THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Brainhole Technology Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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BRAINHOLE
TECHNOLOGY

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

MAJOR TRANSACTION IN RELATION TO FURTHER ACQUISITION OF LISTED SECURITIES

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 3 to 10 of this circular.

This circular is being despatched to the Shareholders for information only. The Further Acquisition of Affirm Shares has been approved by the written approval pursuant to Rule 14.44 of the Listing Rules. The Company is exempted from convening a shareholders' meeting for the approval of the Further Acquisition of Affirm Shares.

8 March 2024

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In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

"Affirm"	Affirm Holdings, Inc., a Delaware corporation whose Class A common stocks are listed on Nasdaq (trading symbol: AFRM)
"Affirm Group"	Affirm and its subsidiaries
"Affirm Share(s)"	Class A common stock(s) of Affirm
"Board"	the board of directors of the Company
"Company"	Brainhole Technology Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 2203)
"connected person"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposals Announcements"	the announcements of the Company dated 24 January 2024 and 28 February 2024 in relation to, *inter alia*, the Disposals of Affirm Shares
"Disposals of Affirm Shares"	the series of disposals of 33,500 and 33,350 Affirm Shares by the Company on 23 January 2024 (after trading hours of the Stock Exchange) and 27 February 2024 (after trading hours of the Stock Exchange) respectively, as set out in the Disposals Announcements
"Further Acquisition of Affirm Shares"	further acquisition of 17,650 Affirm Shares by the Company as disclosed in the announcement dated 21 December 2023
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC

"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and its connected persons and is not acting in concert (as defined in the Codes on Takeovers and Mergers and Share Buy-backs) with any of the connected persons of the Company or any of their respective associates (as defined under the Listing Rules)
"Latest Practicable Date"	28 February 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China
"Previous Acquisitions of Affirm Shares"	the series of acquisitions of 33,500 and 15,700 Affirm Shares by the Company on 14 December 2023 (after trading hours of the Stock Exchange) and 19 December 2023 (after trading hours of the Stock Exchange) respectively, as set out in the Previous Acquisitions Announcements
"Previous Acquisitions Announcements"	the announcements of the Company dated 15 December 2023 and 20 December 2023 in relation to, *inter alia*, the Previous Acquisitions of Affirm Shares
"RMB"	Renminbi, the lawful currency of the PRC
"SEC"	The U.S. Securities and Exchange Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shareholder(s)"	shareholder(s) of the Company
"Share(s)"	ordinary share(s) in the issued share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"United States"	the United States of America

"US$"	United States dollars, the lawful currency of the United States
"%"	per cent.

BRAINHOLE
TECHNOLOGY

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

Executive Directors:
Mr. Zhang Liang Johnson *(Chairman)*
Ms. Wan Duo

Independent Non-executive Directors:
Mr. Xu Liang
Mr. Chen Johnson Xi
Ms. Zhang Yibo

Registered office:
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Quarry Bay
Hong Kong

8 March 2024

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO FURTHER ACQUISITION OF LISTED SECURITIES

1. INTRODUCTION

Reference is made to the announcement of the Company dated 21 December 2023 in relation to the Further Acquisition of Affirm Shares.

The purpose of this circular is to provide you with (i) the details of the Further Acquisition of Affirm Shares; and (ii) further information required to be disclosed under the Listing Rules.

FURTHER ACQUISITION OF AFFIRM SHARES

On 20 December 2023 (after trading hours of the Stock Exchange), further to (i) the acquisition of 33,500 Affirm Shares through the open market at an aggregate consideration of approximately US$1.5 million (equivalent to approximately HK$12.0 million) (excluding transaction costs) by the Company as disclosed in the announcement dated 15 December 2023; and (ii) the acquisition of 15,700 Affirm Shares through the open market at an aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (excluding transaction costs) by the Company as disclosed in the announcement dated 20 December 2023, the Company has further acquired of an aggregate of 17,650 Affirm Shares through the open market at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (excluding transaction costs). The average price (excluding transaction costs) for the acquisition of each Affirm Share was approximately US$50.74 (equivalent to approximately HK$394.75). The aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) was financed by the Group's existing internal financial resources. The total consideration for the aggregate of all transactions respectively contemplated under (i) the Previous Acquisitions of Affirm Shares and (ii) the Further Acquisition of Affirm Shares is approximately US$3.2 million (equivalent to approximately HK$25.0 million).

As the Further Acquisition of Affirm Shares was conducted in the open market, the identities of the counterparties of the acquired Affirm Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the acquired Affirm Shares are Independent Third Parties.

As at the Latest Practicable Date, the Company ceased to hold any Affirm Shares. The Company had already complied with the discloseable transaction requirements in respect of the acquisitions and disposals of Affirm Shares as disclosed in the Previous Acquisitions Announcements and the Disposals Announcements, and the balance of such acquisitions and disposals which were conducted within a 12-month period from the Previous Acquisitions of Affirm Shares were aggregated with the Further Acquisition of Affirm Shares.

INFORMATION ON THE COMPANY

The Company is an investment holding company and the Group is principally engaged in the manufacture and trading of electronic and electrical parts and components. The Group operates its business through three segments: (i) The Manufacturing segment is engaged in the sale of electronics and electrical parts and components produced by the Company. The products manufactured by the Company are mainly applied in smart consumer electronic devices; (ii) The Broadband Infrastructure and Smart Domain segment is engaged in the provision of broadband infrastructure construction services, broadband promotion services, and smart domain solutions; and (iii) The Trading segment is engaged in the trading of electronic and electrical parts and components sourced from third party suppliers.

INFORMATION ON AFFIRM

Affirm is a Delaware corporation and a financial technology company that builds the next generation platform for digital and mobile-first commerce. Affirm's solutions, which are built on trust and transparency, are designed to make it easier for consumers to spend responsibly and with confidence, easier for merchants and commerce platforms to convert sales and grow, and easier for commerce to thrive.

The following financial information is extracted from the published documents of the Affirm Group:

	For the year ended 30 June 2021 (audited)		**For the year ended 30 June 2022** (audited)		**For the year ended 30 June 2023** (audited)	
	US$'000	*HK$'000*	*US$'000*	*HK$'000*	*US$'000*	*HK$'000*
Revenue	870,464	6,772,210	1,349,292	10,497,492	1,587,985	12,354,523
(Loss) before income taxes	(443,370)	(3,449,419)	(724,831)	(5,639,186)	(989,245)	(7,696,326)
Net (loss)	(441,027)	(3,431,190)	(707,417)	(5,503,704)	(985,345)	(7,665,984)

Based on Affirm's published documents, the Affirm Group has an audited consolidated net assets value of approximately US$2,576 million (equivalent to approximately HK$20,041 million) as at 30 June 2021, US$2,618 million (equivalent to approximately HK$20,368 million) as at 30 June 2022 and US$2,534 million (equivalent to approximately HK$19,715 million) as at 30 June 2023.

Based on Affirm's published documents, the Affirm Group has an unaudited consolidated net asset value of approximately US$2,567 million (equivalent to approximately HK$19,971 million) as at 30 September 2023.

FINANCIAL EFFECT OF THE FURTHER ACQUISITION OF AFFIRM SHARES

The aggregate consideration of the Previous Acquisitions of Affirm Shares was approximately US$2.3 million (equivalent to approximately HK$18.0 million) (excluding transaction costs). As a result, the total consideration for the aggregate of all transactions respectively contemplated under (i) the Previous Acquisitions of Affirm Shares; and (ii) the Further Acquisition of Affirm Shares is approximately US$3.2 million (equivalent to approximately HK$25.0 million).

The Further Acquisition of Affirm Shares was accounted for as financial assets at fair value through profit or loss in the consolidated financial statements of the Group. The Further Acquisition of Affirm Shares was initially recognised at fair value in the consolidated statement of financial position of the Group. Any fair value gain or loss arising from the Further Acquisition of Affirm Shares will be recognised in the consolidated statement of profit and loss of the Group at the end of each reporting period.

As the Further Acquisition of Affirm Shares was financed by internally generated funds, the assets and liabilities of the Group are expected to remain unchanged.

Save as disclosed above, there will be no immediate material effect on the earnings and assets and liabilities of the Group associated with the Further Acquisition of Affirm Shares.

It should be noted that the above financial effects of the Further Acquisition of Affirm Shares are for illustrative purposes only. The actual impact of the Further Acquisition of Affirm Shares to be recognised by the Group will be subject to final audit by the Company's auditors.

REASONS FOR AND BENEFITS OF THE FURTHER ACQUISITION OF AFFIRM SHARES

The Group is principally engaged in the manufacturing and trading of semiconductors, broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities).

The Group believes that technological innovation is an important engine for future economic development, and it can also drive the emerging applications in the smart living sector. The Group always hopes to leverage our own advantages in the field of smart technology to actively diversify the investments in the field of innovative technologies, in order to facilitate the technological development and create greater value for the Shareholders.

Affirm is a financial technology company in the United States. As set out in the Previous Acquisitions Announcements, the Board holds positive views towards the financial performance and future prospect of Affirm. The Group considers that Further Acquisition of Affirm Shares can increase our holdings in these attractive investments and to further expand its investment portfolio with quality assets, which will enhance investment return for the Group.

As the Further Acquisition of Affirm Shares was made in the open market at prevailing market prices, the Directors are of the view that the terms of the Further Acquisition of Affirm Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as the Previous Acquisitions of Affirm Shares and the Further Acquisition of Affirm Shares involve the acquisition of Affirm Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$3.2 million (equivalent to approximately HK$25.0 million).

The Further Acquisition of Affirm Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Further Acquisition of Affirm Shares, when aggregated with the Previous Acquisitions of Affirm Shares by the Company in the preceding 12-month period, exceeds 25% but is less than 100%, the Further Acquisition of Affirm Shares constitutes a major transaction for the Company and is subject to reporting, announcement, circular and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

Waiver from strict compliance with Rule 14.67(6)(a)(i) and Rule 14.67(7) of the Listing Rules

Pursuant to Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules, the Company is required to include in this circular an accountant's report on Affirm which is prepared in accordance with Chapter 4 of the Listing Rules and a discussion and analysis on results of Affirm covering all those matters set out in paragraph 32 of Appendix D2 to the Listing Rules for the period reported in such accountant's report.

As the Company considers that the strict compliance with Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules would be unduly burdensome, the Company has applied for waiver from strict compliance of the aforesaid Listing Rules on the following grounds:

(a) The Further Acquisition of Affirm Shares is part of the Group's strategic investments business, and the Group may make appropriate investment opportunities as and when appropriate, including but not limited to acquisition(s) and disposal(s) of listed equity securities. Subsequent to the Further Acquisition of Affirm Shares, the percentage of Affirm's shares held by the Company would increase from approximately 0.020% to 0.028%. The Company also does not have any board seats in Affirm. It is submitted that the Company's minority interest in Affirm is minimal and insignificant to exert any form of control over Affirm.

(b) Following the Further Acquisition of Affirm Shares, Affirm will not become a subsidiary or an associate of the Company and the financial results of Affirm will not be consolidated in the financial statements of the Group nor be equity accounted for in the Group's consolidated financial statements as an associate. Requiring the Company to arrange for an accountants' report will be out of proportion to the size of the Further Acquisition of Affirm Shares in terms of time and costs involved.

(c) As the Further Acquisition of Affirm Shares was a transaction made in the open market, Affirm was not obliged to assist the Company to prepare the accountants' report on it for the Further Acquisition of Affirm Shares. In addition, the Company does not have access to Affirm's books and records to prepare the accountants' report on it in accordance with the Listing Rules.

(d) The preparation of the accountants' report under Rule 14.67(a)(i) of the Listing Rules for inclusion in the circular would require converting the financial information of Affirm based on the Hong Kong Financial Reporting Standards. Even assuming Affirm is prepared to provide extensive access to its accounting records and provide explanations in relation to the same, the Company considers that it would be unduly onerous to require the Company to set out an accountants' report of Affirm in its circular as the auditors of the Company would have to carry out audit procedures on Affirm, which would not provide meaningful information to the Shareholders given the above.

(e) Affirm, being a listed company incorporated in the United States, is required to publish its audited financial statements, on a regular basis, for each financial year, on its website. Affirm has its financial results audited by Deloitte & Touche LLP and prepared in accordance with accounting principles generally accepted in the United States as contained in the Financial Accounting Standards Board Accounting Standards Codification (the "**U.S. GAAP**"). Affirm had been publishing financial information to the market on a regular basis to enable investors to assess its activities and financial position, and such filings can be easily obtained by the Shareholders and will enable them and potential investors to make a properly informed assessment of Affirm. Further, Affirm would publish its unaudited quarterly results on its website. The unaudited quarterly results were prepared based on the U.S. GAAP, and therefore, such information is publicly available.

(f) The Company's reporting accountant to this circular considers that the accounting standards under U.S. GAAP and the accounting policies of the Company, i.e. Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, are materially consistent.

(g) As stated in the reasons set out in points (c) and (e) above, the Company could not access the books and records of Affirm and Affirm was not prepared to disclose any additional financial information. Thus, the Company were not able to prepare the discussion and analysis of results of Affirm for the incorporation into this circular. In addition, the Company could not express any view as to the truth, accuracy or completeness on the discussion and analysis of the results of Affirm as stated in its published information.

In light of the above, the Company considers that strict compliance with requirements under Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules would be unduly burdensome and impractical, and a relaxation of such requirements would unlikely result in undue risks to the Shareholders and potential investors of the Company.

Alternative disclosures

The Company has included the following information in this circular as alternative disclosures to an accountants' report required under Rule 14.67(6)(a)(i) of the Listing Rules and a management discussion and analysis required under Rule 14.67(7) of the Listing Rules:

(a) the annual audited consolidated financial statements of Affirm for the year ended 30 June 2021 as extracted from the published documents of Affirm, which is set out on page II-1 to II-72 in Appendix II to this circular;

(b) the annual audited consolidated financial statements of Affirm for the year ended 30 June 2022 as extracted from the published documents of Affirm, which is set out on page II-73 to II-148 in Appendix II to this circular;

(c) the annual audited consolidated financial statements of Affirm for the year ended 30 June 2023 as extracted from the published documents of Affirm, which is set out on page II-149 to II-217 in Appendix II to this circular;

(d) the unaudited consolidated financial statements of Affirm for the three months ended 30 September 2023 as extracted from the published documents of Affirm, which is set out on page II-218 to II-265 in Appendix II to this circular; and

(e) the management discussion and analysis of the results of operations of Affirm for the three financial years ended 30 June 2023 and the three months ended 30 September 2023 as extracted from the published documents of Affirm, which are set out on pages III-1 to III-86 in Appendix III to this circular.

Based on the information provided by the Company and the alternative disclosures above, the Stock Exchange granted the waiver from strict compliance with Rules 14.67(6)(a)(i) and 14.67(7) under the Listing Rules.

WRITTEN SHAREHOLDER'S APPROVAL

Pursuant to Rule 14.44 of the Listing Rules, shareholders' approval may be obtained by written shareholders' approval in lieu of convening a general meeting if (a) no shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Further Acquisition of Affirm Shares; and (b) written approval has been obtained from a shareholder or a closely allied group of shareholders who together hold more than 50% of the issued share capital of the Company giving the right to attend and vote at general meetings to approve the Further Acquisition of Affirm Shares.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has any material interest in the Further Acquisition of Affirm Shares. Thus, if the Company were to convene a general meeting to approve the Further Acquisition of Affirm Shares, no Shareholder is required to abstain from voting on the resolutions in relation to the Further Acquisition of Affirm Shares. As such, the Further Acquisition of Affirm Shares may be approved by written Shareholder's approval in accordance with Rule 14.44 of the Listing Rules.

In relation to written approval in lieu of holding a general meeting in respect of the Further Acquisition of Affirm Shares, the Company obtained shareholder's approval from Yoho Bravo Limited which holds 599,658,000 shares (representing approximately 74.96% of the total issued share capital of the Company as at the date of the written approval by Yoho Bravo Limited and the Latest Practicable Date respectively) pursuant to Rule 14.44 of the Listing Rules. As a result, no extraordinary general meeting will be convened to consider the Further Acquisition of Affirm Shares.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the Further Acquisition of Affirm Shares are on normal commercial terms, which is fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Directors would recommend the Shareholders to vote in favour of the Further Acquisition of Affirm Shares if a physical meeting were to be held.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Brainhole Technology Limited
Zhang Liang Johnson
Chairman and Executive Director

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Company for the three years ended 31 December 2020, 2021 and 2022 and for the six months ended 30 June 2023 have been published and are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.brainholetechnology.com) respectively:

- the annual report of the Company for the year ended 31 December 2020 (pages 76 to 157) published on 28 April 2021, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042800751.pdf

- the annual report of the Company for the year ended 31 December 2021 (pages 84 to 169) published on 28 April 2022, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0428/2022042800574.pdf

- the annual report of the Company for the year ended 31 December 2022 (pages 81 to 169) published on 26 April 2023, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042600894.pdf

- the interim report of the Company for the six months ended 30 June 2023 (pages 1 to 25) published on 21 September 2023, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0921/2023092100406.pdf

2. STATEMENT OF INDEBTEDNESS OF THE GROUP

At the close of business on 31 January 2024, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Circular, the Group had outstanding indebtedness as follows:

	31 January 2024
	HK$'000
Lease liabilities	5,546
Loan from immediate holding company	N/A
Loans from related companies	49,720
Loan from ultimate controlling party	83,785

As at 31 January 2024, all the loan from immediate holding company, loans from related companies and loan from ultimate controlling party of the Group disclosed above are unsecured and unguaranteed.

Save as disclosed above, the Group did not, as of the close of business 31 January 2024, have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or any finance lease commitments or material contingent liabilities.

3. WORKING CAPITAL STATEMENT OF THE GROUP

The Directors, after due and careful consideration, are of the opinion that, taking into account the financial resources available to the Group, including internally generated funds and the available facilities, and the impact of the Further Acquisition of Affirm Shares, the Group will have sufficient working capital for its business for at least 12 months from the date of this circular.

The Company has obtained the relevant confirmation as required under Rule 14.66 (12) of the Listing Rules.

4. MATERIAL ADVERSE CHANGE

At the Latest Practicable Date and to the best knowledge of the Directors, there was no material adverse change in the financial or trading position of the Group since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up).

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the manufacturing and trading of semiconductors, broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities). The Group believes that technological innovation is an important engine for future economic development, and it can also drive the emerging applications in the smart living sector. The Group aims to leverage our own advantages in the field of smart technology to capture investment opportunities and actively diversify the investments in the field of innovative technologies, in order to create greater value for the Shareholders.

Since 2022, the Group commenced the strategic investments business which engages in trading of cryptocurrencies and listed equity securities. In particular to the listed equity securities, the investment portfolio mainly comprises leading technology companies and high quality large companies listed in the United States and Hong Kong. As stated in the paragraph headed "REASONS FOR AND BENEFITS OF THE FURTHER ACQUISITION OF AFFIRM SHARES" in the section headed "LETTER FROM THE BOARD", the Group considers that the Acquisition of Affirm Shares and the Further Acquisition of Affirm Shares represent opportunities to allow the Group to reallocate the resources and investment portfolio. The Group will closely monitor and assess the performance of these listed equity securities and make timely and appropriate adjustments on the investment portfolio to enhance the returns for the Group and realise the investments as and when appropriate.

FINANCIAL INFORMATION OF AFFIRM FOR EACH OF THE THREE YEARS ENDED 30 JUNE 2021, 2022 AND 2023 AND THE THREE MONTHS ENDED 30 SEPTEMBER 2023

For the purpose of this section only, unless the context requires otherwise, references to the "Company" are to Affirm, and references to "we", "us" and "our" shall be construed accordingly.

The following is an extract of the audited consolidated financial statements of Affirm for the years ended 30 June 2021, 2022 and 2023 and the unaudited consolidated financial statements of Affirm for the three months ended 30 September 2023, which were prepared in accordance with the U.S. GAAP, as extracted from the respective annual reports/first quarterly report of Affirm for the years ended 30 June 2021, 2022 and 2023 and the three months ended 30 September 2023. These financial statements were issued in English and the Chinese translated version is provided for information purposes only. In case of discrepancies between the two versions, the English version shall prevail.

The annual reports/first quarter results and consolidated financial statements of Affirm for the three years ended 30 June 2021, 2022 and 2023 and three months ended 30 September 2023 are available at the website of the SEC (https://www.sec.gov/).

The Directors wish to emphasise that the extracts reproduced below are not prepared for incorporation into this circular and the Company has not participated in their preparation. As such, the Directors do not express any view as to their truth, accuracy or completeness, and the Shareholders and investors should exercise caution and should not place undue reliance on such information.

A. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF AFFIRM FOR THE YEAR ENDED 30 JUNE 2021

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AFFIRM HOLDINGS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Affirm Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Affirm Holdings, Inc. and subsidiaries (the "Company") as of June 30, 2021 and 2020, the related consolidated statements of operations and comprehensive loss, changes in redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

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

Allowance for Credit Losses — Refer to Notes 2 and 4 to the financial statements

Critical Audit Matter Description

The allowance for credit losses is a material estimate of the Company and as of June 30, 2021, the total balance was $117.8 million. On July 1, 2020, the Company adopted ASU 2016-13, *"Financial Instruments — Credit Losses (Topic 326) ("ASC 326"): Measurement of Credit Losses on Financial Instruments*, which modified the accounting for the allowance for credit losses from an incurred loss model to an expected loss model (the "Current Expected Credit Losses" or "CECL" model) The Company utilized the modified retrospective approach upon adoption, which resulted in an increase in the allowance for credit losses of $10.1 million and a cumulative effect adjustment to the beginning balance of accumulated deficit of $10.1 million.

In estimating the allowance for credit losses, management utilizes a migration analysis of delinquent and current loan receivables. Migration analysis is a technique used to estimate the likelihood that a loan receivable will progress through various stages of delinquency and to charge-off. The analysis focuses on the pertinent factors underlying the quality of the loan portfolio. These factors include historical performance, the age of the receivable balance, seasonality, customer credit-worthiness, changes in the size and composition of the loan portfolio, delinquency levels, bankruptcy filings, actual credit loss experience, as well as current economic conditions and expectations of future market conditions. Management also incorporates qualitative adjustments to the quantitative model to capture the impact of events that are not easily captured in the model.

Determining the appropriate level of qualitative adjustments is inherently subjective and relies on significant judgment. Given the subjective nature and amount of judgment required in developing these estimates, performing audit procedures to evaluate the reasonableness of the allowance for credit losses required a high degree of auditor judgment, an increased extent of audit effort, and the need to involve more experienced audit professionals.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the allowance for credit losses included the following procedures, among others:

- We evaluated the appropriateness of the ACL modeling framework, including the use of qualitative adjustments.
- We involved our credit specialists to review the CECL model code, perform procedures to evaluate completeness of datasets, and recalculate management's comparison of actual results with previously estimated reserves and charge-offs
- We evaluated the extent, accuracy, and completeness of the data used to develop the CECL model and to estimate the allowance for credit losses at the date of the adoption and the end of the year.
- We evaluated the qualitative adjustments to the quantitative loss rates, including assessing the basis for the adjustments and the reasonableness of the significant assumptions.
- We evaluated the reasonableness of the Company's assumptions and judgments in estimating qualitative adjustments, including obtaining third-party macroeconomic data and evaluating any contradictory evidence.
- We evaluated the magnitude and proportion of the overall allowance, including the directional consistency and magnitude of the qualitative adjustments as of the adoption date and through the end of the year.
- In order to identify potential bias in the determination of the ACL, we performed analytical analysis, including a retrospective review, various coverage and ratio analysis to evaluate the relevance of the underlying drivers used to determine the qualitative adjustments.

/s/ Deloitte & Touche LLP

San Francisco, California

September 17, 2021

We have served as the Company's auditor since 2020.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Affirm Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of operations, changes in redeemable convertible preferred stock and stockholders' deficit, and cash flows of Affirm Holdings, Inc. (the Company) for the year ended June 30, 2019 and the related notes (collectively referred to as the "financial statements"). In our opinion, the 2019 financial statements present fairly, in all material respects, the results of the Company's operations and its cash flows for the year ended June 30, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

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

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

/s/ Ernst & Young LLP

San Francisco, California

October 7, 2020

We served as the Company's auditor from 2017 to 2020.

AFFIRM HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except shares and per share amounts)

	June 30, 2021	June 30, 2020
Assets		
Cash and cash equivalents	$ 1,466,558	$ 267,059
Restricted cash	226,074	61,069
Loans held for sale	13,030	4,459
Loans held for investment	2,022,320	1,034,312
Allowance for credit losses	(117,760)	(95,137)
Loans held for investment, net	1,904,560	939,175
Accounts receivable, net	91,575	59,001
Securitization notes receivable and residual certificates (at fair value)	16,170	—
Property, equipment and software, net	62,499	48,140
Goodwill	516,515	1,255
Intangible assets	67,930	2,496
Commercial agreement assets	227,377	—
Other assets	274,679	19,597
Total Assets	**$ 4,866,967**	**$ 1,402,251**
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Liabilities:		
Accounts payable	$ 57,758	$ 18,361
Payable to third-party loan owners	50,079	24,998
Accrued interest payable	2,751	1,860
Accrued expenses and other liabilities	317,951	27,810
Convertible debt	—	74,222
Notes issued by securitization trusts	1,176,673	—
Funding debt	680,602	817,926
Total liabilities	2,285,814	965,177
Commitments and contingencies (Note 9)		
Redeemable convertible preferred stock, $0.00001 par value, 30,000,000 and 124,453,009 shares authorized as of June 30, 2021 and June 30, 2020, respectively; zero and 122,115,971 shares issued and outstanding as of June 30, 2021 and June 30, 2020, respectively; liquidation preference of $0 and $809,032 as of June 30, 2021 and June 30, 2020, respectively	—	804,170
Stockholders' equity (deficit):		
Common stock, $0.00001 par value, no shares authorized, issued and outstanding at June 30, 2021; 232,000,000 shares authorized, 47,684,427 shares issued and outstanding as of June 30, 2020	—	—
Class A common stock, par value $0.00001 per share: 3,030,000,000 shares authorized, 181,131,728 shares issued and outstanding as of June 30, 2021; no shares authorized, issued and outstanding as of June 30, 2020	2	—
Class B common stock, par value $0.00001 per share: 88,226,376 shares authorized, issued and outstanding as of June 30, 2021; no shares authorized, no shares issued and outstanding as of June 30, 2020	1	—
Additional paid in capital	3,462,762	80,373
Accumulated deficit	(888,381)	(447,167)
Accumulated other comprehensive gain (loss)	6,769	(302)
Total stockholders' equity (deficit)	2,581,153	(367,096)
Total Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)	**$ 4,866,967**	**$ 1,402,251**

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS, CONT.
(in thousands, except shares and per share amounts)

The following table presents the assets and liabilities of consolidated variable interest entities ("VIEs"), which are included in the consolidated balance sheets above. The assets in the table below may only be used to settle obligations of consolidated VIEs and are in excess of those obligations. The liabilities in the table below include liabilities for which creditors do not have recourse to the general credit of the Company. Additionally, the assets and liabilities in the table below include third-party assets and liabilities of consolidated VIEs only and exclude intercompany balances that eliminate upon consolidation.

	June 30, 2021	June 30, 2020
Assets of consolidated VIEs, included in total assets above		
Restricted cash	$ 142,385	$ 28,788
Loans held for investment	1,743,810	935,085
Allowance for credit losses	(94,463)	(87,467)
Loans held for investment, net	1,649,347	847,618
Accounts receivable, net	8,209	8,146
Other assets	3,683	3,345
Total assets of consolidated VIEs	**$ 1,803,624**	**$ 887,897**
Liabilities of consolidated VIEs, included in total liabilities above		
Accounts payable	$ 2,927	$ 492
Accrued interest payable	2,613	1,732
Accrued expenses and other liabilities	3,820	565
Notes issued by securitization trusts	1,176,673	—
Funding debt	607,394	817,926
Total liabilities of consolidated VIEs	**1,793,427**	**820,715**
Total net assets	**$ 10,197**	**$ 67,182**

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share amounts)

	Year Ended June 30,		
	2021	**2020**	**2019**
Revenue			
Merchant network revenue	$ 379,551	$ 256,752	$ 132,363
Virtual card network revenue	49,851	19,340	7,911
Total network revenue	429,402	276,092	140,274
Interest income	326,417	186,730	119,404
Gain (loss) on sales of loans	89,926	31,907	(440)
Servicing income	24,719	14,799	5,129
Total Revenue, net	**$ 870,464**	**$ 509,528**	**$ 264,367**
Operating Expenses			
Loss on loan purchase commitment	$ 246,700	$ 161,452	$ 73,383
Provision for credit losses	65,878	105,067	78,025
Funding costs	52,700	32,316	25,895
Processing and servicing	73,767	49,831	32,669
Technology and data analytics	256,082	122,378	76,071
Sales and marketing	184,279	25,044	16,863
General and administrative	370,251	121,230	88,902
Total Operating Expenses	**1,249,657**	**617,318**	**391,808**
Operating Loss	**$ (379,193)**	**$ (107,790)**	**$ (127,441)**
Other income (expense), net	(54,073)	(4,432)	7,022
Loss Before Income Taxes	**$ (433,266)**	**$ (112,222)**	**$ (120,419)**
Income tax (benefit) expense	(2,343)	376	36
Net Loss	**$ (430,923)**	**$ (112,598)**	**$ (120,455)**
Excess return to preferred stockholders on repurchase	—	(13,205)	(14,113)
Net Loss Attributable to Common Stockholders	**$ (430,923)**	**$ (125,803)**	**$ (134,568)**
Other Comprehensive Income (Loss)			
Foreign currency translation adjustments	$ 7,042	$ (302)	$ —
Unrealized gains on investments	29	—	—
Net Other Comprehensive Income (Loss)	**7,071**	**(302)**	—
Comprehensive Loss	**$ (423,852)**	**$ (112,900)**	**$ (120,455)**
Per share data:			
Net loss per share attributable to common stockholders for Class A and Class B:			
Basic	$ (2.72)	$ (2.63)	$ (2.84)
Diluted	$ (2.88)	$ (2.63)	$ (2.84)
Weighted average common shares outstanding:			
Basic	158,367,923	47,856,720	47,345,328
Diluted	159,244,611	47,856,720	47,345,328

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENT OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance as of June 30, 2018	**100,443,538**	**$ 495,376**	**44,486,618**	**$ —**	**$ 28,092**	**$ (197,364)**	**$ —**	**$ (169,272)**
Issuance of common stock	—	—	3,451,035	—	6,475	—	—	6,475
Repurchases of common stock	—	—	(859,445)	—	(2,212)	(419)	—	(2,631)
Issuance of redeemable convertible preferred stock, net of issuance costs of $4,217	23,310,166	303,083	—	—	—	—	—	—
Repurchases of redeemable convertible preferred stock	(1,100,000)	(385)	—	—	(14,113)	—	—	(14,113)
Stock-based compensation	—	—	—	—	36,582	—	—	36,582
Net loss	—	—	—	—	—	(120,455)	—	(120,455)
Balance as of June 30, 2019	**122,653,704**	**$ 798,074**	**47,078,208**	**$ —**	**$ 54,824**	**$ (318,238)**	**$ —**	**$ (263,414)**
Issuance of common stock	—	—	2,101,317	—	2,733	—	—	2,733
Repurchases of common stock	—	—	(1,495,098)	—	(2,522)	(16,331)	—	(18,853)
Issuance of redeemable convertible preferred stock, net of issuance costs of $0	1,175,872	15,481	—	—	—	—	—	—
Repurchases of redeemable convertible preferred stock	(1,713,605)	(9,385)	—	—	(13,205)	—	—	(13,205)
Convertible notes beneficial conversion option	—	—	—	—	5,998	—	—	5,998
Stock-based compensation	—	—	—	—	32,545	—	—	32,545
Foreign currency translation	—	—	—	—	—	—	(302)	(302)
Net loss	—	—	—	—	—	(112,598)	—	(112,598)
Balance as of June 30, 2020	**122,115,971**	**$ 804,170**	**47,684,427**	**$ —**	**$ 80,373**	**$ (447,167)**	**$ (302)**	**$ (367,096)**

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENT OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT), CONT.
(in thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares[1]	Amount				
Balance as of June 30, 2020	**122,115,971**	**$ 804,170**	**47,684,427**	**$ —**	**$ 80,373**	**$ (447,167)**	**$ (302)**	**$ (367,096)**
Issuance of redeemable convertible preferred stock, net of issuance costs of $143	21,836,687	434,542	—	—	—	—	—	—
Conversion of convertible debt	4,444,321	88,559	—	—	(42,124)	—	—	(42,124)
Conversion of redeemable convertible preferred stock	(148,396,979)	(1,327,271)	148,396,979	2	1,327,269	(11)	—	1,327,260
Issuance of common stock upon initial public offering, net of issuance costs of $6,871	—	—	28,290,000	1	1,305,176	—	—	1,305,177
Issuance of common stock upon exercise of stock options	—	—	12,418,931	—	46,462	—	—	46,462
Issuance of common stock upon exercise of warrants	—	—	20,651,583	—	271,156	—	—	271,156
Issuance of common stock for acquisitions	—	—	9,167,515	—	331,498	—	—	331,498
Vesting of restricted stock units	—	—	2,878,060	—	—	—	—	—
Repurchases of common stock	—	—	(129,391)	—	(800)	—	—	(800)
Stock-based compensation	—	—	—	—	302,032	—	—	302,032
Tax withholding on stock-based compensation	—	—	—	—	(158,280)	—	—	(158,280)
Effects of adoption of new accounting standards	—	—	—	—	—	(9,980)	—	(9,980)
Deconsolidation of variable interest entity	—	—	—	—	—	(300)	—	(300)
Foreign currency translation adjustments	—	—	—	—	—	—	7,042	7,042
Unrealized gains on investments	—	—	—	—	—	—	29	29
Net Loss	—	—	—	—	—	(430,923)	—	(430,923)
Balance as of June 30, 2021	**—**	**$ —**	**269,358,104**	**$ 3**	**$ 3,462,762**	**$ (888,381)**	**$ 6,769**	**$ 2,581,153**

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

[1] The share amounts listed above combine common stock, Class A common stock and Class B common stock.

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended June 30,		
	2021	**2020**	**2019**
Cash Flows from Operating Activities			
Net Loss	$ (430,923)	$ (112,598)	$ (120,455)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for credit losses	65,878	105,067	78,025
Amortization of premiums and discounts on loans, net	(90,371)	(27,605)	(19,375)
(Gain) loss on sales of loans	(89,926)	(31,907)	440
Changes in fair value of assets and liabilities	51,655	2,847	(940)
Amortization of commercial agreement assets	69,103	—	—
Amortization of debt issuance costs	6,416	2,313	1,698
Stock-based compensation	288,033	29,625	33,701
Depreciation and amortization	19,979	9,444	5,266
Impairment of right of use assets	11,544	—	—
Other	5,129	81	36
Purchases of loans held for sale	(2,640,734)	(2,101,483)	(858,661)
Proceeds from the sale of loans held for sale	2,594,835	2,021,938	813,309
Change in operating assets and liabilities:			
Accounts receivable, net	(22,934)	(19,049)	(24,791)
Other assets	(209,139)	19,936	(17,105)
Accounts payable	32,223	7,514	4,435
Payable to third-party loan owners	25,082	8,279	6,311
Accrued interest payable	1,395	428	675
Accrued expenses and other liabilities	119,625	13,868	9,782
Net Cash Used in Operating Activities	**(193,130)**	**(71,302)**	**(87,649)**
Cash Flows from Investing Activities			
Purchases and originations of loans held for investment	(5,897,252)	(2,830,320)	(1,892,508)
Proceeds from the sale of loans held for investment	824,011	303,433	147,103
Principal repayments and other loan servicing activity	4,324,618	2,294,833	1,412,927
Acquisitions, net of cash and restricted cash acquired	(222,433)	—	—
Additions to property, equipment and software	(20,252)	(21,019)	(19,406)
Purchases of intangibles	—	—	(1,844)
Other investing cash inflows	1,453	—	—
Other investing cash outflows	(32,178)	—	—
Net Cash Used in Investing Activities	**(1,022,033)**	**(253,073)**	**(353,728)**
Cash Flows from Financing Activities			
Proceeds from funding debt	2,942,254	2,132,805	1,354,550
Payment of debt issuance costs	(12,499)	(7,687)	(4,850)
Principal repayments of funding debt	(3,165,103)	(1,882,155)	(1,080,481)
Proceeds from issuance of notes by securitization trusts	1,395,879	—	—
Principal repayments of notes issued by securitization trusts	(210,368)	—	—
Proceeds from issuance of convertible debt, net	—	75,000	—
Proceeds from issuance of redeemable convertible preferred stock, net	434,542	15,481	303,083
Repurchases and conversion of redeemable convertible preferred stock	(13)	(22,591)	(14,498)
Proceeds from initial public offering, net	1,305,176	—	—
Proceeds from exercise of common stock options and warrants	47,042	2,733	6,475
Repurchases of common stock	(800)	(18,854)	(2,631)
Payments of tax withholding for stock-based compensation	(158,280)	—	—
Net Cash Provided by Financing Activities	**2,577,830**	**294,732**	**561,648**
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1,837	—	—
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	**1,364,504**	**(29,643)**	**120,271**
Cash and cash equivalents and restricted cash, beginning of period	328,128	357,771	237,500
Cash and Cash Equivalents and Restricted Cash, end of period	**$ 1,692,632**	**$ 328,128**	**$ 357,771**

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

AFFIRM HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONT.
(in thousands)

	Year Ended June 30,		
	2021	**2020**	**2019**
Supplemental Disclosures of Cash Flow Information			
Cash payments for interest	$ 41,690	$ 28,085	$ 27,838
Cash paid for income taxes	219	—	—
Cash paid for operating leases	13,215	—	—
Supplemental Disclosures of Non-Cash Investing and Financing Activities			
Stock-based compensation included in capitalized internal-use software	$ 13,999	$ 2,921	$ 2,882
Additions to property and equipment included in accrued expenses	6	27	3,023
Issuance of warrants in exchange for commercial agreement	270,579	—	—
Acquisition of commercial agreement assets	25,900	—	—
Conversion of redeemable convertible preferred stock	1,327,271	—	—
Conversion of convertible debt	88,559	—	—
Issuance of common stock in connection with acquisition	331,498	—	—
Right of use assets obtained in exchange for operating lease liabilities	78,421	—	—

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

AFFIRM HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Business Description

Affirm Holdings, Inc. (“Affirm,” the “Company,” “we,” “us,” or “our”), headquartered in San Francisco, California, provides consumers with a simpler, more transparent, and flexible alternative to traditional payment options. Our mission is to deliver honest financial products that improve lives. Through our next-generation commerce platform and partnerships with originating banks, we enable consumers to confidently pay for a purchase over time, with terms ranging from one to sixty months. When a consumer applies for a loan through our platform, the loan is underwritten using our proprietary risk model, and once approved, the consumer selects their preferred repayment option. The majority of loans are funded and issued by our originating bank partners.

Merchants partner with us to transform the consumer shopping experience and to acquire and convert customers more effectively through our frictionless point-of-sale payment solution. Consumers get the flexibility to buy now and make simple monthly payments for their purchases and merchants see increased average order value, repeat purchase rate, and an overall more satisfied customer base. Unlike legacy payment options and our competitors’ product offerings, which charge deferred or compounding interest and unexpected costs, we disclose up-front to consumers exactly what they will owe — no hidden fees, no deferred interest, no penalties.

On January 15, 2021, we closed our initial public offering ("IPO") of 28,290,000 shares of Class A common stock, including 3,690,000 shares pursuant to the option granted to the underwriters to purchase additional shares of Class A common stock, at an offering price of $49.00 per share. The proceeds from the IPO, before expenses, were approximately $1.3 billion.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), as contained in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

Our financial statements have been prepared on a consolidated basis. Under this basis of presentation, our financial statements consolidate all wholly owned subsidiaries and variable interest entities (“VIEs”), in which we have a controlling financial interest. These include various business trust entities and limited partnerships established to enter into warehouse credit agreements with certain lenders for funding debt facilities and asset-backed securitization transactions.

Our variable interests in VIEs generally arise from contractual, ownership, or other monetary interests in the entity that value changes with fluctuations in the fair value of the entity’s net assets. We consolidate a VIE when we are deemed to be the primary beneficiary. We assess whether or not we are the primary beneficiary of a VIE on an ongoing basis.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the use of estimates, judgments and assumptions that affect the reported amounts in the consolidated financial statements and the accompanying notes. Material estimates that are particularly susceptible to significant change relate to determination of the variable consideration for revenue, the allowance for credit losses, capitalized internal-use software development costs, valuation allowance for deferred tax assets, convertible debt derivatives, loss on loan purchase commitment, the fair value of servicing assets and liabilities, discount on self-originated loans, the fair value and useful lives of tangible and intangible assets acquired and liabilities assumed resulting from business

combinations, the fair value of contingent consideration related to business combinations, the evaluation for impairment of intangible assets and goodwill, the incremental borrowing rate used in discounting our lease liabilities, the fair value of residual certificates issued by our securitization trusts, and stock-based compensation. We base our estimates on historical experience, current events and other factors we believe to be reasonable under the circumstances. To the extent that there are material differences between these estimates and actual results, our financial condition or operating results will be materially affected.

These estimates are based on information available as of the date of the consolidated financial statements; therefore, actual results could differ materially from those estimates.

Segment Reporting

We conduct our operations through a single operating segment and, therefore, one reportable segment. Operating segments are components of a company for which separate financial information is internally produced for regular use by the Chief Operating Decision Maker ("CODM") to allocate resources and assess the performance of the business. Our CODM, the Chief Executive Officer of Affirm Holdings, Inc., uses a variety of measures to assess the performance of the business; however, detailed profitability information that could be used to allocate resources and assess the performance of the business is managed and reviewed for the consolidated company as a whole.

Business Combinations

We use the acquisition method of accounting for business combination transactions, and, accordingly, recognize the fair values of assets acquired and liabilities assumed in our consolidated financial statements. Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value. Transaction costs related to the acquisition of the acquired company are expensed as incurred. The allocation of fair values may be subject to adjustment after the initial allocation for up to a one-year period as more information becomes available relative to the fair values as of the acquisition date. The consolidated financial statements include the results of operations of any acquired company since the acquisition date.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking, money market and savings accounts held at financial institutions or highly liquid investments purchased with an original maturity of three months or less.

Restricted Cash

Restricted cash consists primarily of: (i) deposits restricted by standby letters of credit for office leases; (ii) funds held in accounts as collateral for our originating bank partners; and (iii) servicing funds held in accounts contractually restricted by agreements with warehouse credit facilities, securitization trusts, and third-party loan owners. We have no ability to draw on such funds as long as they remain restricted under the applicable agreements.

Loans Held for Investment

We either originate loans directly or purchase our loans from our originating bank partners pursuant to the terms outlined in the respective executed loan sale program agreements. Loan receivables that we have the intent and ability to hold for the foreseeable future or until maturity or payoff are classified as held for investment and are reported at amortized cost, which includes unpaid principal balances, any related premiums including fees paid to our originating bank partners and discounts due to loan commitment liability, where applicable, adjusted for any charge-offs and the allowance for credit losses.

Loans Held for Sale

We sell certain loans to third-party loan buyers. A loan is initially classified as held for sale when the whole loan is identified as for sale. Loans classified as held for sale are recorded at the lower of amortized cost or fair value. A loan that is initially designated as held for sale or held for investment may be reclassified when our intent for that loan changes. When a loan held for investment is reclassified to held for sale and reported at fair value, any allowance for the credit loss related to that loan is released and any fair value adjustment to record the loan at the lower of amortized cost or fair value is recorded. Our loans designated as held for sale are generally sold within one to three days of the balance sheet date at a gain. As of June 30, 2021, on a portfolio level, the fair value of loans held for sale exceeds amortized cost.

Transfers of Financial Assets

We account for loan sales in accordance with ASC 860, "Transfers and Servicing" ("ASC 860") which states that a transfer of financial assets, a group of financial assets, or a participating interest in a financial asset is accounted for as a sale if all of the following conditions are met:

a. The financial assets are isolated from the transferor and its consolidated affiliates as well as its creditors;
b. The transferee or beneficial interest holders have the right to pledge or exchange the transferred financial assets; and
c. The transferor does not maintain effective control of the transferred assets.

For the years ended June 30, 2021, 2020, and 2019, all loan sales met the requirements for sale treatment in accordance with ASC 860. We record the gain or loss on the sale of a loan at the sale date in an amount equal to the proceeds received, adjusted for initial recognition of servicing assets or liabilities obtained at the date of sale, less the carrying value of the loan.

Upon the sale of a loan to a third-party loan buyer or unconsolidated securitization in which we retain servicing rights, we may recognize a servicing asset or liability. Receiving more than adequate compensation, as defined by ASC 860, for servicing those loans results in recognition of a servicing asset. Receiving less than adequate compensation results in a servicing liability. Servicing assets and liabilities are recorded at fair value and are presented as a component of other assets or accrued expenses and other liabilities, respectively. The recognition of a servicing asset results in a corresponding increase to the gain (loss) on sales of loans. The recognition of a servicing liability results in a corresponding decrease to gain (loss) on sales of loans. The servicing rights are marked to fair value each period, with the subsequent adjustment recognized in servicing income. The subsequent measurement includes changes in inputs or assumptions used in the valuation model.

In connection with the sale of a loan to a third-party loan buyer or unconsolidated securitization, we may also recognize a recourse liability in accordance with ASC 460, "Guarantees" ("ASC 460") as in certain circumstances we may become required to repurchase loans from third-party investors due to breaches in representations and warranties. The recognition of a recourse liability results in a corresponding decrease to gain (loss) on sales of loans. The recourse liability is amortized over the loan term and remeasured each period based on the outstanding loan balance and changes in our expectation of future repurchase obligations.

Allowance for Credit Losses

The allowance for credit losses on loans held for investment is determined based on management's current estimate of expected credit losses over the remaining contractual term, historical credit losses, consumer payment trends, estimates of recoveries, and future expectations on individual loans as of each balance sheet date. We immediately recognize an allowance for expected credit losses upon the origination of a loan. Adjustments to the allowance each period for changes in our estimate of lifetime expected credit losses are recognized in earnings

through the provision for credit losses presented on our consolidated statements of operations and comprehensive loss. We have made an accounting policy election to not measure an allowance for credit losses for accrued interest receivables. Previously recognized interest receivable from charged-off loans that is accrued but not collected from the consumer is reversed.

In estimating the allowance for credit losses, management utilizes a migration analysis of delinquent and current loan receivables. Migration analysis is a technique used to estimate the likelihood that a loan receivable will progress through various stages of delinquency and to charge-off. The analysis focuses on the pertinent factors underlying the quality of the loan portfolio. These factors include historical performance, the age of the receivable balance, seasonality, customer credit-worthiness, changes in the size and composition of the loan portfolio, delinquency levels, bankruptcy filings, actual credit loss experience, and current economic conditions. We also take into consideration certain qualitative factors where we adjust our quantitative baseline using our best judgement to consider the inherent uncertainty regarding future economic conditions and consumer loan performance. For example, the Company considers the impact of current economic and environmental factors at the reporting date that did not exist over the period from which historical experience was used. As of June 30, 2021, we have considered the impact of government intervention and legislation in the form of stimulus checks, extended unemployment benefits, and small business relief on loan repayment and consumer behavior patterns.

When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. Loans are charged-off in accordance with our charge-off policy, as the contractual principal becomes 120 days past due. Subsequent recoveries of the unpaid principal balance, if any, are credited to the allowance for credit losses. Refer to Note 4. Loans Held for Investment and Allowance for Credit Losses for more information.

Accounts Receivable, net

Our accounts receivable consist primarily of amounts due from payment processors, merchant partners, and servicing fees due from third-party loan owners. We evaluate accounts receivable estimated to be uncollectible and provide allowances, as necessary, for doubtful accounts. This allowance was $4.1 million and $3.1 million as of June 30, 2021 and June 30, 2020, respectively.

Property, Equipment and Software, net

Property, equipment and software consist of computer and office equipment, capitalized internal-use software and website development costs and leasehold improvements. Property, equipment and software is stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are recognized using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are depreciated over the shorter of the improvement's estimated useful life or the remaining lease term.

We capitalize costs to develop internal-use software when preliminary development efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and the software or website will function and be used as intended. Capitalized internal-use software costs primarily include salaries and payroll-related costs for employees directly involved in the development efforts, software licenses acquired and fees paid to external consultants. Such costs are amortized on a straight-line basis over the estimated useful life of the related asset, which ranges from three to five years. Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed as incurred. Costs incurred for enhancements that are expected to result in additional functionality are capitalized and expensed over the estimated useful life of the upgrades. Capitalized internal-use software costs are included in property, equipment and software, and amortization expense is included in technology and data analytics expense in the consolidated statements of operations and comprehensive loss.

Property, equipment and software is tested for impairment when there is an indication that the carrying value of an asset group may not be recoverable. Carrying values are not recoverable when the undiscounted cash flows estimated to be generated by the assets are less than their carrying values. When an asset is determined not to be recoverable, the impairment is measured based on the excess, if any, of the carrying value of the asset over its respective fair value and recorded in the period the determination is made.

Goodwill and Intangible Assets

We recognize the excess of the purchase price over the fair value of identifiable net assets acquired at the acquisition date as goodwill. Goodwill is not amortized but is reviewed for impairment annually and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. 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.

Identifiable intangible assets include developed technology, merchant relationships, and trade names resulting from acquisitions. Acquired intangible assets are recorded at fair value on the date of acquisition and amortized over their estimated economic lives following the pattern in which the economic benefits of the assets will be consumed, which is on a straight-line basis. Acquired intangible assets are presented net of accumulated amortization on the consolidated balance sheets. We review the carrying amounts of intangible assets for impairment whenever events or changes in circumstances indicate 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. If we consider any of these assets to be impaired, the impairment to be recognized equals the amount by 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 depreciation or amortization.

Funding Debt and Debt Issuance Costs

We borrow from various lenders to finance the purchase of loans from our originating bank partner. These borrowings are carried at amortized cost. Costs incurred in connection with borrowings, such as banker fees, commitment fees and legal fees, are classified as deferred debt issuance costs. We defer these costs and amortize them on a straight-line basis over the term of the debt. Interest payments and amortization of debt issuance costs incurred on debt used to fund purchases of loans from our originating bank partners are presented as funding costs in the consolidated statements of operations and comprehensive loss. Unamortized debt issuance costs are presented as a reduction of the associated debt.

Income Taxes

Income taxes are accounted for using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized as an income tax expense (benefit) in the period that includes the enactment date.

Valuation allowances are provided when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized based on the weighting of positive and negative evidence. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate

character within the carryback or carryforward periods available under the applicable tax law. We regularly review the deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences, and tax planning strategies; however, in evaluating the positive evidence available, expectations of future taxable income and projections for growth are usually not sufficient to overcome the negative evidence of the presence of a three-year cumulative loss. Should there be a change in the ability to recover deferred tax assets, our income tax provision would increase or decrease in the period in which the assessment is changed.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex federal, state, and foreign tax laws and regulations, and positions taken in our tax returns may be subject to challenge by the taxing authorities upon examination. In accordance with applicable accounting guidance, uncertain tax positions are recognized in the financial statements only when it is more likely than not the positions will be sustained upon examination by the tax authorities, assuming full knowledge of the position and all relevant facts. Interest and penalties, if any, on income tax uncertainties are classified within income tax expense in the income statement.

Fair Value of Assets and Liabilities

ASC Topic 820, "Fair Value Measurements and Disclosures" ("ASC 820"), defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that use, as inputs, observable market-based parameters to the greatest extent possible.

Additionally, ASC 820 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

- Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

◦ Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

◦ Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

For equity investments, including equity securities and partnership interests that do not have a "readily determinable fair value," or are not traded in a verifiable public market or are restricted for sale in the public market by a restricted stock legend or otherwise, we present and carry our investments using the measurement alternative which is cost minus impairment, if any, plus or minus changes resulting from observable price changes in "orderly transactions," as defined in ASC Topic 321, "Investments — Equity Securities" ("ASC 321"), for the identical or a similar investment of the same issuer.

Revenue Recognition

Merchant Network Revenue — Revenue from Contracts with Customers

Merchant network revenue consists of merchant fees. Merchant partners (or merchants) are charged a fee on each transaction processed through the Affirm platform. The fees vary depending on the individual arrangement between us and each merchant and on the terms of the product offering. The fee is recognized at the point in time the terms of the executed merchant agreement have been fulfilled and the merchant successfully confirms the transaction.

Our contracts with merchants are defined at the transaction level and do not extend beyond the service already provided (i.e., each transaction represents a separate contract). The fees collected from merchants for each transaction are determined as a percentage of the value of the goods purchased by the consumer from merchants and consider a number of factors including the end consumer's credit risk and financing term. We do not have any capitalized contract costs, and do not carry any material contract balances.

Our service comprises a single performance obligation to merchants to facilitate transactions with consumers. From time to time, we offer merchants promotional incentives to offer incentives to promote our platform to their customers, such as fee reductions or rebates. These amounts, as well as refunds, are recorded as a reduction of revenue and netted against merchant network revenue.

We may originate certain loans via our wholly-owned subsidiaries, with zero or below market interest rates. In these instances, the par value of the loans originated is in excess of the fair market value of such loans, resulting in a loss, which we record as a reduction to merchant network revenue when we estimate that these losses will be recoverable over the term of our contract with the merchant. In order to continue to expand our consumer base, we may originate loans under certain merchant arrangements that we do not expect to achieve positive revenue. In these instances, the loss is recorded as sales and marketing expense.

On May 5, 2021, our largest merchant partner, Peloton, announced a voluntary recall of two of its products following a report by the U.S. Consumer Product Safety Commission released on April 17, 2021. Pursuant to ASC 606, we revised our estimate of the variable consideration associated with revenue earned on the facilitation of transactions related to the recalled products have recorded a reduction in revenue of $5.4 million during the year ended June 30, 2021.

A portion of merchant network revenue relates to affiliate network revenue, which is generated when a user makes a purchase on a merchant's website after being directed from an advertisement on Affirm's website or mobile application. We earn a commission as a percentage of the associated sale. Revenue is recognized at the point in time when the performance obligation has been fulfilled, which is when the sale occurs.

Virtual Card Network Revenue — Revenue from Contracts with Customers

We have agreements with issuer processors to facilitate transactions through the issuance of virtual debit cards to be used by consumers at checkout. Consumers can apply for a virtual debit card through the Affirm app and, upon approval, receive a single-use virtual debit card to be used for their purchase online or offline at a non-integrated merchant. The virtual debit card is funded at the time a transaction is authorized using cash held by the issuer processor in a reserve fund, which is ultimately funded and maintained by us. Our originating bank partner then originates a loan to the consumer once the transaction is confirmed by the merchant. The non-integrated merchants are charged interchange fees by the issuer processor for virtual debit card transactions, as with all debit card purchases, and the issuer processor shares a portion of this revenue with us. We also leverage this issuer processor as a means of integrating certain merchants. Similarly, for these arrangements with integrated merchants, the merchant is charged interchange fees by the issuer processor and the issuer processor shares a portion of this revenue with us.

Our contracts with issuer processors are defined at the transaction level and do not extend beyond the service already provided. The fees collected from issuer processors for each transaction are determined as a percentage of the interchange fees charged on transactions facilitated on the payment processor network, and revenue is recognized at the point in time the transaction is completed successfully. The fees collected are presented in revenue, net of associated processing fees. As the issuer processors do not provide distinct services to us, any fees paid to the issuer processors are offset against collected fees. We have concluded that these fees do not give rise to a future material right because the pricing of each transaction does not depend on the volume of prior successful transactions. We do not have any capitalized contract costs, and do not carry any material contract balances.

Our service comprises a single performance obligation to the issuer processors to facilitate transactions with consumers.

Interest Income

We accrue interest income using the effective interest method. Interest income on a loan is accrued daily, based on the finance charge disclosed to the consumer, over the term of the loan based upon the principal outstanding. The accrual of interest on a loan is suspended if a formal dispute with the borrower involving either Affirm or the merchant of record is opened, or a loan is 120 days past due. Upon the resolution of a dispute with the consumer, the accrual of interest is resumed and any interest that would have been earned during the disputed period is retroactively accrued. As of June 30, 2021 and June 30, 2020, the balance of loans held for investment on non-accrual status was $1.1 million and $0.3 million, respectively.

The account is charged-off in the period if the account becomes 120 days past due or meets other charge-off policy requirements. Past due status is based on the contractual terms of the loans. Previously recognized interest receivable from charged-off loans that is accrued but not collected from the consumer is reversed.

Any discounts or premiums on loan receivables created upon the purchase of a loan from our originating bank partners or upon the origination of a loan are amortized into interest income over the life of the loan using the effective interest method. The amortization is presented together as interest income in the consolidated statements of operations and comprehensive loss.

Servicing Income

Servicing fees are contractual fees specified in our servicing agreements with third-party loan owners that are earned from providing professional services to manage loan portfolios on their behalf. The servicing fee is calculated on a daily basis by multiplying a set fee percentage (as outlined in the executed agreements with third-party loan owners) by the outstanding loan principal balance. We recognize this revenue on a monthly basis.

Loss on Loan Purchase Commitment

We purchase certain loans from our originating bank partners that are processed through our platform and our originating bank partner puts back to us. Under the terms of the agreements with our originating bank partners, we are generally required to pay the principal amount plus accrued interest for such loans. In certain instances, our originating bank partners may originate loans with zero or below market interest rates that we are required to purchase. In these instances, we may be required to purchase the loan for a price in excess of the fair market value of such loans, which results in a loss. These losses are recognized as loss on loan purchase commitment in our consolidated statements of operations and comprehensive loss.

Due to the nature of this arrangement with our originating bank partners, we recognize a net liability for this commitment when the merchant confirms the transaction. This liability is recorded at fair value, which is determined by the difference between the estimated fair value of the loan and the anticipated purchase price. Upon purchase, the liability is included in the amortized cost basis of the purchased loan as a discount, which is amortized into interest income over the life of the loan.

Customer Referral Partners

From time to time, we make payments to customer referral partners providing lead generation services for each transaction processed through our technology platform. We first evaluate whether the customer referral partner is a customer or a vendor. We consider customer referral partners as customers if we determine they are the principal to eligible merchants in providing the facilitation of credit service. We consider customer referral partners as vendors if we determine that we are the principal to eligible merchants in providing the facilitation of credit service. Payments made to customer referral partners that are not considered to be our customers are expensed over the period of benefit and recorded in processing and servicing within our consolidated statements of operations and comprehensive loss.

Advertising Costs

Advertising costs are expensed as incurred and are included within sales and marketing in our consolidated statements of operations and comprehensive loss. For the years ended June 30, 2021, 2020, and 2019, advertising costs totaled $48.1 million, $3.3 million and $2.6 million, respectively.

Foreign Currency

We have wholly-owned foreign subsidiaries that use the local currency of their respective country as their functional currency. Assets and liabilities of these subsidiaries are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates. Revenue, costs, and expenses of these subsidiaries are translated into U.S. dollars using daily exchange rates when incurred. Gains and losses resulting from these translations are recorded as a component of accumulated other comprehensive income (loss) (“AOCI”). Gains and losses from the remeasurement of foreign currency transactions into the functional currency are recognized as other income (expense), net, in our consolidated statements of operations and comprehensive loss.

Stock-Based Compensation

We account for stock-based compensation expense in accordance with the fair value recognition and measurement guidance, which requires compensation cost for the grant date fair value of stock-based awards to be recognized over the requisite service period. In addition, we made an accounting policy election to estimate the expected forfeiture rate for service-based awards and only recognize expense for those stock-based awards expected to vest. We estimate the forfeiture rate based on our historical experience with stock-based awards that are granted and forfeited prior to vesting.

The fair value of stock-based awards, granted or modified, is determined on the grant date (or modification or acquisition dates, if applicable) at fair value, using appropriate valuation techniques.

Service-Based Awards

We record stock-based compensation expense for service-based stock options and restricted stock units (“RSUs") on a straight-line basis over the requisite service period, which is generally four years. The fair value of each option on the date of grant is determined using the Black Scholes-Merton option pricing model using the single-option award approach. Volatility is based on historical volatility rates obtained from comparable publicly-traded companies that operate in the same or related business as us, as there is a limited time period of historical market data for our common stock. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term set forth. We used the simplified method to determine an estimate of the expected term of an employee stock option.

We account for stock-based awards to non-employees, including consultants, in accordance with ASC Topic 718, "Compensation — Stock Compensation" ("ASC 718"), in which equity-classified awards are measured at the grant date fair value and recognized as expense in the period and manner as though we had paid cash in exchange for goods or services instead of granting a stock-based award.

Performance-Based Awards

We have granted RSUs that vest upon the satisfaction of both service-based and performance-based conditions. The service-based condition for these awards generally is satisfied over four years. The performance-based condition is satisfied upon the occurrence of a qualifying event, defined as the earlier of (i) the closing of certain specific liquidation or change in control transactions, or (ii) an IPO. We record stock-based compensation expense for performance-based equity awards and stock on an accelerated attribution method over the requisite service period, which is generally four years, and only if performance-based conditions are considered probable of being satisfied.

Upon exercise or vesting of a stock-based award, if the tax deduction exceeds the compensation cost that was previously recorded for financial statement purposes, this will result in an excess tax benefit.

Market-Based Awards

We have granted stock option awards with service-based and performance-based vesting conditions, with market-based conditions that are incorporated into the grant date fair value. We determined the grant date fair value of these awards by utilizing a Monte Carlo simulation model that incorporates the possibility that the market-based conditions may not be satisfied. The Monte Carlo simulation also incorporates assumptions including expected stock price volatility, expected term, and risk-free interest rates. We estimate the volatility of common stock on the date of grant based on the weighted-average historical stock price volatility of comparable publicly-traded companies in our industry group. We estimate the expected term of the award based on various exercise scenarios. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term set forth.

We record stock-based compensation expense for market-based equity awards such as RSUs and stock options on an accelerated attribution method over the requisite service period, and only if performance-based conditions are considered probable of being satisfied.

Basic and Diluted Net Loss per Common Share

We calculate net income or loss per share using the two-class method required for participating securities. The two-class method requires income available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. Our common stock issued upon the early exercise of stock options and redeemable convertible preferred stock are participating securities. We consider any shares issued upon early exercise of stock options, subject to repurchase, to be participating securities because holders of such shares have non-forfeitable dividend rights in the event a cash dividend is declared on our common stock. These participating securities do not contractually require the holders of such shares to participate in our losses. As such, net losses for the years presented were not allocated to our participating securities.

We calculate basic net loss per share attributable to common stockholders by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period.

We calculate diluted net loss per share attributable to common stockholders by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding after giving consideration to the dilutive effect of our redeemable convertible preferred stock, stock options, restricted stock units, convertible debt and common stock warrants that are outstanding during the period. We have generated a net loss in all periods

presented, and therefore, the basic and diluted net loss per share attributable to common stockholders are the same as the inclusion of the potentially dilutive securities would be anti-dilutive. During the years ended June 30, 2021, 2020 and 2019, the excess of the repurchase price of preferred stock over its carrying value has been recorded as an increase to net loss to determine net loss attributable to common stockholders, basic and diluted.

Recently Adopted Accounting Standards

As of March 31, 2021, we no longer qualified as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As such, we are no longer entitled to take advantage of the exemptions from various reporting requirements applicable to emerging growth companies, including extended transition periods for complying with new or revised accounting standards. Accordingly, as discussed more fully below, we adopted certain new or revised accounting standards during the year ended June 30, 2021 for which adoption previously had been deferred.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” ("ASC 606"). ASC 606 requires revenue to be recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services and also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows from customer contracts. Subsequent to the issuance of ASU 2014-09, the FASB issued several amendments to ASC 606 to clarify or improve the revenue recognition standard such as principal versus agent considerations in ASU 2016-08, technical corrections and improvements to ASC 606 in ASU 2016-20, and clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial asset in ASU 2017-05.

In June 2020, the FASB issued ASU 2020-05, “Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities” ("ASC 842"), which amends the effective dates of ASC 606 and ASC 842 to give immediate relief to certain entities as a result of the widespread adverse economic effects and business disruptions caused by the COVID-19 pandemic. ASU 2020-05 permits certain entities that have not yet made statements available for issuance to adopt ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Under ASU 2020-05, we adopted ASC 606 on July 1, 2020 using the modified retrospective transition method. Under this method, we evaluated contracts that were not complete as of the date of adoption as if those contracts had been accounted for under ASC 606. Under the modified retrospective transition approach, periods prior to the adoption date were not adjusted and continue to be reported in accordance with revenue accounting literature in effect during those periods. The adoption of ASC 606 did not have a material impact on our revenue arrangements.

ASC 606 explicitly excludes revenue generated in accordance with ASC 310, "Receivables" and ASC 860, "Transfers and Servicing." Accordingly, we have concluded that interest income, gains on loan sales and servicing income are not affected by the adoption of ASC 606 and its related amendments. Merchant network revenue and virtual card network revenue are within the scope of ASC 606.

Stock-Based Compensation

In June 2018, the FASB issued ASU 2018-07, “Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting” that expands on the scope of ASC 718 to include stock-based payment transactions for acquiring goods and services from non-employees. For non-public business entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity’s adoption of ASC 606. We adopted ASC 606 effective July 1, 2020 and have correspondingly adopted ASU 2018-07 as of that date. There was no material impact to existing stock-based awards to non-employees.

Income Taxes

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes", which removes certain exceptions related to the approach for intraperiod tax allocation, recognizing deferred tax liabilities for outside basis differences and calculating income taxes in interim periods. The guidance also reduces complexity in certain areas, including franchise taxes that are partially based on income and accounting for tax law changes in interim periods. We early adopted the new standard effective July 1, 2020 on a prospective basis. The adoption of the new standard did not have a material impact on our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASC 842") which substantially modifies lessee accounting for leases, and requires most leases to be recognized on the balance sheet with enhanced disclosures. ASC 842 provides that a contract is, or contains, a lease if it conveys the right to control the use of an identified asset and, accordingly, a lease liability and a related right-of-use ("ROU") asset is recognized at the commencement date. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Subsequent to the issuance of ASC 842, the FASB issued several amendments to ASC 842 to clarify or improve the new leases standard, including the codification and targeted improvements in ASUs 2018-10 and 2019-01 and the narrow-scope improvements for lessors in ASU 2018-20.

In August 2018, the FASB issued ASU 2018-11, "Targeted Improvements to ASC 842," which included an option to not restate comparative periods in transition and elect to use the effective date of ASU 2016-02 as the date of initial application (the "effective date" method).

Following the loss of our emerging growth company status during the third quarter of fiscal 2021, we adopted ASC 842 with an effective date of July 1, 2020 using the modified retrospective transition approach by applying the standard to all leases existing at the date of initial application and not restating comparative periods. Refer to Note 7. Leases for further information on the implementation of the standard.

We have elected the practical expedients permitted under the transition guidance, which allowed us not to reassess (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) the accounting for any initial direct costs for any expired or existing leases. We also elected the practical expedients allowing the combination of lease and non-lease components by class of underlying asset. In addition, we have elected the short-term lease exception and will not recognize ROU assets or lease liabilities for qualifying leases (leases with a term of less than 12 months from lease commencement).

As a result of the adoption of ASC 842, we recognized ROU assets included in other assets in the consolidated balance sheets and lease liabilities for operating leases included in accrued expenses and other liabilities in the consolidated balance sheets of $66.7 million and $71.2 million, respectively, as of July 1, 2020 with a $0.1 million in cumulative effect adjustment to accumulated deficit. The aggregate lease liability differs from the ROU asset primarily due the unamortized balance of deferred rent, which, prior to July 1, 2020, was included in accrued expenses and other liabilities in the consolidated balance sheet. ROU assets are reviewed for impairment, consistent with other long-lived assets, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. After an ROU asset is impaired, any remaining balance of the ROU asset is amortized on a straight-line basis over the shorter of the remaining lease term or the estimated useful life.

We currently have no finance leases. The adoption of the new lease accounting standard had no material impact on cash provided by or used in operating, investing or financing activities in our consolidated statements of cash flows. The adoption of the new lease accounting standard also did not have a material impact our consolidated statements of operations and comprehensive loss.

Financial Instruments — Credit Losses

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments — Credit Losses (Topic 326)” ("ASC 326"). The amendments replaced the incurred loss impairment methodology with the current expected credit loss model ("CECL"). Subsequent to the issuance of ASU 2016-13, the FASB issued several amendments to ASC 326 to clarify or improve the financial instruments credit losses standard such as codification and targeted improvements in ASUs 2018-19, 2019-04, 2019-05, 2019-11 and 2020-03.

Following the loss of our emerging growth company status, we adopted ASC 326 effective July 1, 2020 using the modified retrospective approach for our loans held for investment, which resulted in an increase in the allowance for credit losses of $10.1 million and a cumulative effect adjustment to the beginning balance of accumulated deficit of $10.1 million. Results for reporting periods beginning on or after July 1, 2020 are presented under the new standard, while prior period results before the adoption of CECL on July 1, 2020 continue to be reported in accordance with previously applicable GAAP.

Upon adoption of ASC 326, we maintained our current allowance model and included credit loss allowance assumptions in compliance with ASC 326, which included forecasts for prepayments, recoveries, historical performance, credit rating, as well as current market conditions and expectations for future market conditions. Effective April 1, 2021 we implemented a more granular credit loss allowance forecasting model for loans with an initial term of 18 months or less, while maintaining our existing model for loans with an initial term greater than 18 months. Under our revised methodology, we estimate delinquency transitions at the loan-level based on current loan status, loan age, credit tier, and other loan characteristics in order to predict the likelihood that any particular loan will be charged off.

We have included the disclosures required by ASC 326 in Note 4. Loans Held for Investment and Allowance for Credit Losses.

We have adopted all new accounting pronouncements that are in effect and applicable to us for the period ended June 30, 2021.

