.

*(a) The Participant voluntarily consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this Agreement and any other Award materials (“*Data*”) by and among, as applicable, the Employer(s), the Company and any member of the Company Group for the exclusive purpose of implementing, administering, and managing his or her participation in the Plan.*

(b) The Participant understands that the Company and the Employer(s) may hold certain personal information about him or her, including, but not limited to, his or her name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all equity awards or any other entitlement to stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the exclusive purpose of implementing, administering, and managing the Plan.

(c) The Participant understands that Data will be transferred to one or more a stock plan service provider(s) selected by the Company, which may assist the Company with the implementation, administration, and management of the Plan. The Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipient’s country (e.g., the United States) may have different data privacy laws and protections than his or her country. The Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Participant authorizes the Company and any other possible recipients that may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing his or her participation in the Plan.

(d) The Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Participant understands that if he or she resides in certain jurisdictions outside the United States, to the extent required by

Applicable Laws, he or she may, at any time, request access to Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents given by accepting this Option, in any case without cost, by contacting in writing his or her local human resources representative. Further, the Participant understands that he or she is providing these consents on a purely voluntary basis. If the Participant does not consent or if he or she later seeks to revoke his or her consent, his or her engagement as a Service Provider with the Employer(s) will not be adversely affected; the only consequence of refusing or withdrawing his or her consent is that the Company will not be able to grant him or her awards under the Plan or administer or maintain awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect his or her ability to participate in the Plan (including the right to retain this Option). The Participant understands that he or she may contact his or her local human resources representative for more information on the consequences of his or her refusal to consent or withdrawal of consent.

25. Insider Trading Restrictions/Market Abuse Laws. The Participant acknowledges that he or she may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions including, but not limited to, the United States and the Participant's country of residence, which may affect the Participant's ability to acquire or sell Shares or rights to Shares (e.g., this Option) under the Plan during such time as the Participant is considered to have "inside information" regarding the Company (as defined by the laws in the applicable jurisdictions). Local insider trading laws and regulations may prohibit the cancellation or amendment of orders the Participant placed before the Participant possessed inside information. Furthermore, the Participant could be prohibited from (i) disclosing the inside information to any third party and (ii) "tipping" third parties or causing them otherwise to buy or sell securities. The Participant should keep in mind third parties includes fellow employees. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable insider trading policy of the Company. The Participant is responsible for ensuring compliance with any applicable restrictions and should consult with his or her personal legal advisor on this matter.

26. Foreign Asset/Account Reporting Requirements. Depending on the Participant's country, the Participant may be subject to foreign asset/account, exchange control and/or tax reporting requirements as a result of the vesting or exercise of this Option, the acquisition, holding and/or transfer of Shares or cash resulting from participation in the Plan and/or the opening and maintaining of a brokerage or bank account in connection with the Plan. The Participant may be required to report such assets, accounts, account balances and values, and/or related transactions to the applicable authorities in his or her country. The Participant may also be required to repatriate sale proceeds or other funds received as a result of his or her participation in the Plan to his or her country through a designated bank or broker and/or within a certain time after receipt. The Participant acknowledges that he or she is responsible for ensuring compliance with any applicable foreign asset/account, exchange control and tax reporting and other requirements. The Participant further understands that he or she should consult the Participant's personal tax and legal advisors, as applicable on these matters.

27. Miscellaneous

(a) **Address for Notices. Any notice to be given to the Company under the terms of this Agreement must be addressed to the Company at Upstart Holdings, Inc., 2950 S. Delaware Street, Suite 300, San Mateo CA 94403, USA, and a copy of such notice must be delivered to the Company through electronic mail addressed to notice@upstart.com, until the Company designates another address in writing.**

(b) **Non-Transferability of Option**. This Option may not be transferred other than by will or the applicable laws of descent or distribution and may be exercised during the lifetime of the Participant only by him or her or his or her representative following a Disability.

(c) **Binding Agreement**. If this Option is transferred, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors, and assigns of the parties to this Agreement.

(d) **Additional Conditions to Issuance of Stock**. If at any time the Company determines, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any U.S. or non-U.S. federal, state or local law the tax Code and related regulations or under the rulings or regulations of the United States Securities and Exchange Commission or any other governmental regulatory body or the clearance, consent or approval of the United States Securities and Exchange Commission or any other governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, clearance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company.

(e) **Captions**. Captions provided in this Agreement are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

(f) **Agreement Severable**. If any provision of this Agreement is held invalid or unenforceable, that provision will be severed from the remaining provisions of this Agreement and the invalidity or unenforceability will have no effect on the remainder of the Agreement.

(g) **Non-U.S. Appendix**. This Option is subject to any special terms and conditions set forth in any Appendix. If the Participant relocates to a country included in such Appendix, the special terms and conditions for that country will apply to him or her to the extent the Company determines that applying such terms and conditions is necessary or advisable for legal or administrative reasons.

(h) Imposition of Other Requirements. The Company reserves the right to impose other requirements on this Option and the Shares subject to this Option, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

(i) **Choice of Law; Choice of Forum**. The Plan, this Agreement, this Option, and all determinations made and actions taken under the Plan, to the extent not otherwise governed by the laws of the United States, will be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law. For purposes of litigating any dispute that arises under the Plan, the Participant's acceptance of this Option is his or her consent to the jurisdiction of the State of Delaware and his or her agreement that any such litigation will be conducted in the Delaware Court of Chancery or the federal courts for the United States for the District of Delaware and no other courts, regardless of where he or she is performing services.

(j) Modifications to the Agreement. The Plan and this Agreement constitute the entire understanding of the parties on the subjects covered. The Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. The Company reserves the right to revise the Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Participant, to comply with Code Section 409A, to otherwise avoid imposition of any additional tax or income recognition under Code Section 409A in connection with this Option, or to comply with other Applicable Laws.

(k) Waiver. The Participant acknowledges that a waiver by the Company of a breach of any provision of this Agreement will not operate or be construed as a waiver of any other provision of this Agreement or of any subsequent breach of this Agreement by him or her.

(l) Language. If Participant has received this Agreement, or any other document related to this Option and/or the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

EXHIBIT B

UPSTART HOLDINGS, INC.
2020 EQUITY INCENTIVE PLAN

EXERCISE NOTICE

Upstart Holdings, Inc.
2950 S. Delaware Street, Suite 300,
San Mateo CA 94403
notice@upstart.com

Attention: Stock Administration

Purchaser Name:	
Grant Date of Stock Option (the "**Option**"):	
Grant Number:	
Exercise Date:	
Number of Shares Exercised:	
Per Share Exercise Price:	
Total Exercise Price:	
Exercise Price Payment Method:	
Tax Withholdings Payment Method:	

The information in the table above is incorporated in this Exercise Notice.

1. **Exercise of Option**. Effective as of the Exercise Date, I elect to purchase the Number of Shares Exercised ("**Exercised Shares**") under the Stock Option Agreement for this Option (the "**Agreement**") for the Total Exercise Price. Capitalized terms used but not defined in this Exercise Notice have the meanings given to them in the 2020 Equity Incentive Plan (the "**Plan**") and/or the Agreement.

2. **Delivery of Payment**. With this Exercise Notice, I am delivering the Total Exercise Price and any required Tax Withholdings to be paid in connection with the purchase of the Exercised Shares. I am paying my total purchase price by the Exercise Price Payment Method and the Tax Withholdings by the Tax Withholdings Payment Method.

3. **Representations of Purchaser**. I acknowledge that:

(a) I have received, read, and understood the Plan and the Agreement and agree to be bound by their terms and conditions.

(b) The exercise will not be completed until this Exercise Notice, Total Exercise Price, and all Tax-Related Payments are received by the Company.

(c) I have no rights as a stockholder of the Company (including the right to vote and receive dividends and distributions) on the Exercised Shares until the Exercised Shares have been issued and recorded on the records of the Company or its transfer agents or registrars.

(d) No adjustment will be made for a dividend or other right for which the record date is before the date of issuance, except for adjustments under Section 13 of the Plan.

(e) There may be adverse tax consequences to exercising this Option, and I am not relying on the Company for tax advice and have had an opportunity to obtain the advice of personal tax, legal, and financial advisors prior to exercising.

(f) The modification and choice of law provisions of the Agreement also govern this Exercise Notice.

4. **Entire Agreement; Choice of Law; Choice of Forum**. The Plan and the Agreement are incorporated by reference. This Exercise Notice, the Plan, and the Agreement are the entire agreement of the parties with respect to this Options and this exercise and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to their subject matter. The Plan, the Agreement, and this Exercise Notice, to the extent not otherwise governed by the laws of the United States, will be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law. For purposes of litigating any dispute that arises under the Plan (including without limitation under this Exercise Notice), the Participant consents to the jurisdiction of the State of Delaware and any such litigation being conducted in the Delaware Court of Chancery or the federal courts for the United States for the District of Delaware and no other courts, regardless of where he or she is performing services.