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

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”. Subject to meeting certain criteria, the new guidance provides optional expedients and exceptions to applying contract modification accounting under existing U.S. GAAP, to address the expected phase out of the London Interbank Offered Rate (“LIBOR”). This ASU is effective for all entities upon issuance as of March 12, 2020 through December 31, 2022. In January 2021, the FASB also issued ASU 2021-01, “Reference Rate Reform (Topic 848)” which provides additional optional expedients and exceptions applicable to all entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. This ASU is effective for all entities upon issuance as of January 7, 2021 through December 31, 2022. We are in the process of reviewing our derivatives agreements, revolving credit agreements and loan sale agreements that utilize LIBOR as the reference rate and evaluating the impact of Reference Rate Reform. Throughout the remaining effective period for ASU 2020-04 and ASU 2021-01, we will continue to evaluate the applicable relief measures within each of these amendments and will determine any impact on our consolidated financial statements.

Convertible Debt Instruments

In August 2020, the FASB issued ASU 2020-06, "Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40)," which simplifies the accounting for convertible instruments. The guidance removes certain accounting models that separate the embedded conversion features from the host contract for convertible instruments. Either a modified retrospective method of transition or a fully retrospective method of transition is permissible for the adoption of this standard. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted no earlier than the fiscal year beginning after December 15, 2020. We are in the process of evaluating the impact of this amendment on our consolidated financial statements.

3. Interest Income

Interest income consisted of the following components (in thousands):

	Year Ended June 30,		
	2021	**2020**	**2019**
Interest income on unpaid principal balance	$ 237,526	$ 163,374	$ 103,731
Amortization of discount on loans held for investment	101,078	35,251	21,833
Amortization of premiums on loans held for investment	(9,018)	(6,157)	(2,458)
Interest receivable charged-off, net of recoveries	(3,169)	(5,738)	(3,702)
Total interest income	$ 326,417	$ 186,730	$ 119,404

4. Loans Held for Investment and Allowance for Credit Losses

Loans held for investment consisted of the following (in thousands):

	June 30, 2021	**June 30, 2020**
Unpaid principal balance	$ 2,058,863	$ 1,049,618
Accrued interest receivable	15,466	8,707
Premiums on loans held for investment	7,071	4,646
Less: Discount due to loss on loan purchase commitment	(53,177)	(28,659)
Less: Discount on loans acquired through business combination	(5,903)	—
Total loans held for investment	$ 2,022,320	$ 1,034,312

The majority of the loans that are underwritten using our technology platform and originated by our originating bank partners are later purchased by us. We purchased loans from our originating bank partners in the amount of $7,927.7 million, $4,726.5 million, and $2,744.8 million for the years ended June 30, 2021, 2020, and 2019, respectively.

These loans have a variety of lending terms as well as maturities ranging from one to sixty months. Given that our loan portfolio focuses on one product segment, point-of-sale unsecured installment loans, we evaluate the entire portfolio as a single homogeneous loan portfolio.

We closely monitor credit quality for our loan receivables to manage and evaluate our related exposure to credit risk. Credit risk management begins with initial underwriting, where loan applications are assessed against the credit underwriting policy and procedures of our originating bank partners, and continues through to full repayment

of a loan. To assess a consumer who requests a loan, we use, among other indicators, internally developed risk models using detailed information from external sources, such as credit bureaus where available, and internal historical experience, including the consumer's prior repayment history on our platform as well as other measures. We combine these factors to establish a proprietary score as a credit quality indicator.

Our proprietary score ("ITACs") is assigned to most loans facilitated through our technology platform, ranging from zero to 100, with 100 representing the highest credit quality and in turn the lowest likelihood of loss. The ITACs model analyzes the characteristics of a consumer's attributes that are shown to be predictive of both willingness and ability to repay including, but not limited to: basic features of a consumer's credit profile, a consumer's prior repayment performance with other creditors, current credit utilization, and legal and policy changes. When a consumer passes both fraud and credit policy checks, the application is assigned an ITACs score. ITACs is also used for portfolio performance monitoring. Our credit risk organization closely tracks the distribution of a consumer ITACs as well as the ITACs of loans to monitor for signs of a changing credit profile within the portfolio. Repayment performance within each ITACs band is also monitored to support both the integrity of the risk scoring models and to measure possible changes in consumer behavior amongst various credit tiers.

The following table presents an analysis of the credit quality, by ITACs score, of the amortized cost basis by fiscal year of origination on loans held for investment (in thousands) as of June 30, 2021:

	Amortized Costs Basis by Fiscal Year of Origination						
	2021	2020	2019	2018	2017	Prior	Total
96+	$1,222,579	$ 107,997	$ 7,368	$ 115	$ —	$ —	$1,338,059
94 – 96	399,207	7,914	407	11	—	—	407,539
90 – 94	137,099	1,879	13	—	—	—	138,991
<90	26,260	119	—	—	—	—	26,379
No score[(1)]	93,721	13,166	1,632	368	28	1	108,916
Total loan receivables	$1,878,866	$ 131,075	$ 9,420	$ 494	$ 28	$ 1	$2,019,884
Current period charge-offs	$ 32,747	$ 30,488	$ 1,862	$ 58	$ (4)	$ (2)	$ 65,149
Current period recoveries	(1,058)	(4,593)	(4,516)	(2,108)	(1,484)	(175)	(13,934)
Current period net charge-offs	$ 31,689	$ 25,895	$ (2,654)	$ (2,050)	$ (1,488)	$ (177)	$ 51,215

(1) This balance represents loan receivables in new markets without sufficient data currently available for use of the Affirm scoring methodology as well as loan receivables originated by PayBright.

Loan receivables are defined as past due if either the principal or interest have not been received within four calendars days of when they are due in accordance with the agreed upon contractual terms. The following table presents an aging analysis of the amortized cost basis on loans held for investment by delinquency status (in thousands):

	June 30, 2021	June 30, 2020
Non-delinquent loans	$ 1,939,976	$ 1,019,492
4 – 29 calendar days past due	43,838	16,765
30 – 59 calendar days past due	17,267	5,393
60 – 89 calendar days past due	12,044	6,268
90 – 119 calendar days past due	6,759	6,159
Total amortized cost basis	$ 2,019,884	$ 1,054,077

We maintain an allowance for credit losses at a level that we believe is appropriate to absorb probable losses inherent in our loans. The allowance for credit losses covers estimated losses for individually assessed loans and includes estimates which rely on economic conditions, forecasts, and historical loan performance. When loans are charged off, we recognize this as a charge against the allowance for credit losses. We may continue to attempt to recover amounts from the respective consumers. The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. It is comprised of specific allowance for individually assessed loans which are regularly evaluated to maintain a level adequate to absorb expected losses inherent in the loan portfolio. Refer to Note 2. Summary of Significant Accounting Policies for additional information.

The following table details activity in the allowance for credit losses (in thousands):

	Year Ended June 30,		
	2021	2020	2019
Balance at beginning of period	$ 95,137	$ 66,260	$ 35,949
Adjustment due to adoption of new accounting standard	10,083	—	—
Provision for credit losses	63,755	101,540	77,416
Charge-offs	(65,149)	(81,052)	(50,107)
Recoveries of charged-off receivables	13,934	8,389	3,002
Balance at end of period	$ 117,760	$ 95,137	$ 66,260

5. Business Combinations

PayBright

On January 1, 2021, Affirm Canada Holdings Ltd. ("Affirm Canada"), a subsidiary of Affirm, and Affirm acquired all outstanding stock of PayBright, Inc., one of Canada's leading buy now, pay later providers, for approximately $288.8 million. We have included the financial results of PayBright in our consolidated financial statements from the date of acquisition.

The purchase price was comprised of (i) approximately $114.5 million in cash, (ii) 3,622,445 shares of our common stock issued to the shareholders of PayBright at closing and (iii) 2,587,362 shares of our common stock held in escrow and subject to forfeiture if certain revenue milestones are not met. On January 12, 2021, these shares were reclassified into an aggregate of 1,811,222 shares of our Class A common stock and 1,811,222 shares of our Class B common stock issued to the shareholders of PayBright at closing and an aggregate of 1,293,681 shares of our Class A common stock and 1,293,681 shares of our Class B common stock held in escrow.

The acquisition date fair value of the consideration transferred for PayBright was approximately $288.8 million, which consisted of the following (in thousands):

Cash	$	114,490
Fair value of common stock transferred		116,989
Fair value of contingent consideration		57,275
Total purchase price	$	288,754

For further details on our fair value methodology with respect to the contingent consideration, see Note 13. Fair Value of Financial Assets and Liabilities.

The acquisition of PayBright was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805, "Business Combinations" ("ASC 805"). The acquired PayBright assets, including identifiable intangible assets and liabilities assumed, have been recorded at their estimated fair values with the excess purchase price assigned to goodwill. The goodwill was primarily attributed to future synergies from integration, new customer acquisitions, and the value of assembled workforce in Canada. Goodwill is not expected to be deductible for income tax purposes.

The following table summarizes the allocation of the consideration paid of approximately $288.8 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Cash and cash equivalents	$	8,219
Restricted cash		1,469
Loans held for investment		89,570
Accounts receivable, net		1,537
Property, equipment and software, net		586
Intangible assets		16,653
Other assets		5,651
Total assets acquired	$	123,685
Accounts payable		6,579
Accrued interest payable		23
Accrued expenses and other liabilities		193
Funding debt		85,310
Total liabilities assumed	$	92,105
Net assets acquired	$	31,580
Goodwill		257,174
Total purchase price	$	288,754

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

		Fair Value	Useful Life (Years)
Developed technology	$	6,127	3
Merchant relationships		9,505	4
Trade name		1,021	5
Total intangible assets	$	16,653	

The transaction costs associated with the acquisition were approximately $2.4 million for the year ended June 30, 2021, which are included in general and administrative expense in the consolidated statements of operations and comprehensive loss.

Unaudited Pro Forma Information

The following table reflects the pro forma consolidated total revenue and net loss for the periods presented as if the acquisition of PayBright had occurred on July 1, 2019 and combines the historical results of Affirm and PayBright. This supplemental unaudited pro forma information is based upon accounting estimates and judgments that we believe are reasonable and includes certain adjustments to conform accounting standards to U.S. GAAP. This supplemental unaudited pro forma financial information has been prepared for illustrative purposes only and is not necessarily indicative of what actual results would have occurred, or of results that may occur in the future.

	Year Ended June 30,	
	2021	**2020**
Revenue	$ 886,937	$ 524,657
Net loss	$ (447,116)	$ (128,244)

Returnly

On May 1, 2021, Affirm completed a merger transaction with Returnly Technologies, Inc. ("Returnly"), a leading provider of online return experiences for direct-to-consumer brands. Prior to the merger transaction, Affirm owned approximately 1% of the outstanding shares of Returnly. By effect of the merger transaction, Affirm acquired all of the remaining outstanding shares, increasing its equity interest from approximately 1% to 100%. We have included the financial results of Returnly in our consolidated financial statements from the date of acquisition.

The purchase price for the remaining interest was comprised of (i) approximately $71.5 million in cash and (ii) 2,989,697 shares of our common stock issued to the shareholders of Returnly at closing. We also issued 304,364 shares of our common stock, which are held in escrow and subject to forfeiture upon the termination of certain employees or if certain revenue milestones are not met. Because the future payment of the escrowed shares is contingent on continued employment, the arrangement represents stock-based compensation in the post combination period. Refer to Note 15. Equity and Cash Incentive Plans for additional information on the escrowed share arrangement.

The acquisition date fair value of the consideration transferred for Returnly was approximately $286.0 million, which consisted of the following (in thousands):

Cash	$ 71,484
Fair value of common stock transferred	214,475
Total acquisition date fair value of consideration transferred	$ 285,959

The acquisition date fair value of the equity interest in Returnly held by Affirm immediately before the acquisition date was $2.1 million, resulting in the recognition of a $1.6 million gain included in other income (expense), net in the consolidated statements of operations and comprehensive loss.

The acquisition of Returnly was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805. The acquired Returnly assets, including identifiable intangible assets and liabilities assumed, have been recorded at their estimated fair values with the excess purchase price assigned to goodwill. The goodwill was primarily attributed to future synergies from integration, new customer

acquisitions, and the value of assembled workforce. Goodwill is not expected to be deductible for income tax purposes.

The following table summarizes the allocation of the fair value of the consideration paid and the previously held equity interest of approximately $288.1 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Cash and cash equivalents	$	3,788
Accounts receivable, net		9,585
Property, equipment and software		127
Intangible assets		45,900
Other assets		1,830
Total assets acquired	$	61,230
Accounts payable		594
Accrued expenses and other liabilities		6,205
Total liabilities assumed	$	6,799
Net assets acquired	$	54,431
Goodwill		233,623
Total fair value of consideration transferred and previously held investment	$	288,054

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands)

		Fair Value	Useful Life (Years)
Developed technology	$	16,200	3
Merchant relationships		29,200	5
Trade name		500	1
Total intangible assets	$	45,900	

The fair value of the merchant relationship intangible asset was estimated by applying the income approach, which is based upon the discounted projected future cash flows attributable to the existing merchant relationships. The fair value of the developed technology intangible asset was determined by applying the replacement cost method. The fair value measurements are based on significant unobservable inputs, including management estimates and assumptions, and thus represent Level 3 measurements.

The transaction costs associated with the acquisition were approximately $1.8 million for the year ended June 30, 2021, which are included in general and administrative expense in the consolidated statements of operations and comprehensive loss.

Unaudited Pro Forma Information

The following table reflects the pro forma consolidated total revenue and net loss for the periods presented as if the acquisition of Returnly had occurred on July 1, 2019 and combines the historical results of Affirm and Returnly. This supplemental unaudited pro forma information is based upon accounting estimates and judgments that we believe are reasonable and includes certain adjustments to conform accounting standards to U.S. GAAP. This supplemental unaudited pro forma financial information has been prepared for illustrative purposes only and is not necessarily indicative of what actual results would have occurred, or of results that may occur in the future.

	Year Ended June 30,	
	2021	2020
Revenue	$ 880,603	$ 517,438
Net loss	$ (465,875)	$ (132,721)

Kite

On June 1, 2021, Affirm completed the acquisition of technology and intellectual property from Manhattan Engineering, Inc. and entered into employment arrangements with certain of its employees ("the Kite acquisition"). The purchase price was comprised of $26.0 million in cash, including $9.0 million held in escrow and subject to forfeiture if certain employees terminate within a stipulated time period.

The acquisition date fair value of the consideration transferred was approximately $24.8 million which consisted of the following (in thousands):

Cash	$ 26,000
Less: Fair value of contingent consideration asset	(1,241)
Total acquisition date fair value of consideration transferred	$ 24,759

For further details on our fair value methodology with respect to the contingent consideration asset, see Note 13. Fair Value of Financial Assets and Liabilities.

The acquisition was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805. The acquired identifiable intangible assets have been recorded at their estimated fair values with the excess purchase price assigned to goodwill. The goodwill was primarily attributed to the value of assembled workforce. The goodwill is expected to be deductible for income tax purposes.

The following table summarizes the allocation of the consideration paid of approximately $24.8 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Intangible assets	$ 6,975
Net assets acquired	6,975
Goodwill	17,784
Total purchase price	$ 24,759

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

	Fair Value	Useful Life (Years)
Developed technology	$ 6,900	3
Trademarks	75	1
Total intangible assets	$ 6,975	

The fair values of the intangible assets were determined by applying the replacement cost method. The fair value measurements are based on significant unobservable inputs, including management estimates and assumptions, and thus represent Level 3 measurements.

The transaction costs associated with the acquisition were approximately $0.2 million for the year ended June 30, 2021, which are included in general and administrative expense in the consolidated statements of operations and comprehensive loss.

Pro forma adjustments would only include the additional amortization that would have been charged assuming the intangible assets had been recorded as of July 1, 2019. Such adjustments would not be material to the consolidated statements of operations and comprehensive loss for the years ended June 30, 2021 and 2020.

6. Balance Sheet Components

Property, Equipment and Software, net

Property, equipment and software, net consisted of the following (in thousands):

	June 30, 2021	June 30, 2020
Internally developed software	$ 68,197	$ 40,444
Leasehold improvements	15,212	16,645
Furniture and equipment	5,284	4,713
Computer equipment	6,707	3,990
Total Property, equipment and software, at cost	$ 95,400	$ 65,792
Less: Accumulated depreciation and amortization	$ (32,901)	$ (17,652)
Total Property, equipment and software, net	$ 62,499	$ 48,140

Depreciation and amortization expense on property, equipment and software was $15.4 million, $9.4 million, and $5.3 million for the years ended June 30, 2021, 2020, and 2019, respectively. Depreciation expense on leasehold improvements, furniture and equipment, and computer equipment is allocated between general and administrative, technology and data analytics, sales and marketing, and processing and servicing based on employee headcount in the consolidated statements of operations and comprehensive loss. Amortization expense on internal-use software is included as a component of technology and data analytics in the consolidated statements of operations and comprehensive loss.

We recorded impairment expense of $1.5 million related to leasehold improvements during the year ended June 30, 2021. No impairment losses related to property, equipment and software were recorded during the years ended June 30, 2020 and 2019.

Goodwill and Intangible Assets

The changes in the carrying amount of goodwill during the years ended June 30, 2021 and 2020 were as follows (in thousands):

	Carrying Value
Balance as of June 30, 2019	$ 1,255
Additions	—
Balance as of June 30, 2020	$ 1,255
Additions	508,581
Effect of foreign currency translation	6,679
Balance as of June 30, 2021	$ 516,515

Refer to Note 5. Business Combinations for a description of additions to goodwill during the years ended June 30, 2021 and 2020. No impairment losses related to goodwill were recorded during the years ended June 30, 2021, 2020 and 2019.

Intangible assets consisted of the following (in thousands):

	June 30, 2021			
	Gross	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (in years)
Merchant relationships	$ 38,951	$ (2,192)	$ 36,759	4.5
Developed technology	30,176	(2,930)	27,246	2.8
Trademarks and domains	3,769	(194)	3,575	3.3
Other intangibles	350	—	350	Indefinite
Total intangible assets	$ 73,246	$ (5,316)	$ 67,930	

	June 30, 2020			
	Gross	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (in years)
Developed technology	$ 790	$ (790)	$ —	—
Trademarks and domains	2,146	—	2,146	Indefinite
Other intangibles	350	—	350	Indefinite
Total intangible assets	$ 3,286	$ (790)	$ 2,496	

Amortization expense for intangible assets was $4.6 million for the year ended June 30, 2021 and nil for both the years ended June 30, 2020 and 2019. No impairment losses related to intangible assets were recorded during the years ended June 30, 2021, 2020 and 2019.

The expected future amortization expense of these intangible assets as of June 30, 2021 is as follows (in thousands):

2022	$ 18,768
2023	18,283
2024	16,143
2025	7,268
2026 and thereafter	4,972
Total amortization expense	$ 65,434

Commercial Agreement Assets

During the year ended June 30, 2021, we recognized an asset in connection with a commercial agreement with Shopify Inc., in which we granted warrants in exchange for the benefit of acquiring new merchant partners. This asset represents the probable future economic benefit to be realized over a four-year expected benefit period and is valued based on the fair value of the warrants on the grant date. Refer to Note 14. Redeemable Convertible Preferred Stock and Stockholders' Deficit for further discussion of the warrants. We recognized an asset of $270.6 million associated with the fair value of the warrants, which were fully vested as of June 30, 2021. For the year ended June 30, 2021, we recorded amortization expense related to the commercial agreement asset of $64.9 million in our consolidated statements of operations and comprehensive loss as a component of sales and marketing expense.

During the year ended June 30, 2021, we recognized an asset in connection with a commercial agreement with an enterprise partner, in which we granted stock appreciation rights in exchange for the benefit of acquiring access to the partner's consumers. This asset represents the probable future economic benefit to be realized over the three-year expected benefit period and is valued based on the fair value of the stock appreciation rights on the grant date. We initially recognized an asset of $25.9 million associated with the fair value of the stock appreciation rights. During the year ended June 30, 2021, we recorded amortization expense related to the asset of $4.3 million in our consolidated statements of operations and comprehensive loss as a component of sales and marketing expense.

Other Assets

Other assets consisted of the following (in thousands):

	June 30, 2021	June 30, 2020
Operating lease right-of-use assets	$ 57,828	$ —
Prepaid payroll taxes for stock-based compensation	111,278	—
Prepaid expenses	21,069	6,406
Investments, held at cost	11,278	1,850
Processing reserves	14,042	924
Other receivables	26,423	3,169
Other assets	32,761	7,248
Total other assets	$ 274,679	$ 19,597

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following (in thousands)

	June 30, 2021	June 30, 2020
Contingent consideration liability	$ 147,820	$ —
Operating lease liability	74,952	—
Deferred lease liability	—	4,492
Accrued expenses	47,674	16,088
Commercial agreement liability	25,357	—
Other liabilities	22,148	7,230
Total accrued expenses and other liabilities	$ 317,951	$ 27,810

Our acquisition of PayBright included consideration transferred and shares held in escrow, contingent upon the achievement of future milestones. We classified the contingent consideration as a liability and will remeasure the liability to its fair value at each reporting date until the contingency is resolved. As of June 30, 2021, the fair value of the contingent consideration liability was $147.8 million. For further details on our fair value methodology with respect to the contingent consideration, see Note 13. Fair Value of Financial Assets and Liabilities.

During the year ended June 30, 2021, we recognized a liability in connection with a commercial agreement with an enterprise partner of $25.4 million. Fifty percent of this liability is to be settled 180 days after the date of the final prospectus, or January 12, 2021, and the remaining 50 percent is to be settled on the first year anniversary of this date.

7. Leases

We lease facilities under operating leases with various expiration dates through 2030. We have the option to renew or extend our leases ranging from one month to ten years. Some lease agreements include the option to terminate the lease with prior written notice ranging from 180 days to one year. As of June 30, 2021, we have not elected to exercise renewal or termination options. Lease terms range from one year to ten years.

Several leases require us to obtain standby letters of credit, naming the lessor as a beneficiary. These letters of credit act as security for the faithful performance by us of all terms, covenants and conditions of the lease agreement. The cash collateral and deposits for the letters of credit have been recognized as restricted cash in the consolidated balance sheets and totaled $9.9 million and $9.7 million as of June 30, 2021 and June 30, 2020, respectively.

The weighted average remaining lease term as of June 30, 2021 was 5.8 years. The discount rate used in determining the lease liability for each individual lease was derived from a corporate yield curve which corresponded with the remaining lease term as of July 1, 2020 for leases that existed at adoption and as of the lease commencement date for leases subsequently entered into after July 1, 2020.

As of June 30, 2021, right-of-use assets of $57.8 million were included in other assets, and the related operating lease liability totaled $75.0 million and was included in accrued expenses and other liabilities in the consolidated balance sheet.

For the year ended June 30, 2021, we recognized impairment expense of $11.5 million for several of our operating lease right-of-use assets, included in general and administrative expense on our consolidated statements of operations and comprehensive loss. There was no impairment expense related to leases during the years ended June 30, 2020 and 2019.

Total rent expense incurred for all locations totaled $15.3 million, $13.7 million, and $7.7 million for the years ended June 30, 2021, 2020, and 2019, respectively. Total rent expense incurred for short term leases with a term 12 months or less totaled $1.1 million, $1.2 million, and $0.3 million for the years ended June 30, 2021, 2020, and 2019, respectively.

Lease term and discount rate information are summarized as follows:

	June 30, 2021
Weighted average remaining lease term (in years)	5.8
Weighted average discount rate	5.5%

Maturities of operating lease liabilities as of June 30, 2021 are as follows (in thousands) for the years ended:

2022	$ 15,303
2023	15,754
2024	15,684
2025	15,807
2026	15,567
Thereafter	10,420
Total lease payments	88,535
Less imputed interest	(13,583)
Present value of lease liabilities	$ 74,952

8. Employee Benefits

Retirement Benefits

We offer a 401(k) plan to full-time employees. Eligibility for the plan is effective on the first of the month following an employee's first 90 days of service. Employees may elect to contribute to a traditional 401(k) plan, which qualifies as a deferred compensation arrangement under Section 401 of the Internal Revenue Code ("IRC"). In this case, participating employees defer a portion of their pre-tax earnings. Employees may also contribute to a Roth 401(k) plan using post-tax dollars. We have not made any matching contributions to date.

Health and Welfare Benefits

We provide health and welfare benefits to our employees, including health, dental, prescription drug and vision for which we are fully-insured. The expense incurred associated with these benefits was $10.5 million, $7.1 million, and $4.4 million for the years ended June 30, 2021, 2020, and 2019, respectively.

9. Commitments and Contingencies

Repurchase Obligation

Under the normal terms of our whole loans sales to third-party investors we may become obligated to repurchase loans from investors in certain instances where a breach in representation and warranties is identified. We would only experience a loss if the contractual repurchase price of the loan exceeds the fair value on the repurchase date. Generally, this would occur where a loan has been identified as subject to verified or suspected fraud. As of June 30, 2021, the aggregate outstanding balance of loans held by third-party investors or unconsolidated VIEs was $2,453.9 million, of which we have recorded a repurchase liability of $2.1 million within accrued expenses and other liabilities.

Legal Proceedings

From time to time, we are subject to legal proceedings and claims in the ordinary course of business. The results of such matters often cannot be predicted with certainty. In accordance with applicable accounting guidance, we establish an accrued liability for legal proceedings and claims when those matters present loss contingencies which are both probable and reasonably estimable. All such liabilities arising from current legal and regulatory matters have been recorded in accrued expenses and other liabilities in our consolidated balance sheets and these matters are immaterial.

Concentrations of Credit Risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents and restricted cash. We maintain our cash and cash equivalents and restricted cash in accounts at regulated domestic financial institutions and conduct ongoing evaluations of the creditworthiness of the financial institutions with which we do business.

We are exposed to default risk on both loan receivables purchased from our originating bank partners and that are self-originated. The ultimate collectability of a substantial portion of the loan portfolio is susceptible to changes in economic and market conditions. As of both June 30, 2021 and June 30, 2020, approximately 15% of loan receivables related to customers residing in the state of California. No other states or provinces exceeded 10% for either period.

Concentrations of Revenue

For the years ended June 30, 2021, 2020, and 2019, approximately 20% , 28%, and 20% of total revenue was driven by one merchant, respectively.

10. Transactions with Related Parties

In the ordinary course of business, we may enter into transactions with directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). Some of our directors, principal officers, and their immediate families have received loans facilitated by us, in accordance with our regular consumer loan offerings. As of June 30, 2021, the outstanding balance and interest earned on such accounts is immaterial.

11. Debt

As of June 30, 2021 and June 30, 2020, outstanding debt encompasses funding debt and convertible debt. We have unutilized funding capacity through our revolving credit facility which did not have any borrowings outstanding as of June 30, 2021.

Funding Debt

Funding debt and its aggregate future maturities consists of the following (in thousands):

Final Maturity Fiscal Year Ending	June 30, 2021	June 30, 2020
2022	$ 104,159	$ 171,133
2023	460,289	653,447
2024	22,705	—
2025	—	—
2026	102,203	—
Total	$ 689,356	$ 824,580
Deferred debt issuance costs	(8,754)	(6,654)
Total funding debt, net of deferred debt issuance costs	$ 680,602	$ 817,926

Warehouse Credit Facilities

Through trusts, we entered into warehouse credit facilities with certain lenders to finance the purchase and origination of our loans. Each trust entered into a credit agreement and security agreement with a third-party as administrative agent and a national banking association as collateral trustee and paying agent. Borrowings under these agreements are referred to as funding debt and these proceeds from the borrowings can only be used for the purposes of facilitating loan funding and origination, with advance rates ranging from 83% to 88% of the total collateralized balance. These trusts are bankruptcy-remote special-purpose vehicles in which creditors do not have recourse against the general credit of Affirm. These revolving facilities mature between 2023 and 2026, and subject to covenant compliance, generally permit borrowings up to 12 months prior to the final maturity date of each respective facility. As of June 30, 2021, the aggregate commitment amount of these facilities was $1,825.0 million on a revolving basis, of which $585.2 million was drawn, with $1,239.8 million remaining available. Some of the loans purchased from the originating bank partners are pledged as collateral for borrowings in our facilities. The unpaid principal balance of these loans totaled $664.1 million and $990.7 million as of June 30, 2021 and June 30, 2020, respectively.

Borrowings under these warehouse credit facilities bear interest at an annual benchmark rate of LIBOR or at an alternative commercial paper rate (which is either (i) the per annum rate equivalent to the weighted-average of the per annum rates at which all commercial paper notes were issued by certain lenders to fund advances or maintain loans, or (ii) the daily weighted-average of LIBOR, as set forth in the applicable credit agreement), plus a spread ranging from 1.70% to 4.00%. Interest is payable monthly. In addition, these agreements require payment of a monthly unused commitment fee ranging from 0.20% to 0.75% per annum on the undrawn portion available.

These agreements contain certain customary negative covenants and financial covenants including maintaining certain levels of liquidity, leverage, and tangible net worth. As of June 30, 2021, we were in compliance with all applicable covenants in the agreements.

Other Funding Facilities

Prior to our acquisition of PayBright on January 1, 2021, PayBright entered into various credit facilities utilized to finance the origination of loan receivables in Canada. Similar to our warehouse credit facilities,

borrowings under these agreements are referred to as funding debt, and proceeds from the borrowings may only be used for the purposes of facilitating loan funding and origination. These facilities are secured by PayBright loan receivables pledged to the respective facility as collateral, mature in 2022, and bear interest based on a commercial paper rate plus a spread ranging from 1.25% to 4.25%.

As of June 30, 2021, the aggregate commitment amount of these facilities was $177.3 million on a revolving basis, of which $90.3 million was drawn, with $87.0 million remaining available. The unpaid principal balance of loans pledged to these facilities totaled $74.1 million as of June 30, 2021.

These agreements contain certain customary negative covenants and financial covenants including maintaining certain levels of liquidity, leverage, and tangible net worth at the PayBright subsidiary level. As of June 30, 2021, we were in compliance with all applicable covenants in the agreements.

Repurchase Agreement

On June 16, 2021, we entered into a sale and repurchase agreement pursuant to which we sold securities to a counterparty with an obligation to repurchase at a future date and price. As of June 30, 2021, we had $13.9 million in debt outstanding under our repurchase agreement disclosed within funding debt on the consolidated balance sheets. The outstanding debt relates to $16.2 million in pledged securities disclosed within securitization notes receivable and residual certificates (at fair value) on the consolidated balance sheets and will be amortized through regular principal and interest payments on the pledged securities. The interest rate is 1.07% on the senior pledged securities and 2.62% on the residual certificate pledged securities. The contractual repurchase date is in September 2021. Prior to the repurchase date and subject to mutual agreement by Affirm and the counterparty, we may enter into a repurchase date extension subject to market interest rates on such extension date.

Convertible Debt

In April 2020, we entered into an agreement with various investors pursuant to which we issued convertible notes in an aggregate principal amount of $75.0 million with maturity dates in April 2021 and bearing interest at a rate of 1.00% per annum. The principal and any unpaid accrued interest of each convertible note automatically converts into shares of redeemable convertible preferred stock upon the closing of financing in which we receive no less than $50.0 million in proceeds from the issuance of redeemable convertible preferred stock.

Upon completion of the Series G equity financing in September 2020, the convertible notes were redeemed under the next equity financing feature, in which the proceeds from the issuance of redeemable convertible preferred stock was not less than $50.0 million. The aggregate outstanding principal and accrued interest balance of the convertible notes of $75.5 million was converted into 4,444,321 shares of Series G-1 redeemable convertible preferred stock at a conversion price of $16.9374 per share. This conversion resulted in issuance of $88.6 million of Series G-1 redeemable convertible preferred stock at a fair value of $19.9263 per share. The total proceeds were allocated between the liability component of $46.5 million and equity component of $42.1 million. The conversion of the convertible notes was accounted for as a debt extinguishment, which resulted in a gain of $30.1 million. This gain represented the difference between the carrying value of the debt at the time of extinguishment and the allocated proceeds. This gain was recorded in other income (expense), net on the consolidated statements of operations and comprehensive loss. The reacquisition of the beneficial conversion feature was measured using the intrinsic value of the conversion option at the extinguishment date, which totaled $42.1 million, and was recorded in equity.

Revolving Credit Facility

On January 19, 2021, we entered into a revolving credit agreement with a syndicate of commercial banks for a $185.0 million unsecured revolving credit facility. This facility bears interest at a rate equal to, at our option, either (a) a Eurodollar rate determined by reference to adjusted LIBOR for the interest period, plus an applicable

margin of 2.50% per annum or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50% per annum, (ii) the rate last quoted by The Wall Street Journal as the U.S. prime rate, and (iii) the one-month adjusted LIBOR plus 1.00% per annum, in each case, plus an applicable margin of 1.50% per annum. The revolving credit agreement has a final maturity date of January 19, 2024. The facility contains certain covenants and restrictions, including certain financial maintenance covenants, and requires payment of a monthly unused commitment fee of 0.35% per annum on the undrawn balance available. There are no borrowings outstanding under the facility at June 30, 2021.

12. Securitizations and Variable Interest Entities

Consolidated VIEs

We consolidate VIEs when we are deemed to be the primary beneficiary.

Warehouse Credit Facilities

We established certain entities, deemed to be VIEs, to enter into warehouse credit facilities for the purpose of purchasing loans from our originating bank partners. Refer to Note 11. Debt for additional information. The creditors of the VIEs have no recourse to the general credit of Affirm and the liabilities of the VIEs can only be settled by the respective VIE's assets; however, as the servicer of the loans pledged to our warehouse funding facilities, we have the power to direct the activities that most significantly impact the VIEs' economic performance. In addition, we retain significant economic exposure to the pledged loans and therefore, we are the primary beneficiary.

Securitizations

In connection with our asset-backed securitization program, we sponsor and establish trusts (deemed to be VIEs) to ultimately purchase loans facilitated by our platform. Securities issued from our asset-backed securitizations are senior or subordinated, based on the waterfall criteria of loan payments to each security class. The subordinated residual interests issued from these transactions are first to absorb credit losses in accordance with the waterfall criteria. For these VIEs, the creditors have no recourse to the general credit of Affirm and the liabilities of the VIEs can only be settled by the respective VIEs' assets. Additionally, the assets of the VIEs can be used only to settle obligations of the VIEs.

We consolidate securitization VIEs when we are deemed to be the primary beneficiary and therefore have the power to direct the activities that most significantly affect the VIEs' economic performance and a variable interest that could potentially be significant to the VIE. Through our role as the servicer, we have both the power to direct the activities that most significantly affect the VIEs' economic performance. In evaluating whether we have a variable interest that could potentially be significant to the VIE, we consider our retained interests. We also earn a servicing fee which has a senior distribution priority in the payment waterfall.

In evaluating whether we are the primary beneficiary, management considers both qualitative and quantitative factors regarding the nature, size and form of our involvement with the VIEs. Management assesses whether we are the primary beneficiary of the VIEs on an ongoing basis.

Where we consolidate the securitization trusts, the loans held in the securitization trusts are included in loans held for investment, and the notes sold to third-party investors are recorded in notes issued by securitization trusts in the consolidated balance sheets.

For the year ended June 30, 2021, we consolidated Affirm Asset Securitization Trust 2020-Z1 ("2020-Z1"), Affirm Asset Securitization Trust 2020-A ("2020-A"), Affirm Asset Securitization Trust 2020-Z2 ("2020-Z2") and

Affirm Asset Securitization Trust 2021-A ("2021-A"). Each securitization trust issued senior notes and residual certificates to finance the purchase of the loans facilitated by our platform. At the closing of each securitization, we contributed loans, facilitated through our technology platform and purchased from our originating bank partners, with an aggregate outstanding principal balance of $1,856.8 million. The 2020-Z1 and 2020-Z2 securitizations are secured by static pools of loans contributed at closing, whereas the 2020-A and 2021-A securitization are revolving and we may contribute additional loans from time to time until the end of the revolving period. For the 2020-Z2 securitization, we purchased $27.9 million of loan receivables from our third-party loan buyers which were then contributed to the trust.

For each securitization, the residual certificates represent the right to receive all the residual cash collected on the loans held by the securitization trust after paying off the senior notes. All the senior notes were sold to third-party investors. For 2020-Z1, 2020-A and 2021-A, we retained 100% of the residual certificates issued by the securitization trusts. For 2020-Z2, we retained 93.3% of the residual certificates issued by the securitization trust, and a third-party investor holds the remaining 6.7% of the residual certificates in 2020-Z2. The residual trust certificates held by third-party investors are measured at fair value using a discounted cash flow model, and presented within accrued expenses and other liabilities on the consolidated balance sheets. In addition to the retained residual certificates, our continued involvement includes loan servicing responsibilities over the life of the underlying loans.

2020-Z1

On July 8, 2020, the notes under the 2020-Z1 securitization were issued as a single class: Class A in the amount of $150.0 million (the "2020-Z1 notes"). The 2020-Z1 notes bear interest at a fixed rate of 3.46% and have a maturity date of October 15, 2024. Principal and interest payments began in September 2020 and are payable monthly. These 2021-Z1 notes are recorded at amortized cost on the consolidated balance sheet. The associated debt issuance costs, which totaled $0.7 million as of June 30, 2021, are deferred and amortized into interest expense over the contractual life of the notes. The 2020-Z1 notes held by third-party investors and the unamortized debt issuance costs are included in notes issued by securitization trusts with a balance of $75.1 million on the consolidated balance sheets at June 30, 2021 and are secured by loan receivables at amortized cost of $78.4 million included in loans held for investment on the consolidated balance sheets at June 30, 2021.

2020-A

On August 5, 2020, the notes under the 2020-A securitization were issued in three classes: Class A in the amount of $330.0 million, Class B in the amount of $16.2 million, and Class C in the amount of $22.1 million (collectively, the "2020-A notes"). The Class A, Class B, and Class C notes bear interest at a fixed rate of 2.10%, 3.54%, and 6.23%, respectively, and each class has a maturity date of February 18, 2025. Principal and interest payments began in September 2020 and are payable monthly. These notes are recorded at amortized cost on the consolidated balance sheet. The associated debt issuance costs, which totaled $2.6 million as of June 30, 2021, are deferred and amortized into interest expense over the contractual life of the notes. The 2020-A notes held by third-party investors and the unamortized debt issuance costs are included in notes issued by securitization trusts with a balance of $368.2 million on the consolidated balance sheets at June 30, 2021 and are secured by loan receivables at amortized cost of $384.9 million included in loans held for investment on the consolidated balance sheets as of June 30, 2021.

2020-Z2

On October 22, 2020, the notes under the 2020-Z2 securitization were issued as a single class: Class A in the amount of $375.0 million (the "2020-Z2 notes"). The 2020-Z2 notes bear interest at a fixed rate of 1.90% and have a maturity date of January 15, 2025. Principal and interest payments began in December 2020 and are payable monthly. These 2020-Z2 notes are recorded at amortized cost on the consolidated balance sheet. The associated debt issuance costs, which totaled $1.3 million as of June 30, 2021, are deferred and amortized into interest expense over

the contractual life of the notes. The notes held by third-party investors and the unamortized debt issuance costs are included in the 2020-Z2 notes issued by securitization trusts with a balance of $241.1 million on the consolidated balance sheets at June 30, 2021 and are secured by loan receivables at amortized cost of $248.3 million included in loans held for investment on the consolidated balance sheets at June 30, 2021. The residual trust certificates held by third-party investors are measured at fair value using a discounted cash flow model, and presented within accrued expenses and other liabilities on the consolidated balance sheets. See Note 13. Fair Value of Financial Assets and Liabilities for additional information on the fair value sensitivity of these asset-backed securities.

2021-A

On February 18, 2021, the notes under the 2021-A securitization were issued in five classes: Class A in the amount of $407.2 million, Class B in the amount of $30.3 million, Class C in the amount of $21.0 million, Class D in the amount of $22.5 million, and Class E in the amount of $19.0 million (collectively, the "2021-A notes"). The Class A, Class B, Class C, Class D, and Class E notes bear interest at a fixed rate of 0.88%, 1.06%, 1.66%, 3.49%, and 5.65%, respectively, and each class has a maturity date of August 15, 2025. Principal and interest payments began in March 2021 and are payable monthly. These notes are recorded at amortized cost on the consolidated balance sheet. The associated debt issuance costs, which totaled $3.1 million as of June 30, 2021, are deferred and amortized into interest expense over the contractual life of the notes. The 2021-A notes held by third-party investors and the unamortized debt issuance costs are included in notes issued by securitization trusts with a balance of $499.9 million on the consolidated balance sheets at June 30, 2021 and are secured by loan receivables at amortized cost of $489.8 million included in loans held for investment on the consolidated balance sheets as of June 30, 2021.

The following tables present the aggregate carrying value of financial assets and liabilities from our involvement with consolidated VIEs.

	June 30, 2021		
	Assets	**Liabilities**	**Net Assets**
Warehouse credit facilities	$ 688,197	$ 614,882	$ 73,315
Securitizations	1,115,427	1,178,545	(63,118)
Total consolidated VIEs	$ 1,803,624	$ 1,793,427	$ 10,197

	June 30, 2020		
	Assets	**Liabilities**	**Net Assets**
Warehouse credit facilities	$ 887,897	$ 820,715	$ 67,182
Securitizations	—	—	—
Total consolidated VIEs	$ 887,897	$ 820,715	$ 67,182

Unconsolidated VIEs

For the year ended June 30, 2021, Affirm Asset Securitization Trust 2021-Z1 ("2021-Z1") was an unconsolidated VIE. As the servicer of the loans held within the trust, we have the power to direct the activities that are most significant to the performance of the VIE. However, we did not retain significant economic exposure through our variable interests and therefore we determined that we are not the primary beneficiary as of June 30, 2021.

2021-Z1

On May 5, 2021, the notes under 2021-Z1 securitization were issued as a single class: Class A in the amount of $320.0 million (the "2021-Z1 notes"). The 2021-Z1 notes bear interest at a fixed rate of 1.07% and have a maturity date of August 15, 2025. Principal and interest payments began in June 2021 and are payable monthly.

The 2021-Z1 securitization is secured by a static pool of loans which were contributed at the closing date to the 2021-Z1 trust. The loans contributed at closing were facilitated through our technology platform and purchased from our originating bank partners, with an aggregate outstanding principal balance of $351.0 million. Of the loans sold to the 2021-Z1 trust, we purchased $41.4 million of loan receivables from one of our third-party loan buyers, which were contributed to the trust at closing.

At closing, we retained 5% of the 2021-Z1 notes and 86.9% of the residual certificates issued by the 2021-Z1 trust. The third-party loan contributor received 13.1% of the residual certificates at closing. On May 17, 2021, we sold a majority of the residual certificates retained at closing, comprising 81.9% of the par value, to five third-party investors. Subsequent to this sale, we retained only a 5% vertical interest in the 2021-Z1 trust via our ownership of 5% par amount of the 2021-Z1 notes and 5% par amount of the residual interests. We were required to retain these interests for compliance with U.S. risk retention rules.

We initially consolidated the 2021-Z1 trust at closing due to retaining a majority of the residual interest. However, upon completing the subsequent third-party sale of 81.9% of the residual certificates on May 17, 2021, we determined that we no longer had significant economic exposure through our variable interests and as such we determined that we were no longer the primary beneficiary as of this date.

Upon consolidating the 2021-Z1 trust, we recognized a gain of $16.7 million, primarily driven by the gain on sale of the loans sold to the trust at closing.

We did not have any unconsolidated VIEs in prior periods. The following table presents the aggregate carrying value of financial assets and liabilities for unconsolidated VIEs where we hold a variable interest but are not the primary beneficiary as of June 30, 2021:

	June 30, 2021			
	Assets	**Liabilities**	**Net Assets**	**Maximum Exposure to Losses**
Securitizations	$ 305,414	$ 304,567	$ 847	$ 16,850
Total unconsolidated VIEs	$ 305,414	$ 304,567	$ 847	$ 16,850

Assets of unconsolidated VIEs include the carrying value for loans held in the 2021-Z1 trust and cash held in the collection and reserve accounts established for the trust. Liabilities include the outstanding principal balance of the 2021-Z1 notes.

Maximum exposure to losses represents our exposure through our continuing involvement as servicer and through our retained interests. For 2021-Z1, this includes $16.2 million in retained 2021-Z1 notes and residual certificates disclosed within securitization notes receivable and residual certificates (at fair value) in our consolidated balance sheets and $0.7 million related to our 2021-Z1 servicing asset and receivables disclosed within other assets in our consolidated balance sheets.

Additionally, we may experience a loss due to future repurchase obligations resulting from breaches in representations and warranties in our securitization and third-party sale agreements. In connection with 2021-Z1, this amount was not material as of June 30, 2021.

Retained Beneficial Interests in Unconsolidated VIEs

The investors of the securitizations have no direct recourse to the assets of Affirm, and the timing and amount of beneficial interest payments is dependent on the performance of the underlying loan assets held within each trust. We have classified our retained beneficial interests in 2021-Z1 as “available-for-sale” and as such they are disclosed at fair value in our consolidated balance sheets. The following table contains the amortized cost basis, effect of allowance for credit losses recorded in other income (expense), net, and unrealized gains and losses recorded in other comprehensive income (loss) as of June 30, 2021 (in thousands):

	June 30, 2021				
	Amortized Cost	Allowance for Credit Losses	Total Unrealized Gains	Total Unrealized Losses	Fair Value
Securitization notes receivable and residual certificates	$ 16,144	$ (3)	$ 29	$ —	$ 16,170
Total	$ 16,144	$ (3)	$ 29	$ —	$ 16,170

See Note 13. Fair Value of Financial Assets and Liabilities for additional information on the fair value sensitivity of the residual certificates. Additionally, as of June 30, 2021, we have pledged the 2021-Z1 retained beneficial interests as collateral in connection with a repurchase agreement as described in Note 11. Debt.

13. Fair Value of Financial Assets and Liabilities

ASC 820, "Fair Value Measurement" ("ASC 820") establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

- *Level 1:* Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

- *Level 2:* Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

- *Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Financial Assets and Liabilities Recorded at Fair Value

The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2021 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Securitization notes receivable	$ —	$ —	$ 15,224	$ 15,224
Residual trust certificates	—	—	946	946
Servicing assets	—	—	2,349	2,349
Interest rate cap agreement	—	2,880	—	2,880
Total assets	$ —	$ 2,880	$ 18,519	$ 21,399
Liabilities:				
Servicing liabilities	—	—	3,961	3,961
Performance fee liability	—	—	1,290	1,290
Residual trust certificates, held by third-parties	—	—	914	914
Contingent consideration	—	—	147,820	147,820
Profit share liability	—	—	2,464	2,464
Total liabilities	$ —	$ —	$ 156,449	$ 156,449

The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2020 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Servicing assets	$ —	$ —	$ 2,132	$ 2,132
Total assets	$ —	$ —	$ 2,132	$ 2,132
Liabilities:				
Constant maturity swaps	$ —	$ 3,297	$ —	$ 3,297
Servicing liabilities	—	—	1,540	1,540
Performance fee liability	—	—	875	875
Convertible debt derivative	—	—	6,607	6,607
Total liabilities	$ —	$ 3,297	$ 9,022	$ 12,319

There were no transfers between levels during the years ended June 30, 2021 and June 30, 2020.

Assets and Liabilities Measured at Fair Value on a Recurring Basis (Level 2)

Securitization Notes Receivable

As of the year ended June 30, 2021, we held a retained interest in senior notes issued by our 2021-Z1 securitization. Refer to Note 12. Securitizations and Variable Interest Entities for a description of the securitization notes receivable. As of the year ended June 30, 2021, the securitization notes receivables are recorded at fair value based on an observable market-based transaction price and are classified as Level 2.

Derivative Instruments (Interest Rate Cap Agreement and Constant Maturity Swaps)

As of the year ended June 30, 2021, we had one interest rate cap agreement outstanding to manage interest costs and the risk associated with variable interest rates. This derivative has not been designated as a hedging instrument. As of the year June 30, 2021 the interest rate cap is classified as Level 2 and recorded at fair value, based on prices quoted for similar financial instruments in markets that are not active. The interest rate cap is presented within other assets or accrued expenses and other liabilities on the consolidated balance sheets. Any changes in the fair value of the financial instrument is reflected in other income (expense), net, on the consolidated statements of operations and comprehensive loss.

During the year ended June 30, 2020, we acquired a series of constant maturity swaps from an institutional bank for the purpose of offsetting variable cash flows related to loan sale pricing fluctuations with a third-party loan buyer. These derivatives have not been designated as hedging instruments. The constant maturity swaps are recorded at fair value, based on prices quoted for similar financial instruments in markets that are not active, and are presented within other assets or accrued expenses and other liabilities on the consolidated balance sheets, together with the collateral amount required by the agreements. Any changes in the fair value of these financial instruments are reflected in other income (expense), net, on the consolidated statements of operations and comprehensive loss.

Assets and Liabilities Measured at Fair Value on a Recurring Basis using Significant Unobservable Inputs (Level 3)

We evaluate our financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level at which to classify them each reporting period. Since our servicing assets and liabilities, performance fee liability, residual trust certificates, contingent consideration, and profit share liability do not trade in an active market with readily observable prices, we use significant unobservable inputs to measure fair value. This determination requires significant judgments to be made.

Servicing Assets and Liabilities

We sold loans with an unpaid balance of $3,232.9 million, $2,664.4 million, and $1,014.2 million for the years ended June 30, 2021, 2020, and 2019, respectively, for which we retained servicing rights.

As of June 30, 2021 and June 30, 2020, we serviced loans which we sold with a remaining unpaid principal balance of $2,453.9 million and $1,365.6 million, respectively.

We use discounted cash flow models to arrive at an estimate of fair value. Significant assumptions used in the valuation of our servicing rights are as follows:

Adequate Compensation

We estimate adequate compensation as the rate a willing market participant would require for servicing loans with similar characteristics as those in the serviced portfolio.

Discount Rate

Estimated future payments to be received under servicing agreements are discounted as a part of determining the fair value of the servicing rights. For servicing rights on loans, the discount rate reflects the time value of money and a risk premium intended to reflect the amount of compensation market participants would require.

Net Default Rate

We estimate the timing and probability of early loan payoffs, loan defaults and write-offs, thus affecting the projected unpaid principal balance and expected term of the loan, which are used to project future servicing revenue and expenses.

We earned $24.7 million, $14.8 million, and $5.1 million of servicing income for the years ended June 30, 2021, 2020, and 2019, respectively.

As of June 30, 2021 and June 30, 2020, the aggregate fair value of the servicing assets was measured at $2.3 million and $2.1 million, respectively, and presented within other assets on the consolidated balance sheets. As of June 30, 2021 and June 30, 2020, the aggregate fair value of the servicing liabilities was measured at $4.0 million and $1.5 million, respectively, and presented within accrued expenses and other liabilities on the consolidated balance sheets.

The following table summarizes the activity related to the aggregate fair value of our servicing assets (in thousands):

	Servicing Assets	
	Year Ended June 30,	
	2021	2020
Fair value at beginning of period	$ 2,132	$ 1,680
Initial transfers of financial assets	2,915	1,899
Subsequent changes in fair value	(2,698)	(1,447)
Fair value at end of period	$ 2,349	$ 2,132

The following table summarizes the activity related to the aggregate fair value of our servicing liabilities (in thousands):

	Servicing Liabilities	
	Year Ended June 30,	
	2021	2020
Fair value at beginning of period	$ 1,540	$ 1,130
Initial transfers of financial assets	8,794	2,845
Subsequent changes in fair value	(6,373)	(2,435)
Fair value at end of period	$ 3,961	$ 1,540

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of servicing assets and liabilities as of June 30, 2021:

	Unobservable Input	Minimum	Maximum	Weighted Average
Servicing assets	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [(1)]	0.70 %	0.84 %	0.81 %
	Net default rate	0.53 %	0.95 %	0.64 %
Servicing liabilities	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [(1)]	1.29 %	3.70 %	2.71 %
	Net default rate	0.80 %	8.42 %	7.12 %

(1) Estimated cost of servicing a loan as a percentage of unpaid principal balance

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of servicing assets and liabilities as of June 30, 2020:

	Unobservable Input	Minimum	Maximum	Weighted Average
Servicing assets	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation[(1)]	0.73 %	0.89 %	0.76 %
	Net default rate	0.81 %	0.82 %	0.82 %
Servicing liabilities	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation[(1)]	2.00 %	3.18 %	2.55 %
	Net default rate	6.45 %	10.99 %	9.16 %

(1) Estimated cost of servicing a loan as a percentage of unpaid principal balance

The following table summarizes the effect that adverse changes in estimates would have on the fair value of the servicing assets and liabilities given hypothetical changes in significant unobservable inputs (in thousands):

	June 30, 2021	June 30, 2020
Servicing assets		
Net default rate assumption:		
Net default rate increase of 25%	$ (7)	$ (9)
Net default rate increase of 50%	$ (15)	$ (21)
Adequate compensation assumption:		
Adequate compensation increase of 25%	$ (2,006)	$ (1,338)
Adequate compensation increase of 50%	$ (4,011)	$ (2,675)
Discount rate assumption:		
Discount rate increase of 25%	$ (4)	$ (27)
Discount rate increase of 50%	$ (1)	$ (56)
Servicing liabilities		
Net default rate assumption:		
Net default rate increase of 25%	$ (40)	$ (8)
Net default rate increase of 50%	$ (61)	$ (12)
Adequate compensation assumption:		
Adequate compensation increase of 25%	$ 3,060	$ 1,438
Adequate compensation increase of 50%	$ 6,119	$ 2,875
Discount rate assumption:		
Discount rate increase of 25%	$ (137)	$ (48)
Discount rate increase of 50%	$ (263)	$ (91)

Performance Fee Liability

In accordance with our agreements with our originating bank partners, we pay a fee for each loan that is fully repaid by the consumer, due at the end of the period in which the loan is fully repaid. We recognize a liability upon the purchase of a loan for the expected future payment of the performance fee. This liability is measured using a discounted cash flow model and recorded at fair value and presented within accrued expenses and other liabilities on the consolidated balance sheets. Any changes in the fair value of the liability are reflected in other income (expense), net, on the consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the performance fee liability (in thousands):

	Year Ended June 30,	
	2021	2020
Fair value at beginning of period	$ 875	$ 488
Purchases of loans	1,372	1,054
Subsequent changes in fair value	(957)	(667)
Fair value at end of period	$ 1,290	$ 875

Significant unobservable inputs used for our Level 3 fair value measurement of the performance fee liability are the discount rate, refund rate, and default rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the performance fee liability as of June 30, 2021:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	10.00 %	10.00 %	10.00 %
Refund rate	4.50 %	4.50 %	4.50 %
Default rate	1.78 %	2.83 %	1.8 %

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the performance fee liability as of June 30, 2020:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	10.00 %	10.00 %	10.00 %
Refund rate	4.50 %	4.50 %	4.50 %
Default rate	2.17 %	3.71 %	2.72 %

Convertible Debt Derivative

Refer to Note 11. Debt for a description of the convertible debt derivative liability. On September 11, 2020, the convertible notes were converted into 4,444,321 shares of Series G-1 redeemable convertible preferred stock. The conversion of the notes was accounted for as a debt extinguishment and as such the convertible debt derivative liability was extinguished.

Residual Trust Certificates Held by Third-Parties in Consolidated VIEs

Refer to Note 12. Securitizations and Variable Interest Entities for a description of the 2020-Z2 securitization trust. Residual trust certificates held by third-party investor(s) are measured at fair value using a discounted cash flow model, and presented within accrued expenses and other liabilities on the consolidated balance sheets. Any changes in the fair value of the liability are reflected in other income (expense), net, on the consolidated statements of operations and comprehensive loss. The following table summarizes the activity related to the fair value of the residual trust certificates held by third-parties (in thousands):

	Year Ended June 30, 2021
Fair value at beginning of period	$ —
Initial transfer of financial assets	1,468
Repayments	(354)
Subsequent changes in fair value	(200)
Fair value at end of period	$ 914

Significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates held by third-parties are the discount rate, loss rate, and prepayment rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates held by third-parties as of June 30, 2021:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	10.00 %	10.00 %	10.00 %
Loss rate	0.75 %	0.75 %	0.75 %
Prepayment rate	8.00 %	8.00 %	8.00 %

The following table summarizes the effect that adverse changes in estimates would have on the fair value of the securitization residual certificates held by third-party investor(s) given hypothetical changes in significant unobservable inputs (in thousands):

	June 30, 2021
Discount rate assumption:	
Discount rate increase of 25%	$ (21)
Discount rate increase of 50%	$ (42)
Loss rate assumption:	
Loss rate increase of 25%	$ (28)
Loss rate increase of 50%	$ (56)
Prepayment rate assumption:	
Prepayment rate decrease of 25%	$ (10)
Prepayment rate decrease of 50%	$ (20)

Retained Beneficial Interests in Unconsolidated VIEs

As of June 30, 2021, the Company held residual trust certificates with an aggregate fair value of $0.9 million in connection with the 2021-Z1 securitization, which is an unconsolidated securitization. The balances consist of residual trust certificates corresponding to the 5% economic risk retention the Company is required to maintain as the securitization sponsor. Refer to Note 12. Securitizations and Variable Interest Entities for further description of the 2021-Z1 securitization trust.

These assets are measured at fair value using a discounted cash flow model, and presented within securitization notes receivable and residual certificates (at fair value) on the consolidated balance sheets. Changes in the fair value, other than declines in fair value due to credit recognized as an impairment, are reflected in other comprehensive income (loss) on the consolidated statements of operations and comprehensive loss. Declines in fair value due to credit are reflected in other income (expense), net on the consolidated statements of operations and comprehensive loss. The following table summarizes the activity related to the fair value of the residual trust certificates (in thousands):

	Year Ended June 30, 2021
Fair value at beginning of period	$ —
Additions	15,655
Cash received (due to payments or sales)	(14,754)
Change in unrealized gain (loss)	29
Accrued interest	16
Reversal of (impairment on) securities available for sale	—
Fair value at end of period	$ 946

Significant unobservable inputs used for our Level 3 fair value measurement of the notes and residual trust certificates are the discount rate, loss rate, and prepayment rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates as of June 30, 2021:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	11.46 %	11.46 %	11.46 %
Loss rate	0.61 %	0.61 %	0.61 %
Prepayment rate	10.50 %	10.50 %	10.50 %

The following table summarizes the effect that adverse changes in estimates would have on the fair value of the securitization residual trust certificates given hypothetical changes in significant unobservable inputs (in thousands):

		June 30, 2021
Discount rate assumption:		
Discount rate increase of 25%	$	(22)
Discount rate increase of 50%	$	(44)
Loss rate assumption:		
Loss rate increase of 25%	$	(24)
Loss rate increase of 50%	$	(48)
Prepayment rate assumption:		
Prepayment rate decrease of 25%	$	(13)
Prepayment rate decrease of 50%	$	(27)

Contingent Consideration

Our acquisition of PayBright included consideration transferred and shares held in escrow where the shares released from escrow are contingent upon the achievement of future milestones. We classified the contingent consideration as a liability and will remeasure the liability to its fair value at each reporting date until the contingency is resolved. The acquisition date fair value of the contingent consideration liability was estimated using a Monte Carlo simulation. The number of shares released from escrow is determined based on simulated revenue, and the acquisition date fair value of the contingent consideration is equal to the number of shares released from escrow multiplied by the simulated share price, discounted at the risk-free rate. The change in fair value of the contingent consideration at each reporting date is recognized as a component of other income (expense), net in the consolidated statements of operations and comprehensive loss for the respective period.

The following table summarizes the activity related to the fair value of the PayBright contingent consideration (in thousands):

	Year Ended June 30, 2021
Fair value at beginning of period	$ —
Acquisition date fair value	57,275
Subsequent changes in fair value	87,231
Effect of foreign currency translation	3,314
Fair value at end of period	$ 147,820

Significant unobservable inputs used for our Level 3 fair value measurement of the Paybright contingent consideration are the discount rate, equity volatility, and revenue volatility. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the PayBright contingent consideration as of June 30, 2021:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	12.00%	12.00%	12.00%
Equity volatility	37.00%	97.00%	62.00%
Revenue volatility	8.00%	98.00%	37.00%

The Kite acquisition included $9.0 million of cash held in escrow, the release of which is determined based on employee retention. The acquisition date fair value of the contingent consideration was estimated using a probability-weighted approach in which the likelihoods of potential employee retention outcomes were applied to the respective payout amounts and discounted to present value. The contingent consideration asset will be remeasured to fair value at each reporting date based on the remaining amount held in escrow, passage of time, and any changes in expectations regarding employee retention outcomes until the contingency is resolved. The change in fair value of the contingent consideration asset at each reporting date is recognized as a component of other income (expense), net in the consolidated statements of operations and comprehensive loss for the respective period. The acquisition date fair value as of June 1, 2021 was $1.2 million. For the year ended June 30, 2021, the change in fair value of the contingent consideration asset related to the Kite acquisition was not material.

Profit Share Liability

During the year ended June 30, 2021, we entered into a commercial agreement with an enterprise partner, pursuant to which we are obligated to share in the profitability of transactions facilitated by our platform on their properties. Upon capture of a loan under this program, we record a liability associated with the estimated future profit to be shared over the life of the loan based on estimated program profitability levels. This liability is measured using a discounted cash flow model and recorded at fair value and presented within accrued expenses and other liabilities on the consolidated balance sheets.

The following table summarizes the activity related to the fair value of the profit share liability (in thousands):

	Year Ended June 30, 2021
Fair value at beginning of period	$ —
Facilitation of loans	4,206
Actual performance	(1,661)
Subsequent changes in fair value	(81)
Fair value at end of period	$ 2,464

Significant unobservable inputs used for our Level 3 fair value measurement of the profit share liability are the discount rate and estimated program profitability. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the profit sharing liability as of June 30, 2021:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	30.00%	30.00%	30.00%
Program profitability	1.79%	3.75%	3.75%

Financial Assets and Liabilities Not Recorded at Fair Value

The following table presents the fair value hierarchy for financial assets and liabilities not recorded at fair value as of June 30, 2021 (in thousands):

	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 1,466,558	$ 1,466,558	$ —	$ —	$ 1,466,558
Restricted cash	226,074	226,074	—	—	226,074
Loans held for sale	13,030	—	13,030	—	13,030
Loans held for investment, net	1,904,560	—	—	1,883,364	1,883,364
Accounts receivable, net	91,575	—	91,575	—	91,575
Other assets	171,250	—	171,250	—	171,250
Total assets	$ 3,873,047	$ 1,692,632	$ 275,855	$ 1,883,364	$ 3,851,851
Liabilities:					
Accounts payable	$ 57,758	$ —	$ 57,758	$ —	$ 57,758
Payable to third-party loan owners	50,079	—	50,079	—	50,079
Accrued interest payable	2,751	—	2,751	—	2,751
Accrued expenses and other liabilities	161,502	—	159,387	2,115	161,502
Notes issued by securitization trusts	1,176,673	—	—	1,184,663	1,184,663
Funding debt	689,356	—	—	689,356	689,356
Total liabilities	$ 2,138,119	$ —	$ 269,975	$ 1,876,134	$ 2,146,109

The following table presents the fair value hierarchy for financial assets and liabilities not recorded at fair value as of June 30, 2020 (in thousands):

	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 267,059	$ 267,059	$ —	$ —	$ 267,059
Restricted cash	61,069	61,069	—	—	61,069
Loans held for sale	4,459	—	4,459	—	4,459
Loans held for investment, net	939,175	—	—	922,919	922,919
Accounts receivable, net	59,001	—	59,001	—	59,001
Other assets	7,984	—	7,984	—	7,984
Total assets	$ 1,338,747	$ 328,128	$ 71,444	$ 922,919	$ 1,322,491
Liabilities:					
Accounts payable	$ 18,361	$ —	$ 18,361	$ —	$ 18,361
Payable to third-party loan owners	24,998	—	24,998	—	24,998
Accrued interest payable	1,860	—	1,860	—	1,860
Accrued expenses and other liabilities	25,395	—	25,395	—	25,395
Convertible debt	67,615	—	—	67,615	67,615
Funding debt	817,926	—	—	805,910	805,910
Total liabilities	$ 956,155	$ —	$ 70,614	$ 873,525	$ 944,139

14. Redeemable Convertible Preferred Stock and Stockholders' Deficit

Redeemable Convertible Preferred Stock

During the year ended June 30, 2021, we issued 21,836,687 shares of Series G redeemable convertible preferred stock at $19.93 per share for an aggregate purchase amount of $434.9 million. These shares had a liquidation preference of $435.1 million. As part of this equity financing round, the convertible notes issued in April 2020 converted into 4,444,321 shares of Series G-1 redeemable convertible preferred stock. These shares had a liquidation preference of $75.3 million prior to conversion.

During the year ended June 30, 2020, we issued 75,872 shares of Series F redeemable convertible preferred stock at $13.18 per share for an aggregate purchase amount of $1.0 million. Additionally, we reissued 1,100,000 shares of our Series A redeemable convertible preferred stock at $13.18 per share for gross proceeds of $14.5 million and repurchased 1,326,611 shares of our Series C redeemable convertible preferred stock at $13.18 per share for an aggregate purchase price of $17.5 million and 386,994 shares of our Series D redeemable convertible preferred stock at $13.18 per share for an aggregate purchase price of $5.1 million. The repurchases were recorded as a decrease to the carrying value of redeemable convertible preferred stock and the excess of the purchase price over the carrying amount of redeemable convertible preferred stock was recorded to additional paid in capital.

During the year ended June 30, 2019, we issued 23,310,166 shares of Series F redeemable convertible preferred stock at $13.18 per share for an aggregate purchase amount of $307.3 million. Additionally, we repurchased 1,100,000 shares of our Series A redeemable convertible preferred stock at $13.18 per share for an aggregate purchase price of $14.5 million. The repurchase was recorded as a decrease to the carrying value of

redeemable convertible preferred stock and the excess of the purchase price over the carrying amount of the redeemable convertible preferred stock was recorded to additional paid in capital.

On January 12, 2021, prior to our initial public offering, all outstanding shares of redeemable convertible preferred stock were converted into shares of our common stock on a one-to-one basis and their carrying value of $1.3 billion was reclassified into stockholders' deficit. Following this conversion, we amended and restated our certificate of incorporation to effect a reclassification of each share of our outstanding common stock into ½ share of Class A common stock and ½ share of Class B common stock, with cash paid for fractional shares. As of June 30, 2021, there were no shares of redeemable convertible preferred stock issued and outstanding.

A summary of the authorized, issued and outstanding redeemable convertible preferred stock as of June 30, 2020 is as follows:

	Shares		Carrying Value (in thousands)	Liquidation Preference (in thousands)
Series	Authorized	Issued and Outstanding		
A	21,428,572	21,428,572	$ 21,598	$ 21,616
B	19,788,417	19,788,417	25,941	26,000
C	15,129,141	13,802,530	72,661	72,905
D	22,705,526	22,318,532	137,471	137,614
E	21,391,882	21,391,882	242,435	242,597
F	24,009,471	23,386,038	304,064	308,300
Total	124,453,009	122,115,971	$ 804,170	$ 809,032

Significant terms of the redeemable convertible preferred stock were as follows:

Liquidation Preference

In the event of any liquidation event, either voluntary or involuntary, the holders of each series of redeemable convertible preferred stock shall be entitled to receive on a pari passu basis, prior and in preference to any distributions of any assets of the Company to the holders of the common stock by reason of their ownership thereof, an amount per share equal to the sum of one times the applicable original issuance price plus any declared but unpaid dividends. The original issuance price for Series A redeemable convertible preferred stock, Series B redeemable convertible preferred stock, Series C redeemable convertible preferred stock, Series D redeemable convertible preferred stock, Series E redeemable convertible preferred stock, Series F redeemable convertible preferred stock, Series G redeemable convertible preferred stock, and Series G-1 redeemable convertible preferred stock is $0.3500, $1.3139, $5.2766, $6.1659, $11.3406, $13.1831, $19.9263, and $16.9374 per share, respectively. If the proceeds distributed among the holders of the redeemable convertible preferred shares are insufficient to permit the payment to such holders of the full preferential amounts, the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the redeemable convertible preferred stock in proportion to the preferential amount that each such holder is otherwise entitled to receive.

After payment has been made to the holders of the redeemable convertible preferred stock of their full respective preferential amounts, all of the remaining assets of the Company shall be distributed ratably among the holders of common stock.

Dividends

The holders of each series of redeemable convertible preferred stock shall be entitled to receive dividends, out of any funds legally available the rate of $1.3550 per annum for each share of Series G-1 redeemable preferred stock, $1.5941 per annum for each share of Series G redeemable convertible preferred stock, $1.0546 per annum for each share of Series F redeemable convertible preferred stock, $0.9072 per annum for each share of Series E

redeemable convertible preferred stock, $0.4933 per annum for each share of Series D redeemable convertible preferred stock, $0.4221 per annum for each share of Series C redeemable convertible preferred stock, $0.1051 per annum for each share of Series B redeemable convertible preferred stock and $0.0280 per annum for each share of Series A redeemable convertible preferred stock (each as adjusted for stock splits, stock dividends, reclassification and the like) payable quarterly when, as, and if declared by the Board of Directors. Such dividends shall not be cumulative.