Submitted by:

PURCHASER

__

Signature

Address:__

__

__

Exhibit 10.3

SUBLEASE

This **SUBLEASE** (this "**Sublease**") is entered into as of September 13, 2021 (the "**Effective Date**"), by and between **OPEN TEXT INC.**, a Delaware corporation ("**Sublandlord**"), and **UPSTART NETWORK, INC**., a Delaware corporation ("**Subtenant**"), with reference to the following facts:

A. Per the terms and conditions of that certain Lease dated October 7, 2016 (as may be amended, the "**Master Lease**"), Bay Meadows Station 3 Investors, LLC, a Delaware limited liability company ("**Landlord**"), as "Landlord," leases to Sublandlord, as "Tenant," certain space consisting of approximately One Hundred Eight Thousand Fifteen (108,015) rentable square feet (the "**Master Lease Premises**") on the third and fourth floors of the office building located at 2950 South Delaware Street, San Mateo, California 94403 (the "**Building**").

B. Snowflake, Inc., a Delaware corporation ("**Snowflake**"), and Sublandlord are parties to that certain Sublease dated August 28, 2018 (as amended, the "**Snowflake Sublease**"), pursuant to which Sublandlord currently subleases to Snowflake a portion of the Master Lease Premises consisting of approximately Forty-Eight Thousand Two Hundred Forty-Four (48,244) rentable square feet located on the third (3rd) floor of the Building as more particularly described in the Snowflake Sublease (the "**Snowflake Premises**"). A true, correct and complete copy of the Snowflake Sublease is attached hereto as Exhibit A and incorporated herein by reference. The term of the Snowflake Sublease is set to expire at 11:59 p.m. (Pacific Time) on March 31, 2024.

C. Snowflake currently sub-subleases the Snowflake Premises to Subtenant per the terms and conditions of that certain Sub-Sublease dated April 1, 2019, by and between Snowflake and Upstart Holdings, Inc., a Delaware corporation, Subtenant's affiliate (the "**Sub-Sublease**"). A true, correct and complete copy of the Sub-Sublease is attached hereto as Exhibit B and incorporated herein by reference. The term of the Sub-Sublease is set to expire at 11:59 p.m. (Pacific Time) on March 31, 2024.

D. Subject to the terms and conditions of this Sublease, Subtenant wishes to sublease from Sublandlord, and Sublandlord wishes to sublease to Subtenant, (i) a portion of the Master Lease Premises containing approximately Fifty-Nine Thousand Seven Hundred Seventy-One (59,771) rentable square feet located on the third (3rd) and fourth (4^{th}) floors of the Building (the "**Existing Premises**"), and (ii) beginning at 12:00 a.m. (Pacific Time) on April 1, 2024 or any earlier termination of the Snowflake Sublease (the "**2024 Commencement Date**"), the entirety of the Snowflake Premises. Prior to the 2024 Commencement Date, all references herein to the "**Subleased Premises**" shall mean and refer to the Existing Premises. Beginning on the 2024 Commencement Date, all references herein to the Subleased Premises shall collectively mean and refer to the Existing Premises and the Snowflake Premises, which together constitute the entirety of the Master Lease Premises.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged by the parties, Sublandlord and Subtenant hereby agree as follows:

1. Sublease; Snowflake Sublease; Defined Terms. Sublandlord hereby subleases to Subtenant and Subtenant hereby subleases from Sublandlord for the Term (as hereinafter defined), at the rental and upon all of the conditions set forth herein, the Existing Premises and, beginning on the 2024 Commencement Date, the Snowflake Premises. Unless otherwise specified herein, all capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Master Lease.

2. Term.

(a) Generally. The term of this Sublease (the “**Term**”) shall commence on the date that is (i) January 1, 2022 with respect to the Existing Premises (the “**Existing Premises Commencement Date**”) and (ii) the 2024 Commencement Date with respect to the Snowflake Premises; provided, however, that Sublandlord will not deliver possession of the Existing Premises to Subtenant and the Term shall not commence unless and until Sublandlord has procured Landlord’s consent to this Sublease in form reasonably satisfactory to Subtenant (the “**Consent**”). The Term shall end on February 29, 2028, unless sooner terminated pursuant to any provision hereof (the “**Expiration Date**”). Subtenant acknowledges and agrees that it has no rights or options to extend the Term. Sublandlord and Subtenant hereby agree to use commercially reasonable efforts to secure the Consent, and Sublandlord hereby covenants and agrees to pay all costs charged by Landlord in connection with Landlord’s review of this Sublease and issuance of the Consent, including, without limitation, any Transfer Premium (as defined in Section 22.3 of the Master Lease). If Sublandlord fails to obtain the Consent within sixty (60) days after full execution of this Sublease by Subtenant, then Subtenant may terminate this Sublease by giving Sublandlord written notice thereof prior to receipt of the Consent.

(b) Early Access. Notwithstanding anything herein to the contrary, Sublandlord shall deliver possession of the Existing Premises to Subtenant in the required condition and permit Subtenant and Subtenant’s employees and agents to enter the Existing Premises commencing on December 1, 2021 or such later date as the conditions described in subparts (i)-(iii) below are satisfied (the “**Early Occupancy Date**”), to prepare the Existing Premises for Subtenant’s use and occupancy, provided, however, such early occupancy of the Existing Premises shall be permitted by Sublandlord only if: (i) this Sublease is fully executed by both Sublandlord and Subtenant prior to the Early Occupancy Date; (ii) Subtenant has delivered to Sublandlord the Base Rent (as defined in Section 3(a)) for the first month of the Term and evidence of insurance as required under this Sublease; and (iii) Sublandlord and Subtenant have received the Consent prior to the Early Occupancy Date. Any period prior to the Existing Premises Commencement Date during which Subtenant is in possession of the Existing Premises shall be referred to herein as the “**Pre-Possession Term**.” Subtenant agrees that Subtenant’s occupancy of the Existing Premises during the Pre-Possession Term shall be subject to all the terms, covenants, and conditions of this Sublease and the Master Lease, except, however, Subtenant shall not be obligated to pay Rent (except Subtenant shall be obligated to pay for requested services) from the Early Occupancy Date to the Existing Premises Commencement Date and any Subtenant’s obligations relating to indemnification or insurance shall not be applicable to any acts, negligence or willful misconduct of Sublandlord or its agents or contractors during such Pre-Possession Term. Notwithstanding anything to the contrary herein, (A) if Sublandlord fails to deliver possession of the Existing Premises as required above on or before December 15, 2021 for any reason other than the failure of the conditions described in subparts (i)-(iii) above to be satisfied, the date Subtenant is obligated to commence paying Rent shall be delayed by one (1) day for each such day of delay and (B) Subtenant shall have no liability under this Sublease with respect to the Existing Premises until such delivery occurs.

(c) Adjustments. Notwithstanding the provisions of Section 2(a) above, if, as of the Existing Premises Commencement Date, Subtenant has not delivered to Sublandlord (x) Base Rent for the first month of the Term pursuant to the provisions of Section 3(a) below, and (y) evidence of Subtenant’s procurement of all insurance coverage required hereunder, then Sublandlord will have no obligation to deliver possession of the Existing Premises to Subtenant, but the failure on the part of Sublandlord to so deliver possession of the Existing Premises to Subtenant in such event will not serve to delay the commencement of Subtenant’s obligations to pay Rent (defined below) hereunder.

3. Rent.

(a) Rent Payments. Subtenant shall pay to Sublandlord as base rent ("**Base Rent**") for the Existing Premises (59,771 rentable square feet) as follows:

Period/ Months of Term	Rental Rate per Rentable Square Foot per Month	Monthly Base Rent
1–12 (1/1/22-12/31/22)	$6.60 NNN	$394,488.60
13-24 (1/1/23-12/31/23)	$6.80 NNN	$406,442.80
25–36 (1/1/24-12/31/24)	$7.00 NNN	$418,397.00
37–48 (1/1/25-12/31/25)	$7.21 NNN	$430,948.91
49–60 (1/1/26-12/31/26)	$7.43 NNN	$444,098.53
61-72 (1/1/27-12/31/27)	$7.65 NNN	$457,248.15
73-74 (1/1/28-2/29/28)	$7.88 NNN	$470,995.48

Prior to the 2024 Commencement Date, Subtenant shall be responsible to continue paying Rent (as such term is defined in the Sub-Sublease) as required and set forth in the Sub-Sublease. Beginning on the 2024 Commencement Date and for the remainder of the Term, and in addition to the Base Rent that Subtenant must pay in connection with the Existing Premises, Subtenant will pay Sublandlord Base Rent for the Snowflake Premises (48,244 rentable square feet) as follows:

Period/ Months of Term	Rental Rate per Rentable Square Foot per Month	Monthly Base Rent
2024 Commencement Date-12/31/24	$7.00 NNN	$337,708.00
1/1/25-12/31/25	$7.21 NNN	$347,839.24
1/1/26-12/31/26	$7.43 NNN	$358,452.92
1/1/27-12/31/27	$7.65 NNN	$369,066.60
1/1/28-2/29/28	$7.88 NNN	$380,162.72

Base Rent shall be paid in advance on the first day of each month of the Term, except that Subtenant shall pay one (1) month's Base Rent for the Existing Premises (i.e., $394,488.60) to Sublandlord on or prior to the Early Occupancy Date; and said installment Base Rent will be applied to the first (1st) month's Base Rent due and payable hereunder. If the Term does not begin on the first day of a calendar month or end on the last day of a month, the Base Rent for any partial month shall be prorated by multiplying the monthly Base Rent by a fraction, the numerator of which is the number of days of the partial month included in the Term and the denominator of which is the total number of days in the full calendar month. All Base Rent shall be payable in lawful money of the United States to Sublandlord to Sublandlord's address set forth in Section 18 below.