Following the payment in full of any dividends to the holders of redeemable convertible preferred stock, any additional dividends shall be distributed first to the holders of the common stock until each holder of common stock has received an amount equal to $0.0280 per share (as adjusted for stock splits, stock dividends, reclassification and the like) and then among the holders of Series A redeemable convertible preferred stock and common stock pro rata based on the number of shares of common stock then held by each holder (assuming conversion of all such Series A redeemable convertible preferred stock into common stock), until each such holder of common stock or Series A redeemable convertible preferred stock has received an additional $0.0771 per share (as adjusted for stock splits, stock dividends, reclassification and the like) and then among the holders of Series A redeemable convertible preferred stock, the Series B redeemable convertible preferred stock and common stock pro rata based on the number of shares of common stock then held by each holder (assuming conversion of all such Series A redeemable convertible preferred stock into common stock), until each such holder of common stock, Series A redeemable convertible preferred stock or Series B redeemable convertible preferred stock has received an additional $0.3170 per share (as adjusted for stock splits, stock dividends, reclassification and the like) and then among the holders of Series A redeemable convertible preferred stock, the Series B redeemable convertible preferred stock, the Series C redeemable convertible preferred stock and common stock pro rata based on the number of shares of common stock then held by each holder (assuming conversion of all such Series A redeemable convertible preferred stock, Series B redeemable convertible preferred stock and Series C redeemable convertible preferred stock into Common Stock), until each holder of common stock, Series A redeemable convertible preferred stock, Series B redeemable convertible preferred stock or Series C redeemable convertible preferred stock has received an additional $0.0712 per share (as adjusted for stock splits, stock dividends, reclassification and the like) and then among holders of Series A redeemable convertible preferred stock, the Series B redeemable convertible preferred stock, the Series C redeemable convertible preferred stock, the Series D redeemable convertible preferred stock and common stock pro rata based on the number of shares of common stock then held by each holder (assuming conversion of all such Series A redeemable convertible preferred stock, Series B redeemable convertible preferred stock, Series C redeemable convertible preferred stock and Series D redeemable convertible preferred stock into Common Stock) until each such holder of common stock, Series A redeemable convertible preferred stock, Series B redeemable convertible preferred stock, Series C redeemable convertible preferred stock or Series D redeemable convertible preferred stock has received an additional $0.4139 per share (as adjusted for stock splits, stock dividends, reclassification and the like), and then among the holders of Series A redeemable convertible preferred stock, Series B redeemable convertible preferred stock, Series C redeemable convertible preferred stock, Series D redeemable convertible preferred stock, Series E redeemable convertible preferred stock, Series F redeemable convertible preferred stock, Series G redeemable convertible preferred stock, Series G-1 redeemable convertible preferred stock and common stock pro rata based on the number of shares of common stock then held by each holder (assuming conversion of all such Series A redeemable convertible preferred stock, Series B redeemable convertible preferred stock, Series C redeemable convertible preferred stock, Series D redeemable convertible preferred stock, Series E redeemable convertible preferred stock, Series F redeemable convertible preferred stock, Series G redeemable convertible preferred stock, and Series G-1 redeemable convertible preferred stock into common stock).

Voting

The holders of redeemable convertible preferred stock have the same voting rights as a holder of common stock. The holders of common stock and redeemable convertible preferred stock vote together as a single class in all matters. Each holder of common stock is entitled to one vote for each share of common stock held, and each holder of redeemable convertible preferred stock is entitled to the number of votes equal to the number of shares of common stock into which such shares of redeemable convertible preferred stock could then be converted. The holders of the common stock, voting separately as a single class, are entitled to elect three directors of the

corporation. The holders of the Series B redeemable convertible preferred stock, voting separately as a single class, are entitled to elect two of the corporation. The holders of the Series C redeemable convertible preferred stock, voting separately as a single class, are entitled to elect one director of the corporation. The holders of the Series D redeemable convertible preferred stock, voting separately as a single class, are entitled to elect one director of the corporation. The holders of the Series F redeemable convertible preferred stock, voting separately as a single class, are entitled to elect one director of the corporation. The holders of the common stock and redeemable convertible preferred stock (excluding the Series E redeemable convertible preferred stock), voting together as a single class, on an as converted basis, are entitled to elect all other directors of the corporation.

Conversion

Each share of redeemable convertible preferred stock is convertible to common stock at the option of the holder. Such conversion is determined by dividing the original issue price by the then-effective conversion price (adjusted for any stock dividends, combinations, or splits with respect to such shares). As of June 30, 2020, each share of redeemable convertible preferred stock was convertible into one share of common stock.

Each share of redeemable convertible preferred stock is automatically converted into shares of common stock at the conversion rate then in effect for such series of redeemable convertible preferred stock immediately upon the earlier of (i) the Company's sale of its common stock in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended, resulting in a post-offering market capitalization of the Company of at least $2 billion and for the total offering with gross proceeds to the Company of not less than $100 million or (ii) the date or upon the occurrence of an event, specified by written consent or agreement of each of (A) the holders of at least sixty percent of the Series B redeemable convertible preferred stock then outstanding, voting as a separate series, (B) the holders of at least seventy-five percent of the Series C redeemable convertible preferred stock then outstanding, voting as a separate series and (C) the holders of at least a majority of the Series D redeemable convertible preferred stock then outstanding, voting as a separate series, (D) the holders of a majority of the Series E redeemable convertible preferred stock then outstanding, voting as separate series, and (E) either (x) the holders of at least eighty-five percent of the then outstanding shares of Series F redeemable convertible preferred stock, voting as a separate series, or (y) the holders of a majority of the then outstanding shares of Series F redeemable convertible preferred stock, voting as a separate series, provided that such majority includes the Special Series F Investor Vote, and (F) the holders of a majority of the Series G redeemable convertible preferred stock then outstanding, voting as a separate series.

Redemption

The redeemable convertible preferred stock does not have any redemption rights that are at the election of the holders. However, the redeemable convertible preferred stock is entitled to payment upon the occurrence of certain contingent liquidity events that do not cause the entire entity to be liquidated, such as certain change of control provisions. As it relates to payment upon the occurrence of a contingent event, we evaluated the redeemable convertible preferred stock in accordance with the guidance in ASC 480, "Distinguishing Liabilities from Equity," and determined that the payment of liquidation amounts due upon the occurrence of a contingent event is not solely within our control and accordingly the redeemable convertible preferred stock is classified in temporary equity in the consolidated balance sheet. As it relates to the accretion to redemption value, the redeemable convertible preferred stock is not currently redeemable, nor is it probable that the instrument will become redeemable, as it is only redeemable upon the occurrence of a contingent event that is not probable to occur. Accordingly, no accretion has been recognized for the redeemable convertible preferred stock and it will not be accreted until it is probable that the shares will become redeemable.

Common Stock

The Company had shares of common stock reserved for issuance as follows:

	June 30, 2021	June 30, 2020
Conversion of redeemable convertible preferred stock	—	122,115,971
Exercise of warrants	—	706,065
Available outstanding under stock option plan	58,417,514	50,771,657
Available for future grant under stock option plan	29,793,755	4,904,531
Total	88,211,269	178,498,224

The common stock is not redeemable. We have two classes of common stock: Class A common stock and Class B common stock. Each holder of Class A common stock has the right to one vote per share of common stock. Each holder of Class B common stock has the right to 15 votes and can be converted at any time into one share of Class A common stock. Holders of Class A and Class B common stock are entitled to notice of any stockholders' meeting in accordance with the bylaws of the corporation, and are entitled to vote upon such matters and in such manner as may be provided by law. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of the Common Stock are entitled to receive, when and as declared by the Board of Directors, out of any assets of the corporation legally available therefore, such dividends as may be declared from time to time by the Board of Directors.

Common Stock Warrants

Common stock warrants are included as a component of additional paid in capital within the consolidated balance sheets.

During the year ended June 30, 2021, we granted warrants to purchase 20,297,595 shares of common stock in connection with a commercial agreement with Shopify Inc. The exercise price was $0.01 per share, and the term of the warrants was 10 years. We valued the warrants at the grant date using the Black-Scholes-Merton option pricing model with the following assumptions: a dividend yield of zero, years to maturity of 10 years, volatility of 52%, and a risk-free rate of 0.62%. In connection with these warrants, we recognized an asset of $270.6 million at June 30, 2021 associated with the fair value of the warrants, which were fully vested as of June 30, 2021. This asset is recorded in our consolidated balance sheets within other assets. Refer to Note 6. Balance Sheet Components for more information on the asset and related amortization.

During the year ended June 30, 2020, we issued warrants to purchase 400,000 shares of common stock in connection with an agreement with a merchant partner. The exercise price was $3.80 per share and the term of the warrants was 10 years. We valued the warrants at issuance using the Black-Scholes-Merton option pricing model with the following assumptions: a dividend yield of zero, years to maturity of 10 years, volatility of 55% and a risk-free rate of 1.54%. In connection with these warrants issued during the year ended June 30, 2020, we recorded an expense of $2.8 million representing the fair value of these warrants which is recorded in our consolidated statements of operations as a component of sales and marketing within operating expenses.

The following table summarizes the warrant activity for the years ended June 30, 2021 and June 30, 2020:

	Number of Shares	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (years)
Warrants outstanding, June 30, 2020	706,065	$2.50	7.21
Granted	20,297,595	0.01	10.00
Exercised	(20,651,583)	0.04	8.93
Cancelled	(352,077)	3.80	8.27
Warrants outstanding, June 30, 2021	—	$—	0.00

15. Equity and Cash Incentive Plans

2012 Equity Incentive Plan

Under our 2012 Equity Incentive Plan (the "Plan"), we may grant incentive and nonqualified stock options, restricted stock, and RSUs to employees, officers, directors, and consultants. As of June 30, 2021, the maximum number of shares of common stock reserved for issuance under the Plan is 118,374,202 shares. As of June 30, 2021 and June 30, 2020, there were 29,793,755 and 4,904,531 shares of common stock, respectively, available for future grants under the Plan.

Stock Options

Under the Plan, stock options may be granted at a price per share not less than 100% of the fair market value at the date of grant. If the option is granted to a stockholder who holds 10% of our common stock or more, then the exercise price per share shall not be less than 110% of the fair market value per share of common stock on the grant date. For stock options granted before our IPO in January 2021, the minimum expiration period is 7 years or 10 years from the date of grant. For stock options granted after our IPO, the minimum expiration period is 3 months after termination or 10 years from the date of grant. Stock options generally vest over a period of 4 years or with 25% vesting on the 12 month anniversary of the employment commencement date, and the remaining on a pro-rata basis each month over the next 3 years.

The following table summarizes our stock option activity for the year ended June 30, 2021:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Balance, June 30, 2020	42,536,487	$ 5.17	7.54	
Granted	3,721,339	49.96		
Exercised	(12,322,236)	3.76		
Forfeited, expired or cancelled	(2,272,840)	12.42		
Balance, June 30, 2021	31,662,750	10.42	6.30	
Vested and exercisable, June 30, 2021	21,016,185	$ 4.68	6.30	$ 2,801,256
Vested and expected to vest thereafter[1] June 30, 2021	30,043,681	$ 8.64	6.87	$ 3,465,589

[1] Options expected to vest reflect the application of an estimated forfeiture rate.

The weighted-average grant date fair value of employee options granted for the years ended June 30, 2021, 2020, and 2019, was $59.83, $3.26, and $4.66, respectively. The aggregate intrinsic value of options exercised was approximately $706.7 million, $3.1 million, and $24.3 million for the years ended June 30, 2021, 2020, and 2019, respectively. The total fair value of stock options vested during the years ended June 30, 2021, 2020, and 2019 was $97.4 million, $53.9 million, and $26.0 million, respectively.

Stock-based compensation expense for all stock-based awards is based on the grant-date fair value on a straight-line basis over the requisite service period of the awards, which is generally the option vesting term of four years. The fair value of each option on the date of grant is determined using the Black Scholes-Merton option pricing model using the single-option award approach with the weighted-average assumptions set forth in the table below. Volatility is based on historical volatility rates obtained from certain public companies that operate in the same or related business as us since there is a limited period of historical market data for our common stock. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term set forth. We used the simplified method to determine an estimate of the expected term of an employee share option.

	Year Ended June 30,		
	2021	2020	2019
Volatility	46%	45%	54%
Risk-free interest rate	0.70% - 1.05%	0.28% - 1.76%	1.91% - 3.07%
Expected term (in years)	6.35	5.87	6
Expected dividend	—	—	—

As of June 30, 2021, unrecognized compensation expense related to unvested stock options was approximately $140.6 million. The weighted-average period over which such compensation expense will be recognized is approximately 5.33 years.

Stock Options for Non-Employees

In accounting for stock options to non-employees, the fair value of services related to the options granted is recorded as an expense as these services are provided to the Company over the relevant service periods. We remeasure any non-vested, non-employee options to fair value at the end of each reporting period using the Black Scholes-Merton option pricing model.

Stock Options with Early Exercise Rights

In accordance with the Plan, we allow for early exercise of stock options while retaining the right to repurchase any unvested options upon termination at the original exercise price. The proceeds received from early exercise of stock options has been recorded within accrued expenses and other liabilities on the consolidated balance sheets. For the years ended June 30, 2021 and 2020, the early exercise liability totaled $0.9 million and $0.2 million, respectively.

Value Creation Award

In connection with an overall review of the compensation of Max Levchin, our Chief Executive Officer, in advance of the IPO, and taking into account Mr. Levchin's leadership since the inception of the Company, the comparatively modest level of cash compensation he had received from the Company during his many years of service, and that he did not hold any unvested equity awards, the Company's Board of Directors approved a long-term, multi-year performance-based stock option grant providing Mr. Levchin with the opportunity to earn the right to purchase up to 12,500,000 shares of the Company's Class A common stock (the "Value Creation Award"). As discussed below, the Value Creation Award will only be earned, if at all, in the event the price of our Class A

common stock attains stock price hurdles that are significantly in excess of the Company's IPO price per share, over a period of five years, subject to Mr. Levchin's continued service to the Company.

The Value Creation Award is divided into ten tranches, each of which Mr. Levchin may earn by satisfying a performance condition within a five-year period following the IPO. The performance condition for each tranche will be satisfied on the date the 90 average trading day volume weighted share price of the Company's Class A common stock exceeds certain specified stock price hurdles, presented in the table below, which were determined based on a target percentage of share price appreciation from the IPO price. Once earned as a result of satisfying the performance condition, the options will vest and become exercisable over a five-year period that commenced at the time of the IPO, subject to Mr. Levchin's continued service to the Company, in annual amounts equal to 15%, 15%, 20%, 25% and 25%, respectively. The per share exercise price of the Value Creation Award is $49.00, the price to the public in the IPO.

Tranche	Stock Price Hurdle	Number of Options
1	$ 65.66	1,000,000
2	$ 82.32	1,000,000
3	$ 98.98	1,000,000
4	$ 115.64	1,000,000
5	$ 132.30	1,000,000
6	$ 148.47	1,000,000
7	$ 165.13	1,000,000
8	$ 181.79	1,000,000
9	$ 247.94	2,250,000
10	$ 371.91	2,250,000
Total		12,500,000

We estimated the fair value of the Value Creation Award granted with market conditions on the grant date using a Monte Carlo simulation model. We recognize stock-based compensation on these awards on an accelerated attribution method over the requisite service period, and only if performance-based conditions are considered probable of being satisfied. During the year ended June 30, 2021, we incurred stock-based compensation expense of $83.9 million associated with the Value Creation Award as a component of general and administrative expense within the consolidated statements of operations and comprehensive loss.

As of June 30, 2021, unrecognized compensation expense related to the Value Creation Award was approximately $367.2 million. The period over which such compensation expense will be recognized is approximately 4.50 years.

Restricted Stock Units

During the year ended June 30, 2021, we awarded 11,860,237 RSUs to certain employees under the Plan. RSUs granted prior to the IPO were subject to two vesting conditions: a service-based vesting condition (i.e., employment over a period of time) and a performance-based vesting condition (i.e., a liquidity event in the form of either a change of control or an initial public offering, each as defined in the Plan), both of which must be met in order to vest. We record stock-based compensation expense for performance-based equity awards and stock on an accelerated attribution method over the requisite service period, which is generally four years, and only if performance-based conditions are considered probable of being satisfied. RSUs granted after IPO are subject to a service-based vesting condition. We record stock-based compensation expense for service-based RSUs on a straight-line basis over the requisite service period, which is generally four years.

The following table summarizes our RSU activity during the year ended June 30, 2021:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2020	8,235,170	$ 7.95
Granted	11,860,237	31.26
Vested	(4,651,977)	13.97
Forfeited, expired or cancelled	(1,201,319)	18.85
Non-vested at June 30, 2021	14,242,111	$ 36.69

As of June 30, 2021, unrecognized compensation expense related to unvested RSUs was approximately $294.1 million. The weighted-average period over which such compensation expense will be recognized is approximately 6.22 years.

Stock-Based Compensation Expense

The following table presents the components and classification of stock-based compensation (in thousands):

	Year Ended June 30,		
	2021	2020	2019
General and administrative	$ 183,055	$ 13,682	$ 22,647
Technology and data analytics	83,390	12,285	13,913
Sales and marketing	19,181	4,040	4,179
Processing and servicing	2,407	82	132
Total stock-based compensation in operating expenses	288,033	30,089	40,871
Capitalized into property, equipment and software, net	13,999	2,921	2,882
Total stock-based compensation expense	$ 302,032	$ 33,010	$ 43,753

Upon our IPO, we recognized $77.8 million of stock-based compensation expense for awards with a performance-based vesting condition satisfied at IPO. Shares were then issued related to the vesting of the RSUs with such performance-based vesting conditions. To meet the related tax withholding requirements, we withheld approximately 1.0 million of the 2.6 million shares of common stock issued. Based on the closing trading market price on the day of IPO of $97.24 per share, the tax withholding obligation was approximately $102.5 million. As a result of stock-based compensation expense for vested and unvested RSUs upon the IPO, we recorded an additional deferred tax asset that is offset by a full valuation allowance.

In connection with the acquisition of Returnly on May 1, 2021, we issued 304,364 shares of our common stock which are held in escrow. Because the future payment of the escrowed shares is contingent on continued employment of certain employees, the arrangement represents stock-based compensation in the post combination period. The grant-date fair value was estimated based on the value of the shares at the date of closing. The escrowed shares have a requisite service period of two years and contain a performance-based vesting condition (i.e., the achievement of certain revenue targets). We record stock-based compensation expense on a straight-line basis for each tranche over the requisite service period, as long as the performance-based conditions are considered probable of being satisfied.

Cash Incentive Plan

On March 4, 2021, the Compensation Committee of the Board of Directors approved the terms of a cash incentive plan (the "Fiscal 2021 Cash Incentive Plan") for its senior executives who do not participate in a Company sales incentive plan. The Fiscal 2021 Cash Incentive Plan provides such individuals with the opportunity to earn cash incentive plan awards based upon the achievement of Company performance goals during the second half of the Company's 2021 fiscal year (the "Performance Period"). The target incentive plan award for each senior executive is determined by multiplying the senior executive's target percentage by the total amount of his or her base pay received during the Performance Period. We recorded expense related to the cash incentive plan of $1.9 million for the year ended June 30, 2021. As of June 30, 2021, we had accrued $1.9 million related to the cash incentive plan.

16. Income Taxes

The U.S. and foreign components of loss before income taxes for the years ended June 30, 2021, 2020, and 2019 are as follows (in thousands):

	Year Ended June 30,		
	2021	2020	2019
U.S.	$ 325,839	$ 112,080	$ 120,417
Foreign	107,427	142	2
Total loss before income taxes	$ 433,266	$ 112,222	$ 120,419

Income tax (benefit) expense for the years ended June 30, 2021, 2020, and 2019 is summarized as follows (in thousands):

	Year Ended June 30,		
	2021	2020	2019
Current			
Federal	$ —	$ —	$ —
State	(10)	351	—
Foreign	(410)	436	—
Total current expense	$ (420)	$ 787	$ —
Deferred			
Federal	88	6	21
State	(2,570)	28	15
Foreign	559	(445)	—
Total deferred expense	(1,923)	(411)	36
Income tax (benefit) expense	$ (2,343)	$ 376	$ 36

The income tax benefit for the year ended June 30, 2021 was primarily attributable to a $2.8 million adjustment to the Company's valuation allowance resulting from a deferred tax liability assumed with the acquisition of Returnly, while the income tax expense for the years ended June 30, 2020 and June 30, 2019 was primarily attributable to various state income taxes and the tax amortization of certain intangibles, respectively.

The following is a reconciliation of the U.S. statutory federal income tax rate to our effective tax rate for the years ended June 30, 2021, 2020, and 2019:

	Year Ended June 30,		
	2021	2020	2019
U.S. statutory federal income tax rate	21.0 %	21.0 %	21.0 %
State and local income taxes, net of federal tax benefit	9.2 %	10.5 %	6.6 %
Foreign rate differential	1.4 %	— %	— %
Non-deductible expenses	(9.1)%	(1.1)%	(0.4)%
Impact of change in fair value of contingent consideration	(5.4)%	— %	— %
Stock-based compensation	67.9 %	(0.4)%	(2.9)%
Impact of convertible debt extinguishment	2.4 %	— %	— %
Tax benefit related to tax credits, net	0.5 %	— %	— %
Other	0.2 %	(0.8)%	0.5 %
Change in valuation allowance	(87.6)%	(29.6)%	(24.9)%
Effective income tax rate	0.5 %	(0.4)%	(0.1)%

Significant components of deferred tax assets and liabilities are as follows (in thousands):

	June 30, 2021	June 30, 2020
Net operating loss carryforwards	$ 430,464	$ 82,077
Allowance for credit losses	41,155	30,162
Stock-based compensation	51,126	17,210
Operating lease liabilities	23,914	1,363
Tax credit carryforwards	2,054	—
Other	4,837	2,858
Total deferred tax assets	$ 553,550	$ 133,670
Internally developed software	(15,214)	(8,943)
Fixed assets	(1,860)	—
Purchased intangible assets	(18,150)	(152)
Right-of-use lease assets	(18,386)	—
Convertible debt discount	—	(2,209)
Mark to market adjustment	—	(9,657)
Other	(600)	(262)
Total deferred tax liabilities	$ (54,210)	$ (21,223)
Valuation allowance	(499,828)	(112,107)
Deferred tax assets (liabilities), net of valuation allowance	$ (488)	$ 340

We continue to recognize a full valuation allowance against our U.S. federal and state as well as the majority of our foreign net deferred tax assets. This determination was based on the assessment of the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to utilize the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by the Company for the years ended June 30, 2021, 2020, and 2019. The presence of a three-year cumulative loss limits the ability to consider other subjective evidence, such as our expectations of future taxable

income and projections for growth. The valuation allowance increased by $387.7 million during the year ended June 30, 2021.

At June 30, 2021, we had pretax U.S. federal net operating loss ("NOL") carryforwards of approximately $1,335.9 million, state NOL carryforwards of $1,608.8 million, and foreign NOL carryforwards of $41.4 million from the acquisition of PayBright. If not utilized, certain U.S. federal and state NOL carryforwards will begin to expire in 2029, whereas others have an unlimited carryforward period, and foreign NOL carryforwards will begin to expire in 2039. Additionally, as of June 30, 2021, we also had state tax credit carryforwards of $2.6 million, which will begin to expire in 2024 if not utilized.

Of the above NOL carryforwards, approximately $43.0 million pretax U.S. federal NOL carryforwards and $39.0 million state NOL carryforwards are from domestic acquisitions, which may be subject to an annual utilization limitation under Internal Revenue Code Section 382.

The future utilization of all NOL and tax credit carryforwards may be subject to an annual limitation, pursuant to Internal Revenue Code Sections 382 and 383 and similar state provisions, due to ownership changes that may have occurred previously or that could occur in the future. Any limitation may result in the expiration of all or a portion of the NOL carryforwards before utilization.

We did not have any material unrecognized tax benefits for the years ended June 30, 2021, 2020, and 2019. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

Interest and penalties on unrecognized tax benefits are recorded as a component of tax expense. During the years ended June 30, 2021, 2020, and 2019, we did not recognize accrued interest and penalties related to unrecognized tax benefits.

We file U.S. federal and state income tax returns as well as Canadian federal and provincial income tax returns with varying statutes of limitation. We also expect to file Spain income tax returns due to the acquisition of a Spanish subsidiary during the year ended June 30, 2021. All tax years remain open to examination due to the carryover of unused net operating losses.

17. Net Loss per Share Attributable to Common Stockholders

On January 12, 2021, we amended and restated our certificate of incorporation to effect a reclassification of each share of our outstanding common stock into ½ share of Class A common stock and ½ share of Class B common stock, with cash paid for fractional shares. Therefore, we have two classes of common stock: Class A common stock and Class B common stock. The rights, including the dividends and distributions, of the holders of our Class A and Class B common stock are identical, except with respect to voting. Additionally, the conversion of all outstanding shares of redeemable convertible preferred stock into shares of our common stock occurred immediately prior to the reclassification.

The following table presents basic and diluted net loss per share attributable to common stockholders for common stock (in thousands, except share and per share data):

	Year Ended June 30,	
	2020	2019
Numerator:		
Basic		
Net Loss	$ (112,598)	$ (120,455)
Excess return to preferred stockholders on repurchase	(13,205)	(14,113)
Net Loss Attributable to Common Stockholders	$ (125,803)	$ (134,568)
Diluted		
Net Loss	$ (112,598)	$ (120,455)
Excess return to preferred stockholders on repurchase	(13,205)	(14,113)
Net Loss Attributable to Common Stockholders	$ (125,803)	$ (134,568)
Denominator:		
Basic		
Weighted average shares outstanding, basic	47,856,720	47,345,328
Total-basic	47,856,720	47,345,328
Diluted		
Weighted average common shares outstanding, diluted	47,856,720	47,345,328
Total-diluted	47,856,720	47,345,328
Net loss per share attributable to common stockholders:		
Basic	$ (2.63)	$ (2.84)
Diluted	$ (2.63)	$ (2.84)

The following table presents basic and diluted net loss per share attributable to common stockholders for Class A and Class B common stock (in thousands, except share and per share data):

	Year Ended June 30, 2021	
	Class A	Class B
Numerator:		
Basic		
Net Loss	$ (229,616)	$ (201,307)
Net Loss Attributable to Common Stockholders	$ (229,616)	$ (201,307)
Diluted		
Net Loss	$ (229,616)	$ (201,307)
Excess return to preferred stockholders on repurchase	(16,036)	(14,069)
Gain on conversion of convertible debt	212	186
Interest on convertible debt prior to conversion	955	837
Net Loss Attributable to Common Stockholders	$ (244,485)	$ (214,353)
Denominator:		
Basic		
Weighted average shares outstanding, basic	84,385,884	73,982,039
Total-basic	84,385,884	73,982,039
Diluted		
Weighted average common shares outstanding, diluted	84,385,884	73,982,039
Weighted average common shares attributable to convertible debt prior to conversion	438,344	438,344
Total-diluted	84,824,228	74,420,383
Net loss per share attributable to common stockholders:		
Basic	$ (2.72)	$ (2.72)
Diluted	$ (2.88)	$ (2.88)

The following common stock equivalents, presented based on amounts outstanding, were excluded from the calculation of diluted net loss per share attributable to common stockholders because their inclusion would have been anti-dilutive:

	June 30, 2021	June 30, 2020	June 30, 2019
Redeemable convertible preferred stock	—	122,115,971	122,653,704
Stock options, including early exercise of options	44,178,776	42,573,405	43,669,224
Restricted stock units	14,238,738	8,235,170	—
Convertible debt	—	7,182,478	—
Common stock warrants	350,000	706,065	1,608,370
Total	58,767,514	180,813,089	167,931,298

18. Segments and Geographical Information

We conduct our operations through a single operating segment and, therefore, one reportable segment.

Revenue

Revenue by geography is based on the billing addresses of the borrower or the location of the merchant's national headquarters. The following table sets forth revenue by geographic area (in thousands):

	Year Ended June 30,		
	2021	2020	2019
United States	$ 857,222	$ 506,212	$ 264,367
Canada	13,242	3,316	—
Total	$ 870,464	$ 509,528	$ 264,367

Long-Lived Assets

The following table sets forth our long-lived assets, consisting of property, equipment and software, net and operating lease right-of-use assets, by geographic area (in thousands):

	Year Ended June 30,	
	2021	2020
United States	$ 118,076	$ 48,140
Canada	2,251	—
Total	$ 120,327	$ 48,140

19. Subsequent Events

We have evaluated subsequent events through September 17, 2021, which is the date that these consolidated financial statements were available to be issued. There were no significant subsequent events identified other than the matters described below.

Business Combination

On July 1, 2021, Affirm Canada Holdings Ltd. ("Affirm Canada"), a subsidiary of Affirm, and Affirm completed the closing of the transaction contemplated by an Asset Purchase Agreement entered into with Yroo Inc., a developer of technologies that enable and enhance consumer e-commerce shopping intelligence and experience ("Shopbrain"), and the shareholder representative party thereto to acquire certain assets and assume certain liabilities of Shopbrain. The purchase price was comprised of (i) $30.0 million in cash and (ii) 151,745 shares of our Class A common stock issued to the shareholders of Shopbrain at closing. The initial accounting for the business combination is incomplete at the time of this filing due to the limited amount of time between the acquisition date and the date that these financial statements are issued.

It is impracticable for us to provide all of the disclosures required for a business combination pursuant to ASC 805, Business Combinations.

2021-B Securitization

On August 4, 2021, Affirm Asset Securitization Trust 2021-B ("2021-B") entered into a note purchase agreement to issue $500.0 million of fixed rate asset-backed notes with a maturity date of August 17, 2026.

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF AFFIRM FOR THE YEAR ENDED 30 JUNE 2022

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AFFIRM HOLDINGS, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Affirm Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Affirm Holdings, Inc. and subsidiaries (the "Company") as of June 30, 2022 and 2021, the related consolidated statements of operations and comprehensive loss, changes in redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended June 30, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 29, 2022, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matter

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

Allowance for Credit Losses — Refer to Notes 2 and 4 to the financial statements

Critical Audit Matter Description

The allowance for credit losses (ACL) is a material estimate of the Company and as of June 30, 2022, the total balance was $155.4 million. In estimating the ACL, management utilizes a migration analysis of delinquent and current loan receivables. The analysis focuses on the pertinent factors underlying the quality of the loan portfolio. These factors include historical performance, the age of the receivable balance, customer credit-worthiness, changes in the size and composition of the loan portfolio, delinquency levels, bankruptcy filings, and actual credit loss experience. Management also incorporates qualitative adjustments to the quantitative model to consider the inherent uncertainty regarding future economic conditions and consumer loan performance.

Determining the appropriate level of qualitative adjustments is inherently subjective and relies on significant judgment. Given the subjective nature and amount of judgment required in developing these estimates, performing audit procedures to evaluate the reasonableness of the ACL required a high degree of auditor judgment, an increased extent of audit effort, credit specialists, and the need to involve more experienced audit professionals.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the allowance for credit losses included the following procedures, among others:

- We tested the design and effectiveness of controls over the ACL, including management's controls over the qualitative adjustments.
- We tested management's process for estimating the ACL, which included involving our credit specialists to evaluate the appropriateness of the models and methodologies used including the use of qualitative adjustments.
- We evaluated the accuracy and completeness of the data used to estimate the allowance for credit losses.
- We evaluated the qualitative adjustments, including assessing the basis and overall magnitude of the adjustments, obtaining third party macroeconomic data, and evaluating any contradictory evidence.

/s/ Deloitte & Touche LLP

San Francisco, California

August 29, 2022

We have served as the Company's auditor since 2020.

AFFIRM HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except shares and per share amounts)

	June 30, 2022	June 30, 2021
Assets		
Cash and cash equivalents	$ 1,255,171	$ 1,466,558
Restricted cash	295,636	226,074
Securities available for sale at fair value	1,595,373	16,170
Loans held for sale	2,670	13,030
Loans held for investment	2,503,561	2,022,320
Allowance for credit losses	(155,392)	(117,760)
Loans held for investment, net	2,348,169	1,904,560
Accounts receivable, net	142,052	91,575
Property, equipment and software, net	171,482	62,499
Goodwill	539,534	516,515
Intangible assets	78,942	67,930
Commercial agreement assets	263,196	227,377
Other assets	281,567	274,679
Total Assets	**$ 6,973,792**	**$ 4,866,967**
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 33,072	$ 57,758
Payable to third-party loan owners	71,383	50,079
Accrued interest payable	6,659	2,751
Accrued expenses and other liabilities	237,598	323,577
Convertible senior notes, net	1,706,668	—
Notes issued by securitization trusts	1,627,580	1,176,673
Funding debt	672,577	680,602
Total liabilities	**4,355,537**	**2,291,440**
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Class A common stock, par value $0.00001 per share: 3,030,000,000 shares authorized, 227,255,529 shares issued and outstanding as of June 30, 2022; 3,030,000,000 shares authorized, 181,131,728 shares issued and outstanding as of June 30, 2021	2	2
Class B common stock, par value $0.00001 per share: 140,000,000 shares authorized, 60,109,844 shares issued and outstanding as of June 30, 2022; 140,000,000 authorized, 88,226,376 shares issued and outstanding as of June 30, 2021	1	1
Additional paid in capital	4,231,303	3,467,236
Accumulated deficit	(1,605,902)	(898,485)
Accumulated other comprehensive gain (loss)	(7,149)	6,773
Total stockholders' equity	2,618,255	2,575,527
Total Liabilities and Stockholders' Equity	**$ 6,973,792**	**$ 4,866,967**

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS, CONT.
(in thousands, except shares and per share amounts)

The following table presents the assets and liabilities of consolidated variable interest entities ("VIEs"), which are included in the consolidated balance sheets above. The assets in the table below may only be used to settle obligations of consolidated VIEs and are in excess of those obligations. The liabilities in the table below include liabilities for which creditors do not have recourse to the general credit of the Company. Additionally, the assets and liabilities in the table below include third-party assets and liabilities of consolidated VIEs only and exclude intercompany balances that eliminate upon consolidation.

	June 30, 2022	June 30, 2021
Assets of consolidated VIEs, included in total assets above		
Restricted cash	$ 164,530	$ 142,385
Loans held for investment	2,179,026	1,743,810
Allowance for credit losses	(124,052)	(94,463)
Loans held for investment, net	2,054,974	1,649,347
Accounts receivable, net	8,195	8,209
Other assets	14,570	3,683
Total assets of consolidated VIEs	**$ 2,242,269**	**$ 1,803,624**
Liabilities of consolidated VIEs, included in total liabilities above		
Accounts payable	$ 2,897	$ 2,927
Accrued interest payable	6,525	2,613
Accrued expenses and other liabilities	15,494	3,820
Notes issued by securitization trusts	1,627,580	1,176,673
Funding debt	514,033	607,394
Total liabilities of consolidated VIEs	**2,166,529**	**1,793,427**
Total net assets of consolidated VIEs	**$ 75,740**	**$ 10,197**

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share amounts)

	Year ended June 30,		
	2022	2021	2020
Revenue			
Merchant network revenue	$ 458,511	$ 379,551	$ 256,752
Virtual card network revenue	100,696	49,851	19,340
Total network revenue	559,207	429,402	276,092
Interest income	527,880	326,417	186,730
Gain on sales of loans	196,435	89,926	31,907
Servicing income	65,770	24,719	14,799
Total Revenue, net	**$ 1,349,292**	**$ 870,464**	**$ 509,528**
Operating Expenses			
Loss on loan purchase commitment	$ 204,081	$ 246,700	$ 161,452
Provision for credit losses	255,272	65,878	105,067
Funding costs	69,694	52,700	32,316
Processing and servicing	157,814	73,578	49,831
Technology and data analytics	418,643	249,336	122,378
Sales and marketing	532,343	182,190	25,044
General and administrative	577,493	383,749	121,230
Total Operating Expenses	**2,215,340**	**1,254,131**	**617,318**
Operating Loss	**$ (866,048)**	**$ (383,667)**	**$ (107,790)**
Other (expense) income, net	141,217	(59,703)	(4,432)
Loss Before Income Taxes	**$ (724,831)**	**$ (443,370)**	**$ (112,222)**
Income tax expense (benefit)	(17,414)	(2,343)	376
Net Loss	**$ (707,417)**	**$ (441,027)**	**$ (112,598)**
Excess return to preferred stockholders on repurchase	—	—	(13,205)
Net Loss Attributable to Common Stockholders	**$ (707,417)**	**$ (441,027)**	**$ (125,803)**
Other Comprehensive Income (Loss)			
Foreign currency translation adjustments	$ (5,900)	$ 7,046	$ (302)
Unrealized gain (loss) on securities available for sale, net	(8,022)	29	—
Net Other Comprehensive Income (Loss)	**(13,922)**	**7,075**	**(302)**
Comprehensive Loss	**$ (721,339)**	**$ (433,952)**	**$ (112,900)**
Per share data:			
Net loss per share attributable to common stockholders for Class A and Class B			
Basic	$ (2.51)	$ (2.78)	$ (2.63)
Diluted	$ (2.51)	$ (2.94)	$ (2.63)
Weighted average common shares outstanding			
Basic	281,704,041	158,367,923	47,856,720
Diluted	281,704,041	159,244,611	47,856,720

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENT OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares[1]	Amount				
Balance as of June 30, 2019	**122,653,704**	**$ 798,074**	**47,078,208**	**$ —**	**$ 54,824**	**$ (318,238)**	**$ —**	**$ (263,414)**
Issuance of common stock	—	—	2,101,317	—	2,733	—	—	2,733
Repurchases of common stock	—	—	(1,495,098)	—	(2,522)	(16,331)	—	(18,853)
Issuance of redeemable convertible preferred stock, net of issuance costs of $0	1,175,872	15,481	—	—	—	—	—	—
Repurchases of redeemable convertible preferred stock	(1,713,605)	(9,385)	—	—	(13,205)	—	—	(13,205)
Convertible notes beneficial conversion option	—	—	—	—	5,998	—	—	5,998
Stock-based compensation	—	—	—	—	32,545	—	—	32,545
Foreign currency translation	—	—	—	—	—	—	(302)	(302)
Net loss	—	—	—	—	—	(112,598)	—	(112,598)
Balance as of June 30, 2020	**122,115,971**	**$ 804,170**	**47,684,427**	**$ —**	**$ 80,373**	**$ (447,167)**	**$ (302)**	**$ (367,096)**
Issuance of redeemable convertible preferred stock, net of issuance costs of $143	21,836,687	434,542	—	—	—	—	—	—
Conversion of convertible debt	4,444,321	88,559	—	—	(42,124)	—	—	(42,124)
Conversion of redeemable convertible preferred stock	(148,396,979)	(1,327,271)	148,396,979	2	1,327,269	(11)	—	1,327,260
Issuance of common stock upon initial public offering, net of issuance costs of $6,871	—	—	28,290,000	1	1,305,176	—	—	1,305,177
Issuance of common stock upon exercise of stock option	—	—	12,418,931	—	46,462	—	—	46,462
Issuance of common stock upon exercise of warrants	—	—	20,651,583	—	271,156	—	—	271,156
Issuance of common stock for acquisitions	—	—	9,167,515	—	331,498	—	—	331,498
Vesting of restricted stock units	—	—	2,878,060	—	—	—	—	—
Repurchases of common stock	—	—	(129,391)	—	(800)	—	—	(800)
Stock-based compensation	—	—	—	—	306,506	—	—	306,506
Tax withholding on stock-based compensation	—	—	—	—	(158,280)	—	—	(158,280)
Effects of adoption of new accounting standards	—	—	—	—	—	(9,980)	—	(9,980)
Deconsolidation of variable interest entity	—	—	—	—	—	(300)	—	(300)
Foreign currency translation adjustments	—	—	—	—	—	—	7,046	7,046
Unrealized gains on investments	—	—	—	—	—	—	29	29
Net Loss	—	—	—	—	—	(441,027)	—	(441,027)
Balance as of June 30, 2021	**—**	**$ —**	**269,358,104**	**$ 3**	**$ 3,467,236**	**$ (898,485)**	**$ 6,773**	**$ 2,575,527**

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

[1] The share amounts listed above combine common stock, Class A common stock and Class B common stock.

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENT OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT), CONT.
(in thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance as of June 30, 2021	—	$ —	269,358,104	$ 3	$ 3,467,236	$ (898,485)	$ 6,773	$ 2,575,527
Issuance of common stock upon exercise of stock option	—	—	13,565,397	—	69,876	—	—	69,876
Issuance of common stock in acquisitions	—	—	488,097	—	42,109	—	—	42,109
Issuance of common stock, employee share purchase plan	—	—	149,137	—	3,613	—	—	3,613
Vesting of restricted stock units	—	—	3,815,156	—	—	—	—	—
Vesting of warrants for common stock	—	—	—	—	388,208	—	—	388,208
Repurchases of common stock	—	—	(10,518)	—	(86)	—	—	(86)
Stock-based compensation	—	—	—	—	445,525	—	—	445,525
Tax withholding on stock-based compensation	—	—	—	—	(185,178)	—	—	(185,178)
Foreign currency translation adjustments	—	—	—	—	—	—	(5,900)	(5,900)
Unrealized loss on securities available for sale	—	—	—	—	—	—	(8,022)	(8,022)
Net Loss	—	—	—	—	—	(707,417)	—	(707,417)
Balance as of June 30, 2022	—	$ —	287,365,373	$ 3	$ 4,231,303	$ (1,605,902)	$ (7,149)	$ 2,618,255

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended June 30,		
	2022	2021	2020
Cash Flows from Operating Activities			
Net Loss	$ (707,417)	$ (441,027)	$ (112,598)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for credit losses	255,272	65,878	105,067
Amortization of premiums and discounts on loans, net	(171,965)	(90,371)	(27,605)
Gain on sales of loans	(196,435)	(89,926)	(31,907)
Changes in fair value of assets and liabilities	(101,789)	57,285	2,847
Amortization of commercial agreement assets	96,737	69,103	—
Amortization of debt issuance costs	16,152	6,416	2,313
Amortization of discount on securities available for sale	2,192	—	—
Commercial agreement warrant expense	254,679	—	—
Stock-based compensation	390,983	292,507	29,625
Depreciation and amortization	52,722	19,979	9,444
Impairment of right of use assets	362	11,544	—
Other	(73,154)	5,129	81
Change in operating assets and liabilities:			
Purchases of loans held for sale	(5,552,662)	(2,640,734)	(2,101,483)
Proceeds from the sale of loans held for sale	5,582,035	2,594,835	2,021,938
Accounts receivable, net	(62,700)	(22,934)	(19,049)
Other assets	(15,021)	(209,139)	19,936
Accounts payable	(24,686)	32,223	7,514
Payable to third-party loan owners	21,304	25,082	8,279
Accrued interest payable	3,907	1,395	428
Accrued expenses and other liabilities	67,290	119,625	13,868
Net Cash Used in Operating Activities	(162,194)	(193,130)	(71,302)
Cash Flows from Investing Activities			
Purchases and origination of loans held for investment	(10,362,048)	(5,897,252)	(2,830,320)
Proceeds from the sale of loans held for investment	1,898,607	824,011	303,433
Principal repayments and other loan servicing activity	8,121,583	4,324,618	2,294,833
Acquisition, net of cash and restricted cash acquired	(5,999)	(222,433)	—
Purchases of intangible assets	(25,415)	—	—
Additions to property, equipment and software	(86,290)	(20,252)	(21,019)
Purchases of securities available for sale	(1,841,380)	—	—
Proceeds from maturities and repayments of securities available for sale	311,035	—	—
Other investing cash inflows	14,311	1,453	—
Other investing cash outflows	(35,742)	(32,178)	—
Net Cash Used in Investing Activities	(2,011,338)	(1,022,033)	(253,073)
Cash Flows from Financing Activities			
Proceeds from issuance of convertible debt, net	1,704,300	—	75,000
Proceeds from funding debt	4,101,134	2,942,254	2,132,805
Payment of debt issuance costs	(13,751)	(12,499)	(7,687)
Principal repayments of funding debt	(4,090,562)	(3,165,103)	(1,882,155)
Proceeds from issuance of notes and residual trust certificates by securitization trusts	999,394	1,395,879	—
Principal repayments of notes issued by securitization trusts	(552,046)	(210,368)	—
Proceeds from issuance of redeemable convertible preferred stock, net	—	434,542	15,481
Repurchase and conversion of redeemable convertible preferred stock	—	(13)	(22,591)
Proceeds from initial public offering, net	—	1,305,176	—
Proceeds from exercise of common stock options and warrants and contributions to ESPP	73,914	47,042	2,733
Repurchases of common stock	(86)	(800)	(18,854)
Payments of tax withholding for stock-based compensation	(185,178)	(158,280)	—
Net Cash Provided by Financing Activities	2,037,119	2,577,830	294,732
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(5,412)	1,837	—
Net Increase in Cash, Cash Equivalents and Restricted Cash	**(141,825)**	**1,364,504**	**(29,643)**
Cash, Cash equivalents and Restricted cash, Beginning of period	1,692,632	328,128	357,771
Cash, Cash Equivalents and Restricted Cash, End of Period	**$ 1,550,807**	**$ 1,692,632**	**$ 328,128**

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONT.
(in thousands)

	Year ended June 30,		
	2022	**2021**	**2020**
Reconciliation to amounts on consolidated balance sheets (as of period end)			
Cash and cash equivalents	1,255,171	1,466,558	267,059
Restricted cash	295,636	226,074	61,069
Total Cash, Cash Equivalents and Restricted Cash	**$ 1,550,807**	$ 1,692,632	**$ 328,128**

	Year ended June 30,		
	2022	**2021**	**2020**
Supplemental Disclosures of Cash Flow Information			
Cash payments for interest expense	$ 51,524	$ 41,690	$ 28,085
Cash paid for operating leases	15,561	13,215	—
Cash paid for income taxes	220	219	—
Supplemental Disclosures of Non-Cash Investing and Financing Activities			
Stock-based compensation included in capitalized internal-use software	$ 54,542	$ 13,999	$ 2,921
Issuance of common stock in connection with settlement of contingent consideration liability	32,109	—	—
Securities retained under unconsolidated securitization transactions	54,997	—	—
Issuance of common stock in connection with acquisition	10,000	331,498	—
Right of use assets obtained in exchange for operating lease liabilities	4,604	78,421	—
Additions to property and equipment included in accrued expenses	107	6	27
Conversion of redeemable convertible preferred stock	—	1,327,271	—
Issuance of warrants in exchange for commercial agreement	—	270,579	—
Conversion of convertible debt	—	88,559	—
Acquisition of commercial agreement asset	—	25,900	—

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

AFFIRM HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Business Description

Affirm Holdings, Inc. ("Affirm," the "Company," "we," "us," or "our"), headquartered in San Francisco, California, provides consumers with a simpler, more transparent, and flexible alternative to traditional payment options. Our mission is to deliver honest financial products that improve lives. Through our next-generation commerce platform, agreements with originating banks, and capital markets partners, we enable consumers to confidently pay for a purchase over time, with terms ranging from one to sixty months. When a consumer applies for a loan through our platform, the loan is underwritten using our proprietary risk model, and once approved, the consumer selects their preferred repayment option. Loans are self-originated or funded and issued by our originating bank partners.

Merchants partner with us to transform the consumer shopping experience and to acquire and convert customers more effectively through our frictionless point-of-sale payment solutions. Consumers get the flexibility to buy now and make simple regular payments for their purchases and merchants see increased average order value, repeat purchase rates, and an overall more satisfied customer base. Unlike legacy payment options and our competitors' product offerings, which charge deferred or compounding interest and unexpected costs, we disclose up-front to consumers exactly what they will owe — no hidden fees, no deferred interest, no penalties.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

Our financial statements have been prepared on a consolidated basis. Under this basis of presentation, our financial statements consolidate all wholly owned subsidiaries and variable interest entities ("VIEs"), in which we have a controlling financial interest. These include various business trust entities and limited partnerships established to enter into warehouse credit agreements with certain lenders for funding debt facilities and certain asset-backed securitization transactions. All intercompany accounts and transactions have been eliminated in consolidation.

Our variable interest arises from contractual, ownership, or other monetary interests in the entity, which changes with fluctuations in the fair value of the entity's net assets. We consolidate a VIE when we are deemed to be the primary beneficiary. We assess whether or not we are the primary beneficiary of a VIE on an ongoing basis.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the use of estimates, judgments and assumptions that affect the reported amounts in the consolidated financial statements and the accompanying notes. Material estimates that are particularly susceptible to significant change relate to determination of variable consideration for revenue, the allowance for credit losses, capitalized internal-use software development costs, valuation allowance for deferred tax assets, loss on loan purchase commitment, the fair value of servicing assets and liabilities, discount on self-originated loans, the fair value of assets acquired and any contingent consideration transferred in business combinations, the evaluation for impairment of intangible assets and goodwill, the fair value of available for sale debt securities including retained interests in our securitization trusts, the fair value of residual certificates issued by our securitization trusts held by third parties, and stock-based compensation, including the fair value of warrants issued to nonemployees. We base our estimates on historical experience, current events, and other factors we believe to be reasonable under the circumstances. To the extent that there are material

differences between these estimates and actual results, our financial condition or operating results will be materially affected.

These estimates are based on information available as of the date of the consolidated financial statements; therefore, actual results could differ materially from those estimates.

Immaterial Correction of Prior Period Amounts

Subsequent to the issuance of our financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021, which was filed with the SEC on September 17, 2021, we identified understatements in certain prior period amounts related to the fair value measurement of contingent consideration and stock-based compensation.

We remeasure the fair value of the contingent consideration liability recorded in connection with the PayBright, Inc. ("PayBright") acquisition at each reporting date. An incorrect input in the Monte Carlo simulation used to estimate the fair value as of June 30, 2021, resulted in an understatement of accrued expenses and other liabilities of $5.6 million as of June 30, 2021 as previously reported.

We measure stock-based compensation based on the fair value of an award at the grant date and recognize expense over the vesting period of the award based on the estimated portion of the award that is expected to vest. An incorrect determination of the grant date and service inception dates for certain awards granted prior to our initial public offering ("IPO"), as well as incorrect treatment of expense recognition for certain terminated employees, resulted in an understatement of additional paid in capital and misstatement of stock-based compensation expense as of and for the year ended June 30, 2021 as previously reported.

Accordingly, we have corrected the accompanying financial statements and related footnotes as of and for the year ended June 30, 2021 from amounts previously reported. We have evaluated the materiality of these misstatements based on an analysis of quantitative and qualitative factors and concluded they were not material to the prior period financial statements, individually or in aggregate.

The following tables provide the impact of the correction as of and for the year ended June 30, 2021, as presented below (in thousands):

	As of June 30, 2021		
	As Previously Reported	**Adjustments**	**As Corrected**
Accrued expenses and other liabilities	317,951	5,626	323,577
Total liabilities	**2,285,814**	**5,626**	**2,291,440**
Additional paid in capital	3,462,762	4,474	3,467,236
Accumulated deficit	(888,381)	(10,104)	(898,485)
Accumulated other comprehensive income	6,769	4	6,773
Total stockholders' equity	**2,581,153**	**(5,626)**	**2,575,527**

	Year Ended June 30, 2021		
	As Previously Reported	Adjustments	As Corrected
Consolidated Statement of Operations and Comprehensive Loss			
Processing and servicing	73,767	(189)	73,578
Technology and data analytics	256,082	(6,746)	249,336
Sales and marketing	184,279	(2,089)	182,190
General and administrative	370,251	13,498	383,749
Total Operating Expenses	**1,249,657**	**4,474**	**1,254,131**
Other expense, net	(54,073)	(5,630)	(59,703)
Loss Before Income Taxes	**(433,266)**	**(10,104)**	**(443,370)**
Net Loss Attributable to Common Stockholders	**(430,923)**	**(10,104)**	**(441,027)**
Foreign currency translation adjustments	7,042	4	7,046
Net Comprehensive Income	**7,071**	**4**	**7,075**
Comprehensive Loss	**(423,852)**	**(10,100)**	**(433,952)**
Net loss per share attributable to common stockholders for Class A and Class B:			
Basic	$ (2.72)	$ (0.06)	$ (2.78)
Diluted	$ (2.88)	$ (0.06)	$ (2.94)

	Year Ended June 30, 2021		
	As Previously Reported	Adjustments	As Corrected
Consolidated Statement of Redeemable Convertible Preferred Stock and Stockholders' Equity			
Stock-based compensation - Additional Paid-In Capital	302,032	4,474	306,506
Foreign currency translation adjustments - Accumulated Other Comprehensive Income (Loss)	7,042	4	7,046
Net Loss - Accumulated Deficit	(430,923)	(10,104)	(441,027)
Balance as of June 30, 2021 - Total Stockholders' Equity	**2,581,153**	**(5,626)**	**2,575,527**

	Year Ended June 30, 2021		
	As Previously Reported	Adjustments	As Corrected
Consolidated Statement of Cash Flows			
Cash Flows from Operating Activities			
Net Loss	(430,923)	(10,104)	(441,027)
Adjustments to reconcile net loss to net cash used in operating activities:			
Changes in fair value of assets and liabilities	51,655	5,630	57,285
Stock-based compensation	288,033	4,474	292,507
Net Cash Used in Operating Activities	**(193,130)**	**—**	**(193,130)**

Segment Reporting

We conduct our operations through a single operating segment and, therefore, one reportable segment. Operating segments are components of a company for which separate financial information is internally produced for regular use by the Chief Operating Decision Maker ("CODM") to allocate resources and assess the performance of the business. Our CODM, the Chief Executive Officer of Affirm Holdings, Inc., uses a variety of measures to assess the performance of the business; however, detailed profitability information that could be used to allocate resources and assess the performance of the business is managed and reviewed for the consolidated company as a whole.

Business Combination

We use the acquisition method of accounting for business combination transactions, and, accordingly, recognize the fair values of assets acquired and liabilities assumed in our consolidated financial statements. Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value. Transaction costs related to the acquisition of the acquired company are expensed as incurred. The allocation of fair values may be subject to adjustment after the initial allocation for up to a one-year period as more information becomes available relative to the fair values as of the acquisition date. The consolidated financial statements include the results of operations of any acquired company since the acquisition date.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking, money market and savings accounts held at financial institutions and short term highly liquid marketable securities, including money market funds and other corporate securities purchased with an original maturity of three months or less.

Restricted Cash

Restricted cash consists primarily of: (i) deposits restricted by standby letters of credit for office leases and certain commercial agreements; (ii) funds held in accounts as collateral for our originating bank partners; and (iii) servicing funds held in accounts contractually restricted by agreements with warehouse credit facilities, securitization trusts, and third-party loan owners. We have no ability to draw on such funds as long as they remain restricted under the applicable agreements.

Securities Available for Sale

We hold certain investments in marketable debt securities and retained interests in our unconsolidated securitization trusts which are accounted for under ASC Topic 320, "Investments - Debt Securities" ("ASC 320"). We have classified these investments as available for sale, as defined within ASC 320. These investments are held at fair value with changes in fair value recorded in unrealized gain (loss) on securities available for sale, net within other comprehensive income (loss), excluding the portion relating to any credit loss. As of the end of each reporting period, management reviews each security where the fair value is less than the amortized cost to determine whether any portion of the decline in fair value is due to a credit loss and/or whether or not we intend to sell or will be required to sell such security before recovery of its amortized cost basis. The portion of any decline in fair value which management identifies as a credit loss will be recognized as an allowance for credit losses through other (expense) income, net. To the extent management intends to sell or may be required to sell a security in an unrealized loss position, we 1) reverse any previously recorded allowance for credit losses with an offsetting entry to reduce the amortized cost basis of the security and 2) write-off any remaining portion of the amortized cost basis to equal its fair value, with this change recorded through other (expense) income, net.

Interest income for available for sale securities is recorded within other (expense) income, net.

Available for sale securities initially purchased with less than 90 days until maturity with quoted transaction prices in an active market are classified as cash and cash equivalents.

With respect to retained interests in our securitization trusts, we apply the guidance in ASC Topic 325, "Investments - Other" ("ASC 325") relating to beneficial interests. Accordingly, we recognize interest income each period based on the effective interest rate calculated using expected cash flows. Changes in the timing of expected cash flows are accounted for prospectively through an adjustment to interest income. When fair value is below amortized cost, we record an allowance for credit losses measured based on the difference between amortized cost and projected cash flows discounted at the effective interest rate. The allowance for credit losses is capped at the difference between amortized cost and fair value.

Loans Held for Investment

We either originate loans directly or purchase our loans from our originating bank partners pursuant to the terms outlined in the respective executed loan sale program agreements between us and our bank partners. Loan receivables that we have the intent and ability to hold for the foreseeable future or until maturity or payoff are classified as held for investment and are reported at amortized cost, which includes unpaid principal balances, any related premiums including fees paid to our originating bank partners and discounts due to loss on loan purchase commitment for loans with a fair value below the purchase price, where applicable, adjusted for any charge-offs. The amortized cost is adjusted for the allowance for credit losses within loans held for investment, net.

Loans Held for Sale

We sell certain loans to third-party loan buyers and securitization trusts. A loan is initially classified as held for sale when the loan is identified as for sale to a third party loan buyer or to be sold to a securitization that is anticipated to be off balance sheet. Loans classified as held for sale are recorded at the lower of amortized cost or fair value. A loan that is initially designated as held for sale or held for investment may be reclassified when our intent for that loan changes. When a loan held for investment is reclassified to held for sale and reported at fair value, any allowance for the credit loss related to that loan is released and any fair value adjustment to record the loan at the lower of amortized cost or fair value is recorded. Our loans designated as held for sale are generally sold within one to three days of the balance sheet date. Fair value adjustments were not material for loans designated as held for sale as of June 30, 2022 and June 30, 2021.

Transfers of Financial Assets

We account for loan sales in accordance with ASC 860, "Transfers and Servicing" ("ASC 860") which states that a transfer of financial assets, a group of financial assets, or a participating interest in a financial asset is accounted for as a sale if all of the following conditions are met:

a. The financial assets are isolated from the transferor and its consolidated affiliates as well as its creditors;
b. The transferee or beneficial interest holders have the right to pledge or exchange the transferred financial assets; and
c. The transferor does not maintain effective control of the transferred assets.

For the years ended June 30, 2022, 2021, and 2020, all loan sales met the requirements for sale treatment in accordance with ASC 860. We record the gain or loss on the sale of a loan at the sale date in an amount equal to the proceeds received, adjusted for initial recognition of servicing assets or liabilities obtained at the date of sale, less the carrying value of the loan.

Upon the sale of a loan to a third-party loan buyer or unconsolidated securitization in which we retain servicing rights, we may recognize a servicing asset or liability. Receiving more than adequate compensation, as

defined by ASC 860, for servicing those loans, results in recognition of a servicing asset. Receiving less than adequate compensation results in a servicing liability. Servicing assets and liabilities are recorded at fair value and are presented as a component of other assets or accrued expenses and other liabilities, respectively. The recognition of a servicing asset results in a corresponding increase to the gain on sales of loans. The recognition of a servicing liability results in a corresponding decrease to gain on sales of loans. The servicing rights are marked to fair value each period, with the subsequent adjustment recognized in servicing income. The subsequent measurement includes changes in inputs or assumptions used in the valuation model.

In connection with the sale of a loan to a third-party loan buyer or unconsolidated securitization, we may also recognize a recourse liability in accordance with ASC 460, "Guarantees" ("ASC 460") as in certain circumstances we may become required to re-purchase loans from third-party investors due to breaches in representations and warranties. The recognition of a recourse liability results in a corresponding decrease to gain on sales of loans. The recourse liability is amortized over the loan term and remeasured each period based on the outstanding loan balance and changes in our expectation of future repurchase obligations.

Allowance for Credit Losses

The allowance for credit losses on loans held for investment is determined based on management's current estimate of expected credit losses over the remaining contractual term, historical credit losses, consumer payment trends, estimates of recoveries, and future expectations on individual loans as of each balance sheet date. We immediately recognize an allowance for expected credit losses upon the origination of a loan. Adjustments to the allowance each period for changes in our estimate of lifetime expected credit losses are recognized in earnings through the provision for credit losses presented on our consolidated statements of operations and comprehensive loss. We have made an accounting policy election to not measure an allowance for credit losses for accrued interest receivables. Previously recognized interest receivable from charged-off loans that is accrued but not collected from the consumer is reversed.

In estimating the allowance for credit losses, management utilizes a migration analysis of delinquent and current loan receivables. Migration analysis is a technique used to estimate the likelihood that a loan receivable will progress through various stages of delinquency and to charge-off. The analysis focuses on the pertinent factors underlying the quality of the loan portfolio. These factors include historical performance, the age of the receivable balance, seasonality, customer credit-worthiness, changes in the size and composition of the loan portfolio, delinquency levels, bankruptcy filings and actual credit loss experience. We also take into consideration certain qualitative factors where we adjust our quantitative baseline using our best judgment to consider the inherent uncertainty regarding future economic conditions and consumer loan performance. For example, the Company considers the impact of current economic factors at the reporting date that did not exist over the period from which historical experience was used. As of June 30, 2022, we have considered the impact of Federal Reserve monetary policy, labor market trends, inflation and consumer sentiment.

When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. Loans are charged-off in accordance with our charge-off policy, as the contractual principal becomes 120 days past due. Subsequent recoveries of the unpaid principal balance, if any, are credited to the allowance for credit losses. Refer to Note 4. Loans Held for Investment and Allowance for Credit Losses for more information.

Accounts Receivable, net

Our accounts receivable consist primarily of amounts due from payment processors, merchant partners, affiliate network partners and servicing fees due from third-party loan owners. We evaluate accounts receivable to determine management's current estimate of expected credit losses based on historical experience and future expectations and record an allowance for credit losses, as applicable. Our allowance for credit losses with respect to accounts receivable was $13.9 million and $4.1 million as of June 30, 2022 and June 30, 2021, respectively.

Property, Equipment and Software, net

Property, equipment and software consist of computer and office equipment, capitalized internal-use developed software and website development costs and leasehold improvements. Property, equipment and software is stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are recognized using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are depreciated over the shorter of the improvement's estimated useful life or the remaining lease term.

We capitalize costs to develop internally developed software when preliminary development efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and the software or website will function and be used as intended. Capitalized internal-use software costs primarily include salaries and payroll-related costs for employees directly involved in the development efforts, software licenses acquired and fees paid to external consultants. Such costs are amortized on a straight-line basis over the estimated useful life of the related asset, which is three years. Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed as incurred. Costs incurred for enhancements that are expected to result in additional functionality are capitalized and expensed over the estimated useful life of the upgrades. Capitalized internally developed software costs are included in property, equipment and software, and amortization expense is included in technology and data analytics expense in the consolidated statements of operations and comprehensive loss.

Property, equipment and software is tested for impairment when there is an indication that the carrying value of an asset group may not be recoverable. Carrying values are not recoverable when the undiscounted cash flows estimated to be generated by the assets are less than their carrying values. When an asset is determined not to be recoverable, the impairment is measured based on the excess, if any, of the carrying value of the asset over its respective fair value and recorded in the period the determination is made.

Goodwill and Intangible Assets

We recognize the excess of the purchase price over the fair value of identifiable net assets acquired at the acquisition date as goodwill. Goodwill is not amortized but is reviewed for impairment annually and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. We first perform a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. 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.

Identifiable intangible assets include developed technology, merchant relationships, assembled workforce, and trade names resulting from acquisitions, including asset acquisitions. Acquired intangible assets are recorded at fair value on the date of acquisition and amortized over their estimated economic lives following the pattern in which the economic benefits of the assets will be consumed, which is on a straight-line basis. Acquired intangible assets are presented net of accumulated amortization on the consolidated balance sheets. We review the carrying amounts of intangible assets group for impairment whenever events or changes in circumstances indicate 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. If we consider any of these assets to be impaired, the impairment to be recognized equals the amount by 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 depreciation or amortization.

Leases

We determine whether an arrangement is a lease for accounting purposes at contract inception. For operating leases, we record a right-of-use asset within other assets in our consolidated balance sheets, which represents our right to use an underlying asset for the lease term. A corresponding lease liability, which represents our obligation to make lease payments arising from the lease, is recorded in accrued expenses and other liabilities in our consolidated balance sheets.

ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. To discount the lease payments, we use an incremental borrowing rate derived from a corporate yield curve corresponding with the lease term using information available on the commencement date. We have the option to renew or extend our leases. We include these periods in the lease term when a decision has been made to exercise the option. Lease expense for operating leases is recognized on a straight-line basis over the lease term.

We have elected the practical expedient allowing the combination of lease and non-lease components by class of underlying asset. We have also elected the short-term lease exception and will not recognize right-of-use assets or lease liabilities for qualifying leases with a term of less than 12 months from lease commencement.

Non-marketable Equity Securities

Non-marketable equity securities which do not have a readily determinable fair value are measured 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").

Unrealized and realized gains and losses on the investment due to impairment or observable price changes in orderly transaction for an identical or similar investment of the same issuer, if any, are recognized in other (expense) income, net on our consolidated statements of operations and comprehensive loss and a new carrying value is established for the investment upon such recognition.

Funding Debt and Debt Issuance Costs

We borrow from various lenders through our warehouse facilities and through sale and repurchase agreements by pledging certain retained interests in our off balance sheet securitizations to finance loans we originate directly and purchase loans from our originating bank partners. These borrowings are carried at amortized cost. Costs incurred in connection with borrowings, such as banker fees, commitment fees and legal fees, are classified as deferred debt issuance costs. We defer these costs and amortize them on a straight-line basis over the term of the debt. Interest payments and amortization of debt issuance costs incurred on funding debt is presented as funding costs in the consolidated statements of operations and comprehensive loss. Unamortized debt issuance costs are presented as a reduction of the associated debt.

Income Taxes

Income taxes are accounted for using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized as an income tax expense (benefit) in the period that includes the enactment date.

Valuation allowances are provided when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized based on the weighting of positive and negative evidence. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character within the carryback or carryforward periods available under the applicable tax law. We regularly review the deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences, and tax planning strategies; however, in evaluating the positive evidence available, expectations of future taxable income and projections for growth are usually not sufficient to overcome the negative evidence of the presence of a three-year cumulative loss. Should there be a change in the ability to recover deferred tax assets, our income tax provision would increase or decrease in the period in which the assessment is changed.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex federal, state, and foreign tax laws and regulations, and positions taken in our tax returns may be subject to challenge by the taxing authorities upon examination. In accordance with applicable accounting guidance, uncertain tax positions are recognized in the financial statements only when it is more likely than not that the positions will be sustained upon examination by the tax authorities, assuming full knowledge of the position and all relevant facts. Interest and penalties, if any, on income tax uncertainties are classified within income tax expense in the income statement.

Fair Value of Assets and Liabilities

ASC Topic 820, "Fair Value Measurements and Disclosures" ("ASC 820"), defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that use, as inputs, observable market-based parameters to the greatest extent possible.

Additionally, ASC 820 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

- Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Revenue Recognition

Merchant Network Revenue — Revenue from Contracts with Customers

Merchant network revenue consists of merchant fees. Merchant partners (or merchants) are charged a fee on each transaction processed through the Affirm platform. The fees vary depending on the individual arrangement between us and each merchant and on the terms of the product offering. The fee is recognized at the point in time the merchant successfully confirms the transaction, which is when the terms of the executed merchant agreement are fulfilled.

Our contracts with merchants are defined at the transaction level and do not extend beyond the service already provided (i.e., each transaction represents a separate contract). The fees collected from merchants for each transaction are determined as a percentage of the value of the goods purchased by the consumer from merchants and consider a number of factors including the end consumer's credit risk and financing term. We do not have any capitalized contract costs, and do not carry any material contract balances.

Our service comprises a single performance obligation to merchants to facilitate transactions with consumers. From time to time, we offer merchants promotional incentives to offer incentives to promote our platform to their customers, such as fee reductions or rebates. These amounts, as well as refunds, are recorded as a reduction of revenue and netted against merchant network revenue.

We may originate certain loans via our wholly-owned subsidiaries, with zero or below market interest rates. In these instances, the par value of the loans originated is in excess of the fair market value of such loans, resulting in a loss, which we record as a reduction to merchant network revenue. In certain cases, the losses incurred on loans originated for a merchant may exceed the total network revenue earned on those loans. We record the excess loss amounts as a sales and marketing expense.

On May 5, 2021, our largest merchant partner at the time, Peloton, announced a voluntary recall of two of its products following a report by the U.S. Consumer Product Safety Commission released on April 17, 2021. Pursuant to ASC 606, we revised our estimate of the variable consideration associated with revenue earned on the facilitation of transactions related to the recalled products and recorded a reduction in revenue of $5.4 million during the year ended June 30, 2021.

A portion of merchant network revenue relates to affiliate network revenue, which is generated when a user makes a purchase on a merchant's website after being directed from an advertisement on Affirm's website or mobile application. We earn a fixed placement fee and/or commission as a percentage of the associated sale. Revenue is recognized at the point in time when the performance obligation has been fulfilled, which is when the sale occurs.

Virtual Card Network Revenue — Revenue from Contracts with Customers

We have agreements with issuer processors to facilitate transactions through the issuance of virtual debit cards to be used by consumers at checkout. Consumers can apply for a virtual debit card through the Affirm app and, upon approval, receive a single-use virtual debit card to be used for their purchase online or offline at a non-integrated merchant. The virtual debit card is funded at the time a transaction is authorized using cash held by the issuer processor in a reserve fund. Our originating bank partner then originates a loan to the consumer once the transaction is confirmed by the merchant. The non-integrated merchants are charged interchange fees by the issuer processor for virtual debit card transactions, as with all debit card purchases, and the issuer processor shares a portion of this revenue with us. We also leverage this issuer processor as a means of integrating certain merchants. Similarly, for these arrangements with integrated merchants, the merchant is charged interchange fees by the issuer processor and the issuer processor shares a portion of this revenue with us. From time to time, we offer certain integrated merchants promotional incentives to promote our platform to their customers, such as rebates of interchange fees charged by the issuer processor. These amounts are recorded as a reduction of revenue and netted against virtual card network revenue.

Our contracts with issuer processors are defined at the transaction level and do not extend beyond the service already provided. The fees collected from issuer processors for each transaction are determined as a percentage of the interchange fees charged on transactions facilitated on the payment processor network, and revenue is recognized at the point in time the transaction is completed successfully. The fees collected are presented in revenue, net of associated processing fees. As the issuer processors do not provide distinct services to us, any fees paid to the issuer processors are offset against collected fees. We have concluded that these fees do not give rise to a future material right because the pricing of each transaction does not depend on the volume of prior successful transactions. We do not have any capitalized contract costs, and do not carry any material contract balances.

Our service comprises a single performance obligation to the issuer processors to facilitate transactions with consumers.

A portion of virtual card network revenue relates to incentive payments from card network partners, which we are eligible to receive for reaching certain cumulative volume targets on program cards issued by the issuer processors. We earn incentive revenue as a percentage of each associated transaction and estimate the applicable percentage based on observed cumulative volume on program cards. Revenue is recognized at the point in time when the performance obligation has been fulfilled, which is when the transaction is completed successfully.

Interest Income

We accrue interest income using the effective interest method. Interest income on a loan is accrued daily, based on the finance charge disclosed to the consumer, over the term of the loan based upon the principal outstanding. The accrual of interest on a loan is suspended if a formal dispute with the borrower involving either Affirm or the merchant of record is opened, or a loan is 120 days past due. Upon the resolution of a dispute with the consumer, the accrual of interest is resumed and any interest that would have been earned during the disputed period is retroactively accrued. As of June 30, 2022 and June 30, 2021, the balance of loans held for investment on non-accrual status was $1.7 million and $1.1 million, respectively.

The account is charged-off in the period if the account becomes 120 days past due or meets other charge-off policy requirements. Past due status is based on the contractual terms of the loans. Previously recognized interest receivable from charged-off loans that is accrued but not collected from the consumer is reversed.