(b) Additional Rent. In addition to the Base Rent payable by Subtenant as provided above, Subtenant shall pay to Sublandlord the following: (i) prior to the 2024 Commencement Date, Fifty-Five and Thirty-Three Hundredths percent (55.33%) ("**Subtenant's Proportionate Share**") of all Operating Expenses due and payable by Sublandlord to Landlord under the Master Lease, including, but not limited to, all Real Property Taxes, insurance premiums, costs of repairs, and utilities; (ii) from and after the 2024 Commencement Date, Subtenant's Proportionate Share shall equal one hundred percent (100%) and all references herein to Subtenant's Proportionate Share shall mean and equal one hundred percent (100%); (iii) one hundred percent (100%) of the charges for any services and utilities provided solely to the Subleased Premises due under the Master Lease with respect to the Term to the extent payable to Landlord under the Master Lease and otherwise not included as Base Rent, including such service and utility charges pursuant to Sections 15 and 16 of the Master Lease; and/or (iv) any costs and expenses related or attributable to Subtenant, or the use and occupancy of the Subleased Premises by Subtenant or any permitted assignee or Subtenant (e.g. personal property taxes, overuse of utilities or requested overtime HVAC services). All amounts payable by Subtenant under this Section 3(b) are referred to in this Sublease as "**Additional Rent**." The term "**Rent**" as used herein shall mean all Base Rent and Additional Rent. Each amount due to pursuant to Section 3(b) above and each other amount payable by Subtenant hereunder, unless a date for payment of such amount is provided for elsewhere in this Sublease, shall be due and payable to the Sublandlord at the same time and in the same manner as Base Rent, but in no event later than the date on which any such amount is due and payable under the Master Lease. Sublandlord shall deliver to Subtenant all Annual Statements immediately following receipt. Subtenant shall have the right to cause an Independent Review of Landlord's books and records as provided in Section 7.7 of the Master Lease provided that Subtenant has requested Sublandlord to perform such Independent Review at least ten (10) business days prior to the expiration of the period to elect an Independent Review and Sublandlord shall notify Landlord prior to the expiration of such period. Following Subtenant's request, Sublandlord shall timely notify Landlord in the time period set forth in Section 7.7 of the Master Lease and perform such Independent Review on Subtenant's behalf, but at Subtenant's sole cost and expense (subject to reimbursement pursuant to Section 7.7 of the Master Lease). Upon completion of such Independent Review, the parties shall reconcile the Operating Expense in the same manner as set forth in Section 7.7 of the Master Lease.

(c) Utilities. Subtenant shall be responsible for the cost of any electricity and other utilities supplied to the Subleased Premises during the Term, and Subtenant shall timely and fully pay all such utility costs when due and payable. Subtenant acknowledges and agrees that Subtenant is directly and solely responsible for the timely and full payment of such utilities during the Term as set forth in the Master Lease.

4. Use and Occupancy.

(a) Use. The Subleased Premises shall be used and occupied only for general office use and any Permitted Use as provided under Section 4.1 of the Master Lease, and for no other use or purpose.

(b) Compliance with Master Lease. Subtenant will occupy the Subleased Premises in accordance with the terms of the Master Lease and will not suffer to be done, or omit to do, any act which may result in a violation of or a default under the Master Lease, or render Sublandlord liable for any damage, charge or expense thereunder. Subtenant will indemnify, defend protect and hold Sublandlord harmless from and against any actual, out-of-pocket loss, cost, damage or liability (including reasonable attorneys' fees) of any kind or nature arising out of, by reason of, or resulting from, Subtenant's failure to perform or observe any of the terms and conditions of the Master Lease with respect to the Subleased Premises or this Sublease which are Subtenant's obligation to perform as provided herein. Any other provision in this Sublease to the contrary notwithstanding, Subtenant shall pay to Sublandlord as Additional Rent hereunder any and all sums which Sublandlord may be required to pay Landlord arising out of a request by Subtenant for, or the use by Subtenant of, additional or over-standard Building services from Landlord (for example, but not by way of limitation, charges associated with after-hours HVAC usage and over-standard electrical charges) in connection with Subtenant's use and occupancy of the Subleased Premises.

(c) Sublandlord's and Landlord's Obligations.

(i) Subtenant agrees that Sublandlord shall not be required to perform any of the covenants, agreements and/or obligations of Landlord under the Master Lease without ownership or control of the Building, the Subleased Premises and/or common areas, including, without limitation, the services provided in Articles 15 and 16 of the Master Lease, and, insofar as any of the covenants, agreements and obligations of Sublandlord hereunder are required to be performed under the Master Lease by Landlord thereunder, Subtenant acknowledges and agrees that Sublandlord shall be entitled to look to Landlord for such performance. In addition, Sublandlord shall have no obligation to perform any repairs or any other obligation of Landlord under the Master Lease which generally relate to the Building, the Subleased Premises and/or common areas, nor shall any representations or warranties made by Landlord under the Master Lease be deemed to have been made by Sublandlord. Sublandlord shall not be responsible for any failure or interruption, for any reason whatsoever, of the services or facilities that may be appurtenant to or supplied at the Building by Landlord or otherwise, including, without limitation, heat, air conditioning, ventilation, life-safety, water, electricity, elevator service and cleaning service, if any; and no failure to furnish, or interruption of, any such services or facilities shall give rise to any (i) abatement, diminution or reduction of Subtenant's obligations under this Sublease (unless Sublandlord is entitled to and actually receives such an abatement, diminution or reduction under the Master Lease with respect to the Subleased Premises), or (ii) liability on the part of Sublandlord, except to the extent caused by Sublandlord.

(ii) Sublandlord, upon Subtenant's written request, shall make commercially reasonable efforts to cause Landlord under the Master Lease to perform any of Landlord's obligations under the Master Lease, including, without limitation, the performance of any maintenance or service obligations that directly impact Subtenant's use and occupancy of the Subleased Premises or the obligations of the Landlord which Sublandlord has not assumed (collectively, "**Landlord's Obligations**"); provided, however, that Sublandlord shall not be liable to Subtenant for any liability, loss or damage whatsoever in the event that Landlord fails to perform Landlord's Obligations unless such failure is the sole and direct result of a default by Sublandlord under the Master Lease. Sublandlord shall, upon written request of Subtenant from time to time, send written notice to Landlord in accordance with the Master Lease of any material default by Landlord under the Master Lease promptly following Subtenant's written requests therefor, including, without limitation, a notice of default, provided that Subtenant provides evidence of such default reasonably satisfactory to Sublandlord. Notwithstanding the foregoing, if Sublandlord is unable to obtain Landlord's required performance of Landlord's Obligations despite such reasonable efforts, and Landlord and failed to perform the Landlord's Obligations under the Master Lease following all applicable notice, grace or cure periods thereunder, then and only then, upon written request by Subtenant, Sublandlord shall commence any such litigation or similar proceedings against Landlord, at Subtenant's sole cost and expense (subject to reimbursement through settlement or judgment against Landlord, including, reimbursement for attorneys' fees). Prior to commencing any such litigation or similar proceedings against the Landlord, Subtenant shall pay Sublandlord the estimate of any actual, reasonable fees related to such litigation or similar proceedings as reasonably determined by Sublandlord, such that Sublandlord shall not incur any out-of-pocket costs and expenses with respect to such proceedings and upon the completion of such litigation, whether by judgment, settlement, arbitration, or otherwise, the parties shall reconcile the actual out-of-pocket costs and expenses with such pre-payment by Subtenant (subject to reimbursement through settlement or judgment against Landlord, including, reimbursement for attorneys' fees).

(d) Subtenant Rights. Sublandlord hereby grants to Subtenant Sublandlord's rights under the Master Lease to receive from Landlord repairs and services (including, without limitation, the services described in Article 10 of the Master Lease) with respect to the Subleased Premises to the extent that Sublandlord is entitled to receive same under the Master Lease. Subtenant shall be entitled to receive all repairs and services to be rendered by Landlord under the Master Lease with respect to the Subleased Premises. In the event Sublandlord is entitled to and actually receives an abatement of Rent under the Master Lease that is the result of a disruption or failure to provide any repairs and services under the Master Lease ("**Disruption**"), then so long as and to the extent that Sublandlord receives an abatement of Rent under the Master Lease from Landlord, Rent shall be abated proportionately under this Sublease. Subtenant hereby waives any and all rights under and benefits of subsection 1 of Section 1932 and Sections 1941 and 1942 of the California Civil Code or under any similar law, statute, or ordinance now or hereafter in effect.