Any discounts or premiums on loan receivables created upon the purchase of a loan from our originating bank partners or upon the origination of a loan are amortized into interest income over the life of the loan using the effective interest method. The amortization is presented together as interest income in the consolidated statements of operations and comprehensive loss.

Servicing Income

Servicing income includes contractual fees specified in our servicing agreements with third-party loan owners and unconsolidated securitizations that are earned from providing professional services to manage loan portfolios on their behalf. The servicing fee is calculated on a daily basis by multiplying a set fee percentage (as outlined in the executed agreements with third-party loan owners) by the outstanding loan principal balance. We recognize this revenue on a monthly basis.

Loss on Loan Purchase Commitment

We purchase certain loans from our originating bank partners that are processed through our platform that our originating bank partner puts back to us. Under the terms of the agreements with our originating bank partners, we are generally required to pay the principal amount plus accrued interest for such loans. In certain instances, our originating bank partners may originate loans with zero or below market interest rates that we are required to purchase. In these instances, we may be required to purchase the loan for a price in excess of the fair market value of such loans, which results in a loss. These losses are recognized as loss on loan purchase commitment in our consolidated statements of operations and comprehensive loss.

Due to the nature of this arrangement with our originating bank partners, we recognize a net liability for this commitment when the merchant confirms the transaction. This liability is recorded at fair value, which is determined by the difference between the estimated fair value of the loan and the anticipated purchase price. Upon purchase, the liability is included in the amortized cost basis of the purchased loan as a discount, which is amortized into interest income over the life of the loan.

Customer Referral Partners

From time to time, we make payments to customer referral partners providing lead generation services for each transaction processed through our technology platform. We first evaluate whether the customer referral partner is a customer or a vendor. We consider customer referral partners as customers if we determine they are the principal to eligible merchants in providing the facilitation of credit service. We consider customer referral partners as vendors if we determine that we are the principal to eligible merchants in providing the facilitation of credit service. Payments made to customer referral partners that are considered to be our customer are recorded as a reduction of revenue, and payments made to customer referral partners that are not considered to be our customers are recorded in processing and servicing expense, respectively, over the associated period of benefit within our consolidated statements of operations and comprehensive loss.

Sales and Marketing Costs

Sales and marketing costs include the expense related to warrants and other share-based payments granted to our enterprise partners. See Note 6. Balance Sheet Components for more information on these arrangements. Sales and marketing costs also include salaries and personnel-related costs, as well as costs of general marketing and promotional activities, promotional event programs, sponsorships, and allocated overhead. A portion of these costs related to general marketing and promotional activities are considered advertising costs within the meaning of ASC Topic 720, “Other Expenses” (“ASC 720”), and are expensed as incurred. Advertising costs totaled $74.0 million, $48.1 million and $3.3 million for the year ended June 30, 2022, 2021, and 2020, respectively.

Derivative Instruments

We mitigate the impact of changes in interest rates with various derivative instruments, including interest rate caps, constant maturity swaps, and curve efficient swaps that are accounted for as derivatives pursuant to ASC Topic 815, “Derivatives and Hedging” ("ASC Topic 815"). ASC Topic 815 requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change unless the derivative qualifies as a designated hedge that offsets certain exposures. During the periods presented, we have not designated any of our derivatives as hedging instruments.

Stock-Based Compensation

We account for stock-based compensation expense in accordance with the fair value recognition and measurement provisions of U.S. GAAP, which requires compensation cost for the grant date fair value of stock-based awards to be recognized over the requisite service period. In addition, we made an accounting policy election to estimate the expected forfeiture rate for service-based awards and only recognize expense for those stock-based awards expected to vest. We estimate the forfeiture rate based on our historical experience with stock-based awards that are granted and forfeited prior to vesting.

The fair value of stock-based awards, granted or modified, is determined on the grant date (or modification or acquisition dates, if applicable) at fair value, using appropriate valuation techniques.

Service-Based Awards

We record stock-based compensation expense for service-based stock options and restricted stock units (“RSUs”) on a straight-line basis over the requisite service period, which is generally one to four years. The fair value of each option on the date of grant is determined using the Black Scholes-Merton option pricing model using the single-option award approach. Volatility is based on historical volatility rates obtained from comparable publicly-traded companies that operate in the same or related business as us, as there is a limited time period of historical market data for our common stock. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term set forth. We used the simplified method to determine an estimate of the expected term of an employee stock option.

We account for stock-based awards to non-employees, including consultants, in accordance with ASC Topic 718, "Compensation — Stock Compensation" ("ASC 718"), in which equity-classified awards are measured at the grant date fair value and recognized as expense in the period and manner as though we had paid cash in exchange for goods or services instead of granting a stock-based award.

Performance-Based Awards

Prior to the IPO, we granted RSUs that were subject to two vesting conditions: a service-based vesting condition (i.e., employment over a period of time) and a performance-based vesting condition (i.e., a liquidity event in the form of either certain change in control transactions or an initial public offering). The performance-based condition was met upon the IPO. We record stock-based compensation expense for these awards on an accelerated attribution method over the requisite service period, which is generally four years.

Upon exercise or vesting of a stock-based award, the tax effect of the difference, if any, between the cumulative compensation cost recognized for financial statement purposes and the deduction for income tax purposes, will be recognized as an income tax expense or benefit in the consolidated statement of operations.

Market-Based Awards

We have granted stock option awards with service-based and performance-based vesting conditions, with market-based conditions that are incorporated into the grant date fair value. We determined the grant date fair value of these awards by utilizing a Monte Carlo simulation model that incorporates the possibility that the market-based conditions may not be satisfied. The Monte Carlo simulation also incorporates assumptions including expected stock price volatility, expected term, and risk-free interest rates. We estimate the volatility of common stock on the date of grant based on the weighted-average historical stock price volatility of comparable publicly-traded companies in our industry group. We estimate the expected term of the award based on various exercise scenarios. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term set forth.

We record stock-based compensation expense for market-based equity awards on an accelerated attribution method over the requisite service period, and only if performance-based conditions are considered probable of being satisfied.

Foreign Currency

We have wholly-owned foreign subsidiaries that use the local currency of their respective country as their functional currency. Assets and liabilities of these subsidiaries are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates. Revenue, costs, and expenses of these subsidiaries are translated into U.S. dollars using daily exchange rates when incurred. Gains and losses resulting from these translations are recorded as a component of accumulated other comprehensive income (loss) ("AOCI"). Gains and losses from the remeasurement of foreign currency transactions into the functional currency are recognized as other income (expense), net, in our consolidated statements of operations and comprehensive loss.

Basic and Diluted Net Loss per Common Share

We calculate net income or loss per share using the two-class method. The two-class method requires income available to common stockholders for the period to be allocated between each class of common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. Our participating securities include common stock issued upon the early exercise of stock options and convertible senior notes. We consider any shares issued upon early exercise of stock options, subject to repurchase, to be participating securities because holders of such shares have non-forfeitable dividend rights in the event a cash dividend is declared on our common stock. These participating securities do not contractually require the holders of such shares to participate in our losses. As such, net losses for the years presented were not allocated

to our participating securities. Prior to the conversion of redeemable convertible preferred stock into shares of our common stock on January 12, 2021, these shares also represented participating securities.

We calculate basic net loss per share attributable to common stockholders for Class A and Class B common stock by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding in each class for the period.

We calculate diluted net loss per share attributable to common stockholders by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding in each class, after giving consideration to the dilutive effect of our redeemable convertible preferred stock, stock options, restricted stock units, employee stock purchase plan shares, convertible debt and common stock warrants that are outstanding during the period. We have generated a net loss in all periods presented, and therefore, the basic and diluted net loss per share attributable to common stockholders are the same as the inclusion of the potentially dilutive securities would be anti-dilutive. During the years ended June 30, 2021 and 2020, the excess of the repurchase price of preferred stock over its carrying value was recorded as an increase to net loss to determine net loss attributable to common stockholders, basic and diluted.

Recently Adopted Accounting Standards

Convertible Debt Instruments

In August 2020, the FASB issued Accounting Standard Update (“ASU”) 2020-06, “Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity’s Own Equity (Subtopic 815-40),” which simplifies the accounting for convertible instruments. The guidance removes certain accounting models that separate the embedded conversion features from the host contract for convertible instruments. Either a modified retrospective method of transition or a fully retrospective method of transition is permissible for the adoption of this standard. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted no earlier than the fiscal year beginning after December 15, 2020. We early adopted the new standard effective July 1, 2021 on a modified retrospective basis. The adoption of the new standard did not have any impact on our financial statements as of the adoption date. As further discussed in Note 11. Debt, the Company issued certain convertible senior notes in November 2021, and the accounting for these instruments was based on the guidance in ASU 2020-06.

*Staff Accounting Bulletin No. 12*1

In March 2022, the SEC staff released Staff Accounting Bulletin No. 121 ("SAB 121"), which expressed the views of the SEC staff regarding the accounting for obligations to safeguard crypto-assets an entity holds for users of its crypto platform. This guidance requires entities that hold crypto-assets on behalf of platform users to recognize a liability to reflect the entity’s obligation to safeguard the crypto-assets held for its platform users, whether safeguarding is provided by the entity or by an agent acting on behalf of the entity. The liability should be measured at initial recognition and each reporting date at the fair value of the crypto-assets that the entity is responsible for holding for its platform users, taking into account any potential loss event. The entity should also recognize an asset at the same time that it recognizes the safeguarding liability, measured at initial recognition and each reporting date at the fair value of the crypto-assets held for its platform users taking into account any potential loss event. The entity should also describe the asset and the corresponding liability in the footnotes to the financial statements and consider including information regarding who (e.g. the company, its agent, or another third party) holds the cryptographic key information, maintains the internal recordkeeping of those assets, and is obligated to secure the assets and protect them from loss or theft. This guidance is effective from the first interim period after June 15, 2022 and should be applied retrospectively. We adopted the guidance in SAB 121 as of June 30, 2022 on a retrospective basis. The adoption of the guidance did not have a material impact on our financial statements.

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

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." Subject to meeting certain criteria, the new guidance provides optional expedients and exceptions to applying contract modification accounting under existing U.S. GAAP, to address the expected phase out of the London Interbank Offered Rate ("LIBOR"). This ASU is effective for all entities upon issuance as of March 12, 2020 through December 31, 2022. In January 2021, the FASB also issued ASU 2021-01, "Reference Rate Reform (Topic 848)," which provides additional optional expedients and exceptions applicable to all entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. This ASU is effective for all entities upon issuance as of January 7, 2021 through December 31, 2022. We have reviewed all our financial agreements that utilize LIBOR as the reference rate and determined there is no material impact to our consolidated financial statements as of June 30, 2022. Throughout the remaining effective period for ASU 2020-04 and ASU 2021-01, we will continue to evaluate the available relief measures within each of these amendments and will determine any impact on our consolidated financial statements and disclosures, as applicable.

Business Combinations

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers," which requires contract assets and contract liabilities, such as deferred revenue, acquired in a business combination to be recognized and measured in accordance with Topic 606 (Revenue from Contracts with Customers). ASU 2021-08 is expected to reduce diversity in practice and increase comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination. The ASU is effective for fiscal years beginning after December 15, 2022 and should be applied prospectively to acquisitions occurring on or after the effective date. Early adoption is permitted, including for interim periods, and is applicable to all business combinations for which the acquisition date occurs within the beginning of the fiscal year of adoption. We are in the process of evaluating the impact of adopting this accounting standard update on our consolidated financial statements and disclosures.

Financial Instruments - Credit Losses

In March 2022, the FASB issued ASU 2022-02, "Financial Instruments— Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosure" which addresses areas identified by the FASB as part of its post-implementation review of the current expected credit losses model or "CECL" previously issued in ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326)". The amendments in this ASU eliminate the accounting guidance for troubled debt restructurings by creditors while enhancing the disclosure requirements for loan refinancing and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases in the vintage disclosures. For entities that have adopted ASU 2016-13, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted if an entity has adopted ASU 2016-13. Amendments in this ASU should be applied prospectively except for the transition method related to the accounting for troubled debt restructurings in which an entity has the option to apply a modified retrospective transition method resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. We are in the process of evaluating the impact of adopting this accounting standard update on our consolidated financial statements and disclosures.

3. Interest Income

Interest income consisted of the following components (in thousands):

	Year ended June 30,		
	2022	2021	2020
Interest income on unpaid principal balance	$ 365,993	237,526	163,374
Amortization of discount on loans	185,050	101,078	35,251
Amortization of premiums on loans	(13,085)	(9,018)	(6,157)
Interest receivable charged-off, net of recoveries	(10,078)	(3,169)	(5,738)
Total interest income	$ 527,880	$ 326,417	$ 186,730

4. Loans Held for Investment and Allowance for Credit Losses

Loans held for investment consisted of the following (in thousands):

	June 30, 2022	June 30, 2021
Unpaid principal balance	$ 2,516,733	$ 2,058,863
Accrued interest receivable	20,697	15,466
Premiums on loans held for investment	8,911	7,071
Less: Discount due to loss on loan purchase commitment [(1)]	(20,692)	(53,177)
Less: Discount due to loss on self-originated loans [(1)]	(20,443)	—
Less: Fair value adjustment on loans acquired through business combination	(1,645)	(5,903)
Total loans held for investment	$ 2,503,561	$ 2,022,320

[(1)] As of June 30, 2021, discount due to loss on self-originated loans, in the amount of $6.2 million, was included with discount due to loss on loan purchase commitment.

The majority of the loans that are underwritten using our technology platform and originated by our originating bank partners are later purchased by us. We purchased loans from our originating bank partners in the amount of $12.1 billion, $7.9 billion, and $4.7 billion for the years ended June 30, 2022, 2021, and 2020, respectively.

These loans have a variety of lending terms as well as maturities ranging from one to sixty months. Given that our loan portfolio focuses on one product segment, point-of-sale unsecured installment loans, we generally evaluate the entire portfolio as a single homogeneous loan portfolio and make merchant or program specific adjustments as necessary.

We closely monitor credit quality for our loan receivables to manage and evaluate our related exposure to credit risk. Credit risk management begins with initial underwriting, where loan applications are assessed against the credit underwriting policy and procedures for our self-originated loans and originating bank partner loans, and continues through to full repayment of a loan. To assess a consumer who requests a loan, we use, among other indicators, internally developed risk models using detailed information from external sources, such as credit bureaus where available, and internal historical experience, including the consumer's prior repayment history on our platform as well as other measures. We combine these factors to establish a proprietary score as a credit quality indicator.

Our proprietary score ("ITACs") is assigned to most loans facilitated through our technology platform, ranging from zero to 100, with 100 representing the highest credit quality and therefore the lowest likelihood of loss. The ITACs model analyzes the characteristics of a consumer's attributes that are shown to be predictive of both willingness and ability to repay including, but not limited to: basic features of a consumer's credit profile, a

consumer's prior repayment performance with other creditors, current credit utilization, and legal and policy changes. When a consumer passes both fraud and credit policy checks, the application is assigned an ITACs score. ITACs is also used for portfolio performance monitoring. Our credit risk team closely tracks the distribution of ITACs at the portfolio level, as well as ITACs at the individual loan level to monitor for signs of a changing credit profile within the portfolio. Repayment performance within each ITACs band is also monitored to support both the integrity of the risk scoring models and to measure possible changes in consumer behavior amongst various credit tiers.

The following table presents an analysis of the credit quality, by ITACs score, of the amortized cost basis by fiscal year of origination on loans held for investment and loans held for sale (in thousands) as of June 30, 2022:

	Amortized Costs Basis by Fiscal Year of Origination						
	2022	2021	2020	2019	2018	Prior	Total
96+	$1,218,104	$ 122,503	$ 33,458	$ 157	$ 1	$ —	$1,374,223
94 – 96	620,403	11,240	773	13	2	—	632,431
90 – 94	220,056	3,886	6	4	—	—	223,952
<90	44,300	135	2	—	—	—	44,437
No score[1]	186,044	20,554	3,368	444	79	2	210,491
Total loan receivables	$2,288,907	$ 158,318	$ 37,607	$ 618	$ 82	$ 2	$2,485,534

(1) This balance represents loan receivables in new markets without sufficient data currently available for use by the Affirm scoring methodology including loan receivables originated in Canada and Australia.

	Net Charge-offs by Fiscal Year of Origination						
	2022	2021	2020	2019	2018	Prior	Total
Current period charge-offs	(133,338)	(89,960)	(3,783)	(548)	(120)	(21)	(227,770)
Current period recoveries	5,288	9,802	4,417	2,952	1,242	897	24,598
Current period net charge-offs	$ (128,050)	$ (80,158)	$ 634	$ 2,404	$ 1,122	$ 876	$ (203,172)

Loan receivables are defined as past due if either the principal or interest have not been received within four calendars days of when they are due in accordance with the agreed upon contractual terms. The following table presents an aging analysis of the amortized cost basis of loans held for investment and loans held for sale by delinquency status (in thousands):

	June 30, 2022	June 30, 2021
Non-delinquent loans	$ 2,322,919	$ 1,939,976
4 – 29 calendar days past due	77,963	43,838
30 – 59 calendar days past due	34,669	17,267
60 – 89 calendar days past due	26,919	12,044
90 – 119 calendar days past due [1]	23,064	6,759
Total amortized cost basis	$ 2,485,534	$ 2,019,884

(1) Includes $22.7 million of loan receivables as of June 30, 2022 that are 90 days or more past due, but are not on nonaccrual status.

We maintain an allowance for credit losses at a level sufficient to absorb expected credit losses based on evaluating known and inherent risks in our loan portfolio. The allowance for credit losses is determined based on our current estimate of expected credit losses over the remaining contractual term, historical credit losses, consumer payment trends, estimates of recoveries, and future expectations as of each balance sheet date. Adjustments to the allowance each period for changes in our estimate of lifetime expected credit losses are recognized in earnings through the provision for credit losses presented on our consolidated statements of operations and comprehensive loss. When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. Loans are charged-off in accordance with our charge-off policy, as the contractual principal becomes 120 days past due. Subsequent recoveries of the unpaid principal balance, if any, are credited to the allowance for credit losses.

The following table details activity in the allowance for credit losses (in thousands):

	Year ended June 30,		
	2022	2021	2020
Allowance at beginning of period	117,760	95,137	66,260
Adjustment due to adoption of new accounting standard	—	10,083	—
Provision for credit losses	240,804	63,755	101,540
Charge-offs	(227,770)	(65,149)	(81,052)
Recoveries of charged-off receivables	24,598	13,934	8,389
Allowance at end of period	155,392	117,760	95,137

5. Acquisitions

Fast

On April 19, 2022, Affirm completed the closing of the transaction contemplated by a Release and Waiver Agreement entered into with Fast AF, Inc., (“Fast”) relating to the hiring of certain of its employees or service providers and an option to acquire certain of its assets. The purchase price was comprised of (i) $10.0 million in cash and (ii) forgiveness of a $15.0 million senior secured note issued to Fast in April 2022 prior to the closing.

The acquisition was accounted for as an asset acquisition in accordance with ASC Topic 805, “Business Combinations” (“ASC 805”) since the assets acquired do not meet the definition of a business. The acquired identifiable intangible assets have been recorded at a total cost of $25.4 million, which includes approximately $0.4 million of transaction costs associated with the acquisition. The excess of the total cost of the assets over their total fair value was allocated between the assets on the basis of their relative fair values. The fair values of the intangible assets were determined by applying the replacement cost method. The fair value measurements are based on significant unobservable inputs, including management estimates and assumptions, and thus represent Level 3 measurements.

The following table sets forth the identifiable intangible assets acquired and the cost allocated to each asset as of the date of acquisition (in thousands):

Assembled workforce	$	12,490
Option to purchase developed technology	$	12,925
Total	$	25,415

The assembled workforce intangible asset has an expected useful life of 1.5 years. The developed technology asset will be amortized over its expected useful life if the associated assets are purchased and entered into service.

ShopBrain

On July 1, 2021, Affirm completed the acquisition of technology and intellectual property from Yroo, Inc. and entered into employment arrangements with certain of its employees ("the ShopBrain acquisition"). Yroo, Inc. is a data aggregation and cataloging technology company based in Canada ("ShopBrain"). The purchase price was comprised of (i) $30.0 million in cash and (ii) 151,745 shares of our Class A common stock issued to the shareholders of ShopBrain at closing.

The acquisition date fair value of the consideration transferred was approximately $40.0 million, which consisted of the following (in thousands):

Cash	$	30,000
Fair value of Class A common stock transferred		10,000
Total acquisition date fair value of the consideration transferred	$	40,000

The acquisition was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805. The acquired identifiable intangible assets have been recorded at their estimated fair values with the excess purchase price assigned to goodwill. The goodwill was primarily attributed to future synergies from integration and the value of the assembled workforce. The goodwill is expected to be deductible for income tax purposes.

The following table summarizes the allocation of the consideration paid of approximately $40.0 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Intangible assets	$	9,488
Total net assets acquired		9,488
Goodwill		30,512
Total purchase price	$	40,000

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

		Fair Value	Useful Life (in years)
Developed technology	$	9,488	3.0

The fair values of the intangible assets were determined by applying the replacement cost method. The fair value measurements are based on significant unobservable inputs, including management estimates and assumptions, and thus represents Level 3 measurements.

The transaction costs associated with the acquisition were approximately $0.2 million for the year ended June 30, 2022, which are included in general and administrative expense within the consolidated statements of operations and comprehensive loss.

Pro forma adjustments would only include the additional amortization that would have been charged assuming the intangible assets had been recorded as of July 1, 2020. Such adjustments would not be material to the consolidated statements of operations and comprehensive loss for the year ended June 30, 2021.

Kite

On June 1, 2021, Affirm completed the acquisition of technology and intellectual property from Manhattan Engineering, Inc. and entered into employment arrangements with certain of its employees ("the Kite acquisition").

The purchase price was comprised of $26.0 million in cash, including $9.0 million held in escrow and subject to forfeiture if certain employees terminate within a stipulated time period.

The acquisition date fair value of the consideration transferred was approximately $24.8 million which consisted of the following (in thousands):

Cash	$	26,000
Less: Fair value of contingent consideration asset	$	(1,241)
Total acquisition date fair value of consideration transferred	$	24,759

The acquisition was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805. The acquired identifiable intangible assets have been recorded at their estimated fair values with the excess purchase price assigned to goodwill. The goodwill was primarily attributed to the value of assembled workforce. The goodwill is expected to be deductible for income tax purposes.

The following table summarizes the allocation of the consideration paid of approximately $24.8 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Intangible assets	$	6,975
Net assets acquired		6,975
Goodwill	$	17,784
Total purchase price	$	24,759

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

		Fair Value	Useful Life (in years)
Developed technology	$	6,900	3.0
Trademarks		75	1.0
Total intangible assets	$	6,975	

The fair values of the intangible assets were determined by applying the replacement cost method. The fair value measurements are based on significant unobservable inputs, including management estimates and assumptions, and thus represent Level 3 measurements.

The transaction costs associated with the acquisition were approximately $0.2 million for the year ended June 30, 2021, which are included in general and administrative expense in the consolidated statements of operations and comprehensive loss. There were no transaction costs associated with the acquisition for the year ended June 30, 2022.

Pro forma adjustments would only include the additional amortization that would have been charged assuming the intangible assets had been recorded as of July 1, 2019. Such adjustments would not be material to the consolidated statements of operations and comprehensive loss for the year ended June 30, 2021 and 2020.

Returnly

On May 1, 2021, Affirm completed a merger transaction with Returnly Technologies, Inc. (“Returnly”), a leading provider of online return experiences for direct-to-consumer brands. Prior to the merger transaction, Affirm owned approximately 1% of the outstanding shares of Returnly. By effect of the merger transaction, Affirm acquired

all of the remaining outstanding shares, increasing its equity interest from approximately 1% to 100%. We have included the financial results of Returnly in our consolidated financial statements from the date of acquisition.

The purchase price for the remaining interest was comprised of (i) approximately $71.5 million in cash and (ii) 2,989,697 shares of our common stock issued to the shareholders of Returnly at closing. We also issued 304,364 shares of our common stock, which are held in escrow and subject to forfeiture upon the termination of certain employees or if certain revenue milestones are not met. Because the future payment of the escrowed shares is contingent on continued employment, the arrangement represents stock-based compensation in the post combination period. Refer to Note 16. Equity Incentive Plans for additional information on the escrowed share arrangement.

The acquisition date fair value of the consideration transferred for Returnly was approximately $286.0 million, which consisted of the following (in thousands):

Cash	$	71,484
Fair value of common stock transferred		214,475
Total acquisition date fair value of consideration transferred	$	285,959

The acquisition date fair value of the equity interest in Returnly held by Affirm immediately before the acquisition date was $2.1 million, resulting in the recognition of a $1.6 million gain included in other (expense) income, net in the consolidated statements of operations and comprehensive loss.

The acquisition of Returnly was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805. The acquired Returnly assets, including identifiable intangible assets and liabilities assumed, have been recorded at their estimated fair values with the excess purchase price assigned to goodwill. The goodwill was primarily attributed to future synergies from integration, new customer acquisitions, and the value of assembled workforce. Goodwill is not expected to be deductible for income tax purposes.

The following table summarizes the allocation of the fair value of the consideration paid and the previously held equity interest of approximately $288.1 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Cash and cash equivalents	$	3,788
Accounts receivable, net		9,585
Property, equipment and software		127
Intangible assets		45,900
Other assets		1,830
Total assets acquired	$	61,230
Accounts payable		594
Accrued expenses and other liabilities		6,205
Total liabilities assumed	$	6,799
Net assets acquired	$	54,431
Goodwill		233,623
Total fair value of consideration transferred and previously held investment	$	288,054

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

	Fair Value	Useful Life (in years)
Developed technology	$ 16,200	3.0
Merchant relationships	29,200	5.0
Trade name	500	1.0
Total intangible assets	$ 45,900	

The fair value of the merchant relationship intangible asset was estimated by applying the income approach, which is based upon the discounted projected future cash flows attributable to the existing merchant relationships. The fair value of the developed technology intangible asset was determined by applying the replacement cost method. The fair value measurements are based on significant unobservable inputs, including management estimates and assumptions, and thus represent Level 3 measurements.

The transaction costs associated with the acquisition were approximately $1.8 million for the year ended June 30, 2021, which are included in general and administrative expense in the consolidated statements of operations and comprehensive loss. There were no transaction costs associated with the acquisition for the year ended June 30, 2022.

Unaudited Pro Forma Information

The following table reflects the pro forma consolidated total revenue and net loss for the periods presented as if the acquisition of Returnly had occurred on July 1, 2019 and combines the historical results of Affirm and Returnly. This supplemental unaudited pro forma information is based upon accounting estimates and judgments that we believe are reasonable and includes certain adjustments to conform accounting standards to U.S. GAAP. This supplemental unaudited pro forma financial information has been prepared for illustrative purposes only and is not necessarily indicative of what actual results would have occurred, or of results that may occur in the future.

	Year ended June 30, 2021	Year ended June 30, 2020
Revenue	$ 880,603	$ 517,438
Net loss	$ (465,875)	$ (132,721)

PayBright

On January 1, 2021, Affirm Canada Holdings Ltd. ("Affirm Canada"), a subsidiary of Affirm, and Affirm acquired all outstanding stock of PayBright, Inc., one of Canada's leading buy now, pay later providers, for approximately $288.8 million. We have included the financial results of PayBright in our consolidated financial statements from the date of acquisition.

The purchase price was comprised of (i) approximately $114.5 million in cash, (ii) 3,622,445 shares of our common stock issued to the shareholders of PayBright at closing and (iii) 2,587,362 shares of our common stock held in escrow and subject to forfeiture if certain revenue milestones are not met. On January 12, 2021, these shares were reclassified into an aggregate of 1,811,222 shares of our Class A common stock and 1,811,222 shares of our Class B common stock issued to the shareholders of PayBright at closing and an aggregate of 1,293,681 shares of our Class A common stock and 1,293,681 shares of our Class B common stock held in escrow.

The acquisition date fair value of the consideration transferred for PayBright was approximately $288.8 million, which consisted of the following (in thousands):

Cash	$	114,490
Fair value of common stock transferred		116,989
Fair value of contingent consideration		57,275
Total purchase price	$	288,754

For further details on our fair value methodology with respect to the contingent consideration, see Note 14. Fair Value of Financial Assets and Liabilities.

The acquisition of PayBright was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805. The acquired PayBright assets, including identifiable intangible assets and liabilities assumed, have been recorded at their estimated fair values with the excess purchase price assigned to goodwill. The goodwill was primarily attributed to future synergies from integration, new customer acquisitions, and the value of assembled workforce in Canada. Goodwill is not expected to be deductible for income tax purposes.

The following table summarizes the allocation of the consideration paid of approximately $288.8 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Cash and cash equivalents	$	8,219
Restricted cash		1,469
Loans held for investment		89,570
Accounts receivable, net		1,537
Property, equipment and software, net		586
Intangible assets		16,653
Other assets		5,651
Total assets acquired	$	123,685
Accounts payable		6,579
Accrued interest payable		23
Accrued expenses and other liabilities		193
Funding debt		85,310
Total liabilities assumed	$	92,105
Net assets acquired	$	31,580
Goodwill		257,174
Total purchase price	$	288,754

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands)

		Fair Value	Useful Life (in years)
Developed technology	$	6,127	3.0
Merchant relationships		9,505	4.0
Trade name		1,021	5.0
Total intangible assets	$	16,653	

The transaction costs associated with the acquisition were approximately $2.4 million for the year ended June 30, 2021, which are included in general and administrative expense in the consolidated statements of operations and comprehensive loss. There were no transaction costs associated with the acquisition for the year ended June 30, 2022.

Unaudited Pro Forma Information

The following table reflects the pro forma consolidated total revenue and net loss for the periods presented as if the acquisition of PayBright had occurred on July 1, 2019 and combines the historical results of Affirm and PayBright. This supplemental unaudited pro forma information is based upon accounting estimates and judgments that we believe are reasonable and includes certain adjustments to conform accounting standards to U.S. GAAP. This supplemental unaudited pro forma financial information has been prepared for illustrative purposes only and is not necessarily indicative of what actual results would have occurred, or of results that may occur in the future.

	Year ended June 30, 2021	Year ended June 30, 2020
Revenue	$ 886,937	$ 524,657
Net loss	$ (447,116)	$ (128,244)

6. Balance Sheet Components

Property, Equipment and Software, net

Property, equipment and software, net consisted of the following (in thousands):

	June 30, 2022	June 30, 2021
Internally developed software	$ 200,621	$ 68,197
Leasehold improvements	16,169	15,212
Computer equipment	10,751	6,707
Furniture and equipment	4,279	5,284
Total Property, equipment and software, at cost	$ 231,820	$ 95,400
Less: Accumulated depreciation and amortization	(60,338)	(32,901)
Total Property, equipment and software, net	$ 171,482	$ 62,499

Depreciation and amortization expense on property, equipment and software was $29.2 million, $15.4 million and $9.4 million for the years ended June 30, 2022, 2021, and 2020, respectively. Depreciation expense on leasehold improvements, furniture and equipment, and computer equipment is allocated between general and administrative, technology and data analytics, sales and marketing, and processing and servicing based on employee headcount in the consolidated statements of operations and comprehensive loss. Amortization expense on internally developed software is included as a component of technology and data analytics in the consolidated statements of operations and comprehensive loss.

For the year ended June 30, 2021, we recorded impairment expense of $1.5 million related to leasehold improvements. No impairment losses related to leasehold improvements were noted during both the years ended June 30, 2022 and 2020. No impairment losses related to property, equipment and software were recorded during the years ended June 30, 2022, 2021, and 2020.

Goodwill and Intangible Assets

The changes in the carrying amount of goodwill during the years ended June 30, 2022 and 2021 were as follows (in thousands):

Balance as of June 30, 2020	$ 1,255
Additions	508,581
Effect of foreign currency translation	6,679
Balance as of June 30, 2021	$ 516,515
Additions	33,318
Effect of foreign currency translation	(10,299)
Balance as of June 30, 2022	$ 539,534

Refer to Note 5. Acquisitions for a description of additions to goodwill during the years ended June 30, 2022 and 2021. No impairment losses related to goodwill were recorded during the years ended June 30, 2022, 2021, and 2020.

Intangible assets consisted of the following (in thousands):

	June 30, 2022			
	Gross	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (in years)
Merchant relationships	$ 38,371	$ (10,281)	$ 28,090	3.6
Developed technology	39,782	(15,882)	23,900	1.9
Assembled workforce	12,490	(1,664)	10,826	1.3
Trademarks and domains, definite	1,507	(802)	705	2.4
Trademarks and domains, indefinite	2,146	—	2,146	Indefinite
Other intangibles	350	—	350	Indefinite
Total intangible assets	$ 94,646	$ (28,629)	$ 66,017	

In connection with the Fast asset acquisition, we also recorded a $12.9 million intangible asset representing the option to purchase developed technology as of June 30, 2022. The asset will not be amortized until the purchase is complete and the asset is placed into service. Refer to Note 5. Acquisitions for a description of the acquisition and assets acquired.

	June 30, 2021			
	Gross	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (in years)
Merchant relationships	$ 38,951	$ (2,192)	$ 36,759	4.5
Developed technology	30,176	(2,930)	27,246	2.8
Trademarks and domains [1]	3,769	(194)	3,575	3.3
Other intangibles	350	—	350	Indefinite
Total intangible assets	$ 73,246	$ (5,316)	$ 67,930	

(1) As of June 30, 2021, trademarks and domains included both definite and indefinite intangible assets.

Amortization expense for intangible assets was $23.5 million, $4.6 million and nil for the years ended June 30, 2022, 2021 and 2020, respectively. No impairment losses related to intangible assets were recorded during the years ended June 30, 2022, 2021, and 2020.

The expected future amortization expense of these intangible assets as of June 30, 2022 is as follows (in thousands):

2023	$ 29,595
2024	21,686
2025	7,232
2026	4,993
2027 and thereafter	15
Total amortization expense	$ 63,521

Commercial Agreement Assets

During the year ended June 30, 2022, we entered into a commercial agreement with Amazon.com Services LLC and Amazon Payments, Inc. ("Amazon") and granted warrants in exchange for certain exclusivity and performance provisions and the benefit of acquiring new users. In connection with the agreements, we recognized an asset of $133.5 million associated with the portion of the warrants that were fully vested upon execution of the agreement. The asset was valued based on the fair value of the warrants on the grant date and represents the probable future economic benefit to be realized over the approximately 3.2 year remaining initial term of the commercial agreement. For the year ended June 30, 2022, we recognized amortization expense of $26.3 million in our consolidated statements of operations and comprehensive loss as a component of sales and marketing expense. Refer to Note 15. Redeemable Convertible Preferred Stock and Stockholders' Equity for further discussion of the warrants.

During the year ended June 30, 2021, we recognized an asset in connection with a commercial agreement with Shopify Inc. ("Shopify"), in which we granted warrants in exchange for the opportunity to acquire new merchant partners. This asset represents the probable future economic benefit to be realized over the expected benefit period and is valued based on the fair value of the warrants on the grant date. We recognized an asset of $270.6 million associated with the fair value of the warrants, which were fully vested as of June 30, 2021. The expected benefit period of the asset was initially estimated to be four years, and the remaining useful life of the asset is reevaluated each reporting period. During the year ended June 30, 2022, the remaining expected benefit period was extended by two years upon the execution of an amendment to the commercial agreement with Shopify which extended the term of the agreement. We recorded amortization expense related to the commercial agreement asset of

$62.2 million and $64.9 million for the years ended June 30, 2022, and 2021, respectively, in our consolidated statements of operations and comprehensive loss as a component of sales and marketing expense.

During the year ended June 30, 2021, we recognized an asset in connection with a commercial agreement with an enterprise partner, in which we granted stock appreciation rights in exchange for the benefit of acquiring access to the partner's consumers. This asset represents the probable future economic benefit to be realized over the three-year expected benefit period and is valued based on the fair value of the stock appreciation rights on the grant date. We initially recognized an asset of $25.9 million associated with the fair value of the stock appreciation rights. We recorded amortization expense related to the asset of $8.1 million, and $4.3 million for the years ended June 30, 2022, and 2021, respectively, in our consolidated statements of operations and comprehensive loss as a component of sales and marketing expense.

Other Assets

Other assets consisted of the following (in thousands):

	June 30, 2022	June 30, 2021
Operating lease right-of-use assets	$ 50,671	$ 57,828
Derivative instruments	49,983	2,880
Equity securities, at cost	43,172	11,278
Prepaid expenses	37,497	21,069
Prepaid payroll taxes for stock-based compensation	35,172	111,278
Processing reserves	26,483	14,042
Other receivables	17,221	26,423
Other assets	21,368	29,881
Total other assets	$ 281,567	$ 274,679

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following (in thousands)

	June 30, 2022	June 30, 2021
Accrued expenses	$ 67,343	$ 47,674
Operating lease liability	65,713	74,952
Collateral held for derivative instruments	55,779	—
Contingent consideration liability	23,348	153,447
Commercial agreement liability	—	25,357
Other liabilities	25,415	22,147
Total accrued expenses and other liabilities	$ 237,598	$ 323,577

Our acquisition of PayBright included consideration transferred and shares held in escrow, contingent upon the achievement of future milestones. We classified the contingent consideration as a liability and we will continue to remeasure the liability to its fair value at each reporting date until the contingency is resolved. As of June 30, 2022, the fair value of the contingent consideration liability was $23.3 million. For further details on our fair value methodology with respect to the contingent consideration, see Note 14. Fair Value of Financial Assets and Liabilities.

During the year ended June 30, 2021, we recognized a liability in connection with a commercial agreement with an enterprise partner of $25.9 million. As of June 30, 2022, we have fully settled this liability.

7. Leases

We lease facilities under operating leases with various expiration dates through 2030. We have the option to renew or extend our leases. Certain lease agreements include the option to terminate the lease with prior written notice ranging from 180 days to one year. As of June 30, 2022, we have not considered such provisions in the determination of the lease term, as it is not reasonably certain these options will be exercised. Leases have remaining terms that range from less than one year to eight years.

Several leases require us to obtain standby letters of credit, naming the lessor as a beneficiary. These letters of credit act as security for the faithful performance by us of all terms, covenants and conditions of the lease agreement. The cash collateral and deposits for the letters of credit have been recognized as restricted cash in the consolidated balance sheets and totaled $9.7 million and $9.9 million as of June 30, 2022 and June 30, 2021, respectively.

As of June 30, 2022, right-of-use assets of $50.7 million were included in other assets, and the related operating lease liability totaled $65.7 million which was included in accrued expenses and other liabilities in the consolidated balance sheet.

The impairment expense related to leases during the year ended June 30, 2022 was not material to our consolidated statements of operations. For the year ended June 30, 2021, we recognized impairment expense of $11.5 million and for several of our operating lease right-of-use assets, included in general and administrative expense on our consolidated statements of operations and comprehensive loss. There was no impairment expense related to leases during the year ended June 30, 2020.

The components of operating lease expenses are as follows (in thousands):

	Year ended June 30,		
	2022	2021	2020
Operating lease expense	$ 15,200	$ 15,300	$ 13,700
Short-term lease expenses	400	1,100	1,200

We have subleased a portion of our leased facilities. Sublease income totaled $3.1 million during the year ended June 30, 2022. There was no sublease income for both the years ended June 30, 2021 and 2020.

Lease term and discount rate information are summarized as follows:

	June 30, 2022
Weighted average remaining lease term (in years)	4.9
Weighted average discount rate	4.7%

Maturities of operating lease liabilities as of June 30, 2022 are as follows (in thousands) for the years ended:

2023	$ 16,445
2024	16,334
2025	16,119
2026	15,270
2027	2,680
2028 and thereafter	7,688
Total lease payments	74,536
Less imputed interest	(8,823)
Present value of total lease liabilities	$ 65,713

8. Employee Benefits

Retirement Benefits

We offer a 401(k) plan to full-time employees. Eligibility for the plan is effective on the first of the month following an employee's first 90 days of service. Employees may elect to contribute to a traditional 401(k) plan, which qualifies as a deferred compensation arrangement under Section 401 of the Internal Revenue Code ("IRC"). In this case, participating employees defer a portion of their pre-tax earnings. Employees may also contribute to a Roth 401(k) plan using post-tax dollars. We have not made any matching contributions to date.

Health and Welfare Benefits

We provide health and welfare benefits to our employees, including health, dental, prescription drug and vision for which we are fully-insured. The expense incurred associated with these benefits was $20.6 million, $10.5 million, and $7.1 million for the years ended June 30, 2022, 2021, and 2020, respectively.

9. Commitments and Contingencies

Repurchase Obligation

Under the normal terms of our whole loans sales to third-party investors, we may become obligated to repurchase loans from investors in certain instances where a breach in representation and warranties is identified. Generally, a breach in representation and warranties would occur where a loan has been identified as subject to verified or suspected fraud, or in cases where a loan was serviced or originated in violation of Affirm's guidelines. We would only experience a loss if the contractual repurchase price of the loan exceeds the fair value on the repurchase date. The aggregate outstanding balance of loans held by third-party investors or unconsolidated VIEs was $4,504.5 million and $2,453.9 million as of June 30, 2022 and June 30, 2021, respectively, of which we have recorded a repurchase liability of $2.0 million and $2.1 million as of June 30, 2022 and June 30, 2021, respectively, within accrued expenses and other liabilities in our consolidated balance sheets.

Legal Proceedings

From time to time, we are subject to legal proceedings and claims in the ordinary course of business. The results of such matters often cannot be predicted with certainty. In accordance with applicable accounting guidance, we establish an accrued liability for legal proceedings and claims when those matters present loss contingencies which are both probable and reasonably estimable.

Toole v. Affirm Holdings, Inc.

On February 28, 2022, plaintiff Jeffrey Toole filed a putative class action against Affirm and Max Levchin in the U.S. District Court for the Northern District of California (the "Toole action"). The Toole complaint alleges that Affirm violated Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder by issuing and then subsequently deleting a tweet from its official Twitter account on February 10, 2022, which omitted full details of Affirm's second quarter fiscal 2022 financial results. Toole seeks class certification, unspecified compensatory and punitive damages, and costs and expenses. On June 9, 2022, the Court appointed Eric Nunez as lead plaintiff and Robbins Geller Rudman & Dowd LLP as class counsel.

Vallieres v Levchin, et al.

On April 25, 2022, plaintiff Michael Vallieres filed a derivative lawsuit in the U.S. District Court for the Northern District of California against Affirm, as a nominal defendant, and certain of Affirm's current officers and directors as defendants based on allegations substantially similar to those in the Toole action. The Vallieres complaint purports to assert claims on Affirm's behalf for breach of fiduciary duty, gross mismanagement, abuse of control, unjust enrichment, and contribution under the federal securities laws, and seeks corporate reforms, unspecified damages and restitution, and fees and costs. On June 10, 2022, the Court stayed this derivative action pending the resolution of Affirm's anticipated motion to dismiss the Toole complaint referenced above.

We have determined, based on current knowledge, that the aggregate amount or range of losses that are estimable with respect to the our legal proceedings, including the matters described above, would not have a material adverse effect on our consolidated financial position, results of operations or cash flows. Amounts accrued as of June 30, 2022 were not material. The ultimate outcome of legal proceedings involves judgments, estimates and inherent uncertainties, and cannot be predicted with certainty.

Concentrations of Credit Risk

We have substantial credit risk primarily in our consumer loans held for investment and in our cash and cash equivalents. We maintain our cash and cash equivalents in accounts at regulated domestic financial institutions in amounts that may exceed FDIC insured amounts. We believe we are not exposed to any significant credit risk in these accounts.

We are exposed to default risk on both loan receivables purchased from our originating bank partners and loan receivables that are self-originated. The ultimate collectability of a substantial portion of the loan portfolio is susceptible to changes in economic and market conditions. Loans receivables are diversified geographically. As of June 30, 2022 and June 30, 2021, approximately 12% and 15%, respectively, of loan receivables related to customers residing in the state of California. No other states or provinces exceeded 10%.

Concentrations of Revenue

For the year ended June 30, 2022, there were no merchants that exceeded 10% of total revenue, and for the years ended June 30, 2021 and 2020, approximately 20% and 28% , respectively, of total revenue was driven by one merchant.

Purchase Commitments

For the years ended June 30, 2022 and 2021, we recorded purchase commitments of $37.1 million and $89.3 million, respectively, primarily related to cloud and hosting services. In February 2012, we entered into an agreement with a third-party cloud computing web services provider for our cloud computing and hosting services. In May 2020, we entered into an addendum to our agreement which included annual spending commitments for the period between May 2020 and April 2023 with an aggregate committed spend of $120.0 million during such period. Our agreement with our cloud computing web services provider will continue indefinitely until terminated by either party. Our cloud-computing web services provider may terminate the customer agreement for convenience with 30

days prior written notice and may, in some cases, terminate the agreement immediately for cause upon notice. If we fail to meet the minimum purchase commitment during any year, we may be required to pay the difference. We pay our cloud-computing web services provider monthly, and we may pay more than the minimum purchase commitment to our cloud-computing web services provider based on usage.

10. Transactions with Related Parties

In the ordinary course of business, we may enter into transactions with directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). Some of our directors, principal officers, and their immediate families have received loans facilitated by us, in accordance with our regular consumer loan offerings. As of June 30, 2022, the outstanding balance and interest earned on such loans is immaterial.

11. Debt

Debt encompasses funding debt, convertible senior notes and our revolving credit facility.

Funding Debt

Funding debt and its aggregate future maturities consists of the following (in thousands):

	June 30, 2022	June 30, 2021
2022	$ —	$ 104,159
2023	$ 158,547	$ 460,289
2024	421,484	22,705
2025	—	—
2026	—	102,203
2027 and thereafter	103,364	—
Total	$ 683,395	$ 689,356
Deferred debt issuance costs	(10,818)	(8,754)
Total funding debt, net of deferred debt issuance costs	$ 672,577	$ 680,602

Warehouse Credit Facilities

Through trusts, we entered into warehouse credit facilities with certain lenders to finance the purchase and origination of our loans. Each trust entered into a credit agreement and security agreement with a third-party as administrative agent and a national banking association as collateral trustee and paying agent. Borrowings under these agreements are referred to as funding debt and proceeds from the borrowings can only be used for the purposes of facilitating loan funding and origination, with advance rates ranging from 83% to 88% of the total collateralized balance. These trusts are bankruptcy-remote special-purpose vehicles in which creditors do not have recourse against the general credit of Affirm. These revolving facilities mature between fiscal years 2024 and 2029, and subject to covenant compliance, generally permit borrowings up to 12 months prior to the final maturity date of each respective facility. As of June 30, 2022, the aggregate commitment amount of these facilities was $2,450.0 million on a revolving basis, of which $473.3 million was drawn, with $1,976.7 million remaining available. Some of the loans originated by us or purchased from the originating bank partners are pledged as collateral for borrowings in our facilities. The unpaid principal balance of these loans totaled $549.6 million and $664.1 million as of June 30, 2022 and June 30, 2021, respectively.

Borrowings under these warehouse credit facilities bear interest at an annual benchmark rate of LIBOR or an alternative commercial paper rate (which is either (i) the per annum rate equivalent to the weighted-average of the per annum rates at which all commercial paper notes were issued by certain lenders to fund advances or maintain

loans, or (ii) the daily weighted-average of LIBOR, as set forth in the applicable credit agreement), plus a spread ranging from 1.65% to 4.00%. Interest is payable monthly. In addition, these agreements require payment of a monthly unused commitment fee ranging from 0.00% to 0.75% per annum on the undrawn portion available.

These agreements contain certain customary negative covenants and financial covenants including maintaining certain levels of minimum liquidity, maximum leverage, and minimum tangible net worth. As of June 30, 2022, we were in compliance with all applicable covenants in the agreements.

Other Funding Facilities

Prior to our acquisition of PayBright on January 1, 2021, PayBright entered into various credit facilities utilized to finance the origination of loan receivables in Canada. Similar to our warehouse credit facilities, borrowings under these agreements are referred to as funding debt, and proceeds from the borrowings may only be used for the purposes of facilitating loan funding and origination. These facilities are secured by PayBright loan receivables pledged to the respective facility as collateral, mature in 2024, and bear interest based on a benchmark rate plus a spread ranging from 1.25% to 4.25%.

As of June 30, 2022, the aggregate commitment amount of these facilities was $484.0 million on a revolving basis, of which $183.1 million was drawn, with $300.9 million remaining available. The unpaid principal balance of loans pledged to these facilities totaled $210.1 million and $74.1 million as of June 30, 2022 and June 30, 2021, respectively.

These agreements contain certain customary negative covenants and financial covenants including maintaining certain levels of minimum liquidity, maximum leverage, and minimum tangible net worth at the PayBright subsidiary level or the Affirm Holdings level. As of June 30, 2022, we were in compliance with all applicable covenants in the agreements.

Repurchase Agreements

We entered into certain sale and repurchase agreements pursuant to our retained interests in our off-balance sheet securitizations where we have sold these securities to a counterparty with an obligation to repurchase at a future date and price. The repurchase agreements each have an initial term of three months and subject to mutual agreement by Affirm and the counterparty, we may enter into a repurchase date extension for an additional three month term at market interest rates on such extension date. As of June 30, 2022, the interest rates were 2.68% on the senior pledged securities for 2022-X1, 2021-Z1 and 2021-Z2 and 4.33% on the residual certificate pledged securities for 2022-X1, 2021-Z1 and 2021-Z2 . We had $27.0 million and $13.9 million in debt outstanding under our repurchase agreements disclosed within funding debt on the consolidated balance sheets as of June 30, 2022 and June 30, 2021, respectively. The debt will be amortized through regular principal and interest payments on the pledged securities. The outstanding debt relates to $32.4 million and $16.2 million in pledged securities disclosed within securities available for sale at fair value on the consolidated balance sheets as of June 30, 2022 and June 30, 2021, respectively.

Convertible Senior Notes

On November 23, 2021, we issued $1,725 million in aggregate principal amount of 0% convertible senior notes due 2026 (the “2026 Notes”) in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The total net proceeds from this offering, after deducting debt issuance costs, were approximately $1,704 million. The 2026 Notes represent senior unsecured obligations of the Company. The 2026 Notes do not bear interest except in special circumstances described below, and the principal amount of the 2026 Notes does not accrete. The 2026 Notes mature on November 15, 2026.

Each $1,000 of principal of the 2026 Notes will initially be convertible into 4.6371 shares of our common stock, which is equivalent to an initial conversion price of approximately $215.65 per share, subject to adjustment

upon the occurrence of certain specified events set forth in the indenture governing the 2026 Notes (the "Indenture"). Holders of the 2026 Notes may convert their 2026 Notes at their option at any time on or after August 15, 2026 until close of business on the second scheduled trading day immediately preceding the maturity date of November 15, 2026. Further, holders of the 2026 Notes may convert all or any portion of their 2026 Notes at their option prior to the close of business on the business day immediately preceding August 15, 2026, only under the following circumstances:

1) during any calendar quarter commencing after March 31, 2022 (and only during such calendar quarter), if the last reported sale price of the Class A 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 (the measurement period) in which the trading price (as defined in the indenture governing the 2026 Notes) per $1,000 principal amount of the 2026 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day;

3) if the Company calls any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or

4) upon the occurrence of certain specified corporate events.

Upon conversion of the 2026 Notes, the Company will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at the Company's election. If we satisfy our conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of our common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a daily conversion value (as set forth in the Indenture) calculated on a proportionate basis for each trading day in a 40 trading day observation period.

No sinking fund is provided for the 2026 Notes. We may not redeem the notes prior to November 20, 2024. We may redeem for cash all or part of the notes on or after November 20, 2024 if the last reported sale price of our Class A 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 we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid special interest, if any.

If a fundamental change (as defined in the Indenture) occurs prior to the maturity date, holders of the 2026 Notes may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount of the 2026 Notes, plus any accrued and unpaid interest to, but excluding, the repurchase date. In addition, if specific corporate events occur prior to the maturity date of the 2026 Notes, we will be required to increase the conversion rate for holders who elect to convert their 2026 Notes in connection with such corporate events.

The net carrying amount of the liability component of the convertible senior notes outstanding as of June 30, 2022 consisted of the following (in thousands):

	June 30, 2022
Principal	$ 1,725,000
Unamortized discount and issuance costs	(18,332)
Net carrying amount	$ 1,706,668

The 2026 Notes do not bear interest. For the year ended June 30, 2022, we recognized $2.4 million, of interest expense related to the amortization of debt discount and issuance costs in the consolidated statement of operations and comprehensive loss within other (expense) income, net. As of June 30, 2022, the remaining life of the 2026 Notes is approximately 53 months.

Revolving Credit Facility

On January 19, 2021, we entered into a revolving credit agreement with a syndicate of commercial banks for a $185.0 million unsecured revolving credit facility with a final maturity date of January 19, 2024. Effective December 15, 2021, we executed our right to terminate the revolving credit agreement and no early termination penalties were incurred. As of December 15, 2021, we had not drawn on the facility and there was no outstanding balance to be repaid. Upon termination, we accelerated the amortization of $1.2 million of issuance costs which were recorded in other (expense) income, net.

On February 4, 2022, we entered into a new revolving credit agreement with a syndicate of commercial banks for a $165.0 million unsecured revolving credit facility. On May 16, 2022, we increased unsecured revolving commitments under the facility to $205.0 million. This facility bears interest at a rate equal to, at our option, either (a) a Secured Overnight Financing Rate ("SOFR") rate determined by reference to the forward-looking term SOFR rate for the interest period, plus an applicable margin of 1.85% per annum or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50% per annum, (ii) the rate last quoted by the Wall Street Journal as the U.S. prime rate and (iii) the one-month forward-looking term SOFR rate plus 1.0% per annum, in each case, plus an applicable margin of 0.85% per annum. The revolving credit agreement has a final maturity date of February 4, 2025. The facility contains certain covenants and restrictions, including certain financial maintenance covenants, and requires payment of a monthly unused commitment fee of 0.20% per annum on the undrawn balance available. There are no borrowings outstanding under the facility as of June 30, 2022.

12. Securitization and Variable Interest Entities

Consolidated VIEs

We consolidate VIEs when we are deemed to be the primary beneficiary.

Warehouse Credit Facilities

We established certain entities, deemed to be VIEs, to enter into warehouse credit facilities for the purpose of purchasing loans from our originating bank partners and funding self-originated loans. Refer to Note 11. Debt for additional information. The creditors of the VIEs have no recourse to the general credit of Affirm and the liabilities of the VIEs can only be settled by the respective VIEs' assets; however, as the servicer of the loans pledged to our warehouse funding facilities, we have the power to direct the activities that most significantly impact the VIEs' economic performance. In addition, we retain significant economic exposure to the pledged loans and therefore, we are the primary beneficiary.

Securitizations

In connection with our asset-backed securitization program, we sponsor and establish trusts (deemed to be VIEs) to ultimately purchase loans facilitated by our platform. Securities issued from our asset-backed securitizations are senior or subordinated, based on the waterfall criteria of loan payments to each security class. The subordinated residual interests issued from these transactions are first to absorb credit losses in accordance with the waterfall criteria. For these VIEs, the creditors have no recourse to the general credit of Affirm and the liabilities of the VIEs can only be settled by the respective VIEs' assets. Additionally, the assets of the VIEs can be used only to settle obligations of the VIEs.

We consolidate securitization VIEs when we are deemed to be the primary beneficiary and therefore have the power to direct the activities that most significantly affect the VIEs' economic performance and a variable interest that could potentially be significant to the VIE. Through our role as the servicer, we have the power to direct the activities that most significantly affect the VIEs' economic performance. In evaluating whether we have a variable interest that could potentially be significant to the VIE, we consider our retained interests. We also earn a servicing fee which has a senior distribution priority in the payment waterfall.

In evaluating whether we are the primary beneficiary, management considers both qualitative and quantitative factors regarding the nature, size and form of our involvement with the VIEs. Management assesses whether we are the primary beneficiary of the VIEs on an ongoing basis.

Where we consolidate the securitization trusts, the loans held in the securitization trusts are included in loans held for investment, and the notes sold to third-party investors are recorded in notes issued by securitization trusts in the consolidated balance sheets.

As of June 30, 2022, we consolidated Affirm Asset Securitization Trust 2020-Z1 ("2020-Z1"), Affirm Asset Securitization Trust 2020-A ("2020-A"), Affirm Asset Securitization Trust 2020-Z2 ("2020-Z2"), Affirm Asset Securitization Trust 2021-A ("2021-A"), Affirm Asset Securitization Trust 2021-B ("2021-B"), and Affirm Asset Securitization Trust 2022-A ("2022-A"). Each securitization trust issued interest-bearing notes and residual certificates to finance the purchase of the loans facilitated by our platform. At the closing of each securitization, we contributed loans, facilitated through our technology platform and purchased from our originating bank partners, with an aggregate outstanding principal balance of $2,554.3 million. The 2020-Z1 and 2020-Z2 securitizations are secured by static pools of loans contributed at closing, whereas the 2021-A, 2021-B, and 2022-A securitizations are revolving and we may contribute additional loans from time to time until the end of the revolving period. For the 2020-Z2 securitization, we purchased $27.9 million of loan receivables from our third-party loan buyers which were then contributed to the trust.

For each securitization, the residual certificates represent the right to receive excess cash on the loans each collection period after all fees and required distributions have been made to the note holders on the related payment date. For 2020-Z1, 2020-A, 2021-A, 2021-B, and 2022-A, all notes were sold to third-party investors and we retained 100% of the residual certificates issued by the securitization trusts. For 2020-Z2, all notes were sold to third-party investors and we retained 93.3% of the residual certificates issued by the securitization trust, and a third-party investor holds the remaining 6.7% of the residual certificates in 2020-Z2. The residual trust certificates held by third-party investors are measured at fair value, using a discounted cash flow model, and presented within accrued expenses and other liabilities on the consolidated balance sheets. In addition to the retained residual certificates, our continued involvement includes loan servicing responsibilities over the life of the underlying loans.

We defer and amortize debt issuance costs for consolidated securitization trusts on a straight-line basis over the expected life of the notes.

2020-Z1

On July 8, 2020, the notes under the 2020-Z1 securitization were issued as a single class: Class A in the amount of $150.0 million (the "2020-Z1 notes"). The 2020-Z1 notes bear interest at a fixed rate of 3.46% and have a maturity date of October 15, 2024. Principal and interest payments began in September 2020 and are payable monthly. These 2021-Z1 notes are recorded at amortized cost on the consolidated balance sheet. The 2020-Z1 notes held by third-party investors and the unamortized debt issuance costs are included in notes issued by securitization trusts with a balance of $30.5 million on the consolidated balance sheets at June 30, 2022 and are secured by loan receivables at amortized cost of $30.3 million included in loans held for investment on the consolidated balance sheets at June 30, 2022.

2020-A

On August 5, 2020, the notes under the 2020-A securitization were issued in three classes: Class A in the amount of $330.0 million, Class B in the amount of $16.2 million, and Class C in the amount of $22.1 million (collectively, the "2020-A notes"). On April 15, 2022, we exercised the optional redemption right under the 2020-A securitization where Affirm as the 100% residual certificate owner repurchased the outstanding receivables at a repurchase price of $234.0 million which was equal to the fair market value of the receivables as of the last day of the related collection period. All of the outstanding 2020-A notes were paid at the aggregate redemption price of $280.4 million. The Class A, Class B, and Class C notes previously bore interest at a fixed rate of 2.10%, 3.54%, and 6.23%, respectively, and each class had a final maturity date of February 18, 2025.

2020-Z2

On October 22, 2020, the notes under the 2020-Z2 securitization were issued as a single class: Class A in the amount of $375.0 million (the "2020-Z2 notes"). The 2020-Z2 notes bear interest at a fixed rate of 1.90% and have a maturity date of January 15, 2025. Principal and interest payments began in December 2020 and are payable monthly. These 2020-Z2 notes are recorded at amortized cost on the consolidated balance sheet. The notes held by third-party investors and the unamortized debt issuance costs are included in the 2020-Z2 notes issued by securitization trusts with a balance of $102.0 million on the consolidated balance sheets at June 30, 2022 and are secured by loan receivables at amortized cost of $101.2 million included in loans held for investment on the consolidated balance sheets at June 30, 2022. The residual trust certificates held by third-party investors are measured at fair value using a discounted cash flow model, and presented within accrued expenses and other liabilities on the consolidated balance sheets. See Note 14. Fair Value of Financial Assets and Liabilities for additional information on the fair value sensitivity of these asset-backed securities.

2021-A

On February 18, 2021, the notes under the 2021-A securitization were issued in five classes: Class A in the amount of $407.2 million, Class B in the amount of $30.3 million, Class C in the amount of $21.0 million, Class D in the amount of $22.5 million, and Class E in the amount of $19.0 million (collectively, the "2021-A notes"). The Class A, Class B, Class C, Class D, and Class E notes bear interest at a fixed rate of 0.88%, 1.06%, 1.66%, 3.49%, and 5.65%, respectively, and each class has a maturity date of August 15, 2025. Principal and interest payments began in March 2021 and are payable monthly. These notes are recorded at amortized cost on the consolidated balance sheet. The associated debt issuance costs totaled $0.3 million as of June 30, 2022. The 2021-A notes held by third-party investors and the unamortized debt issuance costs are included in notes issued by securitization trusts with a balance of $500.0 million on the consolidated balance sheets at June 30, 2022 and are secured by loan receivables at amortized cost of $498.5 million included in loans held for investment on the consolidated balance sheets as of June 30, 2022.

2021-B

On August 4, 2021, the notes under the 2021-B securitization were issued in five classes: Class A in the amount of $418.8 million, Class B in the amount of $28.0 million, Class C in the amount of $19.8 million, Class D in the amount of $22.5 million, and Class E in the amount of $11.0 million (collectively, the "2021-B notes"). The Class A, Class B, Class C, Class D, and Class E notes bear interest at a fixed rate of 1.03%, 1.24%, 1.40%, 2.54%, and 4.61%, respectively, and each class has a maturity date of August 17, 2026. Principal and interest payments began in October 2021 and are payable monthly. These notes are recorded at amortized cost on the consolidated balance sheet. The associated debt issuance costs totaled $1.8 million as of June 30, 2022. The 2021-B notes held by third-party investors and the unamortized debt issuance costs are included in notes issued by securitization trusts with a balance of $500.0 million on the consolidated balance sheets at June 30, 2022 and are secured by loan receivables at amortized cost of $511.1 million included in loans held for investment on the consolidated balance sheets as of June 30, 2022.

2022-A

On May 4, 2022 the notes under the 2022-A securitization issued in five classes: Class A in the amount of $405.6 million, Class B in the amount of $27.6 million, Class C in the amount of $26.8 million, Class D in the amount of $18.2 million, and Class E in the amount of $21.8 million (collectively, the "2022-A notes"). The Class A, Class B, Class C, Class D, and Class E notes bear interest at a fixed rate of 4.30%, 4.64%, 4.89%, 5.53%, and 8.04%, respectively and each class has a maturity date of May 17, 2027. Principal and interest payments will begin July 2022 and are payable monthly. These notes are recorded at amortized cost on the consolidated balance sheet. The associated debt issuance costs totaled $2.7 million as of June 30, 2022. The 2022-A notes held by third-party investors and the unamortized debt issuance costs are included in notes issued by securitization trusts with a balance of $499.9 million on the consolidated balance sheets at June 30, 2022 and are secured by loan receivables at amortized cost of $519.6 million included in loans held for investment on the consolidated balance sheets as of June 30, 2022.

The following tables present the aggregate carrying value of financial assets and liabilities from our involvement with consolidated VIEs.

	June 30, 2022		
	Assets	Liabilities	Net Assets
Warehouse credit facilities	$ 563,207	$ 534,422	$ 28,785
Securitizations	1,679,062	1,632,107	46,955
Total consolidated VIEs	$ 2,242,269	$ 2,166,529	$ 75,740

	June 30, 2021		
	Assets	Liabilities	Net Assets
Warehouse credit facilities	$ 688,197	$ 614,882	$ 73,315
Securitizations	1,115,427	1,178,545	(63,118)
Total consolidated VIEs	$ 1,803,624	$ 1,793,427	$ 10,197

Unconsolidated VIEs

As of June 30, 2022, Affirm Asset Securitization Trust 2021-Z1 ("2021-Z1"), Affirm Asset Securitization Trust 2021-Z2 ("2021-Z2"), Affirm Asset Securitization Trust 2022-X1 ("2022-X1"), and Affirm Asset Securitization Trust 2022-Z1 ("2022-Z1") were unconsolidated VIEs. We did not retain significant economic exposure through our variable interests and therefore we determined that we are not the primary beneficiary as of June 30, 2022.

For each securitization, the residual certificates represent the right to receive excess cash on the loans each collection period after all fees and required distributions have been made to the note holders on the related payment date. For 2021-Z1, 2021-Z2, 2022-X1, and 2022-Z1, we retained a 5% vertical interest in each trust, respectively, via our ownership of 5% par amount of each class of notes, and 5% par amount of residual interests. The remaining 95% of notes and residual interests were sold to third-party investors.

2021-Z1

On May 5, 2021, the notes under 2021-Z1 securitization were issued as a single class: Class A in the amount of $320.0 million (the "2021-Z1 notes"). The 2021-Z1 notes bear interest at a fixed rate of 1.07% and have a maturity date of August 15, 2025. Principal and interest payments began in June 2021 and are payable monthly.

The 2021-Z1 securitization is secured by a static pool of loans which were contributed at the closing date to the 2021-Z1 trust. The loans contributed at closing were facilitated through our technology platform and purchased from our originating bank partners, with an aggregate outstanding principal balance of $351.0 million. Of the loans sold to the 2021-Z1 trust, we purchased $41.4 million of loan receivables from one of our third-party loan buyers, which were contributed to the trust at closing.

At closing, we retained 5% of the 2021-Z1 notes and 86.9% of the residual certificates issued by the 2021-Z1 trust. The third-party loan contributor received 13.1% of the residual certificates at closing. On May 17, 2021, we sold a majority of the residual certificates retained at closing, comprising 81.9% of the par value, to five third-party investors. Subsequent to this sale, we retained only a 5% vertical interest in the 2021-Z1 trust via our ownership of 5% par amount of the 2021-Z1 notes and 5% par amount of the residual interests. We were required to retain these interests for compliance with U.S. risk retention rules.

We initially consolidated the 2021-Z1 trust at closing due to retaining a majority of the residual interest. However, upon completing the subsequent third-party sale of 81.9% of the residual certificates on May 17, 2021, we determined that we no longer had significant economic exposure through our variable interests and as such, we determined that we were no longer the primary beneficiary as of this date.

Upon deconsolidating the 2021-Z1 trust, we recognized a gain of $16.7 million, which is included within gain on sale of loans in our consolidated statements of operations and comprehensive loss.

2021-Z2

On November 10, 2021, the notes under 2021-Z2 securitization were issued as a single class: Class A in the amount of $260.0 million (the "2021-Z2 notes"). The 2021-Z2 notes bear interest at a fixed rate of 1.17% and have a maturity date of November 16, 2026. Principal and interest payments began in January 2022 and are payable monthly.

The 2021-Z2 securitization is secured by a static pool of loans which were contributed at the closing date to the 2021-Z2 trust. The loans contributed at closing were facilitated through our technology platform and purchased from our originating bank partners, with an aggregate outstanding principal balance of $287.5 million. Of the loans sold to the 2021-Z2 trust, we purchased $192.5 million of loan receivables from one of our third-party loan buyers, which were contributed to the trust at closing.

At closing, we retained only a 5% vertical interest in the 2021-Z2 trust via our ownership of 5% par amount of the 2021-Z2 notes and 5% par amount of the residual interests. We were required to retain these interests for compliance with U.S. risk retention rules. The third-party loan contributor received 95% of the residual certificates at closing.

On the closing date of the 2021-Z2 trust, we recognized a gain on sales of loans sold to the trust of $6.1 million, which is included within gain on sales of loans in our consolidated statements of operations and comprehensive loss.

2022-X1

On February 9, 2022, the notes under 2022-X1 securitization were issued as a single class: Class A in the amount of $366.5 million (the "2022-X1 notes"). The 2022-X1 notes bear interest at a fixed rate of 1.75% and have a maturity date of February 16, 2027. Principal and interest payments began in April 2022 and are payable monthly.

The 2022-X1 securitization is secured by a static pool of loans which were contributed at the closing date to the 2022-X1 trust. The loans contributed at closing were facilitated through our technology platform and originated by us or purchased from our originating bank partners, with an aggregate outstanding principal balance of $406.2 million. Of the loans sold to the 2022-X1 trust, we purchased $258.3 million of loan receivables from two of our third-party loan buyers, which were contributed to the trust at closing.

At closing, we retained only a 5% vertical interest in the 2022-X1 trust via our ownership of 5% par amount of the 2022-X1 notes and 5% par amount of the residual interests. We were required to retain these interests for compliance with U.S. risk retention rules. The remaining 95% of the residual certificates were sold to third-party investors at closing.

On the closing date of the 2022-X1 trust, we recognized gain on sales of loans sold to the trust of $13.1 million, which is included within gain on sales of loans in our consolidated statements of operations and comprehensive loss.

2022-Z1

On June 22, 2022, the notes under 2022-Z1 securitization were issued in two classes: Class A in the amount of $356.0 million and Class B in the amount of $15.5 million (collectively the "2022-Z1 notes"). The 2022-Z1 notes bear interest at a fixed rate of 4.55% and 6.49%, respectively and each class has a maturity date of June 15, 2027. Principal and interest payments begin in August 2022 and are payable monthly.

The 2022-Z1 securitization is secured by a static pool of loans which were contributed at the closing date to the 2022-Z1 trust. The loans contributed at closing were facilitated through our technology platform and originated by us or purchased from our originating bank partners, with an aggregate outstanding principal balance of $420.3 million. Of the loans sold to the 2022-Z1 trust, we purchased $251.7 million of loan receivables from one of our third-party loan buyers, which were contributed to the trust at closing.

At closing, we retained only a 5% vertical interest in the 2022-Z1 trust via our ownership of 5% par amount of the 2022-Z1 notes and 5% par amount of the residual interests. We were required to retain these interests for compliance with U.S. risk retention rules. The remaining 95% of the residual certificates were sold to third-party investors at closing.

On the closing date of the 2022-Z1 trust, the amount recognized within gain on sale of loans sold to the trust was immaterial, this is included within gain on sales of loans in our consolidated statements of operations and comprehensive loss.

The following information pertains to unconsolidated VIEs where we hold a variable interest but are not the primary beneficiary (in thousands):

	June 30, 2022			
	Assets	Liabilities	Net Assets	Maximum Exposure to Losses
Securitizations	$ 996,242	$ 965,909	$ 30,333	$ 51,248
Total unconsolidated VIEs	$ 996,242	$ 965,909	$ 30,333	$ 51,248

	June 30, 2021			
	Assets	Liabilities	Net Assets	Maximum Exposure to Losses
Securitizations	$ 305,414	$ 304,567	$ 847	$ 16,850
Total unconsolidated VIEs	$ 305,414	$ 304,567	$ 847	$ 16,850

Assets of unconsolidated VIEs include the carrying value for loans held in the 2021-Z1, 2021-Z2, 2022-X1, and 2022-Z1 trust and cash held in the collection and reserve accounts established for the trust. Liabilities include the outstanding principal balance of the 2021-Z1, 2021-Z2, 2022-X1, and 2022-Z1 notes.

Maximum exposure to losses represents our exposure through our continuing involvement as servicer and through our retained interests. For 2021-Z1, 2021-Z2, 2022-X1 and 2022-Z1, this includes $51.7 million in retained notes and residual certificates disclosed within securities available for sale at fair value in our consolidated balance sheets and $0.4 million related to our servicing liabilities and receivables disclosed within other assets in our consolidated balance sheets as of June 30, 2022.

Additionally, we may experience a loss due to future repurchase obligations resulting from breaches in representations and warranties in our securitization and third-party sale agreements. In connection with 2021-Z1, 2021-Z2, 2022-X1 and 2022-Z1, this amount was not material as of June 30, 2022.

Retained Beneficial Interests in Unconsolidated VIEs

The investors of the securitizations have no direct recourse to the assets of Affirm, and the timing and amount of beneficial interest payments is dependent on the performance of the underlying loan assets held within each trust. We have classified our retained beneficial interests in 2021-Z1, 2021-Z2, 2022-X1, and 2022-Z1 as "available for sale" and as such they are disclosed at fair value in our consolidated balance sheets.

See Note 13. Investments and Note 14. Fair Value of Financial Assets and Liabilities for additional information on the fair value sensitivity of the notes receivable and residual certificates. Additionally, as of June 30, 2022, we have pledged the 2021-Z1, 2021-Z2, and 2022-X1 retained beneficial interests as collateral in connection with a sale and repurchase agreement as described in Note 11. Debt.

13. Investments

Marketable Securities

Marketable securities include certain investments classified as cash and cash equivalents and securities available for sale, at fair value, and consist of the following as of each date presented within the consolidated balance sheets (in thousands):

	June 30, 2022	June 30, 2021
Cash and cash equivalents:		
Money market funds	$ 162,483	$ 143,241
Certificates of deposit	16,026	—
Commercial paper	229,272	—
Government bonds		
US	58,541	—
Securities, available for sale:		
Certificates of deposit	300,390	—
Corporate bonds	368,671	—
Commercial paper	478,293	—
Government bonds		
Non-US	17,955	—
US	378,386	—
Securitization notes receivable and certificates (1)	51,678	16,170
Total marketable securities:	$ 2,061,695	$ 159,411

(1) These securities, excluding 2022-Z1, have been pledged as collateral in connection with sale and repurchase agreements as discussed within Note 11. Debt.

Securities Available for Sale, at Fair Value

The amortized cost, gross unrealized gains and losses, allowance for credit losses, and fair value of securities available for sale as of June 30, 2022 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Certificates of deposit (1)	$ 317,331	$ 6	$ (921)	$ —	$ 316,416
Corporate bonds (1)	371,907	7	(3,243)	—	368,671
Commercial paper (1)	708,694	16	(1,145)	—	707,565
Government bonds					
Non-US	18,196	—	(241)	—	17,955
US (1)	438,947	—	(2,020)	—	436,927
Securitization notes receivable and certificates (2)	52,180	178	(659)	(21)	51,678
Total securities available for sale	$ 1,907,255	$ 207	$ (8,229)	$ (21)	$ 1,899,212

(1) Certificates of deposit, corporate bonds, commercial paper, and US government bonds include $303.8 million classified as cash and cash equivalents within the consolidated balance sheets.

(2) These securities, excluding 2022-Z1, have been pledged as collateral in connection with sale and repurchase agreements as discussed within Note 11. Debt

The amortized cost, gross unrealized gains and losses, allowance for credit losses, and fair value of securities available for sale as of June 30, 2021 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Securitization notes receivable and certificates	$ 16,144	$ 29	$ —	$ (3)	$ 16,170
Total securities available for sale	$ 16,144	$ 29	$ —	$ (3)	$ 16,170

As of June 30, 2022 and June 30, 2021, there were no material reversals of prior period allowance for credit losses recognized for available for sale securities.

A summary of securities available for sale with unrealized losses for which an allowance for credit losses has not been recorded, aggregated by investment category and the length of time that individual securities have been in a continuous loss position as of June 30, 2022, is as follows (in thousands):

	Less than or equal to 1 year		Greater than 1 year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	$ 290,169	$ (921)	$ —	$ —	$ 290,169	$ (921)
Corporate bonds	351,088	(3,243)	—	—	351,088	(3,243)
Commercial paper	679,272	(1,145)	—	—	679,272	(1,145)
Government bonds						
Non-US	17,955	(241)	—	—	17,955	(241)
US	431,903	(2,020)	—	—	431,903	(2,020)
Securitization notes receivable and certificates	722	(45)	—	—	722	(45)
Total securities available for sale [(1)]	$1,771,109	$ (7,615)	$ —	$ —	$1,771,109	$ (7,615)

(1) The number of positions with unrealized losses as of June 30, 2022 totaled 270.

There were no securities available for sale with unrealized losses for which an allowance for credit losses had not been recorded as of June 30, 2021.

The length of time to contractual maturities of securities available for sale as of June 30, 2022, were as follows (in thousands):

	Within 1 year		Greater than 1 year, less than or equal to 5 years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Certificates of deposit	$ 317,331	$ 316,416	$ —	$ —	$ 317,331	$ 316,416
Corporate bonds	206,208	204,614	165,699	164,057	371,907	368,671
Commercial paper	708,694	707,565	—	—	708,694	707,565
Government bonds						
Non-US	11,895	11,813	6,301	6,142	18,196	17,955
US	360,757	359,242	78,190	77,685	438,947	436,927
Securitization notes receivable and certificates [1]	—	—	52,180	51,678	52,180	51,678
Total securities available for sale	$1,604,885	$1,599,650	$ 302,370	$ 299,562	$1,907,255	$1,899,212

(1) Based on weighted average life of expected cash flows as of June 30, 2022.

Gross proceeds from matured or redeemed securities for the year ended June 30, 2022 were $2,187.8 million.

For available for sale securities realized gains and losses from portfolio sales were not material for the year ended June 30, 2022 and there were no portfolio sales or associated realized gains or losses for the year ended June 30, 2021.

Non-marketable Equity Securities

Equity investments without a readily determinable fair value held at cost were $43.2 million and $11.3 million as of June 30, 2022 and June 30, 2021, respectively, and are included in other assets within the consolidated balance sheets.

There have been no unrealized or realized gains and losses due to observable changes in orderly transactions and we did not record any impairment for the years ended June 30, 2022 or June 30, 2021.

14. Fair Value of Financial Assets and Liabilities

Financial Assets and Liabilities Recorded at Fair Value

The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2022 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents:				
Money market funds	$ 162,483	$ —	$ —	$ 162,483
Certificates of deposit	—	16,026	—	16,026
Commercial paper	—	229,272	—	229,272
Government bonds - U.S.	—	58,541	—	58,541
Restricted cash:				
Securities available for sale:				
Certificate of deposit	—	300,390	—	300,390
Corporate bonds	—	368,671	—	368,671
Commercial paper	—	478,293	—	478,293
Government bonds:				
Non-U.S.	—	17,955	—	17,955
U.S.	—	378,386	—	378,386
Securitization notes receivable and residual trust certificates	—	—	51,678	51,678
Total securities available for sale	—	1,543,695	51,678	1,595,373
Servicing assets	—	—	1,192	1,192
Derivative instruments	—	49,983	—	49,983
Total assets	**$ 162,483**	**$1,897,517**	**$ 52,870**	**$2,112,870**
Liabilities:				
Servicing liabilities	$ —	$ —	$ 2,673	$ 2,673
Performance fee liability	—	—	1,710	1,710
Residual trust certificates, held by third-parties	—	—	377	377
Contingent consideration	—	—	23,348	23,348
Profit share liability	—	—	1,987	1,987
Total liabilities	**$ —**	**$ —**	**$ 30,095**	**$ 30,095**

The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2021 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents:				
Money market funds	$ 143,241	$ —	$ —	$ 143,241
Restricted cash:				
Securitization notes receivable and residual trust certificates	—	—	16,170	16,170
Servicing assets	—	—	2,349	2,349
Derivative instruments	—	2,880	—	2,880
Total assets	**$ 143,241**	**$ 2,880**	**$ 18,519**	**$ 164,640**
Liabilities:				
Servicing liabilities	$ —	$ —	$ 3,961	$ 3,961
Performance fee liability	—	—	1,290	1,290
Residual trust certificates, held by third-parties	—	—	914	914
Contingent consideration	—	—	153,447	153,447
Profit share liability	—	—	2,464	2,464
Total liabilities	**$ —**	**$ —**	**$ 162,076**	**$ 162,076**

There were no transfers between levels during the periods ended June 30, 2022 and June 30, 2021.

Assets and Liabilities Measured at Fair Value on a Recurring Basis (Level 2)

Securities Available for Sale

As of June 30, 2022, we held marketable securities classified as available for sale. Management obtains pricing from one or more third-party pricing services for the purpose of determining fair value. Whenever available, the fair value is based on quoted bid prices as of the end of the trading day. When quoted prices are not available, other methods may be utilized including evaluated prices provided by third-party pricing services.

Derivative Instruments

Our primary objective in holding derivatives is to reduce the volatility in cash flows associated with our funding activities, arising from changes in interest rates. We do not employ derivatives for trading or speculative purposes.

As of June 30, 2022 and June 30, 2021, we used a combination of interest rate cap agreements and interest rate swaps to manage interest costs and the risk associated with variable interest rates. Neither the interest rate caps or the interest rate swaps have been designated as hedging instruments.

As of June 30, 2022 and June 30, 2021, the interest rate caps and interest rate swaps are in a net asset position, and classified as Level 2 within the fair value hierarchy, based on prices quoted for similar financial instruments in markets that are not active. The fair values are presented gross within other assets and offsetting collateral received by the counterparty is presented as a liability within accrued expenses and other liabilities on the consolidated balance sheets. Any changes in the fair value of these financial instruments are reflected in other (expense) income, net, on the consolidated statements of operations and comprehensive loss.

Assets and Liabilities Measured at Fair Value on a Recurring Basis using Significant Unobservable Inputs (Level 3)

We evaluate our financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level at which to classify them each reporting period. Since our servicing assets and liabilities, performance fee liability, securitization notes and residual trust certificates, contingent consideration, and profit share liability do not trade in an active market with readily observable prices, we use significant unobservable inputs to measure fair value. This determination requires significant judgments to be made.

<u>*Servicing Assets and Liabilities*</u>

We sold loans with an unpaid balance of $7,149.0 million, $3,232.9 million, and $2,664.4 million for the years ended June 30, 2022, 2021, and 2020, respectively, for which we retained servicing rights.

As of June 30, 2022 and June 30, 2021, we serviced loans which we sold with a remaining unpaid principal balance of $4,504.5 million and $2,453.9 million, respectively.

We use discounted cash flow models to arrive at an estimate of fair value. Significant assumptions used in the valuation of our servicing rights are as follows:

Adequate Compensation

We estimate adequate compensation as the rate a willing market participant would require for servicing loans with similar characteristics as those in the serviced portfolio.

Discount Rate

Estimated future payments to be received under servicing agreements are discounted as a part of determining the fair value of the servicing rights. For servicing rights on loans, the discount rate reflects the time value of money and a risk premium intended to reflect the amount of compensation market participants would require.

Net Default Rate

We estimate the timing and probability of early loan payoffs, loan defaults and write-offs, thus affecting the projected unpaid principal balance and expected term of the loan, which are used to project future servicing revenue and expenses.

We earned $65.8 million, $24.7 million, and $14.8 million of servicing income for the year ended June 30, 2022, 2021, and 2020, respectively.

As of June 30, 2022 and June 30, 2021, the aggregate fair value of the servicing assets was measured at $1.2 million and $2.3 million, respectively, and presented within other assets on the consolidated balance sheets. As of June 30, 2022 and June 30, 2021, the aggregate fair value of the servicing liabilities was measured at $2.7 million and $4.0 million, respectively, and presented within accrued expenses and other liabilities on the consolidated balance sheets.

The following table summarizes the activity related to the aggregate fair value of our servicing assets during the years ended June 30, 2022 and June 30, 2021 (in thousands):

	Servicing Assets	
	Year ended June 30,	
	2022	2021
Fair value at beginning of period	$ 2,349	$ 2,132
Initial transfers of financial assets	2,899	2,915
Subsequent changes in fair value	(4,056)	(2,698)
Fair value at end of period	$ 1,192	$ 2,349

The following table summarizes the activity related to the aggregate fair value of our servicing liabilities during the years ended June 30, 2022 and June 30, 2021 (in thousands):

	Servicing Liabilities	
	Year ended June 30,	
	2022	2021
Fair value at beginning of period	$ 3,961	$ 1,540
Initial transfers of financial assets	15,617	8,794
Subsequent changes in fair value	(16,905)	(6,373)
Fair value at end of period	$ 2,673	$ 3,961

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of servicing assets and liabilities as of June 30, 2022:

	Unobservable Input	Minimum	Maximum	Weighted Average
Servicing assets	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [(1)]	0.78 %	1.85 %	1.10 %
	Net default rate	0.59 %	50.59 %	1.59 %
Servicing liabilities	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [(1)]	2.13 %	2.34 %	2.21 %
	Net default rate	9.03 %	24.44 %	13.81 %

(1) Estimated cost of servicing a loan as a percentage of unpaid principal balance

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of servicing assets and liabilities as of June 30, 2021:

	Unobservable Input	Minimum	Maximum	Weighted Average
Servicing assets	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation[(1)]	0.70 %	0.84 %	0.81 %
	Net default rate	0.53 %	0.95 %	0.64 %
Servicing liabilities	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation[(1)]	1.29 %	3.70 %	2.71 %
	Net default rate	0.80 %	8.42 %	7.12 %

(1) Estimated cost of servicing a loan as a percentage of unpaid principal balance

The following table summarizes the effect that adverse changes in estimates would have on the fair value of the servicing assets and liabilities given hypothetical changes in significant unobservable inputs (in thousands):

	June 30, 2022	June 30, 2021
Servicing assets		
Net default rate assumption:		
Net default rate increase of 25%	$ 11	$ (7)
Net default rate increase of 50%	$ 22	$ (15)
Adequate compensation assumption:		
Adequate compensation increase of 25%	$ (3,513)	$ (2,006)
Adequate compensation increase of 50%	$ (7,026)	$ (4,011)
Discount rate assumption:		
Discount rate increase of 25%	$ (57)	$ (4)
Discount rate increase of 50%	$ (109)	$ (1)
Servicing liabilities		
Net default rate assumption:		
Net default rate increase of 25%	$ (10)	$ (40)
Net default rate increase of 50%	$ (21)	$ (61)
Adequate compensation assumption:		
Adequate compensation increase of 25%	$ 6,139	$ 3,060
Adequate compensation increase of 50%	$ 12,278	$ 6,119
Discount rate assumption:		
Discount rate increase of 25%	$ (50)	$ (137)
Discount rate increase of 50%	$ (98)	$ (263)

Performance Fee Liability

In accordance with our agreements with our originating bank partners, we pay a fee for each loan that is fully repaid by the consumer, due at the end of the period in which the loan is fully repaid. We recognize a liability upon the purchase of a loan for the expected future payment of the performance fee. This liability is measured using a discounted cash flow model and recorded at fair value and presented within accrued expenses and other liabilities on the consolidated balance sheets. Any changes in the fair value of the liability are reflected in other (expense) income, net, on the consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the performance fee liability during the years ended June 30, 2022 and June 30, 2021 (in thousands):

	Performance Fee Liability	
	Year ended June 30,	
	2022	2021
Fair value at beginning of period	$ 1,290	$ 875
Purchases of loans	1,764	1,372
Settlements Paid	(418)	—
Subsequent changes in fair value	(926)	(957)
Fair value at end of period	$ 1,710	$ 1,290

Significant unobservable inputs used for our Level 3 fair value measurement of the performance fee liability are the discount rate, refund rate, and default rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the performance fee liability as of June 30, 2022:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	10.00%	10.00%	10.00%
Refund rate	4.50%	4.50%	4.50%
Default rate	1.78%	3.10%	2.42%

Level 3 fair value measurement of the performance fee liability as of June 30, 2021:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	10.00%	10.00%	10.00%
Refund rate	4.50%	4.50%	4.50%
Default rate	1.78%	2.83%	1.80%

Residual Trust Certificates Held by Third-Parties in Consolidated VIEs

Refer to Note 12. Securitization and Variable Interest Entities for a description of the 2020-Z2 securitization trust. Residual trust certificates held by third-party investor(s) are measured at fair value, using a discounted cash flow model, and presented within accrued expenses and other liabilities on the consolidated balance sheets. Any changes in the fair value of the liability are reflected in other (expense) income, net, on the consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the residual trust certificates held by third-parties during the years ended June 30, 2022 and June 30, 2021 (in thousands):

	Year ended June 30,	
	2022	2021
Fair value at beginning of period	$ 914	$ —
Initial transfer of financial assets	—	1,622
Repayments	(908)	(508)
Subsequent changes in fair value	371	(200)
Fair value at end of period	$ 377	$ 914

Significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates held by third-parties are the discount rate, loss rate, and prepayment rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates held by third-parties as of June 30, 2022 and June 30, 2021:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	10.00%	10.00%	10.00%
Loss rate	0.75%	0.75%	0.75%
Prepayment rate	8.00%	8.00%	8.00%

The following table summarizes the effect that adverse changes in estimates would have on the fair value of the securitization residual certificates held by third-party investor(s) given hypothetical changes in significant unobservable inputs (in thousands):

	June 30, 2022	June 30, 2021
Discount rate assumption:		
Discount rate increase of 25%	$ (6)	$ (21)
Discount rate increase of 50%	$ (11)	$ (42)
Loss rate assumption:		
Loss rate increase of 25%	$ (8)	$ (28)
Loss rate increase of 50%	$ (16)	$ (56)
Prepayment rate assumption:		
Prepayment rate decrease of 25%	$ (2)	$ (10)
Prepayment rate decrease of 50%	$ (3)	$ (20)

Retained Beneficial Interests in Unconsolidated VIEs

As of June 30, 2022, the Company held notes receivable and residual trust certificates with an aggregate fair value of $51.7 million in connection with the 2021-Z1, 2021-Z2, 2022-X1, and 2022-Z1 securitizations, which are unconsolidated securitizations. The balances correspond to the 5% economic risk retention the Company is required to maintain as the securitization sponsor. Refer to Note 12. Securitization and Variable Interest Entities for a further description of the 2021-Z1, 2021-Z2, 2022-X1and 2022-Z1 securitization trusts.

These assets are measured at fair value using a discounted cash flow model, and presented within securities available for sale at fair value on the consolidated balance sheets. Changes in the fair value, other than declines in fair value due to credit recognized as an allowance, are reflected in other comprehensive income (loss) on the consolidated statements of operations and comprehensive loss. Declines in fair value due to credit are reflected in other (expense) income, net on the consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the notes receivable and residual trust certificates during the years ended June 30, 2022 and June 30, 2021 (in thousands):

	Year ended June 30,	
	2022	2021
Fair value at beginning of period	$ 16,170	$ —
Additions	54,998	16,144
Cash received (due to payments or sales)	(19,559)	—
Change in unrealized gain (loss)	(509)	29
Accrued interest	595	—
Reversal of (impairment on) securities available for sale	(17)	(3)
Fair value at end of period	$ 51,678	$ 16,170

Significant unobservable inputs used for our Level 3 fair value measurement of the notes and residual trust certificates are the discount rate, loss rate, and prepayment rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates as of June 30, 2022:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	3.68%	22.50%	5.37%
Loss rate	0.61%	10.95%	2.65%
Prepayment rate	5.25%	35.00%	18.48%

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates as of June 30, 2021:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	11.46%	11.46%	11.46%
Loss rate	0.61%	0.61%	0.61%
Prepayment rate	10.50%	10.50%	10.50%

The following table summarizes the effect that adverse changes in estimates would have on the fair value of the securitization residual trust certificates given hypothetical changes in significant unobservable inputs (in thousands):

	Year ended June 30,	
	2022	2021
Discount rate assumption:		
Discount rate increase of 25%	$ (1,410)	$ (22)
Discount rate increase of 50%	$ (2,295)	$ (44)
Loss rate assumption:		
Loss rate increase of 25%	$ (729)	$ (24)
Loss rate increase of 50%	$ (964)	$ (48)
Prepayment rate assumption:		
Prepayment rate decrease of 25%	$ (545)	$ (13)
Prepayment rate decrease of 50%	$ (519)	$ (27)

Contingent Consideration

Our acquisition of PayBright included consideration transferred and shares held in escrow, contingent upon the achievement of future milestones. We classified the contingent consideration as a liability. The acquisition date fair value of the contingent consideration liability was estimated using a Monte Carlo simulation in which the fair value is equal to the estimated number of shares to be released from escrow, which are determined based on simulated revenue, multiplied by the simulated share price, discounted at the risk-free rate. The liability is remeasured to its fair value at each reporting date, utilizing a Monte Carlo simulation for periods in which actual revenues are unknown, until the contingency is resolved. During the year ended June 30, 2022 one of these milestones was achieved and a portion of the shares were released from escrow, resulting in a reduction to the contingent liability. The change in fair value of the contingent consideration at each reporting date is recognized as a component of other (expense) income, net in the consolidated statements of operations and comprehensive loss for the respective period.

The following table summarizes the activity related to the fair value of the PayBright contingent consideration during the years ended June 30, 2022 and June 30, 2021 (in thousands):

	Year ended June 30,	
	2022	2021
Fair value at beginning of period	$ 153,447	$ —
Subsequent changes in fair value	(89,313)	150,135
Fair value of shares released from escrow	(32,110)	—
Effect of foreign currency translation	(8,676)	3,312
Fair value at end of period	$ 23,348	$ 153,447

Significant unobservable inputs used for our Level 3 fair value measurement of the PayBright contingent consideration are the discount rate, equity volatility, and revenue volatility. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the contingent consideration as of June 30, 2022:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	15.00%	15.00%	15.00%
Equity volatility	36.00%	139.00%	116.00%
Revenue volatility	11.00%	144.00%	34.00%

Level 3 fair value measurement of the contingent consideration as of June 30, 2021:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	12.00%	12.00%	12.00%
Equity volatility	37.00%	97.00%	62.00%
Revenue volatility	8.00%	98.00%	37.00%

The Kite acquisition included $9.0 million of cash held in escrow, the release of which is determined based on employee retention. The acquisition date fair value of the contingent consideration of $1.2 million was estimated using a probability-weighted approach in which the likelihoods of potential employee retention outcomes were applied to the respective payout amounts and discounted to present value. The contingent consideration asset is remeasured to fair value at each reporting date based on the remaining amount held in escrow, passage of time, and

any changes in expectations regarding employee retention outcomes until the contingency is resolved. The change in fair value of the contingent consideration asset at each reporting date is recognized as a component of other (expense) income, net in the consolidated statements of operations and comprehensive loss for the respective period. During the year ended June 30, 2022, the contingency was resolved and the fair value of the contingent consideration asset was reduced to zero. For the years ended June 30, 2022 and 2021, respectively, the change in fair value of the contingent consideration asset was not material.

Profit Share Liability

During the fiscal year ended June 30, 2021, we entered into a commercial agreement with an enterprise partner, in which we are obligated to share in the profitability of transactions facilitated by our platform. Upon capture of a loan under this program, we record a liability associated with the estimated future profit to be shared over the life of the loan based on estimated program profitability levels. This liability is measured using a discounted cash flow model and recorded at fair value and presented within accrued expenses and other liabilities on the consolidated balance sheets.

The following table summarizes the activity related to the fair value of the profit share liability during the years ended June 30, 2022 and June 30, 2021 (in thousands):

	Year ended June 30,	
	2022	**2021**
Fair value at beginning of period	$ 2,464	$ —
Facilitation of loans	5,955	4,206
Actual performance	(7,642)	(1,661)
Subsequent changes in fair value	1,210	(81)
Fair value at end of period	$ 1,987	$ 2,464

Significant unobservable inputs used for our Level 3 fair value measurement of the profit share liability are the discount rate and estimated program profitability. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the profit sharing liability as of June 30, 2022:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	30.00%	30.00%	30.00%
Program profitability	1.25%	3.54%	1.28%

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the profit sharing liability as of June 30, 2021:

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	30.00%	30.00%	30.00%
Program profitability	1.79%	3.75%	3.75%

Financial Assets and Liabilities Not Recorded at Fair Value

The following table presents the fair value hierarchy for financial assets and liabilities not recorded at fair value as of June 30, 2022 (in thousands):

	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets:					
Loans held for sale	$ 2,670	$ —	$ 2,670	$ —	$ 2,670
Loans held for investment, net	2,348,169	—	—	2,412,871	2,412,871
Other assets	12,661	—	12,661	—	12,661
Total assets	$ 2,363,500	$ —	$ 15,331	$ 2,412,871	$ 2,428,202
Liabilities:					
Convertible senior notes, net [(1)]	$ 1,706,668	$ —	$ 984,285	$ —	$ 984,285
Notes issued by securitization trusts	1,627,580	—	—	1,529,401	1,529,401
Funding debt[(2)]	683,395	—	—	683,388	683,388
Total liabilities	$ 4,017,643	$ —	$ 984,285	$ 2,212,789	$ 3,197,074

(1) The estimated fair value of the convertible senior notes is determined based on a market approach, using the estimated or actual bids and offers of the notes in an over-the-counter market on the last business day of the period.

(2) As of June 30, 2022, debt issuance costs in the amount of $10.8 million, was included within funding debt.

The following table presents the fair value hierarchy for financial assets and liabilities not recorded at fair value as of June 30, 2021 (in thousands):

	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets:					
Loans held for sale	$ 13,030	$ —	$ 13,030	$ —	$ 13,030
Loans held for investment, net	1,904,560	—	—	1,883,364	1,883,364
Accounts receivable, net	91,575	—	91,575	—	91,575
Other assets	171,250	—	171,250	—	171,250
Total assets	$ 2,180,415	$ —	$ 275,855	$ 1,883,364	$ 2,159,219
Liabilities:					
Accounts payable	$ 57,758	$ —	$ 57,758	$ —	$ 57,758
Payable to third-party loan owners	50,079	—	50,079	—	50,079
Accrued interest payable	2,751	—	2,751	—	2,751
Accrued expenses and other liabilities	161,502	—	159,387	2,115	161,502
Notes issued by securitization trusts	1,176,673	—	—	1,184,663	1,184,663
Funding debt	689,356	—	—	689,356	689,356
Total liabilities	$ 2,138,119	$ —	$ 269,975	$ 1,876,134	$ 2,146,109

15. Redeemable Convertible Preferred Stock and Stockholders' Equity

Redeemable Convertible Preferred Stock

During the year ended June 30, 2021, we issued 21,836,687 shares of Series G redeemable convertible preferred stock at $19.93 per share for an aggregate purchase amount of $434.9 million. These shares had a liquidation preference of $435.1 million. As part of this equity financing round, the convertible notes issued in April 2020 converted into 4,444,321 shares of Series G-1 redeemable convertible preferred stock. These shares had a liquidation preference of $75.3 million prior to conversion.

On January 12, 2021, prior to our IPO, all outstanding shares of redeemable convertible preferred stock were converted into shares of our common stock on a one-to-one basis and their carrying value of $1.3 billion was reclassified into stockholders' deficit. Following this conversion, we amended and restated our certificate of incorporation to effect a reclassification of each share of our outstanding common stock into ½ share of Class A common stock and ½ share of Class B common stock, with cash paid for fractional shares. As of June 30, 2022 and June 30, 2021, there were no shares of redeemable convertible preferred stock issued and outstanding.

Common Stock

The Company had shares of common stock reserved for issuance as follows:

	June 30, 2022	June 30, 2021
Available outstanding under stock plan	53,158,233	58,417,514
Available for future grant under stock plan	31,156,746	29,793,755
Total	84,314,979	88,211,269

The common stock is not redeemable. We have two classes of common stock: Class A common stock and Class B common stock. Each holder of Class A common stock has the right to one vote per share of common stock. Each holder of Class B common stock has the right to 15 votes and can be converted at any time into one share of Class A common stock. Holders of Class A and Class B common stock are entitled to notice of any stockholders' meeting in accordance with the bylaws of the corporation, and are entitled to vote upon such matters and in such manner as may be provided by law. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of the common stock are entitled to receive, when and as declared by the Board of Directors, out of any assets of the corporation legally available therefore, such dividends as may be declared from time to time by the Board of Directors.

Common Stock Warrants

Common stock warrants are included as a component of additional paid in capital within the consolidated balance sheets.

During the year ended June 30, 2022, we granted warrants to purchase 22,000,000 shares of common stock in connection with a commercial agreement with Amazon. 7,000,000 of the warrant shares have an exercise price of $0.01 per share and a term of 3.5 years, while the remaining 15,000,000 warrant shares have an exercise price of $100 per share and a term of 7.5 years. We valued the warrants at the grant date using the Black-Scholes-Merton option pricing model with the following assumptions: a dividend yield of zero; years to maturity of 3.5 and 7.5 years, respectively; volatility of 45%; and a risk-free rate of 0.93% and 1.47%, respectively. In connection with the portion of these warrants that were fully vested upon execution, we recognized a commercial agreement asset of $133.5 million upon execution of the agreement in November 2021. Refer to Note 6. Balance Sheet Components for more information on the asset and related amortization during the period. The remaining grant-date fair value of the warrants will be recognized within our consolidated statements of operations and comprehensive loss as a component of sales and marketing expense as the warrants vest, based upon Amazon's satisfaction of the vesting conditions. In connection with the warrants, a total of $281.0 million was recognized within sales and marketing

expense during the year ended June 30, 2022, which included $26.3 million in amortization expense of the commercial agreement asset and $254.7 million in expense based upon the grant-date fair value of the warrant shares that vested during the period.

During the year ended June 30, 2021, we granted warrants to purchase 20,297,595 shares of common stock in connection with a commercial agreement with Shopify Inc. The exercise price was $0.01 per share, and the term of the warrants was 10 years. We valued the warrants at the grant date using the Black-Scholes-Merton option pricing model with the following assumptions: a dividend yield of zero, years to maturity of 10 years, volatility of 52%, and a risk-free rate of 0.62%. In connection with these warrants, we recognized an asset of $270.6 million at June 30, 2021 associated with the fair value of the warrants, which were fully vested as of June 30, 2021.

The following table summarizes the warrants activity during the years ended June 30, 2022 and June 30, 2021:

	Number of Shares	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (years)
Warrants outstanding, June 30, 2020	706,065	$2.50	7.21
Granted	20,297,595	0.01	10.00
Exercised	(20,651,583)	0.04	8.93
Cancelled	(352,077)	3.80	8.27
Warrants outstanding, June 30, 2021	—	$—	0.00
Granted	22,000,000	68.19	5.60
Exercised	—	—	0.00
Cancelled	—	—	0.00
Warrants outstanding, June 30, 2022	22,000,000	$68.19	5.60
Warrants exercisable, June 30, 2022	3,382,419	$32.52	4.20

The weighted-average grant date fair values of warrants granted during the years ended June 30, 2022 and June 30, 2021, were $94.20 and $13.34, respectively. On June 30, 2022, the weighted-average grant date fair values for outstanding warrants and exercisable warrants, were $94.20 and $114.77, respectively.

16. Equity Incentive Plans

2012 Stock Plan

Under our Amended and Restated 2012 Stock Plan (the "Plan"), we may grant incentive and nonqualified stock options, restricted stock, and restricted stock units ("RSUs") to employees, officers, directors, and consultants. As of June 30, 2022, the maximum number of shares of common stock which may be issued under the Plan is 118,374,202 Class A shares. As of June 30, 2022 and June 30, 2021, there were 31,156,746 and 29,793,755 shares of Class A common stock, respectively, available for future grants under the Plan.

Stock Options

For stock options granted before our IPO in January 2021, the minimum expiration period is seven years after termination of employment or 10 years from the date of grant. For stock options granted after our IPO, the minimum expiration period is three months after termination of employment or 10 years from the date of grant. Stock options generally vest over a period of four years or with 25% vesting on the 12 month anniversary of the vesting commencement date, and the remainder vesting on a pro-rata basis each month over the next three years.

The following table summarizes our stock option activity for the year ended June 30, 2022:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of June 30, 2021	31,662,750	$ 10.42	6.30	
Granted	2,428,616	25.69		
Exercised	(13,519,561)	5.13		
Forfeited, expired or cancelled	(1,261,099)	23.68		
Balance as of June 30, 2022	19,310,706	15.22	6.94	
Vested and exercisable, June 30, 2022	11,792,367	$ 7.61	5.98	$ 139,121
Vested and exercisable, and expected to vest thereafter[(1)] June 30, 2022	18,922,009	$ 14.53	6.91	$ 164,796

(1) Options expected to vest reflect the application of an estimated forfeiture rate.

The weighted-average grant date fair value of employee options granted for the years ended June 30, 2022, 2021, and 2020, was $13.29, $59.83, and $3.26, respectively. The aggregate intrinsic value of options exercised was approximately $1.4 billion, $706.7 million, and $3.1 million for the years ended June 30, 2022, 2021, and 2020, respectively. The total fair value of stock options vested during the years ended June 30, 2022, 2021, and 2020 was $30.3 million, $97.4 million, and $53.9 million, respectively.

The fair value of each option on the date of grant is determined using the Black Scholes-Merton option pricing model using the single-option award approach with the weighted-average assumptions set forth in the table below. Volatility is based on historical volatility rates obtained from certain public companies that operate in the same or related business as us since there is a limited period of historical market data for our common stock. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term set forth. We used the simplified method to determine an estimate of the expected term of an employee share option.

	Year ended June 30,		
	2022	2021	2020
Volatility	54%	46%	45%
Risk-free interest rate	1.47% - 3.01%	0.70% - 1.05%	0.28% - 1.76%
Expected term (in years)	5.56	6.35	5.87
Expected dividend yield	—	—	—

As of June 30, 2022, unrecognized compensation expense related to unvested stock options was approximately $67.0 million. The weighted-average period over which such compensation expense will be recognized is approximately 1.9 years.

When an employee exercises stock options, we collect and remit taxes on the employee's behalf to applicable taxing authorities. As of June 30, 2022 and June 30, 2021, the balance of equity exercise taxes payable was $10.9 million and $23.7 million, respectively, which is included in accounts payable on the consolidated balance sheets.

Stock Options with Early Exercise Rights

In accordance with the Plan, for certain stock options issued prior to the IPO, we allow for early exercise of the options while retaining the right to repurchase any unvested options upon termination of employment at the

original exercise price. The proceeds received from early exercise of stock options have been recorded within accrued expenses and other liabilities on the consolidated balance sheets. As of June 30, 2022 and June 30, 2021, the early exercise liability totaled $0.3 million and $0.9 million, respectively.

Value Creation Award

In November 2020, in connection with an overall review of the compensation of Max Levchin, our Chief Executive Officer, in advance of the IPO, and taking into account Mr. Levchin's leadership since the inception of the Company, the comparatively modest level of cash compensation he had received from the Company during his many years of service, and that he did not hold any unvested equity awards, the Company's Board of Directors approved a long-term, multi-year performance-based stock option grant providing Mr. Levchin with the opportunity to earn the right to purchase up to 12,500,000 shares of the Company's Class A common stock (the "Value Creation Award").

As discussed below, the Value Creation Award will only be earned, if at all, in the event the price of our Class A common stock attains stock price hurdles that are significantly in excess of the Company's IPO price per share, over a period of five years, subject to Mr. Levchin's continued service to the Company.

The Value Creation Award is divided into ten tranches, each of which Mr. Levchin may earn by satisfying a performance condition within a five-year period following the IPO. The performance condition for each tranche will be satisfied on the date the 90 average trading day volume weighted share price of the Company's Class A common stock exceeds certain specified stock price hurdles, presented in the table below, which were determined based on a target percentage of share price appreciation from the IPO price. Once earned as a result of satisfying the performance condition, the options will vest and become exercisable over a five-year period that commenced at the time of the IPO, subject to Mr. Levchin's continued service to the Company, in annual amounts equal to 15%, 15%, 20%, 25% and 25%, respectively. The per share exercise price of the Value Creation Award is $49.00, the price to the public in the IPO.

Tranche	Stock Price Hurdle	Number of Options
1	$ 65.66	1,000,000
2	$ 82.32	1,000,000
3	$ 98.98	1,000,000
4	$ 115.64	1,000,000
5	$ 132.30	1,000,000
6	$ 148.47	1,000,000
7	$ 165.13	1,000,000
8	$ 181.79	1,000,000
9	$ 247.94	2,250,000
10	$ 371.91	2,250,000
Total		12,500,000

We estimated the fair value of the Value Creation Award granted with market conditions on the grant date using a Monte Carlo simulation model. We recognize stock-based compensation on these awards based on the grant date fair value using an accelerated attribution method over the requisite service period, and only if performance-based conditions are considered probable of being satisfied. During the years ended June 30, 2022 and June 30, 2021, we incurred stock-based compensation expense of $140.7 million and $83.9 million, respectively, associated with the Value Creation Award as a component of general and administrative expense within the consolidated statements of operations and comprehensive loss. During the year ended June 30, 2022, based on achievement of the

stock price hurdles and time-based service conditions, 1,875,000 shares vested. As of June 30, 2022, none of these awards have been exercised.

As of June 30, 2022, unrecognized compensation expense related to the Value Creation Award was approximately $207.5 million. The period over which such compensation expense will be recognized is approximately 3.5 years.

Restricted Stock Units

RSUs granted prior to the IPO were subject to two vesting conditions: a service-based vesting condition (i.e., employment over a period of time) and a performance-based vesting condition (i.e., a liquidity event in the form of either a change of control or an initial public offering, each as defined in the Plan), both of which must be met in order to vest. The performance-based condition was met upon the IPO. We record stock-based compensation expense for those RSUs on an accelerated attribution method over the requisite service period, which is generally four years. RSUs granted after IPO are subject to a service-based vesting condition. We record stock-based compensation expense for service-based RSUs on a straight-line basis over the requisite service period, which is generally one to four years.

The following table summarizes our RSU activity during the year ended June 30, 2022:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested as of June 30, 2021	14,242,111	$ 36.69
Granted	15,903,666	42.53
Vested	(6,251,519)	40.00
Forfeited, expired or cancelled	(2,506,666)	36.94
Non-vested as of June 30, 2022	21,387,592	$ 38.41

As of June 30, 2022, unrecognized compensation expense related to unvested RSUs was approximately $690.0 million. The weighted-average period over which such compensation expense will be recognized is approximately 2.0 years.

2020 Employee Stock Purchase Plan

On November 18, 2020, our Board of Directors adopted and approved the 2020 Employee Stock Purchase Plan ("ESPP"). The purpose of the ESPP is to secure the services of new employees, to retain the services of existing employees and to provide incentives for such individuals to exert maximum effort towards the success of the Company and that of its affiliates. A total of 8.9 million shares of Class A common stock were reserved and available for issuance under the ESPP and 149,137 shares have been issued as of June 30, 2022. The ESPP provides for six-month offering periods beginning December 1 and June 1 of each year. The first offering period began on December 1, 2021, and the second offering period began on June 1, 2022.

At the end of each offering period, shares of our Class A common stock are purchased on behalf of each ESPP participant at a price per share equal to 85% of the lesser of (1) the fair market value of the Class A common stock on first day of the offering period (the grant date) or (2) the fair market value of the Class A common stock on the last day of the offering period (the purchase date). We use the Black-Scholes-Merton option pricing model to measure the fair value of the purchase rights issued under the ESPP at the first day of the offering period, which represents the grant date. The Black-Scholes-Merton model incorporates assumptions including the dividend yield, expected stock price volatility, expected term, and risk-free interest rates. We utilized the following assumptions: a dividend yield of zero; a 0.5 year expected term based on the six-month offering period; the historical stock price volatility of comparable publicly-traded companies in our industry group; and a risk-free rate corresponding to a

U.S. Treasury rate which coincides with the expected term. We record stock-based compensation expense on a straight-line basis over each six-month offering period, the requisite service period of the award.

Stock-Based Compensation Expense

The following table presents the components and classification of stock-based compensation (in thousands):

	Year ended June 30,		
	2022	2021	2020
General and administrative	$ 248,797	$ 196,554	$ 13,682
Technology and data analytics	116,531	76,643	12,285
Sales and marketing	23,224	17,092	4,040
Processing and servicing	2,431	2,218	82
Total stock-based compensation in operating expenses	390,983	292,507	30,089
Capitalized into property, equipment and software, net	54,542	13,999	2,921
Total stock-based compensation expense	$ 445,525	$ 306,506	$ 33,010

In connection with the acquisition of Returnly on May 1, 2021, we issued 304,364 shares of our Class A common stock, which are held in escrow. Because the future payment of the escrowed shares is contingent on continued employment of certain employees, the arrangement represents stock-based compensation in the post combination period. The grant-date fair value was estimated based on the value of the shares at the date of closing. The escrowed shares have a requisite service period of two years and contain a performance-based vesting condition (i.e., the achievement of certain revenue targets). We record stock-based compensation expense on a straight-line basis for each tranche over the requisite service period, as long as the performance-based conditions are considered probable of being satisfied. As of June 30, 2022, we have not recognized any stock-based compensation expense for these awards.

We estimate the grant date fair value based on the probability of achievement of the revenue targets at each reporting period.

17. Income Taxes

The U.S. and foreign components of income (loss) before income taxes for the years ended June 30, 2022, 2021, and 2020 are as follows (in thousands):

	Year Ended June 30,		
	2022	2021	2020
U.S.	$ (780,699)	$ (330,313)	$ (112,080)
Foreign	55,868	(113,057)	(142)
Total loss before income taxes	$ (724,831)	$ (443,370)	$ (112,222)

Income tax expense (benefit) for the years ended June 30, 2022, 2021, and 2020 is summarized as follows (in thousands):

	Year Ended June 30,		
	2022	2021	2020
Current			
State	$ 145	$ (10)	$ 351
Foreign	230	(410)	436
Total current expense	$ 375	$ (420)	$ 787
Deferred			
Federal	113	88	6
State	281	(2,570)	28
Foreign	(18,183)	559	(445)
Total deferred expense	(17,789)	(1,923)	(411)
Income tax (benefit) expense	$ (17,414)	$ (2,343)	$ 376

The income tax benefit for the year ended June 30, 2022, was primarily attributable to a change in our assessment of the future realization of certain foreign deferred tax assets, while the income tax benefit for the year ended June 30, 2021 and the income tax expense for the year ended June 30, 2020 were primarily attributable to an adjustment to the Company's valuation allowance resulting from a deferred tax liability assumed with the acquisition of Returnly and to various state income taxes and the tax amortization of certain intangibles, respectively.

The following is a reconciliation of the U.S. statutory federal income tax rate to our effective tax rate for the years ended June 30, 2022, 2021, and 2020:

	Year Ended June 30,		
	2022	2021	2020
U.S. statutory federal income tax rate	21.0 %	21.0 %	21.0 %
State and local income taxes, net of federal tax benefit	8.3 %	9.1 %	10.5 %
Foreign rate differential	(0.4)%	1.5 %	— %
Stock-based compensation	64.0 %	66.4 %	(0.4)%
Non-deductible compensation expense	(12.4)%	(8.4)%	— %
Tax benefit related to tax credits, net	15.4 %	0.5 %	— %
Impact of change in fair value of contingent consideration	3.3 %	(5.6)%	— %
Change in unrecognized tax benefits	(6.2)%	— %	— %
Other	0.2 %	1.6 %	(1.9)%
Change in valuation allowance	(90.8)%	(85.6)%	(29.6)%
Effective income tax rate	2.4 %	0.5 %	(0.4)%

Significant components of deferred tax assets and liabilities are as follows (in thousands):

	Year Ended June 30,	
	2022	2021
Net operating loss carryforwards	$ 1,056,403	$ 430,464
Allowance for credit losses	55,154	41,155
Stock-based compensation	51,288	51,126
Operating lease liabilities	19,840	23,914
Tax credit carryforwards	69,144	2,054
Other	7,581	4,837
Total deferred tax assets	$ 1,259,410	$ 553,550
Internally developed software	(47,217)	(15,214)
Purchased intangible assets	(11,386)	(18,150)
Right-of-use lease assets	(15,289)	(18,386)
Stock warrants	(7,200)	—
Other	(2,920)	(2,460)
Total deferred tax liabilities	$ (84,012)	$ (54,210)
Valuation allowance	(1,158,246)	(499,828)
Deferred tax assets (liabilities), net of valuation allowance	$ 17,152	$ (488)

We continue to recognize a full valuation allowance against our U.S. federal and state net deferred tax assets. This determination was based on the assessment of the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to utilize the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by the Company for the years ended June 30, 2022, 2021, and 2020. The presence of a three-year cumulative loss limits the ability to consider other subjective evidence, such as our expectations of future taxable income and projections for growth. The domestic valuation allowance increased by $668.5 million during the year ended June 30, 2022.

As a result of the integration and consolidation of our PayBright business into and with Affirm's Canadian business and the expansion of our overall business in Canada, as well as other objectively verifiable positive evidence that became available during the year ended June 30, 2022, all of which we have concluded is sufficient to outweigh the existing negative evidence – including the presence of a three-year cumulative loss attributable to the related foreign jurisdiction, we have determined that it is more likely than not that our foreign deferred tax assets will be realized and a valuation allowance is not required. Accordingly, the foreign valuation allowance decreased by $10.1 million during the year ended June 30, 2022.

As of June 30, 2022, we had pretax U.S. federal net operating loss ("NOL") carryforwards of approximately $3,405.9 million, state NOL carryforwards of $3,590.4 million, and foreign NOL carryforwards of $65.8 million. If not utilized, certain U.S. federal and state NOL carryforwards will begin to expire in 2029, whereas others have an unlimited carryforward period, and foreign NOL carryforwards will begin to expire in 2039. Additionally, as of June 30, 2022, we also had U.S. federal and state research and development tax credit carryforwards of $82.0 million and $37.7 million, respectively. The U.S. federal research and development tax credit carryforwards will begin to expire in 2041 while the state research and development tax credits may be carried forward indefinitely. As of June 30, 2022, the Company also had other state tax credit carryforwards of $2.6 million, which will begin to expire in 2024 if not utilized.

Of the above NOL carryforwards, approximately $42.0 million pretax U.S. federal NOL carryforwards and $36.4 million state NOL carryforwards are from domestic acquisitions, which may be subject to an annual utilization limitation under Internal Revenue Code Section 382.

The future utilization of all domestic NOL and tax credit carryforwards may be subject to an annual limitation, pursuant to Internal Revenue Code Sections 382 and 383 and similar state provisions, due to ownership changes that may have occurred previously or that could occur in the future. Any limitation may result in the expiration of all or a portion of the NOL carryforwards before utilization.

The Company accounts for uncertainties in income taxes in accordance with ASC 740, Income Taxes ("ASC 740"). The following table provides a reconciliation of the beginning and ending amounts of gross unrecognized tax benefits (in thousands):

	Year ended June 30,		
	2022	2021	2020
Beginning balance	$ —	$ —	$ —
Gross increase for tax positions related to the current year	28,407	—	—
Gross increase for tax positions related to prior years	19,460	—	—
Ending balance	$ 47,867	$ —	$ —

As of June 30, 2022, the Company had no unrecognized tax benefits related to uncertain tax positions that, if recognized, would impact the effective tax rate. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

Interest and penalties on unrecognized tax benefits are recorded as a component of tax expense. During the years ended June 30, 2022, 2021, and 2020, we did not recognize accrued interest and penalties related to unrecognized tax benefits.

We file U.S. federal and state income tax returns as well as various foreign income tax returns with varying statutes of limitation. With respect to the Company's major tax filings, all tax years remain open to examination due to the carryover of unused net operating losses.

18. Net Loss per Share Attributable to Common Stockholders

On January 12, 2021, we amended and restated our certificate of incorporation to effect a reclassification of each share of our outstanding common stock into ½ share of Class A common stock and ½ share of Class B common stock, with cash paid for fractional shares. Therefore, we have two classes of common stock: Class A common stock and Class B common stock. The rights, including the dividends and distributions, of the holders of our Class A and Class B common stock are identical, except with respect to voting. Additionally, the conversion of all outstanding shares of redeemable convertible preferred stock into shares of our common stock occurred immediately prior to the reclassification.

The following tables present basic and diluted net loss per share attributable to common stockholders for Class A and Class B common stock (in thousands, except share and per share data):

	Year ended June 30, 2022	
	Class A	Class B
Numerator:		
Basic and diluted		
Net Loss	$ (536,654)	$ (170,763)
Net loss attributable to common stockholders	$ (536,654)	$ (170,763)
Denominator:		
Basic		
Weighted average shares outstanding, basic	213,703,749	68,000,292
Total-basic	213,703,749	68,000,292
Diluted		
Weighted average common shares outstanding, diluted	213,703,749	68,000,292
Total-diluted	213,703,749	68,000,292
Net loss per share attributable to common stockholders:		
Basic	$ (2.51)	$ (2.51)
Diluted	$ (2.51)	$ (2.51)

	Year ended June 30, 2021	
	Class A	Class B
Numerator:		
Basic		
Net Loss	$ (235,000)	$ (206,027)
Net loss attributable to common stockholders	$ (235,000)	$ (206,027)
Diluted		
Net Loss	$ (235,000)	$ (206,027)
Excess return to preferred stockholders on repurchase	(16,036)	(14,069)
Gain on conversion of convertible debt	212	186
Interest on convertible debt prior to conversion	955	837
Net loss attributable to common stockholders	$ (249,869)	$ (219,073)
Denominator:		
Basic		
Weighted average shares outstanding, basic	84,385,884	73,982,039
Total-basic	84,385,884	73,982,039
Diluted		
Weighted average common shares outstanding, diluted	84,385,884	73,982,039
Weighted average common shares attributable to convertible debt prior to conversion	438,344	438,344
Total-diluted	84,824,228	74,420,383
Net loss per share attributable to common stockholders:		
Basic	$ (2.78)	$ (2.78)
Diluted	$ (2.95)	$ (2.94)

The following common stock equivalents, presented based on amounts outstanding, were excluded from the calculation of diluted net loss per share attributable to common stockholders because their inclusion would have been anti-dilutive:

	Year ended June 30,		
	2022	2021	2020
Stock options, including early exercise of options	18,922,009	44,178,776	42,573,405
Restricted stock units	21,387,592	14,238,738	8,235,170
Common stock warrants	5,817,203	350,000	706,065
Employee stock purchase plan shares	614,659	—	—
Convertible debt	—	—	7,182,478
Redeemable convertible preferred stock	—	—	122,115,971
Total	46,741,463	58,767,514	180,813,089

19. Segments and Geographical Information

We conduct our operations through a single operating segment and, therefore, one reportable segment.

Revenue

Revenue by geography is based on the billing addresses of the borrower or the location of the merchant's national headquarters. The following table sets forth revenue by geographic area (in thousands):

	Year ended June 30,		
	2022	2021	2020
United States	$ 1,304,304	$ 857,222	$ 506,212
Canada	44,852	13,242	3,316
Other	136	—	—
Total	$ 1,349,292	$ 870,464	$ 509,528

Long-Lived Assets

The following table sets forth our long-lived assets, consisting of property, equipment and software, net and operating lease right-of-use assets, by geographic area (in thousands):

	Year ended June 30,	
	2022	2021
United States	$ 217,532	$ 118,076
Canada	4,390	2,251
Other	$ 231	$ —
Total	$ 222,153	$ 120,327

C. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF AFFIRM FOR THE YEAR ENDED 30 JUNE 2023

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AFFIRM HOLDINGS, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Affirm Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Affirm Holdings, Inc. and subsidiaries (the "Company") as of June 30, 2023 and 2022, the related consolidated statements of operations and comprehensive income (loss), redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended June 30, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2023, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 25, 2023, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matter

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

Allowance for Credit Losses — Refer to Notes 2 and 4 to the financial statements

Critical Audit Matter Description

The allowance for credit losses (ACL) is a material estimate of the Company and as of June 30, 2023, the total balance was $204.5 million. In estimating the ACL, management utilizes a migration analysis of delinquent and current loan receivables. The analysis focuses on the pertinent factors underlying the quality of the loan portfolio. These factors include historical performance, the age of the receivable balance, customer credit-worthiness, changes in the size and composition of the loan portfolio, delinquency levels, bankruptcy filings, and actual credit loss experience. Management also incorporates qualitative adjustments to the quantitative model to consider the inherent uncertainty regarding future economic conditions and consumer loan performance.

Determining the appropriate level of qualitative adjustments is inherently subjective and relies on significant judgment. Given the subjective nature and amount of judgment required in developing these estimates, performing audit procedures to evaluate the reasonableness of the ACL required a high degree of auditor judgment, an increased extent of audit effort, credit specialists, and the need to involve more experienced audit professionals.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the allowance for credit losses included the following procedures, among others:

- We tested the design and effectiveness of controls over the ACL, including management's controls over the qualitative adjustments.
- We tested management's process for estimating the ACL, which included involving our credit specialists to evaluate the appropriateness of the models and methodologies used including the use of qualitative adjustments.
- We evaluated the accuracy and completeness of the data used to estimate the allowance for credit losses.
- We evaluated the qualitative adjustments, including assessing the basis and overall magnitude of the adjustments, obtaining third party macroeconomic data, and evaluating any contradictory evidence.

/s/ Deloitte & Touche LLP

San Francisco, California

August 25, 2023

We have served as the Company's auditor since 2020.

AFFIRM HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except shares and per share amounts)

	June 30, 2023	June 30, 2022
Assets		
Cash and cash equivalents	$ 892,027	$ 1,255,171
Restricted cash	367,917	295,636
Securities available for sale at fair value	1,174,653	1,595,373
Loans held for sale	76	2,670
Loans held for investment	4,402,962	2,503,561
Allowance for credit losses	(204,531)	(155,392)
Loans held for investment, net	4,198,431	2,348,169
Accounts receivable, net	199,085	142,052
Property, equipment and software, net	290,135	171,482
Goodwill	542,571	539,534
Intangible assets	34,434	78,942
Commercial agreement assets	177,672	263,196
Other assets	278,614	281,567
Total assets	**$ 8,155,615**	**$ 6,973,792**
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable	$ 28,602	$ 33,072
Payable to third-party loan owners	53,852	71,383
Accrued interest payable	13,498	6,659
Accrued expenses and other liabilities	180,883	237,598
Convertible senior notes, net	1,414,208	1,706,668
Notes issued by securitization trusts	2,165,577	1,627,580
Funding debt	1,764,812	672,577
Total liabilities	**5,621,432**	**4,355,537**
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Class A common stock, par value $0.00001 per share: 3,030,000,000 shares authorized, 237,230,381 shares issued and outstanding as of June 30, 2023; 3,030,000,000 shares authorized, 227,255,529 shares issued and outstanding as of June 30, 2022	2	2
Class B common stock, par value $0.00001 per share: 140,000,000 shares authorized, 59,615,836 shares issued and outstanding as of June 30, 2023; 140,000,000 authorized, 60,109,844 shares issued and outstanding as of June 30, 2022	1	1
Additional paid in capital	5,140,850	4,231,303
Accumulated deficit	(2,591,247)	(1,605,902)
Accumulated other comprehensive loss	(15,423)	(7,149)
Total stockholders' equity	**2,534,183**	**2,618,255**
Total liabilities and stockholders' equity	**$ 8,155,615**	**$ 6,973,792**

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS, CONT.
(in thousands, except shares and per share amounts)

The following table presents the assets and liabilities of consolidated variable interest entities ("VIEs"), which are included in the consolidated balance sheets above. The assets in the table below may only be used to settle obligations of consolidated VIEs and are in excess of those obligations. The liabilities in the table below include liabilities for which creditors do not have recourse to the general credit of the Company. Additionally, the assets and liabilities in the table below include third-party assets and liabilities of consolidated VIEs only and exclude intercompany balances that eliminate upon consolidation.

	June 30, 2023	June 30, 2022
Assets of consolidated VIEs, included in total assets above		
Restricted cash	$ 203,872	$ 164,530
Loans held for investment	4,151,606	2,179,026
Allowance for credit losses	(178,252)	(124,052)
Loans held for investment, net	3,973,354	2,054,974
Accounts receivable, net	8,196	8,195
Other assets	18,210	14,570
Total assets of consolidated VIEs	**$ 4,203,632**	**$ 2,242,269**
Liabilities of consolidated VIEs, included in total liabilities above		
Accounts payable	$ 2,894	$ 2,897
Accrued interest payable	13,498	6,525
Accrued expenses and other liabilities	17,825	15,494
Notes issued by securitization trusts	2,165,577	1,627,580
Funding debt	1,656,400	514,033
Total liabilities of consolidated VIEs	**3,856,194**	**2,166,529**
Total net assets of consolidated VIEs	**$ 347,438**	**$ 75,740**

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except share and per share amounts)

	Year ended June 30,		
	2023	2022	2021
Revenue			
Merchant network revenue	$ 507,600	$ 458,511	$ 379,551
Card network revenue	119,338	100,696	49,851
Total network revenue	626,938	559,207	429,402
Interest income	685,217	527,880	326,417
Gain on sales of loans	188,341	196,435	89,926
Servicing income	87,489	65,770	24,719
Total revenue, net	**$ 1,587,985**	**$ 1,349,292**	**$ 870,464**
Operating expenses			
Loss on loan purchase commitment	$ 140,265	$ 204,081	$ 246,700
Provision for credit losses	331,860	255,272	65,878
Funding costs	183,013	69,694	52,700
Processing and servicing	257,343	157,814	73,578
Technology and data analytics	615,818	418,643	249,336
Sales and marketing	638,280	532,343	182,190
General and administrative	586,398	577,493	383,749
Restructuring and other	35,870	—	—
Total operating expenses	**2,788,847**	**2,215,340**	**1,254,131**
Operating loss	**$ (1,200,862)**	**$ (866,048)**	**$ (383,667)**
Other (expense) income, net	211,617	141,217	(59,703)
Loss before income taxes	**$ (989,245)**	**$ (724,831)**	**$ (443,370)**
Income tax benefit	(3,900)	(17,414)	(2,343)
Net loss	**$ (985,345)**	**$ (707,417)**	**$ (441,027)**
Other comprehensive income (loss)			
Foreign currency translation adjustments	$ (8,143)	$ (5,900)	$ 7,046
Unrealized gain (loss) on securities available for sale, net	(882)	(8,022)	29
Unrealized gain on cash flow hedges	751	—	—
Net other comprehensive income (loss)	**(8,274)**	**(13,922)**	**7,075**
Comprehensive loss	**$ (993,619)**	**$ (721,339)**	**$ (433,952)**
Per share data			
Net loss per share attributable to common stockholders for Class A and Class B			
Basic	$ (3.34)	$ (2.51)	$ (2.78)
Diluted	$ (3.34)	$ (2.51)	$ (2.94)
Weighted average common shares outstanding			
Basic	295,343,466	281,704,041	158,367,923
Diluted	295,343,466	281,704,041	159,244,611

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENT OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares [1]	Amount				
Balance as of June 30, 2020	**122,115,971**	**$ 804,170**	**47,684,427**	**$ —**	**$ 80,373**	**$ (447,167)**	**$ (302)**	**$ (367,096)**
Issuance of redeemable convertible preferred stock, net of issuance costs of $143	21,836,687	434,542	—	—	—	—	—	—
Conversion of convertible debt	4,444,321	88,559	—	—	(42,124)	—	—	(42,124)
Conversion of redeemable convertible preferred stock	(148,396,979)	(1,327,271)	148,396,979	2	1,327,269	(11)	—	1,327,260
Issuance of common stock upon initial public offering, net of issuance costs of $6,871	—	—	28,290,000	1	1,305,176	—	—	1,305,177
Issuance of common stock upon exercise of stock option	—	—	12,418,931	—	46,462	—	—	46,462
Issuance of common stock upon exercise of warrants	—	—	20,651,583	—	271,156	—	—	271,156
Issuance of common stock for acquisitions	—	—	9,167,515	—	331,498	—	—	331,498
Vesting of restricted stock units	—	—	2,878,060	—	—	—	—	—
Repurchases of common stock	—	—	(129,391)	—	(800)	—	—	(800)
Stock-based compensation	—	—	—	—	306,506	—	—	306,506
Tax withholding on stock-based compensation	—	—	—	—	(158,280)	—	—	(158,280)
Effects of adoption of new accounting standards	—	—	—	—	—	(9,980)	—	(9,980)
Deconsolidation of variable interest entity	—	—	—	—	—	(300)	—	(300)
Foreign currency translation adjustments	—	—	—	—	—	—	7,046	7,046
Unrealized loss on securities available for sale	—	—	—	—	—	—	29	29
Net loss	—	—	—	—	—	(441,027)	—	(441,027)
Balance as of June 30, 2021	**—**	**$ —**	**269,358,104**	**$ 3**	**$ 3,467,236**	**$ (898,485)**	**$ 6,773**	**$ 2,575,527**
Issuance of common stock upon exercise of stock option	—	—	13,565,397	—	69,876	—	—	69,876
Issuance of common stock in acquisitions	—	—	488,097	—	42,109	—	—	42,109
Issuance of common stock, employee share purchase plan	—	—	149,137	—	3,613	—	—	3,613
Vesting of restricted stock units	—	—	3,815,156	—	—	—	—	—
Vesting of warrants for common stock	—	—	—	—	388,208	—	—	388,208
Repurchases of common stock	—	—	(10,518)	—	(86)	—	—	(86)
Stock-based compensation	—	—	—	—	445,525	—	—	445,525
Tax withholding on stock-based compensation	—	—	—	—	(185,178)	—	—	(185,178)
Foreign currency translation adjustments	—	—	—	—	—	—	(5,900)	(5,900)
Unrealized loss on securities available for sale	—	—	—	—	—	—	(8,022)	(8,022)
Net loss	—	—	—	—	—	(707,417)	—	(707,417)
Balance as of June 30, 2022	**—**	**$ —**	**287,365,373**	**$ 3**	**$ 4,231,303**	**$ (1,605,902)**	**$ (7,149)**	**$ 2,618,255**

[1] The share amounts listed above combine common stock, Class A common stock and Class B common stock.

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENT OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY, CONT.
(in thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares [1]	Amount				
Balance as of June 30, 2022	**—**	**$ —**	**287,365,373**	**$ 3**	**$ 4,231,303**	**$ (1,605,902)**	**$ (7,149)**	**$ 2,618,255**
Issuance of common stock upon exercise of stock options	—	—	947,792	—	4,593	—	—	4,593
Issuance of common stock in acquisition	—	—	—	—	13,674	—	—	13,674
Issuance of common stock, employee share purchase plan	—	—	954,475	—	11,482	—	—	11,482
Forfeiture of common stock related to acquisitions	—	—	(258,905)	—	—	—	—	—
Vesting of restricted stock units	—	—	7,849,919	—	—	—	—	—
Vesting of warrants for common stock	—	—	—	—	421,934	—	—	421,934
Repurchases of common stock	—	—	(12,437)	—	(109)	—	—	(109)
Stock-based compensation	—	—	—	—	531,817	—	—	531,817
Tax withholding on stock-based compensation	—	—	—	—	(73,844)	—	—	(73,844)
Foreign currency translation adjustments	—	—	—	—	—	—	(8,143)	(8,143)
Unrealized loss on securities available for sale	—	—	—	—	—	—	(882)	(882)
Unrealized gain on cash flow hedges	—	—	—	—	—	—	751	751
Net loss	—	—	—	—	—	(985,345)	—	(985,345)
Balance as of June 30, 2023	**—**	**$ —**	**296,846,217**	**$ 3**	**$ 5,140,850**	**$ (2,591,247)**	**$ (15,423)**	**$ 2,534,183**

(1) The share amounts listed above combine common stock, Class A common stock and Class B common stock.

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended June 30,		
	2023	**2022**	**2021**
Cash flows from operating activities			
Net loss	$ (985,345)	$ (707,417)	$ (441,027)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for credit losses	331,860	255,272	65,878
Amortization of premiums and discounts on loans, net	(141,075)	(171,965)	(90,371)
Gain on sales of loans	(188,341)	(196,435)	(89,926)
Extinguishment of convertible debt	(89,841)	—	—
Changes in fair value of assets and liabilities	(15,883)	(101,789)	57,285
Amortization of commercial agreement assets	85,524	96,737	69,103
Amortization of debt issuance costs	20,535	16,152	6,416
Amortization of discount on securities available for sale	(36,060)	2,192	—
Commercial agreement warrant expense	421,934	254,679	—
Stock-based compensation	451,709	390,983	292,507
Depreciation and amortization	134,634	52,722	19,979
Impairment of right of use assets	1,244	362	11,544
Other	(8,825)	(73,154)	5,129
Change in operating assets and liabilities:			
Purchases of loans held for sale	(6,009,361)	(5,552,662)	(2,640,734)
Proceeds from the sale of loans held for sale	6,174,447	5,582,035	2,594,835
Accounts receivable, net	(67,690)	(62,700)	(22,934)
Other assets	(14,466)	(15,021)	(209,139)
Accounts payable	(5,038)	(24,686)	32,223
Payable to third-party loan owners	(17,531)	21,304	25,082
Accrued interest payable	7,915	3,907	1,395
Accrued expenses and other liabilities	(38,165)	67,290	119,625
Net cash provided by (used in) operating activities	12,181	(162,194)	(193,130)
Cash flows from investing activities			
Purchases and origination of loans held for investment	(13,586,251)	(10,362,048)	(5,897,252)
Proceeds from the sale of loans held for investment	1,582,501	1,898,607	824,011
Principal repayments and other loan servicing activity	10,028,452	8,121,583	4,324,618
Acquisition, net of cash and restricted cash acquired	(16,051)	(5,999)	(222,433)
Purchases of intangible assets	—	(25,415)	—
Additions to property, equipment and software	(120,775)	(86,290)	(20,252)
Purchases of securities available for sale	(1,082,147)	(1,841,380)	—
Proceeds from maturities and repayments of securities available for sale	1,537,495	311,035	—
Other investing cash inflows/(outflows)	3,706	(21,431)	(30,725)
Net cash used in investing activities	(1,653,070)	(2,011,338)	(1,022,033)
Cash flows from financing activities			
Proceeds from funding debt	6,894,971	4,101,134	2,942,254
Proceeds from issuance of convertible debt, net	—	1,704,300	—
Proceeds from issuance of notes and residual trust certificates by securitization trusts	1,150,000	999,394	1,395,879
Proceeds from initial public offering, net	—	—	1,305,176
Principal repayments of funding debt	(5,801,531)	(4,090,562)	(3,165,103)
Principal repayments of notes issued by securitization trusts	(606,299)	(552,046)	(210,368)
Payment of debt issuance costs	(22,443)	(13,751)	(12,499)
Extinguishment of convertible debt	(206,567)	—	—
Proceeds from exercise of common stock options and warrants and contributions to ESPP	15,768	73,914	47,042
Payments of tax withholding for stock-based compensation	(73,845)	(185,178)	(158,280)
Repurchases of common stock	(109)	(86)	(800)
Proceeds from issuance of redeemable convertible preferred stock, net	—	—	434,542
Repurchases and conversion of redeemable convertible preferred stock	—	—	(13)
Net cash provided by financing activities	1,349,945	2,037,119	2,577,830
Effect of exchange rate changes on cash, cash equivalents and restricted cash	81	(5,412)	1,837
Net increase (decrease) in cash, cash equivalents and restricted cash	**(290,863)**	**(141,825)**	**1,364,504**
Cash, cash equivalents and restricted cash, beginning of period	1,550,807	1,692,632	328,128
Cash, cash equivalents and restricted cash, end of period	**$ 1,259,944**	**$ 1,550,807**	**$ 1,692,632**

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

AFFIRM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONT.
(in thousands)

	Year ended June 30,		
	2023	2022	2021
Reconciliation to amounts on consolidated balance sheets (as of period end)			
Cash and cash equivalents	892,027	1,255,171	1,466,558
Restricted cash	367,917	295,636	226,074
Total cash, cash equivalents and restricted cash	**$ 1,259,944**	**$ 1,550,807**	**$ 1,692,632**

	Year ended June 30,		
	2023	2022	2021
Supplemental disclosures of cash flow information			
Cash payments for interest expense	$ 163,191	$ 51,524	$ 41,690
Cash paid for operating leases	16,354	15,561	13,215
Cash paid for income taxes	808	220	219
Supplemental disclosures of non-cash investing and financing activities			
Stock-based compensation included in capitalized internal-use software	$ 80,108	$ 54,542	$ 13,999
Issuance of common stock in connection with settlement of contingent consideration liability	13,674	32,109	—
Securities retained under unconsolidated securitization transactions	—	54,997	—
Issuance of common stock in connection with acquisition	—	10,000	331,498
Right of use assets obtained in exchange for operating lease liabilities	494	4,604	78,421
Additions to property and equipment included in accrued expenses	—	107	6
Conversion of redeemable convertible preferred stock	—	—	1,327,271
Issuance of warrants in exchange for commercial agreement	—	—	270,579
Conversion of convertible debt	—	—	88,559
Acquisition of commercial agreement asset	—	—	25,900

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

AFFIRM HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Business Description

Affirm Holdings, Inc. ("Affirm," the "Company," "we," "us," or "our"), headquartered in San Francisco, California, provides consumers with a simpler, more transparent, and flexible alternative to traditional payment options. Our mission is to deliver honest financial products that improve lives. Through our next-generation commerce platform, agreements with originating banks, and capital markets partners, we enable consumers to confidently pay for a purchase over time, with terms ranging up to 60 months. When a consumer applies for a loan through our platform, the loan is underwritten using our proprietary risk model, and once approved, the consumer selects their preferred repayment option. Loans are directly originated or funded and issued by our originating bank partners.