5. Master Lease and Sublease Terms.

(a) Subject to Master Lease. This Sublease is and shall be at all times subject and subordinate to the Master Lease. Subtenant acknowledges that Subtenant has reviewed and is familiar with all of the terms, agreements, covenants and conditions of the Master Lease. During the Term and for all periods subsequent thereto with respect to obligations which have arisen prior to the termination of this Sublease, Subtenant agrees to perform and comply with, for the benefit of Sublandlord and Landlord, the obligations of Sublandlord under the Master Lease, as incorporated herein, which pertain to the Subleased Premises and/or this Sublease, except for those provisions of the Master Lease which are directly contradicted by this Sublease or which are not expressly incorporated herein, in which event the terms of this Sublease document shall control over the Master Lease.

(b) Incorporation of Terms of Master Lease. The terms, conditions and respective obligations of Sublandlord and Subtenant to each other under this Sublease shall be the terms and conditions of the Master Lease with respect to the Subleased Premises, except for those provisions of the Master Lease which are directly contradicted by this Sublease or which are not expressly incorporated herein, in which event the terms of this Sublease shall control over the Master Lease. Therefore, for the purposes of this Sublease, wherever in the Master Lease the word "Landlord" is used it shall be deemed to mean Sublandlord and wherever in the Master Lease the word "Tenant" is used it shall be deemed to mean Subtenant. Additionally, wherever in the Master Lease the word "Premises", "Lease" or "Rent" is used it shall be deemed to mean the Subleased Premises, this Sublease or the Rent under this Sublease, respectively, references to the "Term" and "Term Commencement Date" shall mean the Term of this

Sublease and the Existing Premises Commencement Date or 2024 Commencement Date, as applicable, respectively, references in the following provisions to "Landlord" shall mean Landlord rather than Sublandlord: Sections 7, 12.1 (the penultimate sentence), 16.1, 25 and 37-40, references in Section 8.5 to “Landlord” shall mean both Landlord and Sublandlord, and references to “either party” in Section 24.1 shall mean Landlord and Subtenant. Any non-liability, release, indemnity or hold harmless provision in the Master Lease for the benefit of Landlord that is incorporated herein by reference, shall be deemed to inure to the benefit of Sublandlord, Landlord, and any other person intended to be benefited by said provision, for the purpose of incorporation by reference in this Sublease. Any right of Landlord under the Master Lease (i) of access or inspection, (ii) to do work in the Master Lease Premises or in the Building, and (iii) in respect of rules and regulations, which is incorporated herein by reference, shall be deemed to inure to the benefit of Sublandlord, Landlord, and any other person intended to be benefited by said provision, for the purpose of incorporation by reference in this Sublease. Notwithstanding anything in the Master Lease to the contrary, Sublandlord will provide Subtenant, at all times during the Term with at least twenty-four (24) hours’ prior written notice before Sublandlord may access or inspect the Subleased Premises (except in the case of an actual or imminent emergency, in which case such prior notice will not be required). Subtenant shall be entitled to all credits, if any, given by Landlord to Sublandlord for Sublandlord’s overpayment of any Operating Expenses or other amounts to the extent paid by Subtenant and, if rent abates under the Master Lease as to the Subleased Premises, rent shall correspondingly abate under this Sublease.

(c) Modifications. For the purposes of incorporation herein, the terms of the Master Lease are subject to the following additional modifications:

(i) Approvals. In all provisions of the Master Lease (under the terms thereof and without regard to modifications thereof for purposes of incorporation into this Sublease) requiring the approval or consent of Landlord, Subtenant shall be required to obtain the approval or consent of both Sublandlord and Landlord.

(ii) Deliveries. In all provisions of the Master Lease requiring Subtenant to submit, exhibit to, supply or provide Landlord with evidence, certificates, or any other matter or thing, Subtenant shall be required to submit, exhibit to, supply or provide, as the case may be, the same to both Landlord and Sublandlord.

(iii) Damage; Condemnation. Sublandlord shall have no obligation to restore or rebuild any portion of the Subleased Premises after any destruction or taking by eminent domain. Any rights of Subtenant to abatement of Base Rent shall be conditioned upon Sublandlord’s ability to abate rent for the Subleased Premises under the terms of the Master Lease.

(iv) Insurance. In all provisions of the Master Lease requiring Subtenant to designate Landlord as an additional or named insured on its insurance policy, Subtenant shall be required to so designate Landlord and Sublandlord on its insurance policy. Sublandlord shall have no obligation to maintain the insurance to be maintained by Landlord under the Master Lease. The parties expressly acknowledge that Article 9 of the Master Lease, which contains a mutual waiver of subrogation provision is, pursuant to the provisions of Section 5(a) above, incorporated herein by reference and will apply between Sublandlord and Subtenant in the same manner that said Article 9 of the Master Lease applies as between Landlord and Sublandlord. Sublandlord will reasonably cooperate with Subtenant in attempting to obtain Landlord’s agreement, in the Consent, that the waiver of subrogation on the part of Landlord pursuant to the

Master Lease shall be deemed to extend to rights it may have against either Sublandlord or Subtenant; however, Landlord's unwillingness to extend such rights shall not be grounds for Subtenant's refusal to execute the Consent.

(d) Exclusions. Notwithstanding the terms of Section 5(b) above, neither Sublandlord nor Subtenant shall have rights or obligations under the following parts which shall not be incorporated into this Sublease: Sections and Exhibits of the Master Lease: the redacted portions of the Basic Lease Information, the definitions TI Commencement Date, Term Commencement Date, Term, Expiration Date, Base Rent Commencement Date, Guarantor, Tenant's Proportionate Share (except as it relates to Subtenant's Proportionate Share of Operating Expenses) and Landlord's Broker from the Basic Lease Information, any remeasurement right by Sublandlord to Subtenant in Section 1, Section 2.1, Section 2.2, Sections 3.2-3.3, Article 6, the sixth sentence of Section 7.4, Section 7.7 (except as provided above), Section 8.1, Section 10.2, Section 12.2, Article 13 (other than Section 13.3), Article 21, Section 22.6, Section 22.7, Article 26 (with respect to the first and second grammatical sentences only), Article 29, the 7th and 8th sentences of Article 36, Article 38, Section 39.2, Article 40, Article 41, Article 42, Article 43, and Exhibits A, A-1, B, C, D, F, and G.

6. Assignment and Subletting. Subtenant shall not assign this Sublease or further sublet all or any part of the Subleased Premises except subject to and in compliance with all of the terms and conditions of the Master Lease, as incorporated herein, and Sublandlord (in addition to Landlord) shall have the same rights with respect to assignment and subleasing as Landlord has under the Master Lease, including without limitation, Subtenant's right to assign this Sublease or sublet the Subleased Premises to a Permitted Transferee pursuant to a Permitted Transfer without Sublandlord's consent as set forth in Section 22.6 of the Master Lease, including, without limitation, notice and Net Worth requirements (which requirements shall apply to both assignments of this Sublease and subleases of the Subleased Premises); and, provided, however, any Transfer premium shall be due Sublandlord thirty (30) days from receipt of the Transfer Premium from such Transferee (as defined in the Master Lease). Notwithstanding anything herein to the contrary, a Transfer pursuant to Section 22.5 of the Master Lease shall also be deemed a Permitted Transfer subject to the conditions of Section 22.6, except that the transferee shall remain Subtenant. Subtenant shall pay all fees and costs payable to Landlord pursuant to the Master Lease in connection with all of Sublandlord's and Landlord's reasonable out-of-pocket costs relating to any proposed assignment, sublease or transfer of the Subleased Premises regardless of whether any required consent is granted, and the effectiveness of any such consent shall be conditioned upon Landlord's and Sublandlord's receipt of all such fees and costs. The provisions of Article 22 of the Master Lease, as incorporated herein (excluding, however, Sections 22.6-22.7 of the Master Lease) shall be applicable to any such assignment, sublease or transfer of the Subleased Premises; provided, however, in no event shall Sublandlord's consent be unreasonably withheld, conditioned or delayed.

7. Default. It shall constitute a "**Default**" hereunder if Subtenant fails to perform any obligation hereunder (including, without limitation, the obligation to pay Base Rent or Additional Rent), or any obligation under the Master Lease which has been incorporated herein by reference, and, in each instance, Subtenant has not remedied such failure (a) in the case of any monetary Default five (5) days after delivery of written notice, and (b) in the case of any other Default, twenty (20) calendar days after Subtenant's receipt of written notice thereof, provided, however, that if the Default is incapable of cure within ten (10) calendar days, then for so long as Sublandlord has not received notice from Landlord stating that Landlord will treat such Default as an "Event of Default" under the Master Lease, Subtenant shall not be in Default hereunder if Subtenant commences the cure within the ten (10) calendar day period and thereafter diligently proceeds to rectify and cure such a Default; however, if at any time Sublandlord receives notice from Landlord that the Default will be treated as a "Event of Default" under the Master

Lease, Subtenant's cure period will immediately be deemed to expire ten (10) days before the date of expiration of Sublandlord's cure period as set forth in Landlord's notice of default to Sublandlord.