Merchants partner with us to transform the consumer shopping experience and to acquire and convert customers more effectively through our frictionless point-of-sale payment solutions. Consumers get the flexibility to buy now and make simple regular payments for their purchases and merchants see increased average order value, repeat purchase rates, and an overall more satisfied customer base. Unlike legacy payment options and our competitors' product offerings, which charge deferred or compounding interest and unexpected costs, we disclose up-front to consumers exactly what they will owe — no hidden fees, no deferred interest, no penalties.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

Our financial statements have been prepared on a consolidated basis. Under this basis of presentation, our financial statements consolidate all wholly owned subsidiaries and variable interest entities ("VIEs"), in which we have a controlling financial interest. These include various business trust entities and limited partnerships established to enter into warehouse credit agreements with certain lenders for funding debt facilities and certain asset-backed securitization transactions. All intercompany accounts and transactions have been eliminated in consolidation.

Our VIE variable interests arise from contractual, ownership, or other monetary interests in the entity, which changes with fluctuations in the fair value of the entity's net assets. We consolidate a VIE when we are deemed to be the primary beneficiary. We assess whether or not we are the primary beneficiary of a VIE on an ongoing basis.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the use of estimates, judgments and assumptions that affect the reported amounts in the consolidated financial statements and the accompanying notes. Material estimates that are particularly susceptible to significant change relate to determination of the allowance for credit losses, capitalized internal-use software development costs, valuation allowance for deferred tax assets, loss on loan purchase commitment, the fair value of servicing assets and liabilities, discount on self-originated loans, the fair value of assets acquired and any contingent consideration transferred in business combinations, the evaluation for impairment of intangible assets and goodwill, the fair value of available for sale debt securities including retained interests in our securitization trusts, the fair value of residual certificates issued by our securitization trusts held by third parties, and stock-based compensation, including the fair value of warrants issued to nonemployees. We base our estimates on historical experience, current events, and other factors

we believe to be reasonable under the circumstances. To the extent that there are material differences between these estimates and actual results, our financial condition or operating results will be materially affected.

These estimates are based on information available as of the date of the consolidated financial statements; therefore, actual results could differ materially from those estimates.

Immaterial Correction of Prior Period Amounts

Subsequent to the issuance of our financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021, which was filed with the SEC on September 17, 2021, we identified understatements in certain prior period amounts related to stock-based compensation.

We measure stock-based compensation based on the fair value of an award at the grant date and recognize expense over the vesting period of the award based on the estimated portion of the award that is expected to vest. An incorrect determination of the grant date and service inception dates for certain awards granted prior to our initial public offering ("IPO"), as well as incorrect treatment of expense recognition for certain terminated employees, resulted in an understatement of additional paid in capital and misstatement of stock-based compensation expense as of and for the year ended June 30, 2021 as previously reported.

Accordingly, we have corrected the accompanying financial statements and related footnotes as of and for the year ended June 30, 2021 from amounts previously reported. We have evaluated the materiality of these misstatements based on an analysis of quantitative and qualitative factors and concluded they were not material to the prior period financial statements, individually or in aggregate.

The following tables provide the impact of the correction as of and for the year ended June 30, 2021, as presented below (in thousands):

	Year Ended June 30, 2021		
	As Previously Reported	Adjustments	As Corrected
Consolidated statement of operations and comprehensive loss			
Processing and servicing	73,767	(189)	73,578
Technology and data analytics	256,082	(6,746)	249,336
Sales and marketing	184,279	(2,089)	182,190
General and administrative	370,251	13,498	383,749
Total operating expenses	**1,249,657**	**4,474**	**1,254,131**
Other expense, net	(54,073)	(5,630)	(59,703)
Loss before income taxes	**(433,266)**	**(10,104)**	**(443,370)**
Net loss attributable to common stockholders	**(430,923)**	**(10,104)**	**(441,027)**
Foreign currency translation adjustments	7,042	4	7,046
Net comprehensive income	**7,071**	**4**	**7,075**
Comprehensive loss	**(423,852)**	**(10,100)**	**(433,952)**
Net loss per share attributable to common stockholders for Class A and Class B:			
Basic	$ (2.72)	$ (0.06)	$ (2.78)
Diluted	$ (2.88)	$ (0.06)	$ (2.94)

	Year Ended June 30, 2021		
	As Previously Reported	Adjustments	As Corrected
Consolidated statement of redeemable convertible preferred stock and stockholders' equity			
Stock-based compensation - additional paid-in capital	302,032	4,474	306,506
Foreign currency translation adjustments - accumulated other comprehensive income (loss)	7,042	4	7,046
Net loss - accumulated deficit	(430,923)	(10,104)	(441,027)
Balance as of June 30, 2021 - total stockholders' equity	**2,581,153**	**(5,626)**	**2,575,527**

	Year Ended June 30, 2021		
	As Previously Reported	Adjustments	As Corrected
Consolidated statement of cash flows			
Cash flows from operating activities			
Net loss	(430,923)	(10,104)	(441,027)
Adjustments to reconcile net loss to net cash used in operating activities:			
Changes in fair value of assets and liabilities	51,655	5,630	57,285
Stock-based compensation	288,033	4,474	292,507
Net cash used in operating activities	**(193,130)**	**—**	**(193,130)**

Segment Reporting

We conduct our operations through a single operating segment and, therefore, one reportable segment. Operating segments are components of a company for which separate financial information is internally produced for regular use by the Chief Operating Decision Maker ("CODM") to allocate resources and assess the performance of the business. Our CODM, the Chief Executive Officer of Affirm Holdings, Inc., uses a variety of measures to assess the performance of the business; however, detailed profitability information that could be used to allocate resources and assess the performance of the business is managed and reviewed for the consolidated company as a whole.

Business Combination

We use the acquisition method of accounting for business combination transactions, and, accordingly, recognize the fair values of assets acquired and liabilities assumed in our consolidated financial statements. Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value. Transaction costs related to the acquisition of the acquired company are expensed as incurred. The allocation of fair values may be subject to adjustment after the initial allocation for up to a one-year period as more information becomes available relative to the fair values as of the acquisition date. The consolidated financial statements include the results of operations of any acquired company since the acquisition date.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking, money market and savings accounts held at financial institutions and short term highly liquid marketable securities, including money market funds, government and agency securities, and other corporate securities purchased with an original maturity of three months or less.

Restricted Cash

Restricted cash consists primarily of: (i) deposits restricted by standby letters of credit for office leases and certain commercial agreements; (ii) funds held in accounts as collateral for our originating bank partners; (iii) servicing funds held in accounts contractually restricted by agreements with warehouse credit facilities, securitization trusts, and third-party loan owners; and (iv) pledged cash collateral requirements for certain derivative agreements. Our ability to withdraw funds is restricted by contractual provisions under the applicable agreements.

Securities Available for Sale

We hold certain investments in marketable debt securities and retained interests in our unconsolidated securitization trusts which are accounted for under ASC Topic 320, "Investments - Debt Securities" ("ASC 320"). We have classified these investments as available for sale, as defined within ASC 320. These investments are held at fair value with changes in fair value recorded in unrealized gain (loss) on securities available for sale, net within other comprehensive income (loss), excluding the portion relating to any credit loss. As of the end of each reporting period, management reviews each security where the fair value is less than the amortized cost to determine whether any portion of the decline in fair value is due to a credit loss and/or whether or not we intend to sell or will be required to sell such security before recovery of its amortized cost basis. The portion of any decline in fair value which management identifies as a credit loss will be recognized as an allowance for credit losses through other (expense) income, net. To the extent management intends to sell or may be required to sell a security in an unrealized loss position, we 1) reverse any previously recorded allowance for credit losses with an offsetting entry to reduce the amortized cost basis of the security and 2) write-off any remaining portion of the amortized cost basis to equal its fair value, with this change recorded through other (expense) income, net.

Interest income for available for sale securities is recorded within other (expense) income, net.

Available for sale securities initially purchased with less than 90 days until maturity with quoted transaction prices in an active market are classified as cash and cash equivalents.

With respect to retained interests in our securitization trusts, we apply the guidance in ASC Topic 325, "Investments - Other" ("ASC 325") relating to beneficial interests. Accordingly, we recognize interest income each period based on the effective interest rate calculated using expected cash flows. Changes in the timing of expected cash flows are accounted for prospectively through an adjustment to interest income. When fair value is below amortized cost, we record an allowance for credit losses measured based on the difference between amortized cost and projected cash flows discounted at the effective interest rate. The allowance for credit losses is capped at the difference between amortized cost and fair value.

Loans Held for Investment

We either originate loans directly or purchase our loans from our originating bank partners pursuant to the terms outlined in the respective executed loan sale program agreements between us and our bank partners. Loan receivables that we have the intent and ability to hold for the foreseeable future or until maturity or payoff are classified as held for investment and are reported at amortized cost, which includes unpaid principal balances, any related premiums including fees paid to our originating bank partners and discounts due to loss on loan purchase commitment for loans with a fair value below the purchase price, where applicable, adjusted for any charge-offs. The amortized cost is adjusted for the allowance for credit losses within loans held for investment, net.

Loans Held for Sale

We sell certain loans to third-party loan buyers and securitization trusts. A loan is initially classified as held for sale when the loan is identified as for sale to a third party loan buyer or to be sold to a securitization trust that is anticipated to be off balance sheet. Loans classified as held for sale are recorded at the lower of amortized cost or fair value. A loan that is initially designated as held for sale or held for investment may be reclassified when our intent for that loan changes. When a loan held for investment is reclassified to held for sale and reported at fair

value, any allowance for the credit loss related to that loan is released and any fair value adjustment to record the loan at the lower of amortized cost or fair value is recorded. Our loans designated as held for sale are generally sold within one to three days of the balance sheet date. Fair value adjustments were not material for loans designated as held for sale as of June 30, 2023 and June 30, 2022.

Transfers of Financial Assets

We account for loan sales in accordance with ASC 860, "Transfers and Servicing" ("ASC 860") which states that a transfer of financial assets, a group of financial assets, or a participating interest in a financial asset is accounted for as a sale if all of the following conditions are met:

a. The financial assets are isolated from the transferor and its consolidated affiliates as well as its creditors;
b. The transferee or beneficial interest holders have the right to pledge or exchange the transferred financial assets; and
c. The transferor does not maintain effective control of the transferred assets.

When the requirements for sale accounting are met, we record the gain or loss on the sale of a loan at the sale date in an amount equal to the proceeds received less the carrying value of the loan, adjusted for initial recognition of assets obtained and liabilities incurred at the date of sale.

Upon the sale of a loan to a third-party loan buyer or unconsolidated securitization trust in which we retain servicing rights, we may recognize a servicing asset or liability. A servicing asset or liability arises when our contractual servicing fee with a counterparty differs from the adequate compensation rate that would be required by a third party to service the same portfolio of assets, as defined by ASC 860. Servicing assets and liabilities are measured and recorded at fair value and are presented as a component of other assets or accrued expenses and other liabilities, respectively. The recognition of a servicing asset results in a corresponding increase to the gain on sales of loans. The recognition of a servicing liability results in a corresponding decrease to gain on sales of loans. The servicing rights are remeasured at fair value each period, with the subsequent adjustment recognized in servicing income.

In connection with the sale of a loan to a third-party loan buyer or unconsolidated securitization trust we may also recognize a recourse liability in accordance with ASC 460, "Guarantees" ("ASC 460") as in certain circumstances we may become required to re-purchase loans from third-party investors due to breaches in representations and warranties. The recognition of a recourse liability results in a corresponding decrease to gain on sales of loans. The recourse liability is amortized over the loan term and remeasured each period based on the outstanding loan balance and changes in our expectation of future repurchase obligations. Subsequent remeasurement of the recourse liability is recognized in other income (expense), net on the consolidated statement of operations and comprehensive loss.

Allowance for Credit Losses on Loans Held for Investment

The allowance for credit losses on loans held for investment is determined based on management's current estimate of expected credit losses over the remaining contractual term, historical credit losses, consumer payment trends, estimates of recoveries, and future expectations on individual loans as of each balance sheet date. We immediately recognize an allowance for expected credit losses upon the origination of a loan. Adjustments to the allowance each period for changes in our estimate of lifetime expected credit losses are recognized in earnings through the provision for credit losses presented on our consolidated statements of operations and comprehensive loss. We have made an accounting policy election to not measure an allowance for credit losses for accrued interest receivables. Previously recognized interest receivable from charged-off loans that is accrued but not collected from the consumer is reversed.

In estimating the allowance for credit losses, management utilizes a migration analysis of delinquent and current loan receivables. Migration analysis is a technique used to estimate the likelihood that a loan receivable will

progress through various stages of delinquency and to charge-off. The analysis focuses on the pertinent factors underlying the quality of the loan portfolio. These factors include historical performance, the age of the receivable balance, seasonality, customer credit-worthiness, changes in the size and composition of the loan portfolio, delinquency levels, bankruptcy filings and actual credit loss experience. We also take into consideration certain qualitative factors where we adjust our quantitative baseline using our best judgment to consider the inherent uncertainty regarding future economic conditions and consumer loan performance. For example, the Company considers the impact of current economic factors at the reporting date that did not exist over the period from which historical experience was used. As of June 30, 2023, we have considered the impact of Federal Reserve monetary policy, labor market trends, inflation, consumer sentiment, and the end of the student loan repayment pause.

When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. Loans are charged-off in accordance with our charge-off policy, as the contractual principal becomes 120 days past due or meets other charge-off policy requirements. Subsequent recoveries of the unpaid principal balance, if any, are credited to the allowance for credit losses. Refer to Note 4. Loans Held for Investment and Allowance for Credit Losses for more information.

Accounts Receivable, net

Our accounts receivable consist primarily of amounts due from payment processors, merchant partners, affiliate network partners and servicing fees due from third-party loan owners. For each of these groups, we evaluate accounts receivable to determine management's current estimate of expected credit losses based on historical experience and future expectations and record an allowance for credit losses. Our allowance for credit losses with respect to accounts receivable was $12.9 million and $13.9 million as of June 30, 2023 and June 30, 2022, respectively.

Property, Equipment and Software, net

Property, equipment and software consist of computer and office equipment, capitalized internal-use developed software and website development costs and leasehold improvements. Property, equipment and software is stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are recognized using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are depreciated over the shorter of the improvement's estimated useful life or the remaining lease term.

We capitalize costs to develop internally developed software when preliminary development efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and the software or website will function and be used as intended. Capitalized internal-use software costs primarily include salaries and payroll-related costs for employees directly involved in the development efforts, software licenses acquired and fees paid to external consultants. Such costs are amortized on a straight-line basis over the estimated useful life of the related asset, which is three years. Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed as incurred. Costs incurred for enhancements that are expected to result in additional functionality are capitalized and expensed over the estimated useful life of the upgrades. Capitalized internally developed software costs are included in property, equipment and software, and amortization expense is included in technology and data analytics expense in the consolidated statements of operations and comprehensive loss.

Property, equipment and software is tested for impairment when there is an indication that the carrying value of the asset group it belongs to may not be recoverable. This would occur if the undiscounted cash flows estimated to be generated by an asset group are less than its carrying value. When an asset group is determined not to be recoverable, the impairment is measured based on the excess, if any, of the carrying value of the asset group over its respective fair value and recorded in the period the determination is made.

Goodwill and Intangible Assets

We recognize the excess of the purchase price over the fair value of identifiable net assets acquired at the acquisition date as goodwill. Goodwill is not amortized but is reviewed for impairment annually and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. We first perform a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. 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.

Identifiable intangible assets include developed technology, merchant relationships, assembled workforce, and trade names resulting from acquisitions, including asset acquisitions. Acquired intangible assets are recorded at fair value on the date of acquisition and amortized over their estimated economic lives on a straight-line basis. Acquired intangible assets are presented net of accumulated amortization on the consolidated balance sheets. We review the carrying amounts of intangible assets for impairment at the asset group level whenever events or changes in circumstances indicate that the carrying amount of the asset group may not be recoverable. We measure the recoverability of the asset group by comparing its carrying amount to the future undiscounted cash flows we expect the asset group to generate. If we consider the asset group to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset group 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 depreciation or amortization.

Leases

We determine whether an arrangement is a lease for accounting purposes at contract inception. For operating leases, we record a right-of-use asset ("ROU") within other assets in our consolidated balance sheets, which represents our right to use an underlying asset for the lease term. A corresponding lease liability, which represents our obligation to make lease payments arising from the lease, is recorded in accrued expenses and other liabilities in our consolidated balance sheets.

ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. To discount the lease payments, we use an incremental borrowing rate derived from a corporate yield curve corresponding with the lease term using information available on the commencement date. We have the option to renew or extend our leases. We include these periods in the lease term when a decision has been made to exercise the option. Lease expense for operating leases is recognized on a straight-line basis over the lease term.

We have elected the practical expedient allowing the combination of lease and non-lease components by class of underlying asset. We have also elected the short-term lease exception and will not recognize right-of-use assets or lease liabilities for qualifying leases with a term of less than 12 months from lease commencement.

Non-marketable Equity Securities

Non-marketable equity securities which do not have a readily determinable fair value are measured 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").

Unrealized and realized gains and losses on the investment due to impairment or observable price changes in orderly transaction for an identical or similar investment of the same issuer, if any, are recognized in other (expense) income, net on our consolidated statements of operations and comprehensive loss and a new carrying value is established for the investment upon such recognition.

Funding Debt and Debt Issuance Costs

To finance loans we originate directly or that we purchase from our originating bank partners, we borrow from various lenders through collateralized funding arrangements, which include our warehouse credit facilities secured by pledged loans and sale and repurchase agreements secured by pledging certain retained interests in our off balance sheet securitizations. These borrowings are carried at amortized cost. Costs incurred in connection with borrowings, such as banker fees, commitment fees and legal fees, are classified as deferred debt issuance costs. We defer these costs and amortize them on a straight-line basis over the expected term of the debt. Interest payments and amortization of debt issuance costs incurred on funding debt is presented as funding costs in the consolidated statements of operations and comprehensive loss. Unamortized debt issuance costs are presented as a reduction of the associated debt.

Notes Issued by Securitization Trusts

In connection with our asset-backed securitization program, we sponsor and establish trusts (deemed to be VIEs) to ultimately purchase loans facilitated by our platform. Where we consolidate the securitization trusts, the loans held in the securitization trusts are included in loans held for investment, and the notes sold to third-party investors are recorded in notes issued by securitization trusts in the consolidated balance sheets. We defer and amortize note issuance costs, including banker fees, legal fees and other professional service fees, for consolidated securitization trusts on a straight-line basis over the expected life of the notes. Interest payments and amortization of note issuance costs incurred is presented as funding costs in the consolidated statements of operations and comprehensive loss. Unamortized note issuance costs are presented as a reduction of the associated notes.

Income Taxes

Income taxes are accounted for using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized as an income tax expense (benefit) in the period that includes the enactment date.

Valuation allowances are provided when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized based on the weighting of positive and negative evidence. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character within the carryback or carryforward periods available under the applicable tax law. We regularly review the deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences, and tax planning strategies; however, in evaluating the positive evidence available, expectations of future taxable income and projections for growth are usually not sufficient to overcome the negative evidence of the presence of a three-year cumulative loss. Should there be a change in the ability to recover deferred tax assets, our income tax provision would increase or decrease in the period in which the assessment is changed.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex federal, state, and foreign tax laws and regulations, and positions taken in our tax returns may be subject to challenge by the taxing authorities upon examination. In accordance with applicable accounting guidance, uncertain tax positions are recognized in the financial statements only when it is more likely than not that the positions will be sustained upon examination by the tax authorities, assuming full knowledge of the position and all relevant facts. Interest and penalties, if any, on income tax uncertainties are classified within income tax expense in the income statement.

Fair Value of Assets and Liabilities

ASC Topic 820, “Fair Value Measurements and Disclosures” (“ASC 820”), defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that use, as inputs, observable market-based parameters to the greatest extent possible.

Additionally, ASC 820 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

- Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Revenue Recognition

Our revenue consists of five components: merchant network revenue, card network revenue, interest income, gain on sale of loans and servicing income. Refer to Note 3. Revenue for additional information.

Loss on Loan Purchase Commitment

We purchase certain loans from our originating bank partners that are processed through our platform that our originating bank partner puts back to us. Under the terms of the agreements with our originating bank partners, we are generally required to pay the principal amount plus accrued interest for such loans and fees. In certain instances, our originating bank partners may originate loans with zero or below market interest rates that we are required to purchase. In these instances, we may be required to purchase the loan for a price in excess of the fair market value of such loans, which results in a loss. These losses are recognized as loss on loan purchase commitment in our consolidated statements of operations and comprehensive loss. These costs are incurred on a per loan basis.

Due to the nature of this arrangement with our originating bank partners, we recognize a net liability for this commitment when the merchant confirms the transaction. This liability is recorded at fair value, which is determined by the difference between the estimated fair value of the loan and the anticipated purchase price. Upon purchase, the liability is included in the amortized cost basis of the purchased loan as a discount, which is amortized into interest income over the life of the loan.

Customer Referral Partners

From time to time, we make payments to customer referral partners providing lead generation services for each transaction processed through our technology platform. We first evaluate whether the customer referral partner is a customer or a vendor. We consider customer referral partners as customers if we determine they are the principal to eligible merchants in providing the facilitation of credit service. We consider customer referral partners as vendors if we determine that we are the principal to eligible merchants in providing the facilitation of credit service.

Payments made to customer referral partners that are considered to be our customer are recorded as a reduction of revenue, and payments made to customer referral partners that are not considered to be our customers are recorded in processing and servicing expense, respectively, over the associated period of benefit within our consolidated statements of operations and comprehensive loss.

Sales and Marketing Costs

Sales and marketing costs include the expense related to warrants and other share-based payments granted to our enterprise partners. See Note 6. Balance Sheet Components for more information on these arrangements. Sales and marketing costs also include salaries and personnel-related costs, as well as costs of marketing and promotional activities, promotional event programs, sponsorships, and allocated overhead. A portion of these costs related to general marketing and promotional activities are considered advertising costs within the meaning of ASC Topic 720, "Other Expenses" ("ASC 720"), and are expensed as incurred. Advertising costs totaled $22.6 million, $74.0 million and $48.1 million for the years ended June 30, 2023, 2022, and 2021, respectively.

Derivative Instruments

We use derivative financial instruments ("derivatives") to manage exposure to variable interest rates. Our primary objective in holding derivatives is to reduce the volatility in cash flows associated with our funding activities arising from changes in interest rates. We do not employ derivatives for trading or speculative purposes.

We use a combination of interest rate cap agreements and interest rate swaps to manage interest costs and the risk associated with variable interest rates. ASC Topic 815 "Derivatives and Hedging" ("ASC 815") requires that an entity recognize all derivative instruments as either assets or liabilities in the statement of financial position at fair value. In accordance with ASC 815, we designate certain derivative instruments as cash flow hedges, while others are not designated as hedges. Certain of our derivative agreements provide for netting arrangements for contracts that settle with the same counterparty, however, we do not offset assets and liabilities under these arrangements for financial statement presentation purposes. As such, the fair values are presented gross within other assets and accrued expenses and other liabilities. Offsetting collateral received by or paid to the counterparty is presented gross within accrued expenses and other liabilities or other assets, as applicable, on the consolidated balance sheet.

Cash Flow Hedges

We have interest rate swaps designated as cash flow hedges in order to mitigate our exposure to changes in interest rates on our variable rate warehouse funding debt. Swaps that qualify as cash flow hedges are documented and designated as such when we enter into the contracts. In accordance with our risk management policies, we structure our hedges with terms similar to that of the item being hedged. At inception of the hedge accounting relationship and on a quarterly basis, we formally assess whether derivatives designated as cash flow hedges are highly effective in offsetting changes to the forecasted cash flows of the hedged items.

If the cash flow hedges are deemed to be highly effective, the gain or loss on the cash flow hedges are recorded in other comprehensive income (loss) ("OCI") and reclassified into earnings when the hedged cash flows are recognized in funding costs within the consolidated statements of operations and comprehensive income. The amount that is reclassified into earnings is presented in the consolidated statements of operations and comprehensive loss within funding costs, the same line item in which the hedged transaction is recognized.

Derivatives Not Designated as Hedges

We have interest rate caps and interest rate swaps that are not designated as hedging instruments. We enter into these contracts to manage interest rate risk. Any changes in the fair value of these financial instruments are reflected in other (expense) income, net, on the consolidated statements of operations and comprehensive loss.

See Note 12. Derivative Financial Instruments for additional information on our derivative assets and liabilities

Stock-Based Compensation

We account for stock-based compensation expense in accordance with the fair value recognition and measurement provisions of U.S. GAAP, which requires compensation cost for the grant date fair value of stock-based awards to be recognized over the requisite service period. We have elected to estimate the expected forfeiture rate for service-based awards and only recognize expense for those stock-based awards expected to vest. We estimate the forfeiture rate based on our historical experience with stock-based awards that are granted and forfeited prior to vesting.

The fair value of stock-based awards, granted or modified, is determined on the grant date (or modification or acquisition dates, if applicable) at fair value, using appropriate valuation techniques.

Service-Based Awards

We record stock-based compensation expense for service-based stock options and restricted stock units ("RSUs") on a straight-line basis over the requisite service period, which is generally one to four years. The fair value of each RSU is equal to the closing stock price on the date of grant. The fair value of each option on the date of grant is determined using the Black Scholes-Merton option pricing model using the single-option award approach. We estimate volatility using a weighted average of our historical volatility and the historical volatility of selected comparable publicly-traded companies due to the limited time period of historical market data for our common stock. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term of the award. We use the simplified method to determine an estimate of the expected term of an employee stock option.

We account for stock-based awards to non-employees, including consultants, in accordance with ASC Topic 718, "Compensation — Stock Compensation" ("ASC 718"), in which equity-classified awards are measured at the grant date fair value and recognized as expense in the period and manner as though we had paid cash in exchange for goods or services instead of granting a stock-based award.

Performance-Based Awards

Prior to the IPO, we granted RSUs that were subject to two vesting conditions: a service-based vesting condition (i.e., employment over a period of time) and a performance-based vesting condition (i.e., a liquidity event in the form of either certain change in control transactions or an initial public offering). The performance-based condition was met upon the IPO. We record stock-based compensation expense for these awards on an accelerated attribution method over the requisite service period, which is generally four years.

Upon exercise or vesting of a stock-based award, the tax effect of the difference, if any, between the cumulative compensation cost recognized for financial statement purposes and the deduction for income tax purposes, will be recognized as an income tax expense or benefit in the consolidated statement of operations.

Market-Based Awards

We have granted stock option awards with service-based, performance-based, and market-based vesting conditions. We determined the grant date fair value of these awards by utilizing a Monte Carlo simulation model that incorporates the probability of achievement of the market-based conditions. The Monte Carlo simulation also incorporates assumptions including expected stock price volatility, expected term, and risk-free interest rates. We estimated the volatility of common stock on the date of grant based on the weighted-average historical stock price volatility of comparable publicly-traded companies in our industry group. We estimated the expected term of the

award based on various exercise scenarios. The risk-free interest rate was determined using a U.S. Treasury rate for the period that coincides with the expected term of the award.

We record stock-based compensation expense for market-based equity awards on an accelerated attribution method over the requisite service period, and only if performance-based conditions are considered probable of being satisfied.

Foreign Currency

We have wholly-owned foreign subsidiaries that use the local currency of their respective country as their functional currency. Assets and liabilities of these subsidiaries are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates. Revenue, costs, and expenses of these subsidiaries are translated into U.S. dollars using daily exchange rates when incurred. Gains and losses resulting from these translations are recorded as a component of accumulated other comprehensive income (loss) ("AOCI"). Gains and losses from the remeasurement of foreign currency transactions into the functional currency are recognized as other income (expense), net, in our consolidated statements of operations and comprehensive loss.

Basic and Diluted Net Loss per Common Share

We calculate net income or loss per share using the two-class method. The two-class method requires income available to common stockholders for the period to be allocated between each class of common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. Our participating securities include common stock issued upon the early exercise of stock options and convertible senior notes. We consider any shares issued upon early exercise of stock options, subject to repurchase, to be participating securities because holders of such shares have non-forfeitable dividend rights in the event a cash dividend is declared on our common stock. These participating securities do not contractually require the holders of such shares to participate in our losses. As such, net losses for the years presented were not allocated to our participating securities.

We calculate basic net loss per share attributable to common stockholders for Class A and Class B common stock by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding in each class for the period.

We calculate diluted net loss per share attributable to common stockholders by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding in each class, after giving consideration to the dilutive effect of our stock options, restricted stock units, employee stock purchase plan shares, convertible debt and common stock warrants that are outstanding during the period. We have generated a net loss in all periods presented, and therefore, the basic and diluted net loss per share attributable to common stockholders are the same as the inclusion of the potentially dilutive securities would be anti-dilutive.

Recently Adopted Accounting Standards

Financial Instruments - Credit Losses

In March 2022, the FASB issued Accounting Standards Update ("ASU") 2022-02, "Financial Instruments — Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosure" which addresses areas identified by the FASB as part of its post-implementation review of the current expected credit losses model or "CECL" previously issued in ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326)". The amendments in this ASU eliminate the accounting guidance for troubled debt restructurings by creditors while enhancing the disclosure requirements for loan refinancing and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases in the vintage disclosures. For entities that have adopted ASU 2016-13, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted if an entity has adopted ASU 2016-13.

Amendments in this ASU should be applied prospectively except for the transition method related to the accounting for troubled debt restructurings in which an entity has the option to apply a modified retrospective transition method resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. We early adopted the new standard effective July 1, 2022 on a prospective basis. The adoption of the guidance did not have a material impact on our financial statements.

Business Combinations

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers", which requires contract assets and contract liabilities, such as deferred revenue, acquired in a business combination to be recognized and measured in accordance with Topic 606 (Revenue from Contracts with Customers). ASU 2021-08 is expected to reduce diversity in practice and increase comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination. The ASU is effective for fiscal years beginning after December 15, 2022 and should be applied prospectively to acquisitions occurring on or after the effective date. Early adoption is permitted, including for interim periods, and is applicable to all business combinations for which the acquisition date occurs within the beginning of the fiscal year of adoption. We early adopted the new standard effective January 1, 2023 on a prospective basis. The adoption of the guidance did not have a material impact on our financial statements.

Reference Rate Reform

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". Subject to meeting certain criteria, the new guidance provides optional expedients and exceptions to applying contract modification accounting under existing U.S. GAAP, to address the expected phase out of the London Interbank Offered Rate ("LIBOR"). In January 2021, the FASB also issued ASU 2021-01, "Reference Rate Reform (Topic 848): Scope", which provides additional optional expedients and exceptions applicable to all entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. In December 2022, the FASB issued ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848", to extend the temporary accounting rules under Topic 848 from December 31, 2022 to December 31, 2024. These ASUs are effective for all entities upon their respective issuance dates through December 31, 2024. The adoption of the guidance did not have a material impact on our financial statements.

3. Revenue

The following table presents the company's revenue disaggregated by revenue source (in thousands):

	Year ended June 30,		
	2023	2022	2021
Merchant network revenue	$ 507,600	458,511	379,551
Card network revenue	119,338	100,696	49,851
Interest income	685,217	527,880	326,417
Gain on sales of loans	188,341	196,435	89,926
Servicing income	87,489	65,770	24,719
Total revenue, net	$ 1,587,985	$ 1,349,292	$ 870,464

Merchant Network Revenue — Revenue from Contracts with Customers

Merchant network revenue consists of merchant fees. Merchant partners (or integrated merchants) are generally charged a fee based on GMV processed through the Affirm platform. The fees vary depending on the individual arrangement between us and each merchant and on the terms of the product offering. The fee is

recognized at the point in time the merchant successfully confirms the transaction, which is when the terms of the executed merchant agreement are fulfilled.

Our contracts with merchants are defined at the transaction level and do not extend beyond the service already provided (i.e., each transaction represents a separate contract). The fees collected from merchants for each transaction are determined as a percentage of the value of the goods purchased by the consumer from merchants and consider a number of factors including the end consumer's credit risk and financing term. We do not have any capitalized contract costs, and do not carry any material contract balances.

Our service comprises a single performance obligation to merchants to facilitate transactions with consumers. From time to time, we offer merchants incentives to promote our platform to their customers, such as fee reductions or rebates. These amounts are recorded as a reduction to merchant network revenue.

We may originate certain loans via our wholly-owned subsidiaries, with zero or below market interest rates. In these instances, the par value of the loans originated is in excess of the fair market value of such loans, resulting in a loss on loan origination, which we record as a reduction to network revenue. In certain cases, the losses incurred on loans originated for a merchant may exceed the total network revenue earned on those loans. We record the excess loss amounts as a sales and marketing expense.

On May 5, 2021, our largest merchant partner at the time, Peloton, announced a voluntary recall of two of its products following a report by the U.S. Consumer Product Safety Commission released on April 17, 2021. Pursuant to ASC 606, we revised our estimate of the variable consideration associated with revenue earned on the facilitation of transactions related to the recalled products and recorded a reduction in revenue of $5.4 million during the year ended June 30, 2021.

A portion of merchant network revenue relates to affiliate network revenue, which is generated when a user makes a purchase on a merchant's website after being directed from an advertisement on Affirm's website or mobile application. We earn a fixed placement fee and/or commission as a percentage of the associated sale. Revenue is recognized at the point in time when the performance obligation has been fulfilled, which is when the sale occurs.

For the years ended June 30, 2023 and 2022, there were no merchants that exceeded 10% of total revenue. For the year ended 2021, approximately 20% of total revenue was driven by one merchant.

Card Network Revenue — Revenue from Contracts with Customers

We have agreements with card-issuing partners to facilitate the issuance of physical and virtual debit cards to be used by consumers at checkout. Consumers can apply at Affirm.com or via the Affirm app and, upon approval, receive a single-use virtual card to use digitally online or in-store. The debit card is funded at the time a transaction is authorized using cash held by the card-issuing partner in a reserve fund. Eligible consumers can also use a debit card issued by a card-issuing partner to pay in full, debited from their bank account, or pay later, by using a unique post-purchase feature that allows them to instantly convert any eligible debit transaction into an installment loan. Where applicable, our originating bank partner, or wholly-owned subsidiaries, then originates a loan to the consumer after the transaction is confirmed by the merchant. The merchant is charged interchange fees for each successful debit card transaction, and a portion of this revenue is shared with us by our card-issuing partners.

Merchants may also elect to utilize our agreement with card-issuing partners as a means of integrating Affirm services. Similarly, for these arrangements with integrated merchants, the merchant is charged interchange fees for each successful debit card transaction and a portion of this revenue is shared with us. From time to time, we offer certain integrated merchants promotional incentives to promote our platform to their customers, such as rebates of interchange fees incurred by the merchant. These amounts are recorded as a reduction of card network revenue.

Our contracts with our card-issuing partners are defined at the transaction level and do not extend beyond the service already provided. The revenue collected from card-issuing partners for each transaction are determined as a percentage of the interchange fees charged on transactions facilitated on the payment processor network, and

revenue is recognized at the point in time the transaction is completed successfully. The amounts collected are presented in revenue, net of associated transaction-related processing fees paid to our card-issuing partners. We have concluded that the revenue collected does not give rise to a future material right because the pricing of each transaction does not depend on the volume of prior successful transactions. We do not have any capitalized contract costs, and do not carry any material contract balances.

Our service comprises a single performance obligation to the card-issuing partner to facilitate transactions with consumers.

A portion of card network revenue relates to incentive payments from card network partners, which we are eligible to receive for reaching certain cumulative volume targets on program cards issued by the issuer processors. We earn incentive revenue as a percentage of each associated transaction and estimate the applicable percentage based on observed cumulative volume on program cards. Revenue is recognized at the point in time when the performance obligation has been fulfilled, which is when the transaction is completed successfully.

Interest Income

Interest income consisted of the following components (in thousands):

	Year ended June 30,		
	2023	2022	2021
Contractual interest income on unpaid principal balance	$ 561,192	365,993	237,526
Amortization of discount on loans	158,703	185,050	101,078
Amortization of premiums on loans	(17,628)	(13,085)	(9,018)
Interest receivable charged-off, net of recoveries	(17,050)	(10,078)	(3,169)
Total interest income	$ 685,217	$ 527,880	$ 326,417

We accrue interest income using the effective interest method, which includes the amortization of any discounts or premiums on loan receivables created upon the purchase of a loan from our originating bank partners or upon the origination of a loan. Interest income on a loan is accrued daily, based on the finance charge disclosed to the consumer, over the term of the loan based upon the principal outstanding. The accrual of interest on a loan is suspended if a formal dispute with the consumer involving either Affirm or the merchant of record is opened, or a loan is 120 days past due. Upon the resolution of a dispute with the consumer, the accrual of interest is resumed, and any interest that would have been earned during the disputed period is retroactively accrued. As of June 30, 2023, June 30, 2022, and June 30, 2021, the balance of loans held for investment on non-accrual status was $1.8 million, $1.7 million, and $1.1 million, respectively.

The account is charged-off in the period if the account becomes 120 days past due or meets other charge-off policy requirements. Past due status is based on the contractual terms of the loans. Previously recognized interest receivable from charged-off loans that is accrued but not collected from the consumer is reversed.

Gain on Sales of Loans

We sell certain loans we originate or purchase from our originating bank partners directly to third-party investors or to securitizations. We recognize a gain or loss on sale of loans sold to third parties or to unconsolidated securitizations as the difference between the proceeds received and the carrying value of the loan, adjusted for the initial recognition of any assets or liabilities incurred upon sale, which generally include a net servicing asset or liability in connection with our ongoing obligation to continue to service the loans and a recourse liability based on our estimate of future losses in connection with our obligation to repurchase loans that do not meet certain contractual requirements and such information about the loan was unknown at the time of sale.

Servicing Income

Servicing income includes contractual fees specified in our servicing agreements with third-party loan owners and unconsolidated securitizations that are earned from providing professional services to manage loan portfolios on their behalf. The servicing fee is calculated on a daily basis by multiplying a set fee percentage (as outlined in the executed agreements with third-party loan owners) by the outstanding loan principal balance. We recognize this revenue on a monthly basis. Servicing income also includes fair value adjustments for servicing assets and servicing liabilities.

4. Loans Held for Investment and Allowance for Credit Losses

Loans held for investment consisted of the following (in thousands):

	June 30, 2023	June 30, 2022
Unpaid principal balance	$ 4,451,324	$ 2,516,733
Accrued interest receivable	41,079	20,697
Premiums on loans held for investment	7,135	8,911
Less: Discount due to loss on loan purchase commitment	(51,190)	(20,692)
Less: Discount due to loss on directly originated loans	(45,145)	(20,443)
Less: Fair value adjustment on loans acquired through business combination	(241)	(1,645)
Total loans held for investment	$ 4,402,962	$ 2,503,561

Loans held for investment includes loans originated through our originating bank partners and directly originated loans. The majority of the loans that are underwritten using our technology platform and originated by our originating bank partners are later purchased by us. We purchased loans from our originating bank partners in the amount of $16.2 billion, $12.1 billion, and $7.9 billion for the years ended June 30, 2023, 2022, and 2021, respectively. We directly originated $3.7 billion, $3.3 billion, and $0.6 billion of loans for the years ended June 30, 2023, 2022, and 2021, respectively.

These loans have a variety of lending terms as well as maturities ranging from one to sixty months. Given that our loan portfolio focuses on one product segment, point-of-sale unsecured installment loans, we generally evaluate the entire portfolio as a single homogeneous loan portfolio and make merchant or program specific adjustments as necessary.

We closely monitor credit quality for our loan receivables to manage and evaluate our related exposure to credit risk. Credit risk management begins with initial underwriting, where loan applications are assessed against the credit underwriting policy and procedures for our directly originated loans and originating bank partner loans, and continues through to full repayment of a loan. To assess a consumer who requests a loan, we use, among other indicators, internally developed risk models using detailed information from external sources, such as credit bureaus where available, and internal historical experience, including the consumer’s prior repayment history on our platform as well as other measures. We combine these factors to establish a proprietary score as a credit quality indicator.

Our proprietary score (“ITACs”) is assigned to most loans facilitated through our technology platform, ranging from zero to 100, with 100 representing the highest credit quality and therefore the lowest likelihood of loss. The ITACs model analyzes the characteristics of a consumer's attributes that are shown to be predictive of both willingness and ability to repay including, but not limited to: basic features of a consumer's credit profile, a consumer's prior repayment performance with other creditors, current credit utilization, and legal and policy changes. When a consumer passes both fraud and credit policy checks, the application is assigned an ITACs score. ITACs is also used for portfolio performance monitoring. Our credit risk team closely tracks the distribution of ITACs at the portfolio level, as well as ITACs at the individual loan level to monitor for signs of a changing credit profile within the portfolio. Repayment performance within each ITACs band is also monitored to support both the

integrity of the risk scoring models and to measure possible changes in consumer behavior amongst various credit tiers.

The following table presents an analysis of the credit quality, by ITACs score, of the amortized cost basis excluding accrued interest receivable, by fiscal year of origination on loans held for investment and loans held for sale as of June 30, 2023 (in thousands):

June 30, 2023

	Amortized Costs Basis by Fiscal Year of Origination						
	2023	2022	2021	2020	2019	Prior	Total
96+	$2,628,060	$ 39,428	$ 18,910	$ 3,439	$ 9	$ 1	$2,689,847
94 – 96	1,104,553	7,755	439	77	6	2	1,112,832
90 – 94	133,940	3,116	26	2	4	—	137,088
<90	13,363	1,623	4	2	—	—	14,992
No score[1]	335,690	59,204	11,562	489	252	9	407,206
Total amortized cost basis	$4,215,606	$ 111,126	$ 30,941	$ 4,009	$ 271	$ 12	$4,361,965

(1) This balance represents loan receivables in markets without sufficient data currently available for use by the Affirm scoring methodology including loan receivables originated in Canada.

The following table presents net charge-offs by fiscal year of origination for the year ended June 30, 2023 (in thousands):

	Net Charge-offs by Fiscal Year of Origination						
	2023	2022	2021	2020	2019	Prior	Total
Current period charge-offs	(119,520)	(173,345)	(6,482)	(586)	(89)	(36)	(300,058)
Current period recoveries	5,997	17,719	4,653	1,259	794	587	31,009
Current period net charge-offs	$ (113,523)	$ (155,626)	$ (1,829)	$ 673	$ 705	$ 551	$ (269,049)

The following table presents an analysis of the credit quality, by ITACS score, of the amortized cost basis excluding accrued interest receivable, by fiscal year of origination on loans held for investment and loans held for sale as of June 30, 2022 (in thousands):

June 30, 2022

	Amortized Costs Basis by Fiscal Year of Origination						
	2022	2021	2020	2019	2018	Prior	Total
96+	$1,218,104	$ 122,503	$ 33,458	$ 157	$ 1	$ —	$1,374,223
94 – 96	620,403	11,240	773	13	2	—	632,431
90 – 94	220,056	3,886	6	4	—	—	223,952
<90	44,300	135	2	—	—	—	44,437
No score[1]	186,044	20,554	3,368	444	79	2	210,491
Total amortized cost basis	$2,288,907	$ 158,318	$ 37,607	$ 618	$ 82	$ 2	$2,485,534

(1) This balance represents loan receivables in markets without sufficient data currently available for use by the Affirm scoring methodology including loan receivables originated in Canada.

Loan receivables are defined as past due if either the principal or interest have not been received within four calendars days of when they are due in accordance with the agreed upon contractual terms. The following table presents an aging analysis of the amortized cost basis excluding accrued interest receivable of loans held for investment and loans held for sale by delinquency status (in thousands):

	June 30, 2023	June 30, 2022
Non-delinquent loans	$ 4,183,248	$ 2,322,919
4 – 29 calendar days past due	92,876	77,963
30 – 59 calendar days past due	36,399	34,669
60 – 89 calendar days past due	28,171	26,919
90 – 119 calendar days past due[1]	21,271	23,064
Total amortized cost basis	$ 4,361,965	$ 2,485,534

(1) Includes $20.9 million and $22.7 million of loan receivables as of June 30, 2023 and June 30, 2022, respectively, that are 90 days or more past due, but are not on nonaccrual status.

We maintain an allowance for credit losses at a level sufficient to absorb expected credit losses based on evaluating known and inherent risks in our loan portfolio. The allowance for credit losses is determined based on our current estimate of expected credit losses over the remaining contractual term, historical credit losses, consumer payment trends, estimates of recoveries, and future expectations as of each balance sheet date. Adjustments to the allowance each period for changes in our estimate of lifetime expected credit losses are recognized in earnings through the provision for credit losses presented on our consolidated statements of operations and comprehensive loss. When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. Loans are charged-off in accordance with our charge-off policy, as the contractual principal becomes 120 days past due. Subsequent recoveries of the unpaid principal balance, if any, are credited to the allowance for credit losses.

The following table details activity in the allowance for credit losses, including charge-offs, recoveries and provision for loan losses (in thousands):

	Year ended June 30,		
	2023	2022	2021
Balance at beginning of period	$ 155,392	$ 117,760	$ 95,137
Adjustment due to adoption of new accounting standard	—	—	10,083
Provision for credit losses	318,188	240,804	63,755
Charge-offs	(300,058)	(227,770)	(65,149)
Recoveries of charged-off receivables	31,009	24,598	13,934
Balance at end of period	$ 204,531	$ 155,392	$ 117,760

5. Acquisitions

During the years ended June 30, 2023 and 2022, there was one acquisition accounted for as a business combination in each of the respective years, discussed further below.

Acquisitions completed during the year ended June 30, 2023

Butter Holdings Ltd

On February 1, 2023, we completed the closing of the transaction contemplated by a share purchase agreement entered into with certain sellers to acquire the entire issued share capital of Butter Holdings Ltd. ("Butter"), a buy now, pay later company based in the United Kingdom. The purchase price was comprised of (i) $14.9 million in cash, subject to adjustments in accordance with the purchase agreement, and (ii) $1.5 million settlement of subordinated secured notes.

The acquisition date fair value of the consideration transferred for Butter was approximately $16.3 million, which consisted of the following (in thousands):

Cash	$	14,863
Settlement of subordinated secured notes		1,475
Total acquisition date fair value of the consideration transferred	$	16,337

The acquisition was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC Topic 805, "Business Combinations" ("ASC 805"). The acquired identifiable intangible assets have been recorded at their estimated fair values with the excess purchase price assigned to goodwill. The goodwill was primarily attributed to future synergies from integration. The goodwill is not expected to be deductible for income tax purposes.

The following table summarizes the allocation of the consideration paid of approximately $16.3 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Cash and cash equivalents	$	287
Loans held for investment, net		172
Accounts receivable, net		11
Intangible assets		9,243
Other assets		672
Total assets acquired		10,385
Accounts payable		568
Accrued expenses and other liabilities		2,923
Total liabilities assumed		3,491
Net assets acquired		6,894
Goodwill		9,443
Total purchase price	$	16,337

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

	Fair Value		Useful Life (in years)
Lending license	$	9,243	Indefinite

The fair value of the intangible asset was determined by applying the with-and-without method. The fair value measurements are based on significant unobservable inputs, including management estimates and assumptions, and thus represents Level 3 measurements.

The transaction costs associated with the acquisition were approximately $1.8 million for the year ended June 30, 2023, which are included in general and administrative expense in the consolidated statements of operations and comprehensive loss.

Acquisitions completed during the year ended June 30, 2022

ShopBrain

On July 1, 2021, Affirm completed the acquisition of technology and intellectual property from Yroo, Inc. and entered into employment arrangements with certain of its employees ("the ShopBrain acquisition"). Yroo, Inc. is a data aggregation and cataloging technology company based in Canada ("ShopBrain"). The purchase price was comprised of (i) $30.0 million in cash and (ii) 151,745 shares of our Class A common stock issued to the shareholders of ShopBrain at closing.

The acquisition date fair value of the consideration transferred was approximately $40.0 million, which consisted of the following (in thousands):

Cash	$	30,000
Fair value of Class A common stock transferred		10,000
Total acquisition date fair value of the consideration transferred	$	40,000

The acquisition was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC 805. The acquired identifiable intangible assets have been recorded at their estimated fair values with the excess purchase price assigned to goodwill. The goodwill was primarily attributed to future synergies from integration and the value of the assembled workforce. The goodwill is expected to be deductible for income tax purposes.

The following table summarizes the allocation of the consideration paid of approximately $40.0 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Intangible assets	$	9,488
Total net assets acquired		9,488
Goodwill		30,512
Total purchase price	$	40,000

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

	Fair Value		Useful Life (in years)
Developed technology	$	9,488	3.0

The fair values of the intangible assets were determined by applying the replacement cost method. The fair value measurements are based on significant unobservable inputs, including management estimates and assumptions, and thus represents Level 3 measurements.

The transaction costs associated with the acquisition were approximately $0.2 million for the year ended June 30, 2022, which are included in general and administrative expense within the consolidated statements of operations and comprehensive loss. There were no transaction costs associated with the acquisition for the year ended June 30, 2023.

Other acquisitions

Fast

On April 19, 2022, Affirm completed the closing of the transaction contemplated by a Release and Waiver Agreement entered into with Fast AF, Inc. ("Fast") relating to the hiring of certain of its employees or service providers and an option to acquire certain of its assets. The purchase price was comprised of (i) $10.0 million in cash and (ii) forgiveness of a $15.0 million senior secured note issued to Fast in April 2022 prior to the closing.

The acquisition was accounted for as an asset acquisition in accordance with ASC 805 since the assets acquired do not meet the definition of a business. The acquired identifiable intangible assets have been recorded at a total cost of $25.4 million, which includes approximately $0.4 million of transaction costs associated with the acquisition. The excess of the total cost of the assets over their total fair value was allocated between the assets on the basis of their relative fair values. The fair values of the intangible assets were determined by applying the replacement cost method. The fair value measurements are based on significant unobservable inputs, including management estimates and assumptions, and thus represent Level 3 measurements.

The following table sets forth the identifiable intangible assets acquired and the cost allocated to each asset as of the date of acquisition (in thousands):

Assembled workforce	$	12,490
Developed technology [(1)]		12,925
Total	$	25,415

[(1)] During the year ended June 30, 2023, we completed the purchase of the developed technology intangible asset.

6. Balance Sheet Components

Property, Equipment and Software, net

Property, equipment and software, net consisted of the following (in thousands):

	June 30, 2023		June 30, 2022	
Internally developed software	$	377,301	$	200,621
Leasehold improvements		20,214		16,169
Computer equipment		10,187		10,751
Furniture and equipment		6,503		4,279
Total property, equipment and software, at cost	$	414,205	$	231,820
Less: Accumulated depreciation and amortization		(124,070)		(60,338)
Total property, equipment and software, net	$	290,135	$	171,482

Depreciation and amortization expense on property, equipment and software was $82.1 million, $29.2 million and $15.4 million for the years ended June 30, 2023, 2022, and 2021, respectively.

No impairment losses related to property, equipment and software were recorded during the years ended June 30, 2023 and 2022. For the year ended June 30, 2021, we recorded impairment expense of $1.5 million related to property, equipment and software.

Goodwill and Intangible Assets

The changes in the carrying amount of goodwill during the years ended June 30, 2023 and 2022 were as follows (in thousands):

Balance as of June 30, 2021	$ 516,515
Additions [1]	33,318
Adjustments [2]	(10,299)
Balance as of June 30, 2022	$ 539,534
Additions [1]	9,443
Adjustments [2]	(6,406)
Balance as of June 30, 2023	$ 542,571

(1) Refer to Note 5. Acquisitions for a description of additions to goodwill during the years ended June 30, 2023 and 2022.

(2) Adjustments to goodwill during the years ended June 30, 2023 and 2022 primarily pertained to foreign currency translation adjustments.

No impairment losses related to goodwill were recorded during the years ended June 30, 2023, 2022, and 2021.

Intangible assets consisted of the following (in thousands):

	June 30, 2023			
	Gross	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (in years)
Merchant relationships	$ 38,129	$ (27,637)	$ 10,492	0.6
Developed technology	39,626	(30,653)	8,973	0.6
Assembled workforce	12,490	(9,983)	2,507	0.3
Trademarks and domains, definite	1,481	(990)	491	1.7
Trademarks, licenses and domains, indefinite	11,621	—	11,621	Indefinite
Other intangibles	350	—	350	Indefinite
Total intangible assets	$ 103,697	$ (69,263)	$ 34,434	

	June 30, 2022			
	Gross	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (in years)
Merchant relationships	$ 38,371	$ (10,281)	$ 28,090	3.6
Developed technology	39,782	(15,882)	23,900	1.9
Assembled workforce	12,490	(1,664)	10,826	1.3
Trademarks and domains, definite	1,507	(802)	705	2.4
Trademarks and domains, indefinite	2,146	—	2,146	Indefinite
Other intangibles	350	—	350	Indefinite
Total intangible assets	$ 94,646	$ (28,629)	$ 66,017	

Amortization expense for intangible assets was $52.5 million, $23.5 million and $4.6 million for the years ended June 30, 2023, 2022 and 2021, respectively. No impairment losses related to intangible assets were recorded during the years ended June 30, 2023, 2022, and 2021.

The expected future amortization expense of these intangible assets as of June 30, 2023 is as follows (in thousands):

2024	$	20,895
2025		1,396
2026		157
2027		15
2028 and thereafter		—
Total amortization expense	$	22,463

Commercial Agreement Assets

During the year ended June 30, 2022, we granted warrants in connection with our commercial agreements with certain subsidiaries of Amazon.com, Inc. (“Amazon”). The warrants were granted in exchange for certain performance provisions and the benefit of acquiring new users. We recognized an asset of $133.5 million associated with the portion of the warrants that were fully vested upon grant. The asset was valued based on the fair value of the warrants and represents the probable future economic benefit to be realized over the approximate 3.2 year term of the commercial agreement at the grant date. For the years ended June 30, 2023 and 2022, we recognized amortization expense of $41.4 million and $26.3 million, respectively, in our consolidated statements of operations and comprehensive loss as a component of sales and marketing expense. Refer to Note 14. Stockholders’ Equity for further discussion of the warrants.

During the year ended June 30, 2021, we recognized an asset in connection with a commercial agreement with Shopify Inc. (“Shopify”), in which we granted warrants in exchange for the opportunity to acquire new merchant partners. This asset represents the probable future economic benefit to be realized over the expected benefit period and is valued based on the fair value of the warrants on the grant date. We recognized an asset of $270.6 million associated with the fair value of the warrants, which were fully vested as of June 30, 2023. The expected benefit period of the asset was initially estimated to be four years, and the remaining useful life of the asset is reevaluated each reporting period. During fiscal year 2022, the remaining expected benefit period was extended by two years upon the execution of an amendment to the commercial agreement with Shopify which extended the term of the agreement. We recorded amortization expense related to the commercial agreement asset of $35.8 million, $62.2 million, and $64.9 million for the years ended June 30, 2023, 2022, and 2021, respectively, in our consolidated statements of operations and comprehensive loss as a component of sales and marketing expense.

During the year ended June 30, 2021, we recognized an asset in connection with a commercial agreement with an enterprise partner, in which we granted stock appreciation rights in exchange for the benefit of acquiring access to the partner's consumers. This asset represents the probable future economic benefit to be realized over the three-year expected benefit period and is valued based on the fair value of the stock appreciation rights on the grant date. We initially recognized an asset of $25.9 million associated with the fair value of the stock appreciation rights. We recorded amortization expense related to the asset of $8.3 million, $8.1 million, and $4.3 million for the years ended June 30, 2023, 2022, and 2021, respectively, in our consolidated statements of operations and comprehensive loss as a component of sales and marketing expense.

Other Assets

Other assets consisted of the following (in thousands):

	June 30, 2023	June 30, 2022
Processing reserves	$ 60,039	$ 26,483
Derivative instruments	50,545	49,983
Equity securities, at cost	43,172	43,172
Prepaid expenses	35,626	37,497
Operating lease right-of-use assets	30,171	50,671
Other assets	59,061	73,761
Total other assets	$ 278,614	$ 281,567

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following (in thousands):

	June 30, 2023	June 30, 2022
Collateral held for derivative instruments	$ 53,267	$ 55,779
Operating lease liability	52,557	65,713
Accrued expenses	50,704	67,343
Other liabilities	24,355	48,763
Total accrued expenses and other liabilities	$ 180,883	$ 237,598

7. Leases

We lease facilities under operating leases with various expiration dates through 2030. We have the option to renew or extend our leases. Certain lease agreements include the option to terminate the lease with prior written notice ranging from 9 months to one year. As of June 30, 2023, we have not considered such provisions in the determination of the lease term, as it is not reasonably certain these options will be exercised. Leases have remaining terms that range from less than one year to seven years.

Several leases require us to obtain standby letters of credit, naming the lessor as a beneficiary. These letters of credit act as security for the faithful performance by us of all terms, covenants and conditions of the lease agreement. The cash collateral and deposits for the letters of credit have been recognized as restricted cash in the consolidated balance sheets and totaled $9.7 million as of both June 30, 2023 and June 30, 2022.

During the years ended June 30, 2023 and June 30, 2021, we decided to sublease a portion of our leased office space in San Francisco. As a result, we recorded a lease impairment charge of $1.2 million and $11.5 million, respectively related to several of our operating lease ROU assets, included in general and administrative expense on our consolidated statements of operations and comprehensive loss. For the year ended June 30, 2022, the impairment expense related to leases was not material to our consolidated statements of operations.

Operating lease expense was as follows (in thousands):

	Year ended June 30,		
	2023	2022	2021
Operating lease expense [1] [2]	$ 18,954	$ 15,200	$ 15,300

(1) During the year ended June 30, 2023, we incurred charges of $4.7 million, within restructuring and other, on our consolidated statements of operations, related to a reduction to our ROU lease assets.
(2) Lease expenses for our short-term leases were immaterial for the years presented.

We have subleased a portion of our leased facilities. Sublease income totaled $3.4 million and $3.1 million during the years ended June 30, 2023 and 2022, respectively. There was no sublease income for the year ended June 30, 2021.

Lease term and discount rate information are summarized as follows:

	June 30, 2023
Weighted average remaining lease term (in years)	3.9
Weighted average discount rate	4.8%

Maturities of operating lease liabilities as of June 30, 2023 are as follows (in thousands) for the years ended:

2024	$ 16,496
2025	16,317
2026	15,371
2027	2,680
2028	2,185
Thereafter	5,503
Total lease payments	58,552
Less imputed interest	(5,995)
Present value of total lease liabilities	$ 52,557

8. Commitments and Contingencies

Repurchase Obligation

Under the normal terms of our whole loans sales to third-party investors, we may become obligated to repurchase loans from investors in certain instances where a breach in representation and warranties is identified. Generally, a breach in representation and warranties could occur where a loan has been identified as subject to verified or suspected fraud, or in cases where a loan was serviced or originated in violation of Affirm's guidelines. We would only experience a loss if the contractual repurchase price of the loan exceeds the fair value on the repurchase date. This amount was not material as of June 30, 2023.

Legal Proceedings

From time to time, we are subject to legal proceedings and claims in the ordinary course of business. The results of such matters often cannot be predicted with certainty. In accordance with applicable accounting guidance,

we establish an accrued liability for legal proceedings and claims when those matters present loss contingencies which are both probable and reasonably estimable.

Toole v. Affirm Holdings, Inc.

On February 28, 2022, plaintiff Jeffrey Toole filed a putative class action against Affirm and Max Levchin in the U.S. District Court for the Northern District of California (the "Toole action"). The Toole action alleged that Affirm violated Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder by issuing and then subsequently deleting a tweet from its official Twitter account on February 10, 2022, which omitted full details of Affirm's second quarter fiscal 2022 financial results. Plaintiff sought class certification, unspecified compensatory and punitive damages, and costs and expenses. On September 28, 2022, the Court granted Affirm's motion to dismiss for failure to state a claim with leave to amend within 21 days. No amended complaint was filed by the deadline. On October 20, 2022, the Court dismissed the putative class action and entered judgment in Affirm's favor.

Vallieres v Levchin, et al.

On April 25, 2022, plaintiff Michael Vallieres filed a shareholder derivative lawsuit in the U.S. District Court for the Northern District of California (the "Vallieres action") against Affirm, as a nominal defendant, and certain of Affirm's current officers and directors as defendants based on allegations substantially similar to those in the Toole action. The Vallieres complaint purported to assert claims on Affirm's behalf for breach of fiduciary duty, gross mismanagement, abuse of control, unjust enrichment, and contribution under the federal securities laws, and sought corporate reforms, unspecified damages and restitution, and fees and costs. On January 12, 2023, the Court dismissed the derivative action without prejudice.

Williams v. Levchin, et al.

On September 16, 2022, plaintiff Ron Williams filed a shareholder derivative lawsuit in the U.S. District Court for the Northern District of California (the "Williams action") against Affirm, as a nominal defendant, and certain of Affirm's current and former officers and directors as defendants based on allegations substantially similar to those in the Toole action and Vallieres action. The Williams complaint purported to assert six causes of action on Affirm's behalf—violation of Section 14(a) of the Exchange Act, breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. The plaintiff in the Williams action also alleged a cause of action against defendant Levchin for contribution under 10(b) and 21D of the Exchange Act. The Williams complaint sought corporate reforms, unspecified damages and restitution, and fees and costs. On December 22, 2022, the Court dismissed the derivative action without prejudice.

Kusnier v. Affirm Holdings, Inc.

On December 8, 2022, plaintiff Mark Kusnier filed a putative class action lawsuit against Affirm, Max Levchin, and Michael Linford in the U.S. District Court for the Northern District of California (the "Kusnier action"). Plaintiff's amended complaint filed on May 5, 2023 alleges that defendants: (i) caused Affirm to make materially false and/or misleading statements and/or failed to disclose that Affirm's BNPL service facilitated excessive consumer debt (including with respect to certain for-profit educational institutions), regulatory arbitrage, and data harvesting; (ii) made false and/or misleading statements about certain public regulatory actions; and (iii) made false and/or misleading statements about whether Affirm's business model was vulnerable to interest rate changes. In light of the above, plaintiff asserts that Affirm violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and that Levchin and Linford violated Section 20(a) of the Exchange Act. Plaintiff seeks class certification, unspecified compensatory and punitive damages, and costs and expenses.

Quiroga v. Levchin, et al.

On March 29, 2023, plaintiff John Quiroga filed a shareholder derivative lawsuit in the U.S. District Court for the Northern District of California (the "Quiroga action") against Affirm, as a nominal defendant, and certain of

Affirm's current officers and directors as defendants based on allegations substantially similar to those in the Kusnier action. The Quiroga complaint purports to assert claims on Affirm's behalf for contribution under the federal securities laws, breaches of fiduciary duty, unjust enrichment, and waste of corporate assets, and seeks corporate reforms, unspecified damages and restitution, and fees and costs. On May 1, 2023, the action was stayed by agreement of the parties. The stay can be lifted at the request of either party or upon certain conditions relating to the resolution of the Kusnier action.

Jeffries v. Levchin, et al.

On May 24, 2023, plaintiff Sabrina Jeffries filed a shareholder derivative lawsuit in the U.S. District Court for the Northern District of California against Affirm, as a nominal defendant, and certain of Affirm's current officers and directors as defendants based on allegations substantially similar to those in the Kusnier and Quiroga actions. The Jeffries complaint purports to assert claims on Affirm's behalf for breach of fiduciary duties, making false statements under federal securities law, unjust enrichment, waste of corporate assets, and aiding and abetting breach of fiduciary duties, and seeks unspecified damages, equitable relief, and fees and costs. On August 15, 2023, the action was stayed by agreement of the parties. The stay can be lifted at the request of either party or upon certain conditions relating to the resolution of the Kusnier action.

We have determined, based on current knowledge, that the aggregate amount or range of losses that are estimable with respect to our legal proceedings, including the matters described above, would not have a material adverse effect on our consolidated financial position, results of operations or cash flows. Amounts accrued as of June 30, 2023 and June 30, 2022 were not material. The ultimate outcome of legal proceedings involves judgments, estimates and inherent uncertainties, and cannot be predicted with certainty.

Purchase Commitments

During the year ended June 30, 2023, we entered into non-cancelable purchase obligations with our third-party cloud computing web services provider, which included annual purchase commitments for the period from March 2023 through February 2030, and an additional aggregate purchase commitment of $650.0 million during such period. For the years ended June 30, 2023 and 2022, we had remaining purchase commitments of $659.2 million and $37.1 million, respectively, primarily related to cloud and hosting services. If we fail to meet any of the purchase commitments, we will be required to pay the difference. We pay our cloud-computing web services provider monthly, and we may pay more than the minimum purchase commitment based on usage.

9. Debt

Debt encompasses funding debt, convertible senior notes and our revolving credit facility.

Funding Debt

Funding debt and its aggregate future maturities consists of the following (in thousands):

		June 30, 2023
2024	$	202,245
2025	$	563,350
2026		542,288
2027		—
2028		39,155
Thereafter		428,660
Total	$	1,775,698
Deferred debt issuance costs		(10,886)
Total funding debt, net of deferred debt issuance costs	$	1,764,812

Secured Borrowing Facilities

U.S.

Through trusts, we entered into warehouse credit facilities with certain lenders to finance the purchase and origination of our loans. Each trust entered into a credit agreement and security agreement with a third-party as administrative agent and a national banking association as collateral trustee and paying agent. Borrowings under these agreements are referred to as funding debt and proceeds from the borrowings can only be used for the purposes of facilitating loan funding and origination, with advance rates ranging from 82% to 86% of the total collateralized balance. These warehouse credit facility trusts, which have been classified as VIEs, are bankruptcy-remote special-purpose vehicles in which creditors do not have recourse against the general credit of Affirm. These revolving facilities mature between fiscal years 2024 and 2029, and subject to covenant compliance, generally permit borrowings up to 12 months prior to the final maturity date of each respective facility. As of June 30, 2023, the aggregate commitment amount of these facilities was $3.3 billion on a revolving basis, of which $1.4 billion was drawn, with $1.9 billion remaining available. Some of the loans originated by us or purchased from the originating bank partners are pledged as collateral for borrowings in our facilities. The unpaid principal balance of these loans totaled $1.7 billion and $0.5 billion as of June 30, 2023 and June 30, 2022, respectively.

Borrowings under these warehouse credit facilities bear interest at an annual benchmark rate of Secured Overnight Financing Rate (“SOFR”) or an alternative commercial paper rate (which is the per annum rate equivalent to the weighted-average of the per annum rates at which all commercial paper notes were issued by certain lenders to fund advances or maintain loans), plus a spread ranging from 1.75% to 2.20%. Interest is payable monthly. In addition, these agreements require payment of a monthly unused commitment fee ranging from 0.00% to 0.75% per annum on the undrawn portion available.

These agreements contain certain customary negative covenants and financial covenants including maintaining certain levels of minimum liquidity, maximum leverage, and minimum tangible net worth. As of June 30, 2023, we were in compliance with all applicable covenants in the agreements.

International

Additionally, we have various credit facilities utilized to finance the origination of loan receivables in Canada. Similar to our warehouse credit facilities, borrowings under these agreements are referred to as funding debt, and proceeds from the borrowings may only be used for the purposes of facilitating loan funding and origination. These facilities are secured by Canadian loan receivables pledged to the respective facility as collateral, mature between fiscal years 2025 and 2029, and bear interest based on benchmark rates plus a spread ranging from 1.25% to 4.25%.

As of June 30, 2023, the aggregate commitment amount of these facilities was $548.4 million on a revolving basis, of which $349.6 million was drawn, with $198.8 million remaining available. The unpaid principal balance of loans pledged to these facilities totaled $412.8 million and $210.1 million as of June 30, 2023 and June 30, 2022, respectively.

These agreements contain certain customary negative covenants and financial covenants including maintaining certain levels of minimum liquidity, maximum leverage, and minimum tangible net worth at the Affirm Canada subsidiary level or the Affirm Holdings level. As of June 30, 2023, we were in compliance with all applicable covenants in the agreements.

Sales and Repurchase Agreements

We entered into certain sale and repurchase agreements pursuant to our retained interests in our off-balance sheet securitizations where we have sold these securities to a counterparty with an obligation to repurchase at a future date and price. The repurchase agreements each have an initial term of three months and subject to mutual agreement by Affirm and the counterparty, we may enter into one or more repurchase date extensions, each for an

additional three-month term at market interest rates on such extension date. As of June 30, 2023, the interest rates were 7.23% for both the senior pledged securities and the residual certificate pledged securities. We had $11.0 million and $27.0 million in debt outstanding under our repurchase agreements disclosed within funding debt on the consolidated balance sheets as of June 30, 2023 and June 30, 2022, respectively. The debt will be amortized through regular principal and interest payments on the pledged securities. The outstanding debt relates to $18.9 million and $32.4 million in pledged securities disclosed within securities available for sale at fair value on the consolidated balance sheets as of June 30, 2023 and June 30, 2022, respectively.

Convertible Senior Notes

On November 23, 2021, we issued $1,725 million in aggregate principal amount of 0% convertible senior notes due 2026 (the "2026 Notes") in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The total net proceeds from this offering, after deducting debt issuance costs, were approximately $1,704 million. The 2026 Notes represent senior unsecured obligations of the Company. The 2026 Notes do not bear interest except in special circumstances described below, and the principal amount of the 2026 Notes does not accrete. The 2026 Notes mature on November 15, 2026.

Each $1,000 of principal of the 2026 Notes will initially be convertible into 4.6371 shares of our common stock, which is equivalent to an initial conversion price of approximately $215.65 per share, subject to adjustment upon the occurrence of certain specified events set forth in the indenture governing the 2026 Notes (the "Indenture"). Holders of the 2026 Notes may convert their 2026 Notes at their option at any time on or after August 15, 2026 until close of business on the second scheduled trading day immediately preceding the maturity date of November 15, 2026. Further, holders of the 2026 Notes may convert all or any portion of their 2026 Notes at their option prior to the close of business on the business day immediately preceding August 15, 2026, only under the following circumstances:

1) during any calendar quarter commencing after March 31, 2022 (and only during such calendar quarter), if the last reported sale price of the Class A 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 (the measurement period) in which the trading price (as defined in the indenture governing the 2026 Notes) per $1,000 principal amount of the 2026 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day;

3) if the Company calls any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or

4) upon the occurrence of certain specified corporate events.

Upon conversion of the 2026 Notes, the Company will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at the Company's election. If we satisfy our conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of our common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a daily conversion value (as set forth in the Indenture) calculated on a proportionate basis for each trading day in a 40 trading day observation period.

No sinking fund is provided for the 2026 Notes. We may not redeem the notes prior to November 20, 2024. We may redeem for cash all or part of the notes on or after November 20, 2024 if the last reported sale price of our Class A 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 we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid special interest, if any.

If a fundamental change (as defined in the Indenture) occurs prior to the maturity date, holders of the 2026 Notes may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount of the 2026 Notes, plus any accrued and unpaid interest to, but excluding, the repurchase date. In addition, if specific corporate events occur prior to the maturity date of the 2026 Notes, we will be required to increase the conversion rate for holders who elect to convert their 2026 Notes in connection with such corporate events.

During the year ended June 30, 2023, we entered into a series of privately negotiated transactions with certain holders of our 2026 Notes, pursuant to which we paid an aggregate amount of $206.6 million in cash for the repurchase of $299.1 million aggregate principal amount of our 2026 Notes (the “2026 Note Repurchases”). The carrying amount of the extinguished 2026 Notes was approximately $296.4 million resulting in a $89.8 million gain on early extinguishment of debt, which is reported as a component of other (expense) income, net within our consolidated statement of operations and comprehensive loss. In exchange for paying cash pursuant to the 2026 Note Repurchases, we received and canceled the repurchased 2026 Notes.

On June 7, 2023, the Board of Directors authorized the repurchase of up to $800 million in aggregate principal amount of the 2026 Notes. Note repurchases may be made from time to time through December 31, 2023 in privately negotiated transactions. Repurchases are subject to available liquidity, general market and economic conditions, alternate uses for the capital, and other factors, and there is no minimum principal amount of 2026 Notes that the Company is obligated to repurchase. We have not executed any repurchases under this authorization to date.

The convertible senior notes outstanding as of June 30, 2023 consisted of the following (in thousands):

	Principal Amount	Unamortized Discount and Issuance Cost	Net Carrying Amount
Convertible senior notes	$ 1,425,900	(11,692)	$ 1,414,208

The 2026 Notes do not bear interest. We recognized $3.9 million and $2.4 million during the years ended June 30, 2023 and 2022, respectively, of interest expense related to the amortization of debt discount and issuance costs in the consolidated statement of operations and comprehensive loss within other (expense) income, net. As of June 30, 2023, the remaining life of the 2026 Notes is approximately 41 months.

Revolving Credit Facility

On February 4, 2022, we entered into a revolving credit agreement with a syndicate of commercial banks for a $165.0 million unsecured revolving credit facility. On May 16, 2022, we increased unsecured revolving commitments under the facility to $205.0 million. This facility bears interest at a rate equal to, at our option, either (a) a Secured Overnight Financing Rate (“SOFR”) rate determined by reference to the forward-looking term SOFR rate for the interest period, plus an applicable margin of 1.85% per annum or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50% per annum, (ii) the rate last quoted by the Wall Street Journal as the U.S. prime rate and (iii) the one-month forward-looking term SOFR rate plus 1.00% per annum, in each case, plus an applicable margin of 0.85% per annum. The revolving credit agreement has a final maturity date of February 4, 2025. The facility contains certain covenants and restrictions, including certain financial maintenance covenants, and requires payment of a monthly unused commitment fee of 0.20% per annum on the undrawn balance available. There are no borrowings outstanding under the facility as of June 30, 2023.

10. Securitization and Variable Interest Entities

Consolidated VIEs

Warehouse Credit Facilities

We established certain entities, deemed to be VIEs, to enter into warehouse credit facilities for the purpose of purchasing loans from our originating bank partners and funding directly originated loans. Refer to Note 9. Debt for additional information. The creditors of the VIEs have no recourse to the general credit of Affirm and the liabilities of the VIEs can only be settled by the respective VIEs' assets; however, as the servicer of the loans pledged to our warehouse funding facilities, we have the power to direct the activities that most significantly impact the VIEs' economic performance. In addition, we retain significant economic exposure to the pledged loans and therefore, we are the primary beneficiary.

Securitizations

In connection with our asset-backed securitization program, we sponsor and establish trusts (deemed to be VIEs) to ultimately purchase loans facilitated by our platform. Securities issued from our asset-backed securitizations are senior or subordinated, based on the waterfall criteria of loan payments to each security class. The subordinated residual interests issued from these transactions are first to absorb credit losses in accordance with the waterfall criteria. For these VIEs, the creditors have no recourse to the general credit of Affirm and the liabilities of the VIEs can only be settled by the respective VIEs' assets. Additionally, the assets of the VIEs can be used only to settle obligations of the VIEs.

We consolidate securitization VIEs when we are deemed to be the primary beneficiary and therefore have the power to direct the activities that most significantly affect the VIEs' economic performance and a variable interest that could potentially be significant to the VIE. Through our role as the servicer, we have the power to direct the activities that most significantly affect the VIEs' economic performance. In evaluating whether we have a variable interest that could potentially be significant to the VIE, we consider our retained interests. We also earn a servicing fee which has a senior distribution priority in the payment waterfall.

In evaluating whether we are the primary beneficiary, management considers both qualitative and quantitative factors regarding the nature, size and form of our involvement with the VIEs. Management assesses whether we are the primary beneficiary of the VIEs on an ongoing basis.

Where we consolidate the securitization trusts, the loans held in the securitization trusts are included in loans held for investment, and the notes sold to third-party investors are recorded in notes issued by securitization trusts in the consolidated balance sheets.

For each securitization, the residual certificates represent the right to receive excess cash on the loans each collection period after all fees and required distributions have been made to the note holders on the related payment date. For the majority of consolidated securitization VIEs, we retain 100% of the residual certificates issued by the securitization trust. Any portion of the residual trust certificates sold to third-party investors are measured at fair value, using a discounted cash flow model, and presented within accrued expenses and other liabilities on the consolidated balance sheets. In addition to the retained residual certificates, our continued involvement includes loan servicing responsibilities over the life of the underlying loans.

We defer and amortize debt issuance costs for consolidated securitization trusts on a straight-line basis over the expected life of the notes.

The following tables present the aggregate carrying value of financial assets and liabilities from our involvement with consolidated VIEs (in thousands).

	June 30, 2023		
	Assets	Liabilities	Net Assets
Warehouse credit facilities	$ 1,930,641	$ 1,686,359	$ 244,282
Securitizations	2,272,991	2,169,835	103,156
Total consolidated VIEs	$ 4,203,632	$ 3,856,194	$ 347,438

	June 30, 2022		
	Assets	Liabilities	Net Assets
Warehouse credit facilities	$ 563,207	$ 534,422	$ 28,785
Securitizations	1,679,062	1,632,107	46,955
Total consolidated VIEs	$ 2,242,269	$ 2,166,529	$ 75,740

Unconsolidated VIEs

Our transactions with unconsolidated VIEs include securitization trusts where we did not retain significant economic exposure through our variable interests and therefore we determined that we are not the primary beneficiary as of June 30, 2023.

The following information pertains to unconsolidated VIEs where we hold a variable interest but are not the primary beneficiary (in thousands):

	June 30, 2023			
	Assets	Liabilities	Net Assets	Maximum Exposure to Losses
Securitizations	$ 380,547	$ 367,788	$ 12,759	$ 19,149
Total unconsolidated VIEs	$ 380,547	$ 367,788	$ 12,759	$ 19,149

	June 30, 2022			
	Assets	Liabilities	Net Assets	Maximum Exposure to Losses
Securitizations	$ 996,242	$ 965,909	$ 30,333	$ 51,248
Total unconsolidated VIEs	$ 996,242	$ 965,909	$ 30,333	$ 51,248

Maximum exposure to losses represents our exposure through our continuing involvement as servicer and through our retained interests. For unconsolidated VIEs, this includes $18.9 million in retained notes and residual certificates disclosed within securities available for sale at fair value in our consolidated balance sheets and $0.2 million related to our servicing assets disclosed within other assets in our consolidated balance sheets as of June 30, 2023.

Additionally, we may experience a loss due to future repurchase obligations resulting from breaches in representations and warranties in our securitization and third-party sale agreements. This amount was not material as of June 30, 2023.

Retained Beneficial Interests in Unconsolidated VIEs

The investors of the securitizations have no direct recourse to the assets of Affirm, and the timing and amount of beneficial interest payments is dependent on the performance of the underlying loan assets held within each trust. We have classified our retained beneficial interests in unconsolidated securitization trusts as "available for sale" and as such they are disclosed at fair value in our consolidated balance sheets.

See Note 13. Fair Value of Financial Assets and Liabilities for additional information on the fair value sensitivity of the notes receivable and residual certificates. Additionally, as of June 30, 2023, we have pledged each of our retained beneficial interests as collateral in a sale and repurchase agreement as described in Note 9. Debt.

11. Investments

Marketable Securities

Marketable securities include certain investments classified as cash and cash equivalents and securities available for sale, at fair value, and consist of the following as of each date presented within the consolidated balance sheets (in thousands):

	June 30, 2023	June 30, 2022
Cash and cash equivalents:		
Money market funds	$ 97,129	$ 162,483
Certificates of deposit	—	16,026
Commercial paper	54,402	229,272
Agency bonds	60,865	—
Government bonds		
US	—	58,541
Securities, available for sale:		
Certificates of deposit	97,224	300,390
Corporate bonds	256,772	368,671
Commercial paper	266,193	478,293
Agency bonds	84,276	—
Government bonds		
Non-US	9,151	17,955
US	441,096	378,386
Securitization notes receivable and certificates [(1)]	18,913	51,678
Other	1,028	—
Total marketable securities:	$ 1,387,049	$ 2,061,695

(1) These securities have been pledged as collateral in connection with sale and repurchase agreements as discussed within Note 9. Debt.

Securities Available for Sale, at Fair Value

The amortized cost, gross unrealized gains and losses, allowance for credit losses, and fair value of securities available for sale as of June 30, 2023 and June 30, 2022 were as follows (in thousands):

	June 30, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Certificates of deposit	$ 97,399	$ 11	$ (186)	$ —	$ 97,224
Corporate bonds	260,627	55	(3,910)	—	256,772
Commercial paper [1]	320,882	34	(321)	—	320,595
Agency bonds [1]	145,312	62	(233)	—	145,141
Government bonds					
Non-US	9,330	—	(179)	—	9,151
US	444,858	28	(3,790)	—	441,096
Securitization notes receivable and certificates [2]	19,841	—	(475)	(453)	18,913
Other	1,028	—	—	—	1,028
Total securities available for sale	$ 1,299,277	$ 190	$ (9,094)	$ (453)	$ 1,289,920

	June 30, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Certificates of deposit [1]	$ 317,331	$ 6	$ (921)	$ —	$ 316,416
Corporate bonds	371,907	7	(3,243)	—	368,671
Commercial paper [1]	708,694	16	(1,145)	—	707,565
Government bonds					
Non-US	18,196	—	(241)	—	17,955
US [1]	438,947	—	(2,020)	—	436,927
Securitization notes receivable and certificates [2]	52,180	178	(659)	(21)	51,678
Total securities available for sale	$ 1,907,255	$ 207	$ (8,229)	$ (21)	$ 1,899,212

(1) Certificates of deposit, commercial paper, agency bonds, and US government bonds include $115.3 million and $303.8 million as of June 30, 2023 and 2022, respectively, classified as cash and cash equivalents within the consolidated balance sheets.

(2) These securities have been pledged as collateral in connection with sale and repurchase agreements as discussed within Note 9. Debt

As of June 30, 2023 and June 30, 2022, there were no material reversals of prior period allowance for credit losses recognized for available for sale securities.

A summary of securities available for sale with unrealized losses for which an allowance for credit losses has not been recorded, aggregated by investment category and the length of time that individual securities have been in a continuous loss position as of June 30, 2023 and June 30, 2022, are as follows (in thousands):

	June 30, 2023					
	Less than or equal to 1 year		Greater than 1 year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	$ 63,489	$ (186)	$ —	$ —	$ 63,489	$ (186)
Corporate bonds	92,171	(834)	131,762	(3,076)	223,933	(3,910)
Commercial paper	164,037	(321)	—	—	164,037	(321)
Agency bonds	44,214	(233)	—	—	44,214	(233)
Government bonds						
Non-US	3,061	(58)	6,089	(121)	9,150	(179)
US	292,333	(2,395)	67,606	(1,395)	359,939	(3,790)
Total securities available for sale [(1)]	$ 659,305	$ (4,027)	$ 205,457	$ (4,592)	$ 864,762	$ (8,619)

	June 30, 2022					
	Less than or equal to 1 year		Greater than 1 year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	$ 290,169	$ (921)	$ —	$ —	$ 290,169	$ (921)
Corporate bonds	351,088	(3,243)	—	—	351,088	(3,243)
Commercial paper	679,272	(1,145)	—	—	679,272	(1,145)
Government bonds						
Non-US	17,955	(241)	—	—	17,955	(241)
US	431,903	(2,020)	—	—	431,903	(2,020)
Securitization notes receivable and certificates	722	(45)	—	—	722	(45)
Total securities available for sale [(1)]	$1,771,109	$ (7,615)	$ —	$ —	$1,771,109	$ (7,615)

(1) The number of positions with unrealized losses for which an allowance for credit losses has not been recorded totaled 142 and 270 as of June 30, 2023 and June 30, 2022, respectively.

The length of time to contractual maturities of securities available for sale as of June 30, 2023 and June 30, 2022, were as follows (in thousands):

	June 30, 2023					
	Within 1 year		Greater than 1 year, less than or equal to 5 years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Certificates of deposit	$ 97,399	$ 97,224	$ —	$ —	$ 97,399	$ 97,224
Corporate bonds	173,523	171,634	87,104	85,138	260,627	256,772
Commercial paper [(1)]	320,882	320,595	—	—	320,882	320,595
Agency bonds [(1)]	130,176	130,165	15,136	14,976	145,312	145,141
Government bonds						
Non-US	4,063	3,996	5,267	5,155	9,330	9,151
US	308,179	306,656	136,679	134,440	444,858	441,096
Securitization notes receivable and certificates [(2)]	—	—	19,841	18,913	19,841	18,913
Other	—	—	1,028	1,028	1,028	1,028
Total securities available for sale	$1,034,222	$1,030,270	$ 265,055	$ 259,650	$1,299,277	$1,289,920

	June 30, 2022					
	Within 1 year		Greater than 1 year, less than or equal to 5 years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Certificates of deposit [(1)]	$ 317,331	$ 316,416	$ —	$ —	$ 317,331	$ 316,416
Corporate bonds	206,208	204,614	165,699	164,057	371,907	368,671
Commercial paper [(1)]	708,694	707,565	—	—	708,694	707,565
Government bonds						
Non-US	11,895	11,813	6,301	6,142	18,196	17,955
US [(1)]	360,757	359,242	78,190	77,685	438,947	436,927
Securitization notes receivable and certificates [(2)]	—	—	52,180	51,678	52,180	51,678
Total securities available for sale	$1,604,885	$1,599,650	$ 302,370	$ 299,562	$1,907,255	$1,899,212

(1) Certificates of deposit, commercial paper, agency bonds, and US government bonds include $115.3 million and $303.8 million as of June 30, 2023 and 2022, respectively, classified as cash and cash equivalents within the consolidated balance sheets.

(2) Based on weighted average life of expected cash flows as of June 30, 2023 and June 30, 2022.

Gross proceeds from matured or redeemed securities were $3.7 billion and $2.2 billion for the years ended June 30, 2023 and June 30, 2022, respectively.

For available for sale securities realized gains and losses from portfolio sales were not material for the June 30, 2023 and June 30, 2022.

Non-marketable Equity Securities

Equity investments without a readily determinable fair value held at cost were $43.2 million as of both June 30, 2023 and June 30, 2022 and are included in other assets within the consolidated balance sheets.

There have been no unrealized or realized gains and losses due to observable changes in orderly transactions and we did not record any impairment for the years ended June 30, 2023 or June 30, 2022.

12 Derivative Financial Instruments

The following table summarizes the total fair value, including interest accruals, and outstanding notional amounts of derivative instruments as of June 30, 2023 and June 30, 2022 (in thousands):

	June 30, 2023			June 30, 2022		
	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as cash flow hedges						
Interest rate contracts - cash flow hedges	$ 800,000	$ 751	$ —	$ —	$ —	$ —
Derivatives not designated as hedges						
Interest rate contracts	2,102,944	49,794	—	1,690,000	49,983	—
Total gross derivative assets/ liabilities	$ 2,902,944	$ 50,545	$ —	$ 1,690,000	$ 49,983	$ —

The following table summarizes the impact of the cash flow hedges on AOCI (in thousands):

	Year ended June 30, 2023
Balance at beginning of period	$ —
Changes in fair value	805
Amounts reclassified into earnings [1]	54
Balance at end of period [2]	$ 751

(1) The amounts reclassified into earnings is presented in the consolidated statements of income within funding costs.

(2) Over the next 12 months, we expect to reclassify $0.8 million of net derivative gains included in AOCI into funding costs within our consolidated statement of operations and comprehensive loss.

The following table summarizes the impact of the derivative instruments on income and indicates where within the consolidated statement of operations and comprehensive loss such impact is reported (in thousands):

	Year ended June 30,	
Location of gains (losses) where the effects of derivatives are recorded	**2023**	**2022**
The effects of cash flow hedging		
Funding costs	54	—
The effects of derivatives not designated in hedging relationships		
Other income, net	48,074	48,607

13. Fair Value of Financial Assets and Liabilities

Financial Assets and Liabilities Recorded at Fair Value

The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2023 and June 30, 2022 (in thousands):

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents:				
Money market funds	$ 97,129	$ —	$ —	$ 97,129
Commercial paper	—	54,402	—	54,402
Agency bonds	—	60,865	—	60,865
Securities, available for sale:				
Certificates of deposit	—	97,224	—	97,224
Corporate bonds	—	256,772	—	256,772
Commercial paper	—	266,193	—	266,193
Agency bonds	—	84,276	—	84,276
Government bonds:				
Non-U.S.	—	9,151	—	9,151
U.S.	—	441,096	—	441,096
Securitization notes receivable and residual trust certificates	—	—	18,913	18,913
Other	—	—	1,028	1,028
Servicing assets	—	—	880	880
Derivative instruments	—	50,545	—	50,545
Total assets	$ 97,129	$1,320,524	$ 20,821	$1,438,474
Liabilities:				
Servicing liabilities	$ —	$ —	$ 1,392	$ 1,392
Performance fee liability	—	—	1,581	1,581
Residual trust certificates, held by third-parties	—	—	125	125
Profit share liability	—	—	1,832	1,832
Total liabilities	$ —	$ —	$ 4,930	$ 4,930

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents:				
Money market funds	$ 162,483	$ —	$ —	$ 162,483
Certificates of deposit	—	16,026	—	16,026
Commercial paper	—	229,272	—	229,272
Government bonds - U.S.	—	58,541	—	58,541
Securities, available for sale:				
Certificates of deposit	—	300,390	—	300,390
Corporate bonds	—	368,671	—	368,671
Commercial paper	—	478,293	—	478,293
Government bonds:				
Non-U.S.	—	17,955	—	17,955
U.S.	—	378,386	—	378,386
Securitization notes receivable and residual trust certificates	—	—	51,678	51,678
Servicing assets	—	—	1,192	1,192
Derivative instruments	—	49,983	—	49,983
Total assets	$ 162,483	$1,897,517	$ 52,870	$2,112,870
Liabilities:				
Servicing liabilities	$ —	$ —	$ 2,673	$ 2,673
Performance fee liability	—	—	1,710	1,710
Residual trust certificates, held by third-parties	—	—	377	377
Contingent consideration	—	—	23,348	23,348
Profit share liability	—	—	1,987	1,987
Total liabilities	$ —	$ —	$ 30,095	$ 30,095

There were no transfers between levels during the periods ended June 30, 2023 and June 30, 2022.

Assets and Liabilities Measured at Fair Value on a Recurring Basis (Level 2)

Marketable Securities

As of June 30, 2023, we held marketable securities classified as cash and cash equivalents and available for sale. Management obtains pricing from one or more third-party pricing services for the purpose of determining fair value. Whenever available, the fair value is based on quoted bid prices as of the end of the trading day. When quoted prices are not available, other methods may be utilized including evaluated prices provided by third-party pricing services.

Derivative Instruments

As of June 30, 2023 and June 30, 2022, we used a combination of interest rate cap agreements and interest rate swaps to manage interest costs and the risks associated with variable interest rates. These derivative instruments are classified as Level 2 within the fair value hierarchy, and the fair value is estimated by using third-party pricing models, which contain certain assumptions based on readily observable market-based inputs. We validate the

valuation output on a monthly basis. Refer to Note 12. Derivative Financial Instruments in the notes to the consolidated financial statements for further details on our derivative instruments.

Assets and Liabilities Measured at Fair Value on a Recurring Basis using Significant Unobservable Inputs (Level 3)

We evaluate our assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level at which to classify them each reporting period. Since our servicing assets and liabilities, performance fee liability, securitization notes and residual trust certificates, contingent consideration, profit share liability, and credit enhancement liability do not trade in an active market with readily observable prices, we use significant unobservable inputs to measure fair value and have classified as level 3 within the fair value hierarchy. This determination requires significant judgments to be made.

Servicing Assets and Liabilities

We sold loans with an unpaid principal balance of $7.5 billion, $7.1 billion, and $3.2 billion for the years ended June 30, 2023, 2022, and 2021, respectively, for which we retained servicing rights.

As of June 30, 2023 and June 30, 2022, we serviced loans which we sold with a remaining unpaid principal balance of $4.1 billion and $4.5 billion, respectively.

We use discounted cash flow models to arrive at an estimate of fair value. Significant assumptions used in the valuation of our servicing rights are as follows:

Adequate Compensation

We estimate adequate compensation as the rate a willing market participant would require for servicing loans with similar characteristics as those in the serviced portfolio.

Discount Rate

Estimated future payments to be received under servicing agreements are discounted as a part of determining the fair value of the servicing rights. For servicing rights on loans, the discount rate reflects the time value of money and a risk premium intended to reflect the amount of compensation market participants would require.

Gross Default Rate

We estimate the timing and probability of early loan payoffs, loan defaults and write-offs, thus affecting the projected unpaid principal balance and expected term of the loan, which are used to project future servicing revenue and expenses.

We earned $87.5 million, $65.8 million, and $24.7 million of servicing income for the years ended June 30, 2023, 2022, and 2021, respectively.

As of June 30, 2023 and June 30, 2022, the aggregate fair value of the servicing assets was measured at $0.9 million and $1.2 million, respectively, and presented within other assets on the consolidated balance sheets. As of June 30, 2023 and June 30, 2022, the aggregate fair value of the servicing liabilities was measured at $1.4 million and $2.7 million, respectively, and presented within accrued expenses and other liabilities on the consolidated balance sheets.

The following table summarizes the activity related to the aggregate fair value of our servicing assets (in thousands):

	Year ended June 30, 2023	Year ended June 30, 2022
Fair value at beginning of period	$ 1,192	$ 2,349
Initial transfers of financial assets	433	2,899
Subsequent changes in fair value	(745)	(4,056)
Fair value at end of period	$ 880	$ 1,192

The following table summarizes the activity related to the aggregate fair value of our servicing liabilities (in thousands):

	Year ended June 30, 2023	Year ended June 30, 2022
Fair value at beginning of period	$ 2,673	$ 3,961
Initial transfers of financial assets	7,723	15,617
Subsequent changes in fair value	(9,004)	(16,905)
Fair value at end of period	$ 1,392	$ 2,673

The following tables present quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of servicing assets and liabilities as of June 30, 2023 and June 30, 2022:

		June 30, 2023		
	Unobservable Input	Minimum	Maximum	Weighted Average [3]
Servicing assets	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [1]	0.92 %	2.31 %	0.93 %
	Gross default rate [2]	2.15 %	11.20 %	3.36 %
Servicing liabilities	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [1]	0.92 %	2.31 %	2.27 %
	Gross default rate [2]	9.50 %	21.54 %	13.64 %

		June 30, 2022		
	Unobservable Input	Minimum	Maximum	Weighted Average [3]
Servicing assets	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [1]	0.78 %	1.85 %	1.10 %
	Gross default rate [2]	0.59 %	50.59 %	1.59 %
Servicing liabilities	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [1]	2.13 %	2.34 %	2.21 %
	Gross default rate [2]	9.03 %	24.44 %	13.81 %

(1) Estimated annual cost of servicing a loan as a percentage of unpaid principal balance
(2) Annualized estimated gross charge-offs as a percentage of unpaid principal balance
(3) Unobservable inputs were weighted by relative fair value

The following table summarizes the effect that adverse changes in estimates would have on the fair value of the servicing assets and liabilities given hypothetical changes in significant unobservable inputs (in thousands):

	June 30, 2023	June 30, 2022
Servicing assets		
Gross default rate assumption:		
Gross default rate increase of 25%	$ —	$ 11
Gross default rate increase of 50%	$ (1)	$ 22
Adequate compensation assumption:		
Adequate compensation increase of 10%	$ (382)	$ —
Adequate compensation increase of 20%	$ (764)	$ —
Adequate compensation increase of 25%	$ —	$ (3,513)
Adequate compensation increase of 50%	$ —	$ (7,026)
Discount rate assumption:		
Discount rate increase of 25%	$ (29)	$ (57)
Discount rate increase of 50%	$ (55)	$ (109)
Servicing liabilities		
Gross default rate assumption:		
Gross default rate increase of 25%	$ (9)	$ (10)
Gross default rate increase of 50%	$ (19)	$ (21)
Adequate compensation assumption:		
Adequate compensation increase of 10%	$ 2,798	$ —
Adequate compensation increase of 20%	$ 5,597	$ —
Adequate compensation increase of 25%	$ —	$ 6,139
Adequate compensation increase of 50%	$ —	$ 12,278
Discount rate assumption:		
Discount rate increase of 25%	$ (19)	$ (50)
Discount rate increase of 50%	$ (38)	$ (98)

Performance Fee Liability

In accordance with our agreements with our originating bank partners, we pay a fee for each loan that is fully repaid by the consumer, due at the end of the period in which the loan is fully repaid. We recognize a liability upon the purchase of a loan for the expected future payment of the performance fee. This liability is measured using a discounted cash flow model and recorded at fair value and presented within accrued expenses and other liabilities on the consolidated balance sheets. Any changes in the fair value of the liability are reflected in other (expense) income, net, on the consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the performance fee liability (in thousands):

	Year ended June 30,	
	2023	2022
Fair value at beginning of period	$ 1,710	$ 1,290
Purchases of loans	1,758	1,764
Settlements paid	(2,031)	(418)
Subsequent changes in fair value	144	(926)
Fair value at end of period	$ 1,581	$ 1,710

Significant unobservable inputs used for our Level 3 fair value measurement of the performance fee liability are the discount rate, refund rate, and default rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following tables present quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the performance fee liability as of June 30, 2023 and June 30, 2022:

	June 30, 2023		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average** [(1)]
Discount rate	10.00%	10.00%	10.00%
Refund rate	4.50%	4.50%	4.50%
Default rate	1.79%	3.34%	2.86%

	June 30, 2022		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average** [(1)]
Discount rate	10.00%	10.00%	10.00%
Refund rate	4.50%	4.50%	4.50%
Default rate	1.78%	3.10%	2.42%

(1) Unobservable inputs were weighted by remaining principal balances

Residual Trust Certificates Held by Third-Parties in Consolidated VIEs

Residual trust certificates held by third-party investor(s) are measured at fair value, using a discounted cash flow model, and presented within accrued expenses and other liabilities on the consolidated balance sheets. Any changes in the fair value of the liability are reflected in other (expense) income, net, on the consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the residual trust certificates held by third-parties (in thousands):

	Year ended June 30,	
	2023	2022
Fair value at beginning of period	$ 377	$ 914
Repayments	(306)	(908)
Subsequent changes in fair value	54	371
Fair value at end of period	$ 125	$ 377

Significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates held by third-parties are the discount rate, loss rate, and prepayment rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following tables present quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates held by third-parties as of June 30, 2023 and June 30, 2022:

	June 30, 2023		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average [(1)]**
Discount rate	10.00%	10.00%	10.00%
Loss rate	0.92%	0.92%	0.92%
Prepayment rate	7.70%	7.70%	7.70%

	June 30, 2022		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average [(1)]**
Discount rate	10.00%	10.00%	10.00%
Loss rate	0.75%	0.75%	0.75%
Prepayment rate	8.00%	8.00%	8.00%

(1) Unobservable inputs were weighted by relative fair value

Retained Beneficial Interests in Unconsolidated VIEs

As of June 30, 2023, we held notes receivable and residual trust certificates with an aggregate fair value of $18.9 million in connection with unconsolidated securitizations. The balances correspond to the 5% economic risk retention the Company is required to maintain as the securitization sponsor.

These assets are measured at fair value using a discounted cash flow model, and presented within securities available for sale at fair value on the consolidated balance sheets. Changes in the fair value, other than declines in fair value due to credit recognized as an allowance, are reflected in other comprehensive income (loss) on the consolidated statements of operations and comprehensive loss. Declines in fair value due to credit are reflected in other (expense) income, net on the consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the notes receivable and residual trust certificates (in thousands):

	Year ended June 30,	
	2023	2022
Fair value at beginning of period	$ 51,678	$ 16,170
Additions	—	54,998
Cash received (due to payments or sales)	(33,544)	(19,559)
Change in unrealized gain (loss)	6	(509)
Accrued interest	1,205	595
Reversal of (impairment on) securities available for sale	(432)	(17)
Fair value at end of period	$ 18,913	$ 51,678

Significant unobservable inputs used for our Level 3 fair value measurement of the notes and residual trust certificates are the discount rate, loss rate, and prepayment rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates as of June 30, 2023 and June 30, 2022:

	June 30, 2023		
Unobservable Input	Minimum	Maximum	Weighted Average [1]
Discount rate	5.72%	29.84%	7.30%
Loss rate	1.25%	14.96%	3.02%
Prepayment rate	5.90%	29.90%	18.10%

	June 30, 2022		
Unobservable Input	Minimum	Maximum	Weighted Average [1]
Discount rate	3.68%	22.50%	5.37%
Loss rate	0.61%	10.95%	2.65%
Prepayment rate	5.25%	35.00%	18.48%

(1) Unobservable inputs were weighted by relative fair value

The following table summarizes the effect that adverse changes in estimates would have on the fair value of the securitization residual trust certificates given hypothetical changes in significant unobservable inputs (in thousands):

	Year ended June 30,	
	2023	2022
Discount rate assumption:		
Discount rate increase of 25%	$ (218)	$ (1,410)
Discount rate increase of 50%	$ (429)	$ (2,295)
Loss rate assumption:		
Loss rate increase of 25%	$ (165)	$ (729)
Loss rate increase of 50%	$ (243)	$ (964)
Prepayment rate assumption:		
Prepayment rate decrease of 25%	$ (30)	$ (545)
Prepayment rate decrease of 50%	$ (59)	$ (519)

Contingent Consideration

Our acquisition of PayBright, Inc. (“PayBright”) on January 1, 2021 included consideration transferred and 2,587,362 shares of our common stock held in escrow, contingent upon the achievement of future milestones. At the acquisition date, we classified the contingent consideration as a liability and estimated its fair value using a Monte Carlo simulation utilizing assumptions of simulated revenue, equity volatility, and a discount rate. The liability is remeasured to its fair value at each reporting date, until the contingency is resolved. For periods in which actual revenues are unknown, the fair value is estimated using a Monte Carlo simulation. For periods in which revenue is known, the fair value is estimated based on the shares expected to be released from escrow multiplied by the estimated share price. The fair value estimate represents a Level 3 measurement, as the revenue milestone represents a significant unobservable input. During the year ended June 30, 2022, one of these milestones was achieved and 1,293,681 shares of our Class A common stock were released from escrow, resulting in a reduction to the contingent liability. During the year ended June 30, 2023, an additional milestone was achieved, resulting in the release of the remaining 1,293,681 shares of our Class A and Class B common stock from escrow and settlement of the remaining contingent liability. The change in fair value of the contingent consideration at each reporting date is recognized as a component of other (expense) income, net in the consolidated statements of operations and comprehensive loss for the respective period.

The following table summarizes the activity related to the fair value of the PayBright contingent consideration (in thousands):

	Year ended June 30,	
	2023	2022
Fair value at beginning of period	$ 23,348	$ 153,447
Subsequent changes in fair value	(8,172)	(89,313)
Fair value of shares released from escrow	(13,674)	(32,110)
Effect of foreign currency translation	(1,502)	(8,676)
Fair value at end of period	$ —	$ 23,348

Profit Share Liability

On January 1, 2021, we entered into a commercial agreement with an enterprise partner, in which we are obligated to share in the profitability of transactions facilitated by our platform. Upon capture of a loan under this program, we record a liability associated with the estimated future profit to be shared over the life of the loan based on estimated program profitability levels. This liability is measured using a discounted cash flow model and recorded at fair value and presented within accrued expenses and other liabilities on the consolidated balance sheets.

The following table summarizes the activity related to the fair value of the profit share liability (in thousands):

	Year ended June 30,	
	2023	2022
Fair value at beginning of period	$ 1,987	$ 2,464
Facilitation of loans	5,792	5,955
Actual performance	(7,009)	(7,642)
Subsequent changes in fair value	1,062	1,210
Fair value at end of period	$ 1,832	$ 1,987

Significant unobservable inputs used for our Level 3 fair value measurement of the profit share liability are the discount rate and estimated program profitability. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following tables present quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the profit sharing liability as of June 30, 2023 and June 30, 2022:

	June 30, 2023		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average [1]**
Discount rate	30.00%	30.00%	30.00%
Program profitability	1.13%	1.13%	1.13%

	June 30, 2022		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average [1]**
Discount rate	30.00%	30.00%	30.00%
Program profitability	1.25%	3.54%	1.28%

(1) Unobservable inputs were weighted by relative fair value

Risk Sharing Arrangements

In connection with certain capital funding arrangements with third party loan buyers, we have entered into risk sharing agreements where we may be required to make a payment to the loan buyer if actual losses on the loans sold exceed agreed-upon expected losses, subject to a cap based on a percentage of the principal balance of loans sold. Losses are calculated at a cohort level based on the sale date. For a given cohort where actual losses are below the contractual loss threshold, we may earn credits that reduce our liability with respect to cohorts where losses have exceeded the contractual loss threshold.

The Company accounts for these arrangements as derivatives measured at fair value with gains and losses recognized in the income statement through Gain on sale of loans. Given the recency of loan sales in connection with these arrangements, which were in close proximity to the end of the period, there have not been any significant changes in our loss expectations since the time of sale. At the time of sale and as of June 30, 2023, we estimated that the fair value of these loss sharing arrangements was $0, in each case using forward looking loss assumptions which are derived based on historical loan performance for loans with similar contractual terms and credit characteristics.

Through June 30, 2023 we have sold $381.1 million unpaid principal balance of loans under these risk sharing arrangements, of which our maximum exposure to losses is $8.2 million.

Financial Assets and Liabilities Not Recorded at Fair Value

The following table presents the fair value and our assessment of the classification of this measurement within the fair value hierarchy for financial assets and liabilities held at amortized cost as of June 30, 2023 and June 30, 2022 (in thousands):

	June 30, 2023				
	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets:					
Loans held for sale	$ 76	$ —	$ 76	$ —	$ 76
Loans held for investment, net	4,198,431	—	—	4,397,931	4,397,931
Other assets	9,325	—	9,325	—	9,325
Total assets	$ 4,207,832	$ —	$ 9,401	$ 4,397,931	$ 4,407,332
Liabilities:					
Convertible senior notes, net [1]	$ 1,414,208	$ —	$ 1,053,866	$ —	$ 1,053,866
Notes issued by securitization trusts	2,165,577	—	—	1,748,772	1,748,772
Funding debt [2]	1,775,698	—	—	1,777,635	1,777,635
Total liabilities	$ 5,355,483	$ —	$ 1,053,866	$ 3,526,407	$ 4,580,273

	June 30, 2022				
	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets:					
Loans held for sale	$ 2,670	$ —	$ 2,670	$ —	$ 2,670
Loans held for investment, net	2,348,169	—	—	2,412,871	2,412,871
Other assets	12,661	—	12,661	—	12,661
Total assets	$ 2,363,500	$ —	$ 15,331	$ 2,412,871	$ 2,428,202
Liabilities:					
Convertible senior notes, net [1]	1,706,668	—	984,285	—	984,285
Notes issued by securitization trusts	1,627,580	—	—	1,529,401	1,529,401
Funding debt [2]	683,395	—	—	683,388	683,388
Total liabilities	$ 4,017,643	$ —	$ 984,285	$ 2,212,789	$ 3,197,074

(1) The estimated fair value of the convertible senior notes is determined based on a market approach, using the estimated or actual bids and offers of the notes in an over-the-counter market on the last business day of the period.

(2) As of June 30, 2023 and June 30, 2022, debt issuance costs in the amount of $10.9 million and $10.8 million was included within funding debt.

14. Stockholders' Equity

Common Stock

The Company had shares of common stock reserved for issuance as follows:

	June 30, 2023	June 30, 2022
Available outstanding under stock option plan	52,572,230	53,158,233
Available for future grant under stock option plan	37,245,232	31,156,746
Total	89,817,462	84,314,979

The common stock is not redeemable. We have two classes of common stock: Class A common stock and Class B common stock. Each holder of Class A common stock has the right to one vote per share of common stock. Each holder of Class B common stock has the right to 15 votes and can be converted at any time into one share of Class A common stock. Holders of Class A and Class B common stock are entitled to notice of any stockholders' meeting in accordance with the bylaws of the corporation, and are entitled to vote upon such matters and in such manner as may be provided by law. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of the common stock are entitled to receive, when and as declared by the Board of Directors, out of any assets of the corporation legally available therefore, such dividends as may be declared from time to time by the Board of Directors.

Common Stock Warrants

Common stock warrants are included as a component of additional paid in capital within the consolidated balance sheets.

During the year ended June 30, 2022, we granted warrants to purchase 22,000,000 shares of common stock in connection with our commercial agreements with Amazon. 7,000,000 of the warrant shares have an exercise price of $0.01 per share and a term of 3.5 years, while the remaining 15,000,000 warrant shares have an exercise price of $100 per share and a term of 7.5 years. We valued the warrants at the grant date using the Black-Scholes-Merton option pricing model with the following assumptions: a dividend yield of zero; years to maturity of 3.5 and 7.5 years, respectively; volatility of 45%; and a risk-free rate of 0.93% and 1.47%, respectively. We recognized an asset of $133.5 million associated with the portion of the warrants that were fully vested at the grant date. Refer to Note 6. Balance Sheet Components for more information on the asset and related amortization during the period. The remaining grant-date fair value of the warrants will be recognized within our consolidated statements of operations and comprehensive loss as a component of sales and marketing expense as the warrants vest, based upon Amazon's satisfaction of the vesting conditions. During the years ended June 30, 2023 and June 30, 2022, a total of $463.3 million and $281.0 million, respectively, was recognized within sales and marketing expense which included $41.4 million and $26.3 million, respectively, in amortization expense of the commercial agreement asset and $421.9 million and $254.7 million, respectively, in expense based upon the grant-date fair value of the warrant shares that vested.

The following table summarizes the warrants activity during the years ended June 30, 2023 and June 30, 2022:

	Number of Shares	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (years)
Warrants outstanding, June 30, 2021	—	$—	0.00
Granted	22,000,000	68.19	5.60
Exercised	—	—	0.00
Cancelled	—	—	0.00
Warrants outstanding, June 30, 2022	22,000,000	$68.19	5.60
Granted	—	—	0.00
Exercised	—	—	0.00
Cancelled	—	—	0.00
Warrants outstanding, June 30, 2023	22,000,000	$68.19	4.60
Warrants exercisable, June 30, 2023	7,424,442	$42.32	3.60

There were no warrants granted during the year ended June 30, 2023. The weighted-average grant date fair values of warrants granted during the years ended June 30, 2022 and 2021 were $94.20 and $13.34, respectively. On June 30, 2023, the weighted-average grant date fair values for outstanding warrants and exercisable warrants were $94.20 and $109.12, respectively.

15. Equity Incentive Plans

2012 Stock Plan

Under our Amended and Restated 2012 Stock Plan (the "Plan"), we may grant incentive and nonqualified stock options, restricted stock, and restricted stock units ("RSUs") to employees, officers, directors, and consultants. As of June 30, 2023, the maximum number of shares of common stock which may be issued under the Plan is 146,209,197 Class A shares. As of June 30, 2023 and June 30, 2022, there were 37,245,232 and 31,156,746 shares of Class A common stock, respectively, available for future grants under the Plan.

Stock Options

For stock options granted before our IPO in January 2021, the minimum expiration period is seven years after termination of employment or 10 years from the date of grant. For stock options granted after our IPO, the minimum expiration period is three months after termination of employment or 10 years from the date of grant. Stock options generally vest over a period of four years or with 25% vesting on the 12 month anniversary of the vesting commencement date, and the remainder vesting on a pro-rata basis each month over the next three years.

The following table summarizes our stock option activity for the year ended June 30, 2023:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of June 30, 2022	19,310,706	$ 15.22	6.94	
Granted	1,991,427	19.10		
Exercised	(971,863)	4.67		
Forfeited, expired or cancelled	(1,825,132)	33.94		
Balance as of June 30, 2023	18,505,138	14.34	6.07	
Vested and exercisable, June 30, 2023	14,758,426	$ 10.74	5.45	$ 112,834
Vested and exercisable, and expected to vest thereafter[1] June 30, 2023	18,321,690	$ 14.14	6.05	$ 115,791

(1) Options expected to vest reflect the application of an estimated forfeiture rate.

The weighted-average grant date fair value of employee options granted for the years ended June 30, 2023, 2022, and 2021, was $10.92, $13.29, and $59.83, respectively. The aggregate intrinsic value of options exercised was approximately $12.6 million, $1.4 billion, and $0.7 billion for the years ended June 30, 2023, 2022, and 2021, respectively. The total fair value of stock options vested during the years ended June 30, 2023, 2022, and 2021 was $39.5 million, $30.3 million, and $97.4 million, respectively.

The fair value of each option on the date of grant is determined using the Black Scholes-Merton option pricing model using the single-option award approach with the weighted-average assumptions set forth in the table below. Volatility is based on historical volatility rates obtained from certain public companies that operate in the same or related business as us since there is a limited period of historical market data for our common stock. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term set forth. We used the simplified method to determine an estimate of the expected term of an employee share option.

	Year ended June 30,		
	2023	2022	2021
Volatility	59%	54%	46%
Risk-free interest rate	2.88% - 3.87%	1.47% - 3.01%	0.70% - 1.05%
Expected term (in years)	6.04	5.56	6.35
Expected dividend yield	—	—	—

As of June 30, 2023, unrecognized compensation expense related to unvested stock options was approximately $36.2 million. The weighted-average period over which such compensation expense will be recognized is approximately 2.2 years.

When an employee exercises stock options, we collect and remit taxes on the employee's behalf to applicable taxing authorities. As of June 30, 2023 and June 30, 2022, the balance of equity exercise taxes payable was $3.4 million and $10.9 million, respectively, which is included in accounts payable on the consolidated balance sheets.

Value Creation Award

In November 2020, in connection with an overall review of the compensation of Max Levchin, our Chief Executive Officer, in advance of the IPO, and taking into account Mr. Levchin's leadership since the inception of the Company, the comparatively modest level of cash compensation he had received from the Company during his many years of service, and that he did not hold any unvested equity awards, the Company's Board of Directors approved a long-term, multi-year performance-based stock option grant providing Mr. Levchin with the opportunity to earn the right to purchase up to 12,500,000 shares of the Company's Class A common stock (the "Value Creation Award").

As discussed below, the Value Creation Award will only be earned, if at all, in the event the price of our Class A common stock attains stock price hurdles that are significantly in excess of the Company's IPO price per share, over a period of five years, subject to Mr. Levchin's continued service to the Company.

The Value Creation Award is divided into ten tranches, each of which Mr. Levchin may earn by satisfying a performance condition within a five-year period following the IPO. The performance condition for each tranche will be satisfied on the date the 90 average trading day volume weighted share price of the Company's Class A common stock exceeds certain specified stock price hurdles, presented in the table below, which were determined based on a target percentage of share price appreciation from the IPO price. Once earned as a result of satisfying the performance condition, the options will vest and become exercisable over a five-year period that commenced at the time of the IPO, subject to Mr. Levchin's continued service to the Company, in annual amounts equal to 15%, 15%, 20%, 25% and 25%, respectively. The per share exercise price of the Value Creation Award is $49.00, the price to the public in the IPO.

Tranche	Stock Price Hurdle	Number of Options
1	$ 65.66	1,000,000
2	$ 82.32	1,000,000
3	$ 98.98	1,000,000
4	$ 115.64	1,000,000
5	$ 132.30	1,000,000
6	$ 148.47	1,000,000
7	$ 165.13	1,000,000
8	$ 181.79	1,000,000
9	$ 247.94	2,250,000
10	$ 371.91	2,250,000
Total		12,500,000

We recognize stock-based compensation on these awards based on the grant date fair value using an accelerated attribution method over the requisite service period, and only if performance-based conditions are considered probable of being satisfied. During the years ended June 30, 2023 and June 30, 2022, we incurred stock-based compensation expense of $94.6 million and $140.7 million, respectively, associated with the Value Creation Award as a component of general and administrative expense within the consolidated statements of operations and comprehensive loss. Based on achievement of the stock price hurdles and time-based service conditions, 1,875,000 shares vested during both years ended June 30, 2023 and 2022. As of June 30, 2023, none of these awards have been exercised.

As of June 30, 2023, unrecognized compensation expense related to the Value Creation Award was approximately $112.9 million, which is expected to be recognized over a remaining weighted-average period of 2.5 years.

Restricted Stock Units

RSUs granted prior to the IPO were subject to two vesting conditions: a service-based vesting condition (i.e., employment over a period of time) and a performance-based vesting condition (i.e., a liquidity event in the form of either a change of control or an initial public offering, each as defined in the Plan), both of which must be met in order to vest. The performance-based condition was met upon the IPO. We record stock-based compensation expense for those RSUs on an accelerated attribution method over the requisite service period, which is generally four years. RSUs granted after IPO are subject to a service-based vesting condition. We record stock-based compensation expense for service-based RSUs on a straight-line basis over the requisite service period, which is generally one to four years.

The following table summarizes our RSU activity during the year ended June 30, 2023:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2022	21,387,592	$ 38.41
Granted	19,025,716	21.34
Vested	(12,498,098)	33.28
Forfeited, expired or cancelled	(6,262,014)	36.28
Non-vested at June 30, 2023	21,653,196	$ 26.99

As of June 30, 2023, unrecognized compensation expense related to unvested RSUs was approximately $473.1 million, which is expected to be recognized over a remaining weighted-average period of 1.7 years.

2020 Employee Stock Purchase Plan

On November 18, 2020, our Board of Directors adopted and approved the 2020 Employee Stock Purchase Plan (“ESPP”). The purpose of the ESPP is to secure the services of new employees, to retain the services of existing employees and to provide incentives for such individuals to exert maximum effort towards the success of the Company and that of its affiliates. A total of 10.9 million shares of Class A common stock are reserved and available for issuance under the ESPP and 1.1 million shares have been issued as of June 30, 2023. The ESPP provides for six-month offering periods beginning December 1 and June 1 of each year. At the end of each offering period, shares of our Class A common stock are purchased on behalf of each ESPP participant at a price per share equal to 85% of the lesser of (1) the fair market value of the Class A common stock on first day of the offering period (the grant date) or (2) the fair market value of the Class A common stock on the last day of the offering period (the purchase date). We use the Black-Scholes-Merton option pricing model to measure the fair value of the purchase rights issued under the ESPP at the first day of the offering period, which represents the grant date. We record stock-based compensation expense on a straight-line basis over each six-month offering period, the requisite service period of the award.

Stock-Based Compensation Expense

The following table presents the components and classification of stock-based compensation (in thousands):

	Year ended June 30,		
	2023	2022	2021
General and administrative	$ 239,923	$ 248,797	$ 196,554
Technology and data analytics	181,396	116,531	76,643
Sales and marketing	25,914	23,224	17,092
Processing and servicing	4,476	2,431	2,218
Total stock-based compensation in operating expenses	451,709	390,983	292,507
Capitalized into property, equipment and software, net	80,108	54,542	13,999
Total stock-based compensation	$ 531,817	$ 445,525	$ 306,506

In connection with the acquisition of Returnly on May 1, 2021, we issued 304,364 shares of our Class A common stock, which were held in escrow. Because the future payment of the escrowed shares was contingent on continued employment of certain employees, the arrangement represents stock-based compensation in the post combination period. The grant-date fair value was estimated based on the value of the shares at the date of closing. The escrowed shares had a requisite service period of two years and contained a performance-based vesting condition (i.e., the achievement of certain revenue targets). We recorded stock-based compensation expense on a straight-line basis for each tranche over the requisite service period, as long as the performance-based conditions were considered probable of being satisfied. During the year ended June 30, 2023, the arrangement was modified and subsequently terminated. The modification and subsequent termination resulted in the recognition of $2.0 million of incremental compensation cost within general and administrative expense in our consolidated statement of operations and comprehensive loss, as well as the release of 45,459 shares from escrow and the remittance of 258,905 shares back to the Company.

16. Restructuring and other

On February 8, 2023, we committed to a restructuring plan (the "2023 Restructuring Plan") designed to manage our operating expenses in response to current macroeconomic conditions and ongoing business prioritization efforts. As part of the plan, we reduced our workforce by approximately 500 employees, representing approximately 19% of our employees and incurred lease exit costs related to vacating a portion of our San Francisco office. Restructuring and other consists of employee severance pay and related costs and accelerations of amortization expense for the lease asset associated with certain of our office spaces.

For the year ended June 30, 2023, restructuring and other was comprised of the following (in thousands):

	June 30, 2023
Employee severance pay and related costs	$ 29,654
Non-cash accelerations of depreciation and amortization expense	6,216
Restructuring and other	$ 35,870

The Company's restructuring accrual activity for the year ended June 30, 2023 is summarized as follows (in thousands):

	2023 Restructuring Plan	Other Exit and Disposal Activities [1]
Accrued restructuring costs, June 30, 2022	$ —	$ —
Additions	26,297	2,116
Cash paid	(27,353)	—
Adjustments	1,302	—
Impact of foreign currency translation	62	—
Accrued restructuring costs, June 30, 2023	$ 308	$ 2,116

(1) Includes employee severance pay and related costs, contract cancellation charges, among other items, related to other exit and disposal activities

17. Income Taxes

The U.S. and foreign components of income (loss) before income taxes for the years ended June 30, 2023, 2022, and 2021 are as follows (in thousands):

	Year Ended June 30,		
	2023	2022	2021
U.S.	$ (974,074)	$ (780,699)	$ (330,313)
Foreign	(15,171)	55,868	(113,057)
Total loss before income taxes	$ (989,245)	$ (724,831)	$ (443,370)

Income tax expense (benefit) for the years ended June 30, 2023, 2022, and 2021 is summarized as follows (in thousands):

	Year Ended June 30,		
	2023	2022	2021
Current			
State	$ 759	$ 145	$ (10)
Foreign	408	230	(410)
Total current expense	$ 1,167	$ 375	$ (420)
Deferred			
Federal	$ 137	$ 113	$ 88
State	249	281	(2,570)
Foreign	(5,453)	(18,183)	559
Total deferred expense	(5,067)	(17,789)	(1,923)
Income tax (benefit) expense	$ (3,900)	$ (17,414)	$ (2,343)

The income tax benefit for the year ended June 30, 2023 was primarily attributable to the effects of foreign income taxes on our Canadian subsidiary and partially offset by various U.S. state and other foreign income taxes, while the income tax benefits for the years ended June 30, 2022 and June 30, 2021 were primarily attributable to a change in our assessment of the future realization of our Canadian deferred tax assets and to an adjustment to the Company's valuation allowance resulting from a deferred tax liability assumed with the acquisition of Returnly, respectively.

The following is a reconciliation of the U.S. statutory federal income tax rate to our effective tax rate for the years ended June 30, 2023, 2022, and 2021:

	Year Ended June 30,		
	2023	2022	2021
U.S. statutory federal income tax rate	21.0 %	21.0 %	21.0 %
State and local income taxes, net of federal tax benefit	7.7 %	8.3 %	9.1 %
Foreign rate differential	0.1 %	(0.4)%	1.5 %
Stock-based compensation	(14.9)%	64.0 %	66.4 %
Non-deductible compensation expense	(2.2)%	(12.4)%	(8.4)%
Tax benefit related to tax credits, net	0.9 %	15.4 %	0.5 %
Impact of change in fair value of contingent consideration	0.2 %	3.3 %	(5.6)%
Change in unrecognized tax benefits	(0.4)%	(6.2)%	— %
Other	(0.1)%	0.2 %	1.6 %
Change in valuation allowance	(11.9)%	(90.8)%	(85.6)%
Effective income tax rate	0.4 %	2.4 %	0.5 %

Significant components of deferred tax assets and liabilities are as follows (in thousands):

	Year Ended June 30,	
	2023	2022
Net operating loss carryforwards	$ 1,070,325	$ 1,056,403
Allowance for credit losses	65,699	55,154
Stock-based compensation	45,974	51,288
Stock warrants	50,097	—
Operating lease liabilities	15,253	19,840
Purchased intangible assets	315	—
Tax credit carryforwards	74,589	69,144
Other	10,338	7,581
Total deferred tax assets	$ 1,332,590	$ 1,259,410
Capitalized R&E including internally developed software	(21,304)	(47,217)
Purchased intangible assets	—	(11,386)
Right-of-use lease assets	(8,751)	(15,289)
Stock warrants	—	(7,200)
Other	(2,670)	(2,920)
Total deferred tax liabilities	$ (32,725)	$ (84,012)
Valuation allowance	(1,280,216)	(1,158,246)
Deferred tax assets (liabilities), net of valuation allowance	$ 19,649	$ 17,152

We continue to recognize a full valuation allowance against our U.S. federal and state and certain foreign net deferred tax assets. This determination was based on the assessment of the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to utilize the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by the Company for the years ended June 30, 2023, 2022, and 2021. The presence of a three-year cumulative loss limits the

ability to consider other subjective evidence, such as our expectations of future taxable income and projections for growth. The valuation allowance increased by $122.0 million during the year ended June 30, 2023.

As a result of the integration and consolidation of our PayBright business into and with Affirm's Canadian business, the expansion of our overall business in Canada, and other objectively verifiable positive evidence available, all of which we have concluded is sufficient to outweigh the existing negative evidence – including the presence of a three-year cumulative loss attributable to the Canadian jurisdiction, we have determined that it is more likely than not that our Canadian deferred tax assets will be realized and a valuation allowance is not required.

As of June 30, 2023, we had pretax U.S. federal net operating loss ("NOL") carryforwards of approximately $3,393.3 million, state NOL carryforwards of $4,706.7 million, Canadian NOL carryforwards of $77.4 million, and U.K. NOL carryforwards of $9.6 million. If not utilized, certain U.S. federal and state NOL carryforwards will begin to expire in 2029, whereas others have an unlimited carryforward period, and foreign NOL carryforwards will begin to expire in 2039, with others that have an unlimited carryforward period as well. Additionally, as of June 30, 2023, we also had U.S. federal and state research and development tax credit carryforwards of $87.8 million and $41.9 million, respectively. The U.S. federal research and development tax credit carryforwards will begin to expire in 2041 while the state research and development tax credits may be carried forward indefinitely. As of June 30, 2023, the Company also had other state tax credit carryforwards of $2.6 million, which will begin to expire in 2024 if not utilized.

Of the above NOL carryforwards, approximately $42.0 million pretax U.S. federal NOL carryforwards and $36.4 million state NOL carryforwards are from domestic acquisitions, which may be subject to an annual utilization limitation under Internal Revenue Code Section 382.

The future utilization of all domestic NOL and tax credit carryforwards may be subject to an annual limitation, pursuant to Internal Revenue Code Sections 382 and 383 and similar state provisions, due to ownership changes that may have occurred previously or that could occur in the future. Any limitation may result in the expiration of all or a portion of the NOL carryforwards before utilization.

The Company accounts for uncertainties in income taxes in accordance with ASC 740, Income Taxes ("ASC 740"). The following table provides a reconciliation of the beginning and ending amounts of gross unrecognized tax benefits (in thousands):

	Year ended June 30,		
	2023	**2022**	**2021**
Beginning balance	$ 47,867	$ —	$ —
Gross increase for tax positions related to the current year	5,828	28,407	—
Gross increase for tax positions related to prior years	—	19,460	—
Gross decrease for tax positions related to prior years	(1,845)	—	—
Ending balance	$ 51,850	$ 47,867	$ —

As of June 30, 2023, the Company had no unrecognized tax benefits related to uncertain tax positions that, if recognized, would impact the effective tax rate. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

Interest and penalties on unrecognized tax benefits are recorded as a component of tax expense. During the years ended June 30, 2023, 2022, and 2021, we did not recognize accrued interest and penalties related to unrecognized tax benefits.

We file U.S. federal and state income tax returns as well as various foreign income tax returns with varying statutes of limitation. With respect to the Company's major tax filings, all tax years remain open to examination due to the carryover of unused net operating losses.

On August 16, 2022, the Inflation Reduction Act was enacted into U.S. federal law. The Company does not currently expect that the Inflation Reduction Act will have a material impact on its income taxes.

18. Net Loss per Share Attributable to Common Stockholders

The following tables present basic and diluted net loss per share attributable to common stockholders for Class A and Class B common stock (in thousands, except share and per share data):

	Year ended June 30, 2023	
	Class A	Class B
Numerator:		
Net loss	$ (785,080)	$ (200,265)
Net loss attributable to common stockholders - basic and diluted	$ (785,080)	$ (200,265)
Denominator:		
Weighted average shares of common stock - basic	235,316,821	60,026,645
Weighted average shares of common stock - diluted	235,316,821	60,026,645
Net loss per share:		
Basic	$ (3.34)	$ (3.34)
Diluted	$ (3.34)	$ (3.34)

	Year ended June 30, 2022	
	Class A	Class B
Numerator:		
Net loss	$ (536,654)	$ (170,763)
Net loss attributable to common stockholders - basic and diluted	$ (536,654)	$ (170,763)
Denominator:		
Weighted average shares of common stock - basic	213,703,749	68,000,292
Weighted average shares of common stock - diluted	213,703,749	68,000,292
Net loss per share:		
Basic	$ (2.51)	$ (2.51)
Diluted	$ (2.51)	$ (2.51)

The following common stock equivalents, presented based on amounts outstanding, were excluded from the calculation of diluted net loss per share attributable to common stockholders because their inclusion would have been anti-dilutive:

	Year ended June 30,		
	2023	2022	2021
Stock options, including early exercise of options	18,505,138	18,922,009	44,178,776
Restricted stock units	21,653,196	21,387,592	14,238,738
Common stock warrants	5,859,226	5,817,203	350,000
Employee stock purchase plan shares	485,465	614,659	—
Total	46,503,025	46,741,463	58,767,514

19. Segments and Geographical Information

We conduct our operations through a single operating segment and, therefore, one reportable segment.

Revenue

Revenue by geography is based on the billing addresses of the borrower or the location of the merchant's national headquarters. The following table sets forth revenue by geographic area (in thousands):

	Year ended June 30,		
	2023	2022	2021
United States	$ 1,540,044	$ 1,304,304	$ 857,222
Canada	47,423	44,852	13,242
Other	518	136	—
Total	$ 1,587,985	$ 1,349,292	$ 870,464

Long-Lived Assets

The following table summarizes our long-lived assets, which consists of property, equipment and software, net and operating lease right-of-use assets, by geographic area (in thousands):

	Year ended June 30,	
	2023	2022
United States	$ 317,354	$ 217,532
Canada	2,488	4,390
Other	$ 463	$ 231
Total	$ 320,306	$ 222,153

D. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF AFFIRM FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2023

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Part I - Financial Information

Item 1. Financial Statements

AFFIRM HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except shares and per share amounts)

	September 30, 2023	June 30, 2023
Assets		
Cash and cash equivalents	$ 1,079,261	$ 892,027
Restricted cash	409,231	367,917
Securities available for sale at fair value	1,021,630	1,174,653
Loans held for sale	145	76
Loans held for investment	4,549,422	4,402,962
Allowance for credit losses	(232,068)	(204,531)
Loans held for investment, net	4,317,354	4,198,431
Accounts receivable, net	236,234	199,085
Property, equipment and software, net	338,749	290,135
Goodwill	536,418	542,571
Intangible assets	19,828	34,434
Commercial agreement assets	156,115	177,672
Other assets	292,184	278,614
Total assets	**$ 8,407,149**	**$ 8,155,615**
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable	$ 27,345	$ 28,602
Payable to third-party loan owners	109,498	53,852
Accrued interest payable	19,589	13,498
Accrued expenses and other liabilities	160,328	180,883
Convertible senior notes, net	1,415,080	1,414,208
Notes issued by securitization trusts	2,398,758	2,165,577
Funding debt	1,709,751	1,764,812
Total Liabilities	**5,840,349**	**5,621,432**
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Class A common stock, par value $0.00001 per share: 3,030,000,000 shares authorized, 241,468,132 shares issued and outstanding as of September 30, 2023; 3,030,000,000 shares authorized, 237,230,381 shares issued and outstanding as of June 30, 2023	2	2
Class B common stock, par value $0.00001 per share: 140,000,000 shares authorized, 59,613,755 shares issued and outstanding as of September 30, 2023; 140,000,000 authorized, 59,615,836 shares issued and outstanding as of June 30, 2023	1	1
Additional paid in capital	5,355,032	5,140,850
Accumulated deficit	(2,763,030)	(2,591,247)
Accumulated other comprehensive loss	(25,205)	(15,423)
Total stockholders' equity	2,566,800	2,534,183
Total liabilities and stockholders' equity	**$ 8,407,149**	**$ 8,155,615**

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

AFFIRM HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS, CONT.
(Unaudited)
(in thousands)

The following table presents the assets and liabilities of consolidated variable interest entities ("VIEs"), which are included in the interim condensed consolidated balance sheets above. The assets in the table below may only be used to settle obligations of consolidated VIEs and are in excess of those obligations. The liabilities in the table below include liabilities for which creditors do not have recourse to the general credit of the Company. Additionally, the assets and liabilities in the table below include third-party assets and liabilities of consolidated VIEs only and exclude intercompany balances that eliminate upon consolidation.

	September 30, 2023	June 30, 2023
Assets of consolidated VIEs, included in total assets above		
Restricted cash	$ 216,243	$ 203,872
Loans held for investment	4,335,514	4,151,606
Allowance for credit losses	(198,932)	(178,252)
Loans held for investment, net	4,136,582	3,973,354
Accounts receivable, net	2,958	8,196
Other assets	16,499	18,210
Total assets of consolidated VIEs	**$ 4,372,282**	**$ 4,203,632**
Liabilities of consolidated VIEs, included in total liabilities above		
Accounts payable	$ 2,845	$ 2,894
Accrued interest payable	19,588	13,498
Accrued expenses and other liabilities	19,587	17,825
Notes issued by securitization trusts	2,398,758	2,165,577
Funding debt	1,648,297	1,656,400
Total liabilities of consolidated VIEs	**4,089,075**	**3,856,194**
Total net assets of consolidated VIEs	**$ 283,207**	**$ 347,438**

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

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AFFIRM HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (Unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended September 30,	
	2023	2022
Revenue		
Merchant network revenue	$ 145,950	$ 113,149
Card network revenue	33,476	26,708
Total network revenue	179,426	139,857
Interest income	262,679	136,802
Gain on sales of loans	34,285	63,595
Servicing income	20,157	21,370
Total revenue, net	**$ 496,547**	**$ 361,624**
Operating expenses		
Loss on loan purchase commitment	$ 34,866	$ 35,610
Provision for credit losses	99,696	64,250
Funding costs	73,931	25,066
Processing and servicing	75,671	54,359
Technology and data analytics	132,965	144,961
Sales and marketing	146,866	163,873
General and administrative	140,334	160,972
Restructuring and other	1,665	—
Total operating expenses	**705,994**	**649,091**
Operating loss	**$ (209,447)**	**$ (287,467)**
Other income, net	38,707	36,018
Loss before income taxes	**$ (170,740)**	**$ (251,449)**
Income tax (benefit) expense	1,043	(180)
Net loss	**$ (171,783)**	**$ (251,269)**
Other comprehensive loss		
Foreign currency translation adjustments	$ (11,898)	$ (21,546)
Unrealized gain (loss) on securities available for sale, net	1,353	(5,528)
Gain on cash flow hedges	763	—
Net other comprehensive loss	**(9,782)**	**(27,074)**
Comprehensive loss	**$ (181,565)**	**$ (278,343)**
Per share data:		
Net loss per share attributable to common stockholders for Class A and Class B		
Basic	$ (0.57)	$ (0.86)
Diluted	$ (0.57)	$ (0.86)
Weighted average common shares outstanding		
Basic	303,839,670	290,929,270
Diluted	303,839,670	290,929,270

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

AFFIRM HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares [(1)]	Amount				
Balance as of June 30, 2023	**296,846,217**	**$ 3**	**$ 5,140,850**	**$ (2,591,247)**	**$ (15,423)**	**$ 2,534,183**
Issuance of common stock upon exercise of stock options	495,350	—	3,625	—	—	3,625
Vesting of restricted stock units	3,740,320	—	—	—	—	—
Vesting of warrants for common stock	—	—	95,910	—	—	95,910
Stock-based compensation	—	—	151,162	—	—	151,162
Tax withholding on stock-based compensation	—	—	(36,515)	—	—	(36,515)
Foreign currency translation adjustments	—	—	—	—	(11,898)	(11,898)
Unrealized gain on securities available for sale	—	—	—	—	1,353	1,353
Gain on cash flow hedges	—	—	—	—	763	763
Net loss	—	—	—	(171,783)	—	(171,783)
Balance as of September 30, 2023	**301,081,887**	**$ 3**	**$ 5,355,032**	**$ (2,763,030)**	**$ (25,205)**	**$ 2,566,800**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares [(1)]	Amount				
Balance as of June 30, 2022	**287,365,373**	**$ 3**	**$ 4,231,303**	**$ (1,605,902)**	**$ (7,149)**	**$ 2,618,255**
Issuance of common stock upon exercise of stock options	215,949	—	1,192	—	—	1,192
Forfeiture of common stock related to acquisitions	(243,384)	—	—	—	—	—
Repurchases of common stock	(12,437)	—	(109)	—	—	(109)
Vesting of restricted stock units	2,166,715	—	—	—	—	—
Vesting of warrants for common stock	—	—	108,742	—	—	108,742
Stock-based compensation	—	—	141,012	—	—	141,012
Tax withholding on stock-based compensation	—	—	(27,311)	—	—	(27,311)
Foreign currency translation adjustments	—	—	—	—	(21,546)	(21,546)
Unrealized loss on securities available for sale	—	—	—	—	(5,528)	(5,528)
Net loss	—	—	—	(251,269)	—	(251,269)
Balance as of September 30, 2022	**289,492,216**	**$ 3**	**$ 4,454,829**	**$ (1,857,171)**	**$ (34,223)**	**$ 2,563,438**

(1) The share amounts listed above combine common stock, Class A common stock and Class B common stock.

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

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AFFIRM HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Three Months Ended September 30,	
	2023	**2022**
Cash flows from operating activities		
Net loss	$ (171,783)	$ (251,269)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for credit losses	99,696	64,250
Amortization of premiums and discounts on loans, net	(41,138)	(34,595)
Gain on sales of loans	(34,285)	(63,595)
Changes in fair value of assets and liabilities	(4,110)	3,906
Amortization of commercial agreement assets	21,557	21,557
Amortization of debt issuance costs	5,534	1,076
Amortization of discount on securities available for sale	(12,120)	(7,620)
Commercial agreement warrant expense	95,910	108,743
Stock-based compensation	112,359	119,808
Depreciation and amortization	40,131	20,882
Impairment of right of use assets	752	—
Other	(4,730)	2,053
Change in operating assets and liabilities:		
Purchases of loans held for sale	(1,222,224)	(1,655,213)
Proceeds from the sale of loans held for sale	1,228,110	1,707,838
Accounts receivable, net	(42,208)	(6,649)
Other assets	(12,566)	(3,000)
Accounts payable	(1,257)	1,462
Payable to third-party loan owners	55,646	19,428
Accrued interest payable	6,264	(1,078)
Accrued expenses and other liabilities	(20,636)	3,231
Net cash provided by operating activities	98,902	51,215
Cash flows from investing activities		
Purchases and origination of loans held for investment	(4,229,667)	(2,744,825)
Proceeds from the sale of loans held for investment	899,238	326,713
Principal repayments and other loan servicing activity	3,184,851	2,206,725
Additions to property, equipment and software	(35,817)	(31,151)
Purchases of securities available for sale	(96,813)	(104,629)
Proceeds from maturities and repayments of securities available for sale	262,293	464,492
Other investing cash inflows/(outflows)	56	(52)
Net cash provided by (used in) investing activities	(15,859)	117,273
Cash flows from financing activities		
Proceeds from funding debt	2,896,251	1,193,761
Payment of debt issuance costs	(10,490)	(7,423)
Principal repayments of funding debt	(2,938,674)	(1,059,607)
Proceeds from issuance of notes and residual trust certificates by securitization trusts	750,000	249,931
Principal repayments of notes issued by securitization trusts	(515,377)	(150,713)
Proceeds from exercise of common stock options and warrants and contributions to ESPP	3,611	1,013
Repurchases of common stock	—	(109)
Payments of tax withholding for stock-based compensation	(36,515)	(27,311)
Net cash provided by financing activities	148,806	199,542
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3,301)	(5,299)
Net increase in cash, cash equivalents and restricted cash	**228,548**	**362,731**
Cash, cash equivalents and restricted cash, beginning of period	1,259,944	1,550,807
Cash, cash equivalents and restricted cash, end of period	**$ 1,488,492**	**$ 1,913,538**

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

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AFFIRM HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONT.
(Unaudited)
(in thousands)

	Three Months Ended September 30,	
	2023	**2022**
Reconciliation to amounts on consolidated balance sheets (as of period end)		
Cash and cash equivalents	1,079,261	1,530,132
Restricted cash	409,231	383,406
Total cash, cash equivalents and restricted cash	**$ 1,488,492**	**$ 1,913,538**

	Three Months Ended September 30,	
	2023	**2022**
Supplemental disclosures of cash flow information		
Cash payments for interest expense	$ 64,868	$ 22,819
Cash paid for operating leases	4,104	4,167
Cash paid for income taxes	312	138
Supplemental disclosures of non-cash investing and financing activities		
Stock-based compensation included in capitalized internal-use software	38,803	21,204

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

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1. Business Description

Affirm Holdings, Inc. (“Affirm,” the “Company,” “we,” “us,” or “our”), headquartered in San Francisco, California, provides consumers with a simpler, more transparent, and flexible alternative to traditional payment options. Our mission is to deliver honest financial products that improve lives. Through our next-generation commerce platform, agreements with originating banks, and capital markets partners, we enable consumers to confidently pay for a purchase over time, with terms ranging up to sixty months. When a consumer applies for a loan through our platform, the loan is underwritten using our proprietary risk model, and once approved, the consumer selects their preferred repayment option. Loans are directly originated or funded and issued by our originating bank partners.