8. Remedies. In the event of any Default hereunder by Subtenant, Sublandlord shall have all remedies provided to the "Landlord" in the Master Lease as if a default had occurred thereunder and all other rights and remedies otherwise available at law and in equity. Sublandlord may resort to its remedies cumulatively or in the alternative.

9. Right to Cure Defaults. If Subtenant fails to perform any of its obligations under this Sublease after expiration of applicable notice, grace or cure periods, then Sublandlord may, but shall not be obligated to, perform any such obligations for Subtenant's account. All costs and expenses incurred by Sublandlord in performing any such act for the account of Subtenant shall be deemed Additional Rent payable by Subtenant to Sublandlord upon demand, together with interest thereon at the lesser of (a) twelve percent (12%) per annum or (b) the maximum rate allowable under law from the date of the expenditure until repaid. If Sublandlord undertakes to perform any of Subtenant's obligations for the account of Subtenant pursuant hereto, the taking of such action shall not constitute a waiver of any of Sublandlord's remedies. Subtenant hereby expressly waives its rights under any statute to make repairs at the expense of Sublandlord.

10. Consents and Approvals. In any instance when Sublandlord's consent or approval is required under this Sublease, Sublandlord's refusal to consent to or approve any matter or thing shall be deemed reasonable if, among other matters, such consent or approval is required under the provisions of the Master Lease incorporated herein by reference but has not been obtained from Landlord. Except as otherwise provided herein, Sublandlord shall not unreasonably withhold, condition or delay its consent to or approval of a matter if such consent or approval is required under the provisions of the Master Lease and Landlord has consented to or approved of such matter.

11. Liability.

(a) Limitation of Liability. Notwithstanding any other term or provision of this Sublease, the liability of Sublandlord to Subtenant for any default in Sublandlord's obligations under this Sublease shall be limited to actual, direct damages, and under no circumstances shall Subtenant or its partners, members, shareholders, directors, agents, officers, employees, contractors, sublessees, successors and/or assigns be entitled to recover from Sublandlord (or otherwise be indemnified by Sublandlord for) (i) any losses, costs, claims, causes of action, damages or other liability incurred in connection with a failure of Landlord or its partners, members, shareholders, directors, agents, officers, employees, contractors, successors and/or assigns to perform or cause to be performed Landlord's Obligations under the Master Lease except to the extent as a result of a Sublandlord default under the Master Lease or this Sublease beyond all applicable notice, grace or cure periods thereunder or hereunder, (ii) lost revenues, lost profit or other consequential, special or punitive damages arising in connection with this Sublease for any reason (collectively, "**Consequential Damages**"), or (iii) any damages or other liability arising from or incurred in connection with condition of the Subleased Premises or the suitability of the Subleased Premises for Subtenant's intended uses. Subtenant shall, however, have the right to seek any injunctive or other equitable remedies as may be available to Subtenant under Applicable Laws. Notwithstanding any other term or provision of this Sublease, no personal liability shall at any time be asserted or enforceable against Sublandlord's or Subtenant's respective shareholders, directors, officers, members, managers, or partners on account of any of Sublandlord's or Subtenant's obligations or actions under this Sublease. In the event of any assignment or transfer of the Sublandlord's interest under this Sublease, which assignment or transfer may occur at any time during the Term in Sublandlord's sole discretion, Sublandlord shall be and hereby is entirely relieved of all covenants and obligations of Sublandlord hereunder accruing subsequent to the date of the transfer and it shall be deemed and construed, without further agreement between the parties hereto, that any transferee has assumed and shall carry out all covenants and obligations thereafter to be performed by Sublandlord hereunder. Subtenant shall not be liable to Sublandlord (or otherwise indemnify Sublandlord) for Consequential Damages except in connection with (x) any holdover in which event such damages may include loss of rent, or (y) the violation of any of the provisions of this Sublease relating to Subtenant use of any Hazardous Materials (as defined in Section 4.4.4 of the Master Lease) in violation of Applicable Laws.

(b) Sublandlord Covenants. Except with respect to the exercise of any right expressly set forth in the Master Lease, Sublandlord covenants to Subtenant that Sublandlord shall not do any act, matter or thing that would result in or constitute a violation or breach of or material default under the Master Lease or that would cause the Master Lease, or the rights of Sublandlord as "Tenant" under the Master Lease, to be endangered, canceled, terminated, forfeited or surrendered with respect to the Subleased Premises. Sublandlord shall not amend or modify the Master Lease in any manner which modifies Subtenant's rights under this Sublease or causes Subtenant to incur additional obligations under this Sublease. Sublandlord covenants and agrees to timely and fully pay Rent (as defined in the Master Lease) as and when due under the Master Lease and otherwise comply with its obligations under the Master Lease that are not the obligation of Subtenant hereunder or the obligation of Snowflake under the Snowflake Sublease.

12. Attorneys' Fees. If Sublandlord or Subtenant brings an action to enforce the terms hereof or to declare rights hereunder (including any action in bankruptcy court), the prevailing party who recovers substantially all of the damages, equitable relief or other remedy sought in any such action on trial and appeal shall be entitled to receive from the other party its costs associated therewith, including, without limitation, reasonable attorneys' fees and costs from the other party. Without limiting the generality of the foregoing, if Sublandlord utilizes the services of an attorney for the purpose of collecting any Rent due and unpaid by Subtenant or in connection with any threatened or actual breach of this Sublease by Subtenant, Subtenant agrees to pay Sublandlord reasonable actual attorneys' fees as determined by Sublandlord for such services, irrespective of whether any legal action may be commenced or filed by Sublandlord. If any such work is performed by in-house counsel for Sublandlord, the value of such work shall be determined at a reasonable hourly rate for comparable outside counsel.

13. Delivery of Possession.

(a) Generally. Sublandlord shall deliver, and Subtenant shall accept, possession of the Subleased Premises in their "AS IS" condition as the Subleased Premises exists on the Effective Date; provided, however, Sublandlord agrees to deliver possession of the Existing Premises to Subtenant on the Early Occupancy Date in broom-clean condition with all debris and furnishings (other than the Furniture) removed and otherwise in substantially the same condition as of the date hereof. Sublandlord shall have no obligation to furnish, render or supply any work, labor, services, materials, furniture, fixtures, equipment, decorations or other items to make the Subleased Premises ready or suitable for Subtenant's occupancy. In entering into this Sublease, Subtenant has relied solely on such investigations, examinations and inspections as Subtenant has chosen to make or has made and has not relied on any representation or warranty concerning the Subleased Premises or the Building, except as otherwise expressly set forth in this Sublease. Subtenant acknowledges that Sublandlord has afforded Subtenant the opportunity for full and complete investigations, examinations and inspections of the Subleased Premises and the common areas of the Building. Subtenant acknowledges that it is not authorized to make or do any alterations or improvements in or to the Subleased Premises except as permitted by the provisions of this Sublease and the Master Lease and that, upon termination of this Sublease, Subtenant shall deliver the Subleased Premises to Sublandlord in the same condition as the Subleased Premises were at the commencement of the Term (as to the Existing Premises and on the 2024 Commencement Date as to the Snowflake Premises), reasonable wear and tear and damage caused by casualty and condemnation excepted. Subtenant acknowledges and agrees that Subtenant shall, at either Sublandlord's or Landlord's (pursuant to the Master Lease) election, remove from the Subleased Premises, at Subtenant's sole cost and expense, some or all of the Subtenant Improvements (defined in Section 13(b)(i) below) constructed therein by Subtenant, and all telecommunications and data cabling installed by or for the benefit of Subtenant . Notwithstanding the foregoing, if Sublandlord does not elect that any such Subtenant Improvements must be removed at the expiration or earlier termination of this Sublease at the time Sublandlord consents to such Subtenant Improvements, Sublandlord shall be deemed to have elected that Subtenant must remove such Subtenant Improvements; provided, however, if Landlord does not require, pursuant to the Master Lease, that either Sublandlord or Subtenant remove such Subtenant Improvements from the Subleased Premises, then Subtenant shall not have to remove such Subtenant Improvements from the Subleased Premises at the end of the Term. Sublandlord represents and warrants that, as of the date Sublandlord delivers possession of the Existing Premises to Subtenant, (a) Sublandlord has performed all maintenance, repairs and replacements required to be performed by Sublandlord under the Master Lease, if any, and, to Sublandlord's actual knowledge, all alterations, improvements and additions constructed by or on behalf of Sublandlord in the Subleased Premises have been constructed pursuant to all Applicable Laws, and (b) Sublandlord has not received any written notice and has no actual knowledge of any violations of Applicable Laws existing in the Subleased Premises

(b) Subtenant Improvements.

(i) Generally. If Subtenant desires to construct improvements within the Subleased Premises ("**Subtenant Improvements**"), all Subtenant Improvements shall be carried out in accordance with the applicable provisions of the Master Lease. Sublandlord will have the right to approve the plans and specifications for any proposed Subtenant Improvements, as well as any contractors whom Subtenant proposes to retain to perform such work, which approval shall not be unreasonably withheld, conditioned or delayed. Subtenant will submit all such information for Sublandlord's review and written approval prior to commencement of any such work; Sublandlord will similarly submit such plans to Landlord for review and approval. Promptly following the completion of any Subtenant Improvements or subsequent alterations or additions by or on behalf of Subtenant, Subtenant will deliver to Sublandlord a reproducible copy of "as built" drawings of such work together with a CAD file of the "as-built" drawings in the then-current version of AutoCad.

(ii) Code-Required Work. If the performance of any Subtenant Improvements or other work by Subtenant within the Subleased Premises "triggers" a requirement for code-related upgrades to or improvements of any portion of the Building (including any portion of the Subleased Premises), Subtenant shall be responsible for the cost of such code-required upgrade or improvements. For the purpose of this Sublease, the mere discovery of existing violations of law shall not be deemed "triggered" for the purposes herein.

(iii) Additional Maintenance. Subtenant hereby acknowledges that the Subleased Premises will be benefitted with a server room that contains a functioning supplemental A/C unit installed therein. Subtenant shall, at no cost or expense to Sublandlord, maintain said A/C unit and all related equipment located in said server room in good repair and operating condition throughout the Term; provided however, Subtenant shall have no obligation to replace such A/C unit unless the need to replace the A/C unit is the result of the negligence or willful misconduct of Subtenant or any of Subtenant's employees, agents, contractors, licensees, invitees, consultants, and/or representatives. Subtenant agrees to maintain a service contract with a licensed contractor to render the A/C unit and all related equipment in as good condition and repair as received during the Term and furnish evidence of same to Landlord and Sublandlord.

14. Surrender; Holding Over.

(a) Subtenant will surrender the Subleased Premises to Sublandlord upon the expiration or sooner termination of this Sublease in accordance with the conditions required under the Master Lease, as incorporated herein, with all removal obligations relating to the Subtenant Improvements, if any, satisfied and in broom-clean condition, free of Subtenant's personal property, furniture, fixtures or improvements with any damage caused by Subtenant's removal of such items repaired to Sublandlord's reasonable satisfaction and at Subtenant's sole cost and expense, and Subtenant shall clean and repair all holes in all interior walls of the Subleased Premises made by Subtenant, clean and wax all floors and carpets located in the Subleased Premises, and remove all debris arising from the Subleased Premises from the Building, but in no event shall Subtenant be required to surrender the Subleased Premises in a condition better than received, reasonable wear and tear, casualty and condemnation excepted.

(b) If Subtenant fails to surrender the Subleased Premises at the expiration or earlier termination of this Sublease, occupancy of the Subleased Premises after the termination or expiration shall be that of a tenancy at sufferance. Subtenant's occupancy of the Subleased Premises during the holdover shall be subject to all the terms and provisions of this Sublease and Subtenant shall pay an amount (on a permonth basis without reduction for partial months during the holdover) equal to one hundred fifty percent (150%) of the sum of the Base Rent due for the period immediately preceding the holdover. No holdover by Subtenant or payment by Subtenant after the expiration or early termination of this Sublease shall be construed to extend the Term or prevent Sublandlord from immediate recovery of possession of the Subleased Premises by summary proceedings or otherwise. In addition to the payment of the amounts provided above, if Sublandlord is unable to deliver possession of the Subleased Premises to a new subtenant or to Landlord, as the case may be, or to perform improvements for a new subtenant, as a result of Subtenant's holdover, Subtenant shall be liable to Sublandlord for all damages to the extent in excess of the holdover rent set forth above, including, without limitation, any Consequential Damages that Sublandlord suffers from the holdover. Subtenant expressly acknowledges that such damages may include all of the holdover rent charged by Landlord under the Master Lease as a result of Subtenant's holdover, which Master Lease holdover rent may apply to the entire Master Lease Premises.

15. Parking. Subject to Landlord's consent, Subtenant shall be permitted to use parking spaces in accordance with the ratio(s) set forth in Article 37 of the Master Lease (based on the rentable square footage of the Existing Premises prior to the 2024 Commencement Date and, thereafter, based on the total rentable square footage of the Subleased Premises consisting of both the Existing Premises and the Snowflake Premises), including the exclusive use of two (2) parking stalls serviced by charging stations as of the Existing Premises Commencement Date and four (4) parking stalls serviced by charging stations as of the 2024 Commencement Date.

16. Security Deposit.

(a) Within two (2) business days of the date Sublandlord and Subtenant receive the fully executed Consent (the "**LC Delivery Date**") Subtenant shall deliver to Sublandlord, as protection for the full and faithful performance by Subtenant of all of its obligations under this Sublease and for all losses and damages Sublandlord may suffer as a result of a default by Subtenant under the Sublease, an irrevocable and unconditional negotiable standby letter of credit reasonably acceptable to Sublandlord (the "**Letter of Credit**"). The Letter of Credit shall (i) be maintained in effect, whether through renewal or extension, for the period from the date of this Sublease and continuing until the date that is sixty (60) days after the expiration of the Term (the "**LC Expiration Date**"), (ii) be fully assignable by Sublandlord, its successors and assigns, (iii) permit partial draws and multiple presentations and drawings, and (iv) be deemed automatically renewed, without amendment, for consecutive periods of one (1) year each thereafter during the Term through the LC Expiration Date unless the bank issuing the Letter of Credit ("**Bank**") sends a notice (the "**Non-Renewal Notice**") to Sublandlord by certified mail, return receipt requested, not less than sixty (60) days prior to the then-current LC Expiration Date, stating that the Bank has elected not to renew the Letter of Credit, in which case, pursuant to the remainder of this paragraph, Sublandlord shall have the right, upon receipt of a Non-Renewal Notice, to draw the full amount of the Letter of Credit, by sight draft on the Bank, and shall thereafter hold or apply the cash proceeds of the Letter of Credit pursuant to the terms of this Section 16.

(b) The initial face amount of the Letter of Credit shall be One Million Four Hundred Twelve Thousand Nine Hundred Eighty Six and 44/100 Dollars ($1,412,986.44) ("**Initial Letter of Credit Amount**.") as the LC Delivery Date. On or before the 2024 Commencement Date, Subtenant covenants and agrees to increase the Initial Letter of Credit Amount to a total aggregate amount of Two Million Five Hundred Fifty-Three Thousand Four Hundred Seventy-Four and 60/00 Dollars ($2,553,474.60) ("**Letter of Credit Amount**"). Prior to the 2024 Commencement Date, references in this Sublease to the Letter of Credit Amount shall refer to the Initial Letter of Credit Amount. From and after 2024 Commencement Date, references in this Sublease to the Letter of Credit Amount shall refer to the Letter of Credit Amount, as may be reduced subject to the terms and conditions set forth in Section 16(g) below.

(c) Sublandlord shall have the right to draw down an amount up to Letter of Credit Amount without notice to Subtenant if any of the following shall have occurred or be applicable, consistent with applicable law: (1) a Default by Subtenant has occurred and is continuing; or (2) Subtenant has filed a voluntary petition under the U. S. Bankruptcy Code or any state bankruptcy code (collectively, "**Bankruptcy Code**"); or (3) an involuntary petition has been filed against Subtenant under the Bankruptcy Code; or (4) the Bank has notified Sublandlord that the Letter of Credit will not be renewed or extended through the LC Expiration Date and Subtenant fails to deliver to Sublandlord a replacement Letter of Credit meeting the requirements of this Section 16(c) at least thirty (30) days prior to the expiration of the existing Letter of Credit; or (5) the long term rating of the Bank has been downgraded to BBB or lower (by Standard & Poor's) or Baa2 or lower (by Moody's) and Subtenant has failed to deliver a new Letter of Credit from a bank with a long term rating of A or higher (by Standard & Poor's) or A2 or higher (by Moody's) and otherwise meeting the requirements set forth in this Section 16 within thirty (30) days following notice from Sublandlord. The Letter of Credit will be honored by the Bank regardless of whether Subtenant disputes Sublandlord's right to draw upon the Letter of Credit.

(d) The Letter of Credit shall also provide that Sublandlord, its successors and assigns, may, at any time and without prior notice to Subtenant and without first obtaining Subtenant's consent thereto, transfer (one or more times) all of its interest in and to the Letter of Credit to any permitted successor to Sublandlord's interest in the Sublease, as a part of the assignment by Sublandlord of its rights and interests in and to the Sublease. Sublandlord shall notify Subtenant in writing of any transfer of the Letter of Credit within ten (10) days after such transfer. In connection with any such transfer of the Letter of Credit by Sublandlord, Subtenant shall, at Sublandlord's sole cost and expense, execute and submit to the Bank such applications, documents and instruments as may be necessary to effectuate such transfer, and Subtenant shall be responsible for paying the Bank's transfer and processing fees in connection therewith.

(e) If, as a result of any drawing by Sublandlord on the Letter of Credit pursuant to this Section 16, the amount of the Letter of Credit shall be less than the Letter of Credit Amount, Subtenant shall, within five (5) business days after written notice from Sublandlord, provide Sublandlord with additional letter(s) of credit in an amount equal to the deficiency, and any such additional letter(s) of credit shall comply with all of the provisions of this Section 16, and if Subtenant fails to comply with the foregoing, the same shall constitute an immediate event of default by Subtenant. If Sublandlord draws on the Letter of Credit in accordance with the terms of this Section 16, Sublandlord may apply the proceeds of the Letter of Credit against any rent payable by Subtenant under this Sublease that is not paid when due and/or to pay for all direct losses and damages that Sublandlord has suffered as a result of any default by Subtenant under the Sublease. Subject to Subtenant's right under the following sentence, any unused proceeds shall constitute the property of Sublandlord and need not be segregated from Sublandlord's other assets. Sublandlord will pay such unused proceeds to Subtenant (i) if Subtenant delivers to Sublandlord the additional letter(s) of credit described in this Section 16, and (ii) within thirty (30) days after the LC Expiration Date, if Subtenant surrenders the Subleased Premises to Sublandlord and no default by Subtenant has occurred and is then continuing; provided, however, that if prior to the LC Expiration Date a voluntary petition is filed by Subtenant, or an involuntary petition is filed against Subtenant by any of Subtenant's creditors, as applicable, under the Bankruptcy Code, then Sublandlord shall not be obligated to make such payment in the amount of the unused Letter of Credit proceeds until either all preference issues relating to payments under the Sublease have been resolved in such bankruptcy or reorganization case or such bankruptcy or reorganization case has been dismissed.

(f) The use, application or retention of the Letter of Credit, or any portion thereof or any draw thereon, by Sublandlord shall not prevent Sublandlord from exercising any other right or remedy provided by this Sublease or by any applicable laws, it being intended that Sublandlord shall not first be required to proceed against the Letter of Credit. No condition or term of this Sublease shall be deemed to render the Letter of Credit conditional to justify the issuer of the Letter of Credit in failing to honor a drawing upon such Letter of Credit in a timely manner. Subtenant agrees and acknowledges that (i) the Letter of Credit constitutes a separate and independent contract between Sublandlord and Bank, (ii) Subtenant is not a third party beneficiary of such contract, (iii) Subtenant has no property interest whatsoever in the Letter of Credit or the proceeds thereof, and (iv) to the extent permitted by law, in the event Subtenant becomes a debtor under any chapter of the Bankruptcy Code, Subtenant, shall not have any right to restrict or limit Sublandlord's claim and/or rights to the Letter of Credit and/or the proceeds thereof by application of Section 502(b)(6) of the U. S. Bankruptcy Code or otherwise. At the expiration of the Term or following the assignment of this Sublease by Sublandlord, and provided Subtenant is not in default beyond all applicable notice or cure periods at such time, Sublandlord shall promptly surrender the Letter of Credit or cooperate with Subtenant to cancel the Letter of Credit.

(g) If, by December 31, 2024: (i) no Default has occurred under this Sublease (nor is any event then occurring that with notice or the passage of time would become a Default hereunder), (ii) Subtenant sends Sublandlord a written request to reduce the Letter of Credit Amount (the "**Reduction Request**"), which Reduction Request may not be sent to Sublandlord prior to January 1, 2025, and (iii) at the time Sublandlord receives the Reduction Request, Subtenant's credit is, in Subtenant's opinion as evidenced to Sublandlord's reasonable satisfaction, as good or better than Subtenant's credit as of the Effective Date (items (i)-(iii) are, collectively, the "**LC Reduction Conditions**"), then, if all of the LC Reduction Conditions are met, Subtenant may reduce the Letter of Credit Amount by the amount of Eight

Hundred Fifty-One Thousand One Hundred Fifty-Eight and 20/100 Dollars ($851,158.20), to a total amount of One Million Seven Hundred Two Thousand Three Hundred Sixteen and 40/100 Dollars ($1,702,316.40) (the "**Reduced LC Amount**"), as evidenced by a substitute or replacement Letter of Credit in the Reduced LC Amount (or an amendment to the existing Letter of Credit reflecting the Reduced LC Amount) and that otherwise satisfies the requirements of this Article 16. Any costs incurred in connection with any replacement or issuance of, or an amendment to, the Letter of Credit, will be paid by Subtenant. Upon satisfaction of all the LC Reduction Conditions and Sublandlord's receipt of the replacement Letter of Credit (or an amendment thereto) in compliance with the terms and conditions hereof, Sublandlord shall not have the right to draw upon the prior Letter of Credit and shall promptly return such prior Letter of Credit to Subtenant or Subtenant's Bank. Notwithstanding anything to the contrary contained herein, if an Event of Default has occurred under this Sublease at any time prior to the effective date of the Letter of Credit Amount, then Subtenant shall have no right to reduce the Letter of Credit Amount as described herein.

17. Signage; Roof Rights. To the extent transferable or otherwise permitted under the Master Lease or by Landlord, Subtenant shall have the same rights as Sublandlord under the Master Lease as they relate to signage and shall be subject to Landlord's consent and approval to the extent required under the Master Lease (including, without limitation, the Rules and Regulations attached as Exhibit E to the Master Lease) and rights to use the roof of the Building, including, if permitted by Landlord, to install and use a deck thereon.

18. Notices. Any notice by either party to the other required, permitted or provided for herein shall be valid only if in writing and shall be deemed to be duly given only if (a) delivered personally, or (b) sent by means of FedEx, UPS Next Day Air or another reputable express mail delivery service guaranteeing next day delivery, or (c) sent by United States certified or registered mail, return receipt requested, and for notices to Subtenant, also by email, addressed (i) if to Sublandlord, at the following addresses:

Open Text Inc.
c/o Open Text Corporation
38 Leek Crescent
Richmond Hill, Ontario
L4B 4N8 Canada
Attn: VP, Global Real Estate and Facilities

with a copy to:

Vedder Price P.C.
222 North LaSalle Street, Suite 2500
Chicago, Illinois 60601
Attn: Andrew Torre

Base Rent and Additional
Rent to be remitted to:

Open Text Corporation
275 Frank Tompa Drive
Waterloo, Ontario
N2L 0A1 Canada
Attn: Accounts Receivables

and (ii) if to Subtenant, at the following address:

Upstart Network, Inc.
2950 South Delaware Street
San Mateo, CA 94403
Attn: General Counsel
Email: notice@upstart.com

or at such other address for either party as that party may designate by notice to the other. A notice shall be deemed given and effective, if delivered personally, upon hand delivery thereof (unless such delivery takes place after hours or on a holiday or weekend, in which event the notice shall be deemed given on the next succeeding business day), if sent via overnight courier, on the business day next succeeding delivery to the courier, and if mailed by United States certified or registered mail, three (3) business days following such mailing in accordance with this Section.

19. Brokers. Subtenant warrants that it has had no dealings with any broker, agent or any other person in connection with the negotiation or execution of this Sublease other CBRE, Inc., on behalf of Sublandlord ("**CBRE**"), and Newmark Cornish & Carey, on behalf of Subtenant ("**Newmark**;" CBRE and Newmark are, collectively, "**Brokers**"). Subtenant agrees to indemnify and hold harmless Sublandlord from and against any and all cost, expense or liability for commissions or other compensation and charges claimed by any broker or agent (other than Brokers) with respect to this Sublease on account of Subtenant's acts or omissions. Sublandlord represents and warrants to Subtenant that, other than Brokers, Sublandlord has not dealt with any broker, finder, or the like in connection with this Sublease, and Sublandlord agrees to indemnify, defend and hold Subtenant harmless from all damages, liability and expense (including reasonable attorneys' fees) arising from any claims or demands of any broker or brokers or finders (including Brokers) for any commission alleged to be due such broker or brokers or finders in connection with its participating in the negotiation with this Sublease.

20. Complete Agreement. There are no representations, warranties, agreements, arrangements or understandings, oral or written, between the parties or their representatives relating to the subject matter of this Sublease which are not fully expressed in this Sublease. This Sublease cannot be changed or terminated nor may any of its provisions be waived orally or in any manner other than by a written agreement executed by both parties.

21. Interpretation. Irrespective of the place of execution or performance, this Sublease shall be governed by and construed in accordance with the laws of the State of California. If any provision of this Sublease or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, the remainder of this Sublease and the application of that provision to other persons or circumstances shall not be affected but rather shall be enforced to the extent permitted by law. The table of contents, captions, headings and titles, if any, in this Sublease are solely for

convenience of reference and shall not affect its interpretation. This Sublease shall be construed without regard to any presumption or other rule requiring construction against the party causing this Sublease or any part thereof to be drafted. If any words or phrases in this Sublease shall have been stricken out or otherwise eliminated, whether or not any other words or phrases have been added, this Sublease shall be construed as if the words or phrases so stricken out or otherwise eliminated were never included in this Sublease, and no implication or inference shall be drawn from the fact that said words or phrases were so stricken out or otherwise eliminated. Each covenant, agreement, obligation or other provision of this Sublease shall be deemed and construed as a separate and independent covenant of the party bound by, undertaking or making same, not dependent on any other provision of this Sublease unless otherwise expressly provided. All terms and words used in this Sublease, regardless of the number or gender in which they are used, shall be deemed to include any other number and any other gender as the context may require. The word “person” as used in this Sublease shall mean a natural person or persons, a partnership, a corporation or any other form of business or legal association or entity.

22. USA Patriot Act Disclosures. Subtenant is currently in compliance with and shall at all times during the Term remain in compliance with the regulations of the Office of Foreign Asset Control (“**OFAC**”) of the Department of the Treasury (including those named on OFAC’s Specially Designated and Blocked Persons List) and any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action relating thereto.

23. Counterparts. This Sublease may be executed in multiple counterparts, each of which is deemed an original but which together constitute one and the same instrument. This Sublease shall be fully executed when each party whose signature is required has signed and delivered to each of the parties at least one counterpart, even though no single counterpart contains the signatures of all of the parties hereto. This Sublease may be executed in PDF format and each party has the right to rely upon a PDF counterpart of this Sublease signed by the other party to the same extent as if such party had received an original counterpart.

24. Furniture, Fixtures and Equipment. As of the Early Occupancy Date, Sublandlord hereby grants to Subtenant a license to use the existing furniture, fixtures, equipment located in or serving the Subleased Premises which has not been removed or retained by Sublandlord (collectively, “**Furniture**”), and except as otherwise provided herein, for no additional consideration so long as this Sublease is in full force and effect. Notwithstanding the foregoing, on or before September 30, 2021, Sublandlord will provide a list of furniture to Subtenant which Sublandlord will be removing from the Premises and which will not be included as “Furniture” hereunder; such list shall be attached as Exhibit D hereto. Subtenant shall not acquire any title or other ownership rights in or to the Furniture during the Term. Upon termination of this Sublease or, if this Sublease is not terminated, then thirty (30) days prior to the Expiration Date, Subtenant shall: (a) be deemed to have purchased the Furniture from Sublandlord for the amount of One and 00/100 Dollar ($1.00), effective as of the date that is thirty (30) days prior to the Expiration Date; (b) remove the Furniture from the Subleased Premises, including any wiring installed by Subtenant connecting the Furniture to the Subleased Premises; and (c) return the Subleased Premises to the condition required under this Sublease. During the Term, Subtenant shall, at Subtenant’s sole cost and expense, insure the Furniture for its full replacement value (with Sublandlord named as a loss payee). Any furniture purchased by Subtenant for use in the Subleased Premises shall be solely Subtenant’s property. At the end of the Term, Sublandlord shall provide Subtenant with a bill of sale for the Furniture in the form and substance attached hereto as Exhibit E. In furtherance of Article 13 of this Sublease, neither Sublandlord nor Sublandlord’s agents, employees, or contractors have made any representations, warranties, or promises with respect to the Furniture and/or any other equipment, furniture, or

improvements therein situated, if any. Subtenant shall have the right to remove and reconfigure the Furniture during the Term. For the sake of clarity, Subtenant shall be responsible for removing the Furniture from the Subleased Premises at the expiration or early termination of the Term.

25. Miscellaneous.

(a) To the best of Sublandlord's knowledge as of the Effective Date, Sublandlord represents and warrants to Subtenant that, as of the Effective Date: (i) Sublandlord has delivered to Subtenant a true, correct and redacted copy of the Master Lease, a copy of which is attached hereto as Exhibit C, and that, other than the Snowflake Sublease, there are no other agreements with respect thereto that materially reduce Subtenant's rights or materially increase Subtenant's obligations under this Sublease or materially reduce Landlord's obligations with respect to the Subleased Premises; (ii) Sublandlord has neither given nor received any notice of default under the Master Lease not heretofore cured or waived; (iii) there is no current litigation pending with Landlord; (iv) Sublandlord has not received written notice of any noncompliance with Applicable Laws; and (v) Sublandlord has not received written notice of any violations issued by the City of San Mateo or any other governmental agency or authority affecting the Subleased Premises.

(b) Sublandlord covenants and agrees that (i) Sublandlord shall promptly send to Subtenant copies of all written notices received or issued by Sublandlord with respect to a default by Sublandlord or Landlord, as applicable, under the Master Lease, (ii) Sublandlord shall deliver to Subtenant all applicable keys and card keys for the Subleased Premises, Building, restrooms and elevators in Sublandlord's possession and control (the "**Access Keys**"), provided, however, Sublandlord may retain Access Keys to access the Subleased Premises during the Term, and (iii) upon written request of Subtenant from time to time, Sublandlord shall use commercially reasonable efforts to request (1) Landlord to approve any reasonable request of Subtenant requiring Landlord's approval under the Master Lease, and/or (2) Landlord to provide any other information reasonably required by Subtenant with respect to the Subleased Premises, the Building or Subtenant's obligations under this Sublease. Subtenant shall promptly reimburse Sublandlord for the costs of the issuance of the Access Keys, including, without limitation, replacement of lost, stolen or damages Access Keys.

(c) If Landlord agrees to deal directly with Subtenant with respect to furnishing services to Subtenant and/or the Subleased Premises and/or operations of the Building as may be available to Sublandlord pursuant to the express provisions of the Master Lease in the ordinary course of Subtenant's business within the Subleased Premises, such as freight elevators, janitorial, maintenance and repairs, plumbing, trash removal and other similar types of service/operations matters, and/or the performance of alterations (collectively, "**Direct Subtenant Matters**"), Sublandlord hereby approves Subtenant dealing directly with Landlord in connection with such Direct Subtenant Matters; provided, however, (i) Subtenant shall be solely responsible for payment of all Building charges charged by Landlord in connection therewith, and (ii) Subtenant will indemnify, defend (using counsel reasonably acceptable by Sublandlord), and hold Sublandlord harmless from and against any costs, expenses, reasonable attorneys' fees, lawsuits, judgments, losses, and the like, relating to, or arising from such Direct Subtenant Matters, as well as any such action taken by Subtenant in connection with such Direct Subtenant Matters.

[Signatures Appear on Following Page]

IN WITNESS WHEREOF, the parties hereto hereby execute this Sublease as of the Effective Date.

SUBLANDLORD:

OPEN TEXT INC.,
a Delaware corporation

By: /s/ Mike Cumming
Print Name: Mike Cumming
Title: Vice President, Real Estate

SUBTENANT:

UPSTART NETWORK, INC.,
a Delaware corporation

By: /s/ Sanjay Datta
Print Name: Sanjay Datta
Title: CFO

EXHIBIT A

Snowflake Sublease

[Attached]

EXHIBIT B

Sub-Sublease

[Attached]

EXHIBIT C

Master Lease

[Attached]

EXHIBIT D

Excluded Furniture

[Attached]

EXHIBIT E

Bill of Sale for Furniture

[Attached]

BILL OF SALE

OPEN TEXT INC. ("**Seller**"), in consideration of One and No/100 ($1.00) Dollar, the receipt ad sufficiency of which is hereby acknowledged, does hereby sell, assign, transfer, convey and set over to UPSTART NETWORK, INC. ("**Buyer**"), the Furniture, as defined in that certain Sublease dated August ___, 2021, by and between Seller, as "Sublandlord," and Buyer, as "Subtenant" (the "**Sublease**"), and located at the premises subleased by Buyer as more particularly described in the Sublease. The Sublease is incorporated herein by reference.

Seller hereby represents and warrants to Buyer that Seller has full right, power and authority to enter into this Bill of Sale and convey said personal property to Buyer free and clear of all liens, charges, and encumbrance made by or through Seller. Except as expressly provided herein, SELLER MAKES NO OTHER REPRESENTATIONS OR WARRANTIES OF ANY KIND, NATURE, OR DESCRIPTION, AND HEREBY EXPRESSLY DISCLAIMS, ANY OTHER STATED OR IMPLIED REPRESENTATION OR WARRANTIES INCLUDING THOSE RELATED TO QUALITY, MERCHANTABILITY, OR FITNESS FOR A PARTICULAR PURPOSE, AND BUYER HEREBY ACCEPTS THE PERSONAL PROPERTY CONVEYED HEREIN IN ITS CURRENT AS-IS, WHERE-IS CONDITION, WITH ALL FAULTS.

IN WITNESS WHEREOF, the undersigned has signed this Bill of Sale on ___________ ____, 20___.

SELLER:

OPEN TEXT INC.,
a Delaware corporation

By:
Print Name:
Title:

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dave Girouard, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Upstart Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2021

UPSTART HOLDINGS, INC.

By:	/s/ Dave Girouard
Name:	Dave Girouard
Title:	Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sanjay Datta, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Upstart Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2021

UPSTART HOLDINGS, INC.

By:	/s/ Sanjay Datta
Name:	Sanjay Datta
Title:	Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

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

I, Dave Girouard, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Upstart Holdings, Inc. for the quarter ended September 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Upstart Holdings, Inc.

Date: November 12, 2021	By:	/s/ Dave Girouard
	Name:	Dave Girouard
	Title:	Chief Executive Officer and President
		(Principal Executive Officer)

I, Sanjay Datta, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Upstart Holdings, Inc. for the quarter ended September 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Upstart Holdings, Inc.

Date: November 12, 2021	By:	/s/ Sanjay Datta
	Name:	Sanjay Datta
	Title:	Chief Financial Officer
		(Principal Financial Officer)