Merchants partner with us to transform the consumer shopping experience and to acquire and convert customers more effectively through our frictionless point-of-sale payment solutions. Consumers get the flexibility to buy now and make simple regular payments for their purchases and merchants see increased average order value, repeat purchase rates, and an overall more satisfied customer base. Unlike legacy payment options and our competitors’ product offerings, which charge deferred or compounding interest and unexpected costs, we disclose up-front to consumers exactly what they will owe — no hidden fees, no deferred interest, no penalties.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying interim condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), as contained in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), disclosure requirements for interim financial information, and the requirements of Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended June 30, 2023. The balance sheet as of June 30, 2023 has been derived from the audited financial statements at that date. Management believes these interim condensed consolidated financial statements reflect all adjustments, including those of a normal and recurring nature, which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

Our interim condensed financial statements have been prepared on a consolidated basis. Under this basis of presentation, our financial statements consolidate all wholly owned subsidiaries and variable interest entities (“VIEs”), in which we have a controlling financial interest. These include various business trust entities and limited partnerships established to enter into warehouse credit agreements with certain lenders for funding debt facilities and certain asset-backed securitization transactions. All intercompany accounts and transactions have been eliminated in consolidation.

Our variable interest arises from contractual, ownership, or other monetary interests in the entity, which changes with fluctuations in the fair value of the entity’s net assets. We consolidate a VIE when we are deemed to be the primary beneficiary. We assess whether or not we are the primary beneficiary of a VIE on an ongoing basis.

Use of Estimates

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires the use of estimates, judgments and assumptions that affect the reported amounts in the interim condensed consolidated financial statements and the accompanying notes. Material estimates that are particularly susceptible to significant change relate to determination of the allowance for credit losses, capitalized internal-use software development costs, valuation allowance for deferred tax assets, loss on loan purchase commitment, the fair value of

servicing assets and liabilities, discount on self-originated loans, the fair value of assets acquired and any contingent consideration transferred in business combinations, the evaluation for impairment of intangible assets and goodwill, the fair value of available for sale debt securities including retained interests in our securitization trusts, the fair value of residual certificates issued by our securitization trusts held by third parties, and stock-based compensation, including the fair value of warrants issued to nonemployees. We base our estimates on historical experience, current events, and other factors we believe to be reasonable under the circumstances. To the extent that there are material differences between these estimates and actual results, our financial condition or operating results will be materially affected.

These estimates are based on information available as of the date of the interim condensed consolidated financial statements; therefore, actual results could differ materially from those estimates.

Significant Accounting Policies

There were no material changes to our significant accounting policies as disclosed in Note 2. Summary of Significant Accounting Policies of our Annual Report on Form 10-K for the fiscal year ended June 30, 2023, which was filed with the SEC on August 25, 2023.

3. Revenue

The following table presents our revenue disaggregated by revenue source (in thousands):

	Three Months Ended September 30,	
	2023	**2022**
Merchant network revenue	$ 145,950	$ 113,149
Card network revenue	33,476	26,708
Interest income	262,679	136,802
Gain on sales of loans	34,285	63,595
Servicing income	20,157	21,370
Total revenue, net	$ 496,547	$ 361,624

Merchant Network Revenue — Revenue from Contracts with Customers

Merchant network revenue consists of merchant fees. Merchant partners (or integrated merchants) are generally charged a fee based on gross merchandise volume (“GMV”) processed through the Affirm platform. The fees vary depending on the individual arrangement between us and each merchant and on the terms of the product offering. The fee is recognized at the point in time the merchant successfully confirms the transaction, which is when the terms of the executed merchant agreement are fulfilled.

Our contracts with merchants are defined at the transaction level and do not extend beyond the service already provided (i.e., each transaction represents a separate contract). The fees collected from merchants for each transaction are determined as a percentage of the value of the goods purchased by the consumer from merchants and consider a number of factors including the end consumer’s credit risk and financing term. We do not have any capitalized contract costs, and do not carry any material contract balances.

Our service comprises a single performance obligation to merchants to facilitate transactions with consumers. From time to time, we offer merchants incentives to promote our platform to their customers, such as fee reductions or rebates. These amounts are recorded as a reduction to merchant network revenue.

We may originate certain loans via our wholly-owned subsidiaries, with zero or below market interest rates. In these instances, the par value of the loans originated is in excess of the fair market value of such loans, resulting

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in a loss on loan origination, which we record as a reduction to network revenue. In certain cases, the losses incurred on loans originated for a merchant may exceed the total network revenue earned on those loans. We record the excess loss amounts as a sales and marketing expense.

A portion of merchant network revenue relates to affiliate network revenue, which is generated when a user makes a purchase on a merchant's website after being directed from an advertisement on Affirm's website or mobile application. We earn a fixed placement fee and/or commission as a percentage of the associated sale. Revenue is recognized at the point in time when the performance obligation has been fulfilled, which is when the sale occurs.

For the three months ended September 30, 2023 and 2022, there were no merchants that exceeded 10% of total revenue.

Card Network Revenue — Revenue from Contracts with Customers

We have agreements with card-issuing partners to facilitate the issuance of physical and virtual debit cards to be used by consumers at checkout. Consumers can apply at Affirm.com or via the Affirm app and, upon approval, receive a single-use virtual card to use digitally online or in-store. The card is funded at the time a transaction is authorized using cash held by the card-issuing partner in a reserve fund. Eligible consumers can also use the Affirm Card, a debit card issued by a card-issuing partner to pay in full, debited from their bank account, or pay later, by using a unique post-purchase feature that allows them to instantly convert any eligible debit transaction into an installment loan. Where applicable, our originating bank partner, or wholly-owned subsidiaries, then originates a loan to the consumer after the transaction is confirmed by the merchant. The merchant is charged interchange fees for each successful debit card transaction, and a portion of this revenue is shared with us by our card-issuing partners.

Merchants may also elect to utilize our agreement with card-issuing partners as a means of integrating Affirm services. Similarly, for these arrangements with integrated merchants, the merchant is charged interchange fees for each successful debit card transaction and a portion of this revenue is shared with us. From time to time, we offer certain integrated merchants promotional incentives to promote our platform to their customers, such as rebates of interchange fees incurred by the merchant. These amounts are recorded as a reduction of card network revenue.

Our contracts with our card-issuing partners are defined at the transaction level and do not extend beyond the service already provided. The revenue collected from card-issuing partners for each transaction are determined as a percentage of the interchange fees charged on transactions facilitated on the payment processor network, and revenue is recognized at the point in time the transaction is completed successfully. The amounts collected are presented in revenue, net of associated transaction-related processing fees paid to our card-issuing partners. We have concluded that the revenue collected does not give rise to a future material right because the pricing of each transaction does not depend on the volume of prior successful transactions. We do not have any capitalized contract costs, and do not carry any material contract balances.

Our service comprises a single performance obligation to the card-issuing partner to facilitate transactions with consumers.

A portion of card network revenue relates to incentive payments from card network partners, which we are eligible to receive for reaching certain cumulative volume targets on program cards issued by the issuer processors. We earn incentive revenue as a percentage of each associated transaction and estimate the applicable percentage based on observed cumulative volume on program cards. Revenue is recognized at the point in time when the performance obligation has been fulfilled, which is when the transaction is completed successfully.

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Interest Income

Interest income consisted of the following components (in thousands):

	Three Months Ended September 30,	
	2023	2022
Contractual interest income on unpaid principal balance	$ 226,158	$ 106,138
Amortization of discount on loans	45,118	38,969
Amortization of premiums on loans	(3,980)	(4,374)
Interest receivable charged-off, net of recoveries	(4,617)	(3,931)
Total interest income	$ 262,679	$ 136,802

We accrue interest income using the effective interest method, which includes the amortization of any discounts or premiums on loan receivables created upon the purchase of a loan from our originating bank partners or upon the origination of a loan. Interest income on a loan is accrued daily, based on the finance charge disclosed to the consumer, over the term of the loan based upon the principal outstanding. The accrual of interest on a loan is suspended if a formal dispute with the consumer involving either Affirm or the merchant of record is opened, or a loan is 120 days past due. Upon the resolution of a dispute with the consumer, the accrual of interest is resumed, and any interest that would have been earned during the disputed period is retroactively accrued. As of September 30, 2023 and June 30, 2023, the balance of loans held for investment on non-accrual status was $1.2 million and $1.8 million, respectively.

The account is charged-off in the period if the account becomes 120 days past due or meets other charge-off policy requirements. Past due status is based on the contractual terms of the loans. Previously recognized interest receivable from charged-off loans that is accrued but not collected from the consumer is reversed.

Gain on Sales of Loans

We sell certain loans we originate or purchase from our originating bank partners directly to third-party investors or to securitizations. We recognize a gain or loss on sale of loans sold to third parties or to unconsolidated securitizations as the difference between the proceeds received and the carrying value of the loan, adjusted for the initial recognition of any assets or liabilities incurred upon sale, which generally include a net servicing asset or liability in connection with our ongoing obligation to continue to service the loans and a recourse liability based on our estimate of future losses in connection with our obligation to repurchase loans that do not meet certain contractual requirements and such information about the loan was unknown at the time of sale.

Servicing Income

Servicing income includes contractual fees specified in our servicing agreements with third-party loan owners and unconsolidated securitizations that are earned from providing professional services to manage loan portfolios on their behalf. The servicing fee is calculated on a daily basis by multiplying a set fee percentage (as outlined in the executed agreements with third-party loan owners) by the outstanding loan principal balance. Servicing income also includes fair value adjustments for servicing assets and servicing liabilities.

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4. Loans Held for Investment and Allowance for Credit Losses

Loans held for investment consisted of the following (in thousands):

	September 30, 2023	June 30, 2023
Unpaid principal balance	$ 4,585,570	$ 4,451,324
Accrued interest receivable	46,886	41,079
Premiums on loans held for investment	6,828	7,135
Less: Discount due to loss on loan purchase commitment	(49,805)	(51,190)
Less: Discount due to loss on directly originated loans	(40,025)	(45,145)
Less: Fair value adjustment on loans acquired through business combination	(32)	(241)
Total loans held for investment	$ 4,549,422	$ 4,402,962

Loans held for investment includes loans originated through our originating bank partners and directly originated loans. The majority of the loans that are underwritten using our technology platform and originated by our originating bank partners are later purchased by us. We purchased loans from our originating bank partners in the amount of $4.6 billion and $3.5 billion during the three months ended September 30, 2023 and 2022, respectively.

These loans have a variety of lending terms as well as maturities ranging from one to sixty months. Given that our loan portfolio focuses on one product segment, point-of-sale unsecured installment loans, we generally evaluate the entire portfolio as a single homogeneous loan portfolio and make merchant or program specific adjustments as necessary.

We closely monitor credit quality for our loan receivables to manage and evaluate our related exposure to credit risk. Credit risk management begins with initial underwriting, where loan applications are assessed against the credit underwriting policy and procedures for our directly originated loans and originating bank partner loans, and continues through to full repayment of a loan. To assess a consumer who requests a loan, we use, among other indicators, internally developed risk models using detailed information from external sources, such as credit bureaus where available, and internal historical experience, including the consumer’s prior repayment history on our platform as well as other measures. We combine these factors to establish a proprietary score as a credit quality indicator.

Our proprietary score (“ITACs”) is assigned to most loans facilitated through our technology platform, ranging from zero to 100, with 100 representing the highest credit quality and therefore the lowest likelihood of loss. The ITACs model analyzes the characteristics of a consumer's attributes that are shown to be predictive of both willingness and ability to repay including, but not limited to: basic features of a consumer's credit profile, a consumer's prior repayment performance with other creditors, current credit utilization, and legal and policy changes. When a consumer passes both fraud and credit policy checks, the application is assigned an ITACs score. ITACs is also used for portfolio performance monitoring. Our credit risk team closely tracks the distribution of ITACs at the portfolio level, as well as ITACs at the individual loan level to monitor for signs of a changing credit profile within the portfolio. Repayment performance within each ITACs band is also monitored to support both the integrity of the risk scoring models and to measure possible changes in consumer behavior amongst various credit tiers.

The following table presents an analysis of the credit quality, by ITACs score, of the amortized cost basis excluding accrued interest receivable, by fiscal year of origination on loans held for investment and loans held for sale (in thousands) as of September 30, 2023:

	September 30, 2023						
	Amortized Costs Basis by Fiscal Year of Origination						
	2024	2023	2022	2021	2020	Prior	Total
96+	$ 1,293,647	$ 1,393,864	$ 28,287	$ 8,601	$ 26	$ 10	$ 2,724,435
94 – 96	565,028	614,611	3,550	211	15	8	1,183,422
90 – 94	96,511	65,347	1,562	18	2	4	163,444
<90	12,675	2,300	1,032	4	2	—	16,013
No score [(1)]	133,271	232,740	41,876	6,721	254	215	415,077
Total amortized cost basis	$ 2,101,132	$ 2,308,862	$ 76,307	$ 15,555	$ 299	$ 237	$ 4,502,391

(1) This balance represents loan receivables in markets without sufficient data currently available for use by the Affirm scoring methodology including loan receivables originated in Canada.

The following table presents net charge-offs by fiscal year of origination for the three months ended (in thousands) as of September 30, 2023:

	September 30, 2023						
	Net Charge-offs by Fiscal Year of Origination						
	2024	2023	2022	2021	2020	Prior	Total
Current period charge-offs	(1,329)	(65,283)	(3,916)	(234)	(46)	(34)	(70,842)
Current period recoveries	17	2,830	2,399	275	5	27	5,552
Current period net charge-offs	(1,312)	(62,453)	(1,517)	41	(41)	(7)	(65,290)

The following table presents an analysis of the credit quality, by ITACs score, of the amortized cost basis excluding accrued interest receivable, by fiscal year of origination on loans held for investment and loans held for sale (in thousands) as of June 30, 2023:

	June 30, 2023						
	Amortized Costs Basis by Fiscal Year of Origination						
	2023	2022	2021	2020	2019	Prior	Total
96+	$ 2,628,060	$ 39,428	$ 18,910	$ 3,439	$ 9	$ 1	$ 2,689,847
94 – 96	1,104,553	7,755	439	77	6	2	1,112,832
90 – 94	133,940	3,116	26	2	4	—	137,088
<90	13,363	1,623	4	2	—	—	14,992
No score [(1)]	335,690	59,204	11,562	489	252	9	407,206
Total amortized cost basis	$ 4,215,606	$ 111,126	$ 30,941	$ 4,009	$ 271	$ 12	$ 4,361,965

(1) This balance represents loan receivables in markets without sufficient data currently available for use by the Affirm scoring methodology including loan receivables originated in Canada.

Loan receivables are defined as past due if either the principal or interest have not been received within four calendars days of when they are due in accordance with the agreed upon contractual terms. The following table presents an aging analysis of the amortized cost basis excluding accrued interest receivable of loans held for investment and loans held for sale by delinquency status (in thousands):

	September 30, 2023	June 30, 2023
Non-delinquent loans	$ 4,270,534	$ 4,183,248
4 – 29 calendar days past due	120,564	92,876
30 – 59 calendar days past due	46,927	36,399
60 – 89 calendar days past due	34,279	28,171
90 – 119 calendar days past due[1]	30,087	21,271
Total amortized cost basis	$ 4,502,391	$ 4,361,965

[1] Includes $29.7 million and $20.9 million of loan receivables as of September 30, 2023 and June 30, 2023, respectively, that are 90 days or more past due, but are not on nonaccrual status.

We maintain an allowance for credit losses at a level sufficient to absorb expected credit losses based on evaluating known and inherent risks in our loan portfolio. The allowance for credit losses is determined based on our current estimate of expected credit losses over the remaining contractual term, historical credit losses, consumer payment trends, estimates of recoveries, and future expectations as of each balance sheet date. Adjustments to the allowance each period for changes in our estimate of lifetime expected credit losses are recognized in earnings through the provision for credit losses presented on our interim condensed consolidated statements of operations and comprehensive loss. When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. Loans are charged off in accordance with our charge-off policy, as the contractual principal becomes 120 days past due. Subsequent recoveries of the unpaid principal balance, if any, are credited to the allowance for credit losses.

The following table details activity in the allowance for credit losses, including charge-offs, recoveries and provision for loan losses (in thousands):

	Three Months Ended September 30,	
	2023	2022
Balance at beginning of period	$ 204,531	$ 155,392
Provision for loan losses	92,827	61,869
Charge-offs	(70,842)	(71,036)
Recoveries of charged-off receivables	5,552	6,800
Balance at end of period	$ 232,068	$ 153,025

Loan Modifications for Borrowers Experiencing Financial Difficulty

We have a loan modification program for eligible borrowers facing financial difficulty if they have at least one outstanding loan with Affirm and certain other eligibility criteria are met. We consider a borrower to be experiencing financial difficulty when a loan is between 30 and 120 days past due at the time of modification. The objective of the loan modification program is to offer borrowers assistance during times of financial stress, increase recovery rates, and minimize losses.

We have two primary loan modification strategies: payment deferrals and loan re-amortization. A payment deferral provides the borrower relief by extending the due date for the next payment due. While a borrower may obtain more than one deferral, the total deferral period may not exceed three months. A loan re-amortization

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provides the borrower relief by lowering monthly payments through extending the term length of the loan. The total interest due from the consumer will not exceed the initial total interest due prior to modification. A loan may not be re-amortized more than once.

The following table presents the amortized cost basis of loans excluding accrued interest receivable that were modified for borrowers experiencing financial difficulty during the three months ended September 30, 2023, by type of modification (in thousands):

	Three Months Ended September 30, 2023			
	Payment Deferral	Loan Re-amortization	Total	% of Total Loan Receivables Outstanding
Loans receivables	2,801	152	2,953	0.07 %

With respect to borrowers who received payment deferrals during the three months ended September 30, 2023, the length of each deferral period was one month.

With respect to borrowers who received loan re-amortization during the three months ended September 30, 2023, the payment amount was reduced by half and the term of the loan was extended between two and twelve months.

We closely monitor the performance of loans that are modified for borrowers experiencing financial difficulty to understand the effectiveness of our modification efforts. We hold an allowance for credit losses for modified loans classified as held for investment. Our allowance estimate considers whether a loan has been modified due to a borrower experiencing financial difficulty and the increased likelihood that such loan may become delinquent or charge-off in the future.

The following table presents the delinquency status as of September 30, 2023 (in thousands), by amortized cost basis excluding accrued interest receivable, of loan receivables that have been modified within the last 12 months where the borrower was experiencing financial difficulty at the time of modification:

	September 30, 2023		
	Payment Deferral	Loan Re-amortization	Total
Non-delinquent loans	$ 4,515	$ 268	$ 4,783
4 – 29 calendar days past due	1,304	112	1,416
30 – 59 calendar days past due	139	65	204
60 – 89 calendar days past due	75	6	81
90 – 119 calendar days past due	65	2	67
Total amortized cost basis	$ 6,098	$ 453	$ 6,551

With respect to modifications during the last 12 months where the borrower was experiencing financial difficulty at the time of modification, the amortized cost basis of loans which have been subsequently charged off, or are delinquent by 60 days or more as of September 30, 2023, is immaterial.

5. Acquisitions

There were no acquisitions accounted for as business combinations completed in the three months ended September 30, 2023 and 2022.

Acquisitions completed during the year ended June 30, 2023

Butter Holdings Ltd

On February 1, 2023, we completed the closing of the transaction contemplated by a share purchase agreement entered into with certain sellers to acquire the entire issued share capital of Butter Holdings Ltd. ("Butter"), a buy now, pay later company based in the United Kingdom. The purchase price was comprised of (i) $14.9 million in cash, subject to adjustments in accordance with the purchase agreement, and (ii) $1.5 million settlement of subordinated secured notes.

The acquisition date fair value of the consideration transferred for Butter was approximately $16.3 million, which consisted of the following (in thousands):

Cash	$	14,863
Settlement of subordinated secured notes		1,475
Total acquisition date fair value of the consideration transferred	$	16,337

The acquisition was accounted for as a business combination and reflects the application of acquisition accounting in accordance with ASC Topic 805, "Business Combinations" ("ASC 805"). The acquired identifiable intangible assets have been recorded at their estimated fair values with the excess purchase price assigned to goodwill. The goodwill was primarily attributed to future synergies from integration. The goodwill is not expected to be deductible for income tax purposes.

The following table summarizes the allocation of the consideration paid of approximately $16.3 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Cash and cash equivalents	$	287
Loans held for investment, net		172
Accounts receivable, net		11
Intangible assets		9,243
Other assets		672
Total assets acquired		10,385
Accounts payable		568
Accrued expenses and other liabilities		2,923
Total liabilities assumed		3,491
Net assets acquired		6,894
Goodwill		9,443
Total purchase price	$	16,337

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The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

	Fair Value	Useful Life (in years)
Lending license	$ 9,243	Indefinite

The fair value of the intangible asset was determined by applying the with-and-without method. The fair value measurements are based on significant unobservable inputs, including management estimates and assumptions, and thus represents Level 3 measurements.

There were no transaction costs associated with the acquisition for the three months ended September 30, 2023.

6. Balance Sheet Components

Accounts Receivable, net

Our accounts receivable consist primarily of amounts due from payment processors, merchant partners, affiliate network partners and servicing fees due from third-party loan owners. For each of these groups, we evaluate accounts receivable to determine management's current estimate of expected credit losses based on historical experience and future expectations and record an allowance for credit losses. Our allowance for credit losses with respect to accounts receivable was $11.0 million and $12.9 million as of September 30, 2023 and June 30, 2023, respectively.

Property, Equipment and Software, net

Property, equipment and software, net consisted of the following (in thousands):

	September 30, 2023	June 30, 2023
Internally developed software	$ 443,992	$ 377,301
Leasehold improvements	20,279	20,214
Computer equipment	10,252	10,187
Furniture and equipment	6,586	6,503
Total property, equipment and software, at cost	$ 481,109	$ 414,205
Less: Accumulated depreciation and amortization	(142,360)	(124,070)
Total property, equipment and software, net	$ 338,749	$ 290,135

Depreciation and amortization expense on property, equipment and software was $26.0 million and $13.5 million for the three months ended September 30, 2023 and 2022, respectively.

No impairment losses related to property, equipment and software were recorded during the three months ended September 30, 2023 and 2022.

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Goodwill and Intangible Assets

The changes in the carrying amount of goodwill during the three months ended September 30, 2023 were as follows (in thousands):

Balance as of June 30, 2023	$	542,571
Adjustments [(1)]		(6,152)
Balance as of September 30, 2023	$	536,418

[(1)] Adjustments to goodwill during the three months ended September 30, 2023 primarily pertained to foreign currency translation adjustments.

No impairment losses related to goodwill were recorded during the three months ended September 30, 2023 and 2022.

Intangible assets consisted of the following (in thousands):

	September 30, 2023			
	Gross	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (in years)
Merchant relationships	$ 37,914	$ (35,129)	$ 2,786	0.3
Developed technology	39,488	(34,935)	4,553	0.4
Assembled workforce	12,490	(12,079)	410	0.1
Trademarks and domains, definite	1,458	(1,027)	431	1.5
Trademarks, licenses and domains, indefinite	11,298	—	11,298	Indefinite
Other intangibles	350	—	350	Indefinite
Total intangible assets	$ 102,998	$ (83,170)	$ 19,828	

	June 30, 2023			
	Gross	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (in years)
Merchant relationships	$ 38,129	$ (27,637)	$ 10,492	0.6
Developed technology	39,626	(30,653)	8,973	0.6
Assembled workforce	12,490	(9,983)	2,507	0.3
Trademarks and domains, definite	1,481	(990)	491	1.7
Trademarks, licenses and domains, indefinite	11,621	—	11,621	Indefinite
Other intangibles	350	—	350	Indefinite
Total intangible assets	$ 103,697	$ (69,263)	$ 34,434	

Amortization expense for intangible assets was $14.2 million and $7.4 million for the three months ended September 30, 2023 and 2022, respectively. No impairment losses related to intangible assets were recorded during the three months ended September 30, 2023 and 2022.

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The expected future amortization expense of these intangible assets as of September 30, 2023 is as follows (in thousands):

2024 (remaining nine months)	$	6,646
2025		1,365
2026		155
2027		15
2028 and thereafter		—
Total amortization expense	$	8,180

Commercial Agreement Assets

In November 2021, we granted warrants in connection with our commercial agreements with certain subsidiaries of Amazon.com, Inc. (“Amazon”). The warrants were granted in exchange for certain performance provisions and the benefit of acquiring new users. We recognized an asset of $133.5 million associated with the portion of the warrants that were fully vested upon grant. The asset was valued based on the fair value of the warrants and represents the probable future economic benefit to be realized over the approximate three year term of the commercial agreement at the grant date. For the three months ended September 30, 2023 and 2022, we recognized amortization expense of $10.4 million for both periods in our interim condensed consolidated statements of operations and comprehensive loss as a component of sales and marketing expense. Refer to Note 14. Stockholders’ Equity for further discussion of the warrants.

In July 2020, we recognized an asset in connection with a commercial agreement with Shopify Inc. (“Shopify”), in which we granted warrants in exchange for the opportunity to acquire new merchant partners. This asset represents the probable future economic benefit to be realized over the expected benefit period and is valued based on the fair value of the warrants on the grant date. We recognized an asset of $270.6 million associated with the fair value of the warrants, which were fully vested as of September 30, 2023. The expected benefit period of the asset was initially estimated to be four years, and the remaining useful life of the asset is reevaluated each reporting period. During fiscal year 2022, the remaining expected benefit period was extended by two years upon the execution of an amendment to the commercial agreement with Shopify which extended the term of the agreement. During the three months ended September 30, 2023 and 2022, we recorded amortization expense related to the commercial agreement asset of $9.0 million for both periods in our interim condensed consolidated statements of operations and comprehensive loss as a component of sales and marketing expense.

In January 2021, we recognized an asset in connection with a commercial agreement with an enterprise partner, in which we granted stock appreciation rights in exchange for the benefit of acquiring access to the partner's consumers. This asset represents the probable future economic benefit to be realized over the three-year expected benefit period and is valued based on the fair value of the stock appreciation rights on the grant date. We initially recognized an asset of $25.9 million associated with the fair value of the stock appreciation rights. During the three months ended September 30, 2023 and 2022, we recorded amortization expense related to the asset of $2.1 million for both periods in our interim condensed consolidated statements of operations and comprehensive loss as a component of sales and marketing expense.

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Other Assets

Other assets consisted of the following (in thousands):

	September 30, 2023	June 30, 2023
Processing reserves	$ 65,421	$ 60,039
Equity securities, at cost	51,870	43,172
Derivative instruments	41,216	50,545
Operating lease right-of-use assets	27,227	30,171
Prepaid payroll taxes for stock-based compensation	29,508	14,336
Prepaid expenses	25,544	35,626
Other assets	51,398	44,725
Total other assets	$ 292,184	$ 278,614

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following (in thousands)

	September 30, 2023	June 30, 2023
Operating lease liability	$ 49,071	$ 52,557
Accrued expenses	42,173	50,704
Collateral held for derivative instruments	41,401	53,267
Other liabilities	27,683	24,355
Total accrued expenses and other liabilities	$ 160,328	$ 180,883

7. Leases

We lease facilities under operating leases with various expiration dates through 2030. We have the option to renew or extend our leases. Certain lease agreements include the option to terminate the lease with prior written notice ranging from nine months to one year. As of September 30, 2023, we have not considered such provisions in the determination of the lease term, as it is not reasonably certain these options will be exercised. Leases have remaining terms that range from less than one year to seven years.

Several leases require us to obtain standby letters of credit, naming the lessor as a beneficiary. These letters of credit act as security for the faithful performance by us of all terms, covenants and conditions of the lease agreement. The cash collateral and deposits for the letters of credit have been recognized as restricted cash in the interim condensed consolidated balance sheets and totaled $8.9 million and $9.7 million as of September 30, 2023 and June 30, 2023, respectively.

During the three months ended September 30, 2023, we decided to sublease a portion of our leased office space in San Francisco. As a result, we recorded a lease impairment charge of $0.8 million related to several of our operating lease ROU assets, included in general and administrative expense on our interim consolidated statements of operations and comprehensive loss. There was no impairment expense incurred related to leases during the three months ended September 30, 2022.

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Operating lease expense is as follows (in thousands):

	Three Months Ended September 30,	
	2023	2022
Operating lease expense [1]	$2,986	$3,800

(1) Lease expenses for our short-term leases were immaterial for the periods presented.

We have subleased a portion of our leased facilities. Sublease income totaled $0.9 million during the three months ended September 30, 2023 and 2022.

Lease term and discount rate information are summarized as follows:

	September 30, 2023
Weighted average remaining lease term (in years)	3.7
Weighted average discount rate	4.8%

As of September 30, 2023, future minimum lease payments are as follows (in thousands):

2024 (remaining nine months)	$ 12,380
2025	16,317
2026	15,371
2027	2,680
2028	2,185
Thereafter	5,503
Total lease payments	54,436
Less imputed interest	(5,365)
Present value of total lease liabilities	$ 49,071

8. Commitments and Contingencies

Repurchase Obligation

Under the normal terms of our whole loans sales to third-party investors, we may become obligated to repurchase loans from investors in certain instances where a breach in representations and warranties is identified. Generally, a breach in representations and warranties could occur where a loan has been identified as subject to verified or suspected fraud, or in cases where a loan was serviced or originated in violation of Affirm's guidelines. We would only experience a loss if the contractual repurchase price of the loan exceeds the fair value on the repurchase date. This amount was not material as of September 30, 2023.

Legal Proceedings

From time to time, we are subject to legal proceedings and claims in the ordinary course of business. The results of such matters often cannot be predicted with certainty. In accordance with applicable accounting guidance, we establish an accrued liability for legal proceedings and claims when those matters present loss contingencies which are both probable and reasonably estimable.

Kusnier v. Affirm Holdings, Inc.

On December 8, 2022, plaintiff Mark Kusnier filed a putative class action lawsuit against Affirm, Max Levchin, and Michael Linford in the U.S. District Court for the Northern District of California (the "Kusnier action"). Plaintiff's amended complaint filed on May 5, 2023 alleges that defendants: (i) caused Affirm to make materially false and/or misleading statements and/or failed to disclose that Affirm's BNPL service facilitated excessive consumer debt (including with respect to certain for-profit educational institutions), regulatory arbitrage, and data harvesting; (ii) made false and/or misleading statements about certain public regulatory actions; and (iii) made false and/or misleading statements about whether Affirm's business model was vulnerable to interest rate changes. In light of the above, plaintiff asserts that Affirm violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and that Levchin and Linford violated Section 20(a) of the Exchange Act. Plaintiff seeks class certification, unspecified compensatory and punitive damages, and costs and expenses.

Quiroga v. Levchin, et al.

On March 29, 2023, plaintiff John Quiroga filed a shareholder derivative lawsuit in the U.S. District Court for the Northern District of California (the "Quiroga action") against Affirm, as a nominal defendant, and certain of Affirm's current officers and directors as defendants based on allegations substantially similar to those in the Kusnier action. The Quiroga complaint purports to assert claims on Affirm's behalf for contribution under the federal securities laws, breaches of fiduciary duty, unjust enrichment, and waste of corporate assets, and seeks corporate reforms, unspecified damages and restitution, and fees and costs. On May 1, 2023, the action was stayed by agreement of the parties. The stay can be lifted at the request of either party or upon certain conditions relating to the resolution of the Kusnier action.

Jeffries v. Levchin, et al.

On May 24, 2023, plaintiff Sabrina Jeffries filed a shareholder derivative lawsuit in the U.S. District Court for the Northern District of California against Affirm, as a nominal defendant, and certain of Affirm's current officers and directors as defendants based on allegations substantially similar to those in the Kusnier and Quiroga actions. The Jeffries complaint purports to assert claims on Affirm's behalf for breach of fiduciary duties, making false statements under federal securities law, unjust enrichment, waste of corporate assets, and aiding and abetting breach of fiduciary duties, and seeks unspecified damages, equitable relief, and fees and costs. On August 15, 2023, the action was stayed by agreement of the parties. The stay can be lifted at the request of either party or upon certain conditions relating to the resolution of the Kusnier action.

Vallieres v. Levchin, et al.

On September 14, 2023, plaintiff Michael Vallieres filed a shareholder derivative lawsuit in the U.S. District Court for the District of Delaware against Affirm, as a nominal defendant, and certain of Affirm's current officers and directors as defendants based on allegations substantially similar to those in the Kusnier, Quiroga, and Jeffries actions. The Vallieres complaint purports to assert claims on Affirm's behalf for breach of fiduciary duties, gross management, abuse of control, unjust enrichment, and contribution, and seeks unspecified damages, equitable relief, and fees and costs.

We have determined, based on current knowledge, that the aggregate amount or range of losses that are estimable with respect to our legal proceedings, including the matters described above, would not have a material adverse effect on our consolidated financial position, results of operations or cash flows. Amounts accrued as of September 30, 2023 were not material. The ultimate outcome of legal proceedings involves judgments, estimates and inherent uncertainties, and cannot be predicted with certainty.

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9. Debt

Debt encompasses funding debt, convertible senior notes and our revolving credit facility.

Funding Debt

Funding debt and its aggregate future maturities consists of the following (in thousands):

	September 30, 2023
2024	$ 183,530
2025	390,881
2026	633,452
2027	—
2028	26,660
Thereafter	490,488
Total	$ 1,725,011
Deferred debt issuance costs	(15,260)
Total funding debt, net of deferred debt issuance costs	$ 1,709,751

Secured Borrowing Facilities

U.S.

Through trusts, we entered into warehouse credit facilities with certain lenders to finance the purchase and origination of our loans. Each trust entered into a credit agreement and security agreement with a third-party as administrative agent and a national banking association as collateral trustee and paying agent. Borrowings under these agreements are referred to as funding debt and proceeds from the borrowings can only be used for the purposes of facilitating loan funding and origination, with advance rates ranging from 82% to 86% of the total collateralized balance. These warehouse credit facility trusts, which have been classified as VIEs, are bankruptcy-remote special-purpose vehicles in which creditors do not have recourse against the general credit of Affirm. These revolving facilities mature between fiscal years 2024 and 2031 and generally permit borrowings up to 12 months prior to the final maturity date of each respective facility. As of September 30, 2023, the aggregate commitment amount of these facilities was $4.0 billion on a revolving basis, of which $1.4 billion was drawn, with $2.6 billion remaining available. Some of the loans originated by us or purchased from the originating bank partners are pledged as collateral for borrowings in our facilities. The unpaid principal balance of these loans totaled $1.6 billion and $1.7 billion as of September 30, 2023 and June 30, 2023, respectively.

Borrowings under these warehouse credit facilities bear interest at an annual benchmark rate of Secured Overnight Financing Rate (“SOFR”) or an alternative commercial paper rate (which is the per annum rate equivalent to the weighted-average of the per annum rates at which all commercial paper notes were issued by certain lenders to fund advances or maintain loans), plus a spread ranging from 1.75% to 2.20%. Interest is payable monthly. In addition, these agreements require payment of a monthly unused commitment fee ranging from 0.00% to 0.75% per annum on the undrawn portion available.

These agreements contain certain customary negative covenants and financial covenants including maintaining certain levels of minimum liquidity, maximum leverage, and minimum tangible net worth. As of September 30, 2023, we were in compliance with all applicable covenants in the agreements.

International

Additionally, we have various credit facilities utilized to finance the origination of loan receivables in Canada. Similar to our warehouse credit facilities, borrowings under these agreements are referred to as funding

debt, and proceeds from the borrowings may only be used for the purposes of facilitating loan funding and origination. These facilities are secured by Canadian loan receivables pledged to the respective facility as collateral, mature between fiscal years 2025 and 2029, and bear interest based on benchmark rates plus a spread ranging from 1.25% to 4.25%.

As of September 30, 2023, the aggregate commitment amount of these facilities was $505.5 million on a revolving basis, of which $360.4 million was drawn, with $145.1 million remaining available. The unpaid principal balance of loans pledged to these facilities totaled $429.0 million and $412.8 million as of September 30, 2023 and June 30, 2023, respectively.

These agreements contain certain customary negative covenants and financial covenants including maintaining certain levels of minimum liquidity, maximum leverage, and minimum tangible net worth at the Affirm Canada subsidiary level or the Affirm Holdings level. As of September 30, 2023, we were in compliance with all applicable covenants in the agreements.

Sales and Repurchase Agreements

We entered into certain sale and repurchase agreements pursuant to our retained interests in our off-balance sheet securitizations where we have sold these securities to a counterparty with an obligation to repurchase at a future date and price. The repurchase agreements each have an initial term of three months and subject to mutual agreement by Affirm and the counterparty, we may enter into one or more repurchase date extensions, each for an additional three-month term at market interest rates on such extension date. As of September 30, 2023, the interest rates were 7.52% for both the senior pledged securities and the residual certificate pledged securities. We had $5.9 million and $11.0 million in debt outstanding under our repurchase agreements disclosed within funding debt on the interim condensed consolidated balance sheets as of September 30, 2023 and June 30, 2023, respectively. The debt will be amortized through regular principal and interest payments on the pledged securities. The outstanding debt relates to $14.0 million and $18.9 million in pledged securities disclosed within securities available for sale at fair value on the interim condensed consolidated balance sheets as of September 30, 2023 and June 30, 2023, respectively.

Convertible Senior Notes

On November 23, 2021, we issued $1,725 million in aggregate principal amount of 0% convertible senior notes due 2026 (the “2026 Notes”) in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The total net proceeds from this offering, after deducting debt issuance costs, were approximately $1,704 million. The 2026 Notes represent our senior unsecured obligations of the Company. The 2026 Notes do not bear interest except in special circumstances described below, and the principal amount of the 2026 Notes does not accrete. The 2026 Notes mature on November 15, 2026.

Each $1,000 of principal of the 2026 Notes will initially be convertible into 4.6371 shares of our common stock, which is equivalent to an initial conversion price of approximately $215.65 per share, subject to adjustment upon the occurrence of certain specified events set forth in the indenture governing the 2026 Notes (the “Indenture”). Holders of the 2026 Notes may convert their 2026 Notes at their option at any time on or after August 15, 2026 until close of business on the second scheduled trading day immediately preceding the maturity date of November 15, 2026. Further, holders of the 2026 Notes may convert all or any portion of their 2026 Notes at their option prior to the close of business on the business day immediately preceding August 15, 2026, only under the following circumstances:

1) during any calendar quarter commencing after March 31, 2022 (and only during such calendar quarter), if the last reported sale price of the Class A 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 (the measurement period) in which the trading price (as defined in the indenture governing the 2026 Notes) per $1,000 principal amount of the 2026 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day;

3) if the Company calls any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or

4) upon the occurrence of certain specified corporate events.

Upon conversion of the 2026 Notes, the Company will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at the Company's election. If we satisfy our conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of our common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a daily conversion value (as set forth in the Indenture) calculated on a proportionate basis for each trading day in a 40 trading day observation period.

No sinking fund is provided for the 2026 Notes. We may not redeem the notes prior to November 20, 2024. We may redeem for cash all or part of the notes on or after November 20, 2024 if the last reported sale price of our Class A 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 we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid special interest, if any.

If a fundamental change (as defined in the Indenture) occurs prior to the maturity date, holders of the 2026 Notes may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount of the 2026 Notes, plus any accrued and unpaid interest to, but excluding, the repurchase date. In addition, if specific corporate events occur prior to the maturity date of the 2026 Notes, we will be required to increase the conversion rate for holders who elect to convert their 2026 Notes in connection with such corporate events.

On June 7, 2023, the Board of Directors authorized the repurchase of up to $800 million in aggregate principal amount of the 2026 Notes. Note repurchases may be made from time to time through December 31, 2023 in privately negotiated transactions. Repurchases are subject to available liquidity, general market and economic conditions, alternate uses for the capital, and other factors, and there is no minimum principal amount of 2026 Notes that the Company is obligated to repurchase. We have not executed any repurchases under this authorization to date.

The convertible senior notes outstanding as of September 30, 2023 consisted of the following (in thousands):

	Principal Amount	Unamortized Discount and Issuance Cost	Net Carrying Amount
Convertible senior notes	$ 1,425,900	$ (10,820)	$ 1,415,080

The 2026 Notes do not bear interest. We recognized $0.9 million and $1.1 million during the three months ended September 30, 2023 and 2022, respectively, of interest expense related to the amortization of debt discount and issuance costs in the interim condensed consolidated statement of operations and comprehensive loss within other income, net. As of September 30, 2023, the remaining life of the 2026 Notes is approximately 38 months.

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Revolving Credit Facility

On February 4, 2022, we entered into a revolving credit agreement with a syndicate of commercial banks for a $165.0 million unsecured revolving credit facility. On May 16, 2022, we increased unsecured revolving commitments under the facility to $205.0 million. This facility bears interest at a rate equal to, at our option, either (a) a Secured Overnight Financing Rate ("SOFR") rate determined by reference to the forward-looking term SOFR rate for the interest period, plus an applicable margin of 1.85% per annum or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50% per annum, (ii) the rate last quoted by the Wall Street Journal as the U.S. prime rate and (iii) the one-month forward-looking term SOFR rate plus 1.00% per annum, in each case, plus an applicable margin of 0.85% per annum. The revolving credit agreement has a final maturity date of February 4, 2025. The facility contains certain covenants and restrictions, including certain financial maintenance covenants, and requires payment of a monthly unused commitment fee of 0.20% per annum on the undrawn balance available. There are no borrowings outstanding under the facility as of September 30, 2023.

10. Securitization and Variable Interest Entities

Consolidated VIEs

Warehouse Credit Facilities

We established certain entities, deemed to be VIEs, to enter into warehouse credit facilities for the purpose of purchasing loans from our originating bank partners and funding directly originated loans. Refer to Note 9. Debt for additional information. The creditors of the VIEs have no recourse to the general credit of Affirm and the liabilities of the VIEs can only be settled by the respective VIEs' assets; however, as the servicer of the loans pledged to our warehouse funding facilities, we have the power to direct the activities that most significantly impact the VIEs' economic performance. In addition, we retain significant economic exposure to the pledged loans and therefore, we are the primary beneficiary.

Securitizations

In connection with our asset-backed securitization program, we sponsor and establish trusts (deemed to be VIEs) to ultimately purchase loans facilitated by our platform. Securities issued from our asset-backed securitizations are senior or subordinated, based on the waterfall criteria of loan payments to each security class. The subordinated residual interests issued from these transactions are first to absorb credit losses in accordance with the waterfall criteria. For these VIEs, the creditors have no recourse to the general credit of Affirm and the liabilities of the VIEs can only be settled by the respective VIEs' assets. Additionally, the assets of the VIEs can be used only to settle obligations of the VIEs.

We consolidate securitization VIEs when we are deemed to be the primary beneficiary and therefore have the power to direct the activities that most significantly affect the VIEs' economic performance and a variable interest that could potentially be significant to the VIE. Through our role as the servicer, we have the power to direct the activities that most significantly affect the VIEs' economic performance. In evaluating whether we have a variable interest that could potentially be significant to the VIE, we consider our retained interests. We also earn a servicing fee which has a senior distribution priority in the payment waterfall.

In evaluating whether we are the primary beneficiary, management considers both qualitative and quantitative factors regarding the nature, size and form of our involvement with the VIEs. Management assesses whether we are the primary beneficiary of the VIEs on an ongoing basis.

Where we consolidate the securitization trusts, the loans held in the securitization trusts are included in loans held for investment, and the notes sold to third-party investors are recorded in notes issued by securitization trusts in the interim condensed consolidated balance sheets.

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For each securitization, the residual trust certificates represent the right to receive excess cash on the loans each collection period after all fees and required distributions have been made to the note holders on the related payment date. For the majority of consolidated securitization VIEs, we retain 100% of the residual trust certificates issued by the securitization trust. Any portion of the residual trust certificates sold to third-party investors are measured at fair value, using a discounted cash flow model, and presented within accrued expenses and other liabilities on the interim condensed consolidated balance sheets. In addition to the retained residual trust certificates, our continued involvement includes loan servicing responsibilities over the life of the underlying loans.

We defer and amortize debt issuance costs for consolidated securitization trusts on a straight-line basis over the expected life of the notes.

The following tables present the aggregate carrying value of financial assets and liabilities from our involvement with consolidated VIEs (in thousands):

	September 30, 2023		
	Assets	**Liabilities**	**Net Assets**
Warehouse credit facilities	$ 1,915,257	$ 1,684,638	$ 230,619
Securitizations	2,457,025	2,404,437	52,588
Total consolidated VIEs	$ 4,372,282	$ 4,089,075	$ 283,207

	June 30, 2023		
	Assets	**Liabilities**	**Net Assets**
Warehouse credit facilities	$ 1,930,641	$ 1,686,359	$ 244,282
Securitizations	2,272,991	2,169,835	103,156
Total consolidated VIEs	$ 4,203,632	$ 3,856,194	$ 347,438

Unconsolidated VIEs

Our transactions with unconsolidated VIEs include securitization trusts where we did not retain significant economic exposure through our variable interests and therefore we determined that we are not the primary beneficiary as of September 30, 2023.

The following information pertains to unconsolidated VIEs where we hold a variable interest but are not the primary beneficiary (in thousands):

	September 30, 2023			
	Assets	**Liabilities**	**Net Assets**	**Maximum Exposure to Losses**
Securitizations	$ 281,516	$ 271,049	$ 10,467	$ 14,160
Total unconsolidated VIEs	$ 281,516	$ 271,049	$ 10,467	$ 14,160

	June 30, 2023			
	Assets	**Liabilities**	**Net Assets**	**Maximum Exposure to Losses**
Securitizations	$ 380,547	$ 367,788	$ 12,759	$ 19,149
Total unconsolidated VIEs	$ 380,547	$ 367,788	$ 12,759	$ 19,149

Maximum exposure to losses represents our exposure through our continuing involvement as servicer and through our retained interests. For unconsolidated VIEs, this includes $14.0 million in retained notes and residual trust certificates disclosed within securities available for sale at fair value in our interim condensed consolidated balance sheets and $0.2 million related to our servicing assets disclosed within other assets in our interim condensed consolidated balance sheets as of September 30, 2023.

Additionally, we may experience a loss due to future repurchase obligations resulting from breaches in representations and warranties in our securitization and third-party sale agreements. This amount was not material as of September 30, 2023.

Retained Beneficial Interests in Unconsolidated VIEs

The investors of the securitizations have no direct recourse to the assets of Affirm, and the timing and amount of beneficial interest payments is dependent on the performance of the underlying loan assets held within each trust. We have classified our retained beneficial interests in unconsolidated securitization trusts as "available for sale" and as such they are disclosed at fair value in our interim condensed consolidated balance sheets.

See Note 13. Fair Value of Financial Assets and Liabilities for additional information on the fair value sensitivity of the notes receivable and residual trust certificates. Additionally, as of September 30, 2023, we have pledged each of our retained beneficial interests as collateral in a sale and repurchase agreement as described in Note 9. Debt.

11. Investments

Marketable Securities

Marketable securities include certain investments classified as cash and cash equivalents and securities available for sale, at fair value, and consist of the following as of each date presented within the interim condensed consolidated balance sheets (in thousands):

	September 30, 2023	June 30, 2023
Cash and cash equivalents:		
Money market funds	$ 354,274	$ 97,129
Commercial paper	31,015	54,402
Agency bonds	—	60,865
Securities available for sale:		
Certificates of deposit	86,503	97,224
Corporate bonds	248,394	256,772
Commercial paper	163,160	266,193
Agency bonds	50,552	84,276
Municipal bonds	3,213	—
Government bonds		
Non-US	9,199	9,151
US	446,626	441,096
Securitization notes receivable and certificates [(1)]	13,983	18,913
Other	—	1,028
Total marketable securities:	$ 1,406,919	$ 1,387,049

(1) These securities have been pledged as collateral in connection with sale and repurchase agreements as discussed within Note 9. Debt.

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Securities Available for Sale, at Fair Value

The amortized cost, gross unrealized gains and losses, allowance for credit losses, and fair value of securities available for sale as of September 30, 2023 and June 30, 2023 were as follows (in thousands):

	September 30, 2023				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Allowance for Credit Losses**	**Fair Value**
Certificates of deposit	$ 86,580	$ 20	$ (97)	$ —	$ 86,503
Corporate bonds	251,642	24	(3,272)	—	248,394
Commercial paper [1]	194,294	5	(124)	—	194,175
Agency bonds	50,816	1	(265)	—	50,552
Municipal bonds	3,210	3	—	—	3,213
Government bonds					
Non-US	9,325	—	(126)	—	9,199
US	450,056	11	(3,441)	—	446,626
Securitization notes receivable and certificates [2]	14,753	—	(290)	(480)	13,983
Total securities available for sale	$ 1,060,676	$ 64	$ (7,615)	$ (480)	$ 1,052,645

	June 30, 2023				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Allowance for Credit Losses**	**Fair Value**
Certificates of deposit	$ 97,399	$ 11	$ (186)	$ —	$ 97,224
Corporate bonds	260,627	55	(3,910)	—	256,772
Commercial paper [1]	320,882	34	(321)	—	320,595
Agency bonds [1]	145,312	62	(233)	—	145,141
Government bonds					
Non-US	9,330	—	(179)	—	9,151
US	444,858	28	(3,790)	—	441,096
Securitization notes receivable and certificates [2]	19,841	—	(475)	(453)	18,913
Other	1,028	—	—	—	1,028
Total securities available for sale	$ 1,299,277	$ 190	$ (9,094)	$ (453)	$ 1,289,920

(1) Commercial paper and agency bonds include $31.0 million and $115.3 million as of September 30, 2023 and June 30, 2023, respectively, classified as cash and cash equivalents within the interim condensed consolidated balance sheets.

(2) These securities have been pledged as collateral in connection with sale and repurchase agreements as discussed within Note 9. Debt.

As of September 30, 2023 and June 30, 2023, there were no material reversals of prior period allowance for credit losses recognized for available for sale securities.

A summary of securities available for sale with unrealized losses for which an allowance for credit losses has not been recorded, aggregated by investment category and the length of time that individual securities have been in a continuous loss position as of September 30, 2023 and June 30, 2023, are as follows (in thousands):

	September 30, 2023					
	Less than or equal to 1 year		Greater than 1 year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	$ 59,252	$ (97)	$ —	$ —	$ 59,252	$ (97)
Corporate bonds	76,635	(456)	133,377	(2,816)	210,012	(3,272)
Commercial paper	138,099	(124)	—	—	138,099	(124)
Agency bonds	47,615	(265)	—	—	47,615	(265)
Government bonds						
Non-US	3,060	(66)	6,138	(60)	9,198	(126)
US	298,383	(2,095)	74,151	(1,346)	372,534	(3,441)
Total securities available for sale [(1)]	$ 623,044	$ (3,103)	$ 213,666	$ (4,222)	$ 836,710	$ (7,325)

	June 30, 2023					
	Less than or equal to 1 year		Greater than 1 year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	$ 63,489	$ (186)	$ —	$ —	$ 63,489	$ (186)
Corporate bonds	92,171	(834)	131,762	(3,076)	223,933	(3,910)
Commercial paper	164,037	(321)	—	—	164,037	(321)
Agency bonds	44,214	(233)	—	—	44,214	(233)
Government bonds						
Non-US	3,061	(58)	6,089	(121)	9,150	(179)
US	292,333	(2,395)	67,606	(1,395)	359,939	(3,790)
Total securities available for sale [(1)]	$ 659,305	$ (4,027)	$ 205,457	$ (4,592)	$ 864,762	$ (8,619)

(1) The number of positions with unrealized losses for which an allowance for credit losses has not been recorded totaled 121 and 142 as of September 30, 2023 and June 30, 2023, respectively.

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The length of time to contractual maturities of securities available for sale as of September 30, 2023 and June 30, 2023 were as follows (in thousands):

	September 30, 2023					
	Within 1 year		Greater than 1 year, less than or equal to 5 years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Certificates of deposit	$ 86,580	$ 86,503	$ —	$ —	$ 86,580	$ 86,503
Corporate bonds	159,282	158,000	92,360	90,394	251,642	248,394
Commercial paper [1]	194,294	194,175	—	—	194,294	194,175
Agency bonds	37,596	37,534	13,220	13,018	50,816	50,552
Municipal bonds	—	—	3,210	3,213	3,210	3,213
Government bonds						
Non-US	6,199	6,139	3,126	3,060	9,325	9,199
US	332,026	330,869	118,030	115,757	450,056	446,626
Securitization notes receivable and certificates [2]	—	—	14,753	13,983	14,753	13,983
Other	—	—	—	—	—	—
Total securities available for sale	$ 815,977	$ 813,220	$ 244,699	$ 239,425	$ 1,060,676	$ 1,052,645

	June 30, 2023					
	Within 1 year		Greater than 1 year, less than or equal to 5 years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Certificates of deposit	$ 97,399	$ 97,224	$ —	$ —	$ 97,399	$ 97,224
Corporate bonds	173,523	171,634	87,104	85,138	260,627	256,772
Commercial paper [1]	320,882	320,595	—	—	320,882	320,595
Agency bonds [1]	130,176	130,165	15,136	14,976	145,312	145,141
Government bonds						
Non-US	4,063	3,996	5,267	5,155	9,330	9,151
US	308,179	306,656	136,679	134,440	444,858	441,096
Securitization notes receivable and certificates [2]	—	—	19,841	18,913	19,841	18,913
Other	—	—	1,028	1,028	1,028	1,028
Total securities available for sale	$ 1,034,222	$ 1,030,270	$ 265,055	$ 259,650	$ 1,299,277	$ 1,289,920

(1) Commercial paper and agency bonds include $31.0 million and $115.3 million as of September 30, 2023 and June 30, 2023, respectively, classified as cash and cash equivalents within the interim condensed consolidated balance sheets.

(2) Based on weighted average life of expected cash flows as of September 30, 2023 and June 30, 2023.

Gross proceeds from matured or redeemed securities were $381.8 million and $1.7 billion for the three months ended September 30, 2023 and 2022, respectively.

For available for sale securities realized gains and losses from portfolio sales were not material for the three months ended September 30, 2023 and 2022, respectively.

Non-marketable Equity Securities

Equity investments without a readily determinable fair value held at cost were $51.9 million and $43.2 million as of September 30, 2023 and June 30, 2023, respectively, and are included in other assets within the interim condensed consolidated balance sheets.

There have been no unrealized or realized gains and losses due to observable changes in orderly transactions and we did not record any impairment for the three months ended September 30, 2023 and 2022.

12. Derivative Financial Instruments

The following table summarizes the total fair value, including interest accruals, and outstanding notional amounts of derivative instruments as of September 30, 2023 and June 30, 2023 (in thousands):

	September 30, 2023			June 30, 2023		
	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as cash flow hedges						
Interest rate contracts - cash flow hedges	$ 500,000	$ 573	$ —	$ 800,000	$ 751	$ —
Derivatives not designated as hedges						
Interest rate contracts	1,894,613	40,643	—	2,102,944	49,794	—
Total gross derivative assets/liabilities	$ 2,394,613	$ 41,216	$ —	$ 2,902,944	$ 50,545	$ —

The following table summarizes the impact of the cash flow hedges on AOCI (in thousands):

	Three Months Ended September 30, 2023
Balance at beginning of period	751
Changes in fair value	1,014
Amounts reclassified into earnings [1]	(251)
Balance at end of period [2]	$ 1,514

(1) The amounts reclassified into earnings is presented in the interim consolidated statements of income within funding costs.
(2) Over the next 12 months, we expect to reclassify $1.1 million of net derivative gains included in AOCI into funding costs within our interim consolidated statements of operations and comprehensive loss.

The following table summarizes the impact of the derivative instruments on income and indicates where within the interim consolidated statements of operations and comprehensive loss such impact is reported (in thousands):

Location of gains (losses) where the effects of derivatives are recorded	Three Months Ended September 30, 2023	2022
The effects of cash flow hedging		
Funding costs	251	—
The effects of derivatives not designated in hedging relationships		
Other income, net	3,979	30,666

13. Fair Value of Financial Assets and Liabilities

Financial Assets and Liabilities Recorded at Fair Value

The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2023 and June 30, 2023 (in thousands):

	September 30, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents:				
Money market funds	$ 354,274	$ —	$ —	$ 354,274
Commercial paper	—	31,015	—	31,015
Securities, available for sale:				
Certificates of deposit	—	86,503	—	86,503
Corporate bonds	—	248,394	—	248,394
Commercial paper	—	163,160	—	163,160
Agency bonds	—	50,552	—	50,552
Municipal bonds	—	3,213	—	3,213
Government bonds:				
Non-U.S.	—	9,199	—	9,199
U.S.	—	446,626	—	446,626
Securitization notes receivable and residual trust certificates	—	—	13,983	13,983
Servicing assets	—	—	569	569
Derivative instruments	—	41,216	—	41,216
Risk sharing asset	—	—	3,814	3,814
Total assets	$ 354,274	$ 1,079,878	$ 18,366	$ 1,452,518
Liabilities:				
Servicing liabilities	$ —	$ —	$ 1,851	$ 1,851
Performance fee liability	—	—	1,427	1,427
Residual trust certificates, held by third-parties	—	—	93	93
Profit share liability	—	—	1,079	1,079
Risk sharing liability	—	—	471	471
Total liabilities	$ —	$ —	$ 4,921	$ 4,921

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	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents:				
Money market funds	$ 97,129	$ —	$ —	$ 97,129
Commercial paper	—	54,402	—	54,402
Agency bonds	—	60,865	—	60,865
Securities, available for sale:				
Certificates of deposit	—	97,224	—	97,224
Corporate bonds	—	256,772	—	256,772
Commercial paper	—	266,193	—	266,193
Agency bonds	—	84,276	—	84,276
Government bonds:				
Non-U.S.	—	9,151	—	9,151
U.S.	—	441,096	—	441,096
Securitization notes receivable and residual trust certificates	—	—	18,913	18,913
Other	—	—	1,028	1,028
Servicing assets	—	—	880	880
Derivative instruments	—	50,545	—	50,545
Total assets	$ 97,129	$ 1,320,524	$ 20,821	$ 1,438,474
Liabilities:				
Servicing liabilities	$ —	$ —	$ 1,392	$ 1,392
Performance fee liability	—	—	1,581	1,581
Residual trust certificates, held by third-parties	—	—	125	125
Profit share liability	—	—	1,832	1,832
Total liabilities	$ —	$ —	$ 4,930	$ 4,930

As of September 30, 2023 and June 30, 2023, there were no transfers between levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis (Level 2)

Marketable Securities

As of September 30, 2023, we held marketable securities classified as cash and cash equivalents and available for sale. Management obtains pricing from one or more third-party pricing services for the purpose of determining fair value. Whenever available, the fair value is based on quoted bid prices as of the end of the trading day. When quoted prices are not available, other methods may be utilized including evaluated prices provided by third-party pricing services.

Derivative Instruments

As of September 30, 2023 and June 30, 2023, we used a combination of interest rate cap agreements and interest rate swaps to manage interest costs and the risks associated with variable interest rates. These derivative instruments are classified as Level 2 within the fair value hierarchy, and the fair value is estimated by using third-party pricing models, which contain certain assumptions based on readily observable market-based inputs. We validate the valuation output on a monthly basis. Refer to Note 12. Derivative Financial Instruments in the notes to the interim condensed consolidated financial statements for further details on our derivative instruments.

Assets and Liabilities Measured at Fair Value on a Recurring Basis using Significant Unobservable Inputs (Level 3)

We evaluate our assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level at which to classify them each reporting period. Since our servicing assets and liabilities, performance fee liability, securitization notes and residual trust certificates, contingent consideration, profit share liability, and risk sharing arrangements do not trade in an active market with readily observable prices, we use significant unobservable inputs to measure fair value and have classified as level 3 within the fair value hierarchy. This determination requires significant judgments to be made.

Servicing Assets and Liabilities

We sold loans with an unpaid principal balance of $2.2 billion and $2.0 billion for the three months ended September 30, 2023 and 2022, respectively, for which we retained servicing rights.

As of September 30, 2023 and June 30, 2023, we serviced loans which we sold with a remaining unpaid principal balance of $4.3 billion and $4.1 billion, respectively.

We use discounted cash flow models to arrive at an estimate of fair value. Significant assumptions used in the valuation of our servicing rights are as follows:

Adequate Compensation

We estimate adequate compensation as the rate a willing market participant would require for servicing loans with similar characteristics as those in the serviced portfolio.

Discount Rate

Estimated future payments to be received under servicing agreements are discounted as a part of determining the fair value of the servicing rights. For servicing rights on loans, the discount rate reflects the time value of money and a risk premium intended to reflect the amount of compensation market participants would require.

Gross Default Rate

We estimate the timing and probability of early loan payoffs, loan defaults and write-offs, thus affecting the projected unpaid principal balance and expected term of the loan, which are used to project future servicing revenue and expenses.

We earned $20.2 million and $21.4 million of servicing income for the three months ended September 30, 2023 and 2022, respectively.

As of September 30, 2023 and June 30, 2023, the aggregate fair value of the servicing assets was measured at $0.6 million and $0.9 million, respectively, and presented within other assets on the interim condensed consolidated balance sheets. As of September 30, 2023 and June 30, 2023, the aggregate fair value of the servicing liabilities was measured at $1.9 million and $1.4 million, respectively, and presented within accrued expenses and other liabilities on the interim condensed consolidated balance sheets.

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The following table summarizes the activity related to the aggregate fair value of our servicing assets (in thousands):

	Three Months Ended September 30,	
	2023	2022
Fair value at beginning of period	$ 880	$ 1,192
Initial transfers of financial assets	—	29
Subsequent changes in fair value	(311)	(79)
Fair value at end of period	$ 569	$ 1,142

The following table summarizes the activity related to the aggregate fair value of our servicing liabilities (in thousands):

	Three Months Ended September 30,	
	2023	2022
Fair value at beginning of period	$ 1,392	$ 2,673
Initial transfers of financial assets	1,389	1,988
Subsequent changes in fair value	(930)	(1,509)
Fair value at end of period	$ 1,851	$ 3,152

The following tables present quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of servicing assets and liabilities as of September 30, 2023 and June 30, 2023:

	September 30, 2023			
	Unobservable Input	Minimum	Maximum	Weighted Average [3]
Servicing assets	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [1]	0.92 %	2.31 %	0.92 %
	Gross default rate [2]	2.44 %	12.59 %	3.81 %
Servicing liabilities	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [1]	0.92 %	2.31 %	2.29 %
	Gross default rate [2]	6.02 %	19.32 %	13.00 %

	June 30, 2023			
	Unobservable Input	Minimum	Maximum	Weighted Average [3]
Servicing assets	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [1]	0.92 %	2.31 %	0.93 %
	Gross default rate [2]	2.15 %	11.20 %	3.36 %
Servicing liabilities	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [1]	0.92 %	2.31 %	2.27 %
	Gross default rate [2]	9.50 %	21.54 %	13.64 %

(1) Estimated annual cost of servicing a loan as a percentage of unpaid principal balance
(2) Annualized estimated gross charge-offs as a percentage of unpaid principal balance
(3) Unobservable inputs were weighted by relative fair value

The following table summarizes the effect that adverse changes in estimates would have on the fair value of the servicing assets and liabilities given hypothetical changes in significant unobservable inputs (in thousands):

	September 30, 2023	June 30, 2023
Servicing assets		
Gross default rate assumption:		
Gross default rate increase of 25%	$ —	$ —
Gross default rate increase of 50%	$ —	$ (1)
Adequate compensation assumption:		
Adequate compensation increase of 10%	$ (266)	$ (382)
Adequate compensation increase of 20%	$ (531)	$ (764)
Discount rate assumption:		
Discount rate increase of 25%	$ (18)	$ (29)
Discount rate increase of 50%	$ (34)	$ (55)
Servicing liabilities		
Gross default rate assumption:		
Gross default rate increase of 25%	$ 6	$ (9)
Gross default rate increase of 50%	$ (5)	$ (19)
Adequate compensation assumption:		
Adequate compensation increase of 10%	$ 3,313	$ 2,798
Adequate compensation increase of 20%	$ 6,608	$ 5,597
Discount rate assumption:		
Discount rate increase of 25%	$ (15)	$ (19)
Discount rate increase of 50%	$ (45)	$ (38)

Performance Fee Liability

In accordance with our agreements with our originating bank partners, we pay a fee for each loan that is fully repaid by the consumer, due at the end of the period in which the loan is fully repaid. We recognize a liability upon the purchase of a loan for the expected future payment of the performance fee. This liability is measured using a discounted cash flow model and recorded at fair value and presented within accrued expenses and other liabilities on the interim condensed consolidated balance sheets. Any changes in the fair value of the liability are reflected in other income, net, on the interim condensed consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the performance fee liability (in thousands):

	Three Months Ended September 30,	
	2023	2022
Fair value at beginning of period	$ 1,581	$ 1,710
Purchases of loans	376	479
Settlements paid	(484)	—
Subsequent changes in fair value	(46)	(426)
Fair value at end of period	$ 1,427	$ 1,763

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Significant unobservable inputs used for our Level 3 fair value measurement of the performance fee liability are the discount rate, refund rate, and default rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following tables present quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the performance fee liability as of September 30, 2023 and June 30, 2023:

	September 30, 2023		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average**[1]
Discount rate	10.00%	10.00%	10.00%
Refund rate	4.50%	4.50%	4.50%
Default rate	1.79%	3.71%	2.89%

	June 30, 2023		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average**[1]
Discount rate	10.00%	10.00%	10.00%
Refund rate	4.50%	4.50%	4.50%
Default rate	1.79%	3.34%	2.86%

(1) Unobservable inputs were weighted by remaining principal balances

Residual Trust Certificates Held by Third-Parties in Consolidated VIEs

Residual trust certificates held by third-party investor(s) are measured at fair value, using a discounted cash flow model, and presented within accrued expenses and other liabilities on the interim condensed consolidated balance sheets. Any changes in the fair value of the liability are reflected in other income, net, on the interim condensed consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the residual trust certificates held by third-parties (in thousands):

	Three Months Ended September 30,	
	2023	**2022**
Fair value at beginning of period	$ 125	$ 377
Repayments	(38)	(99)
Subsequent changes in fair value	6	30
Fair value at end of period	$ 93	$ 308

Significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates held by third-parties are the discount rate, loss rate, and prepayment rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following table present quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates held by third-parties as of September 30, 2023 and June 30, 2023:

	September 30, 2023		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average [1]**
Discount rate	10.00%	10.00%	10.00%
Loss rate	0.77%	0.77%	0.77%
Prepayment rate	18.90%	18.90%	18.90%

	June 30, 2023		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average [1]**
Discount rate	10.00%	10.00%	10.00%
Loss rate	0.92%	0.92%	0.92%
Prepayment rate	7.70%	7.70%	7.70%

(1) Unobservable inputs were weighted by relative fair value

Retained Beneficial Interests in Unconsolidated VIEs

As of September 30, 2023, we held notes receivable and residual trust certificates with an aggregate fair value of $14.0 million in connection with unconsolidated securitizations. The balances correspond to the 5% economic risk retention we are required to maintain as the securitization sponsor.

These assets are measured at fair value using a discounted cash flow model, and presented within securities available for sale at fair value on the interim condensed consolidated balance sheets. Changes in the fair value, other than declines in fair value due to credit recognized as an allowance, are reflected in other comprehensive income (loss) on the interim condensed consolidated statements of operations and comprehensive loss. Declines in fair value due to credit are reflected in other income, net on the interim condensed consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the notes and residual trust certificates (in thousands):

	Three Months Ended September 30,	
	2023	**2022**
Fair value at beginning of period	$ 18,913	$ 51,678
Cash received (due to payments or sales)	(5,261)	(9,772)
Change in unrealized gain (loss)	185	(648)
Accrued interest	172	453
Reversal of (impairment on) securities available for sale	(26)	(208)
Fair value at end of period	$ 13,983	$ 41,503

Significant unobservable inputs used for our Level 3 fair value measurement of the notes and residual trust certificates are the discount rate, loss rate, and prepayment rate. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

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The following tables present quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the residual trust certificates as of September 30, 2023 and June 30, 2023:

	September 30, 2023		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average (1)**
Discount rate	6.21%	29.84%	7.34%
Loss rate	0.91%	14.61%	2.63%
Prepayment rate	6.70%	28.60%	17.59%

	June 30, 2023		
Unobservable Input	**Minimum**	**Maximum**	**Weighted Average (1)**
Discount rate	5.72%	29.84%	7.30%
Loss rate	1.25%	14.96%	3.02%
Prepayment rate	5.90%	29.90%	18.10%

(1) Unobservable inputs were weighted by relative fair value

The following table summarizes the effect that adverse changes in estimates would have on the fair value of the securitization residual trust certificates given hypothetical changes in significant unobservable inputs (in thousands):

	September 30, 2023	June 30, 2023
Discount rate assumption:		
Discount rate increase of 25%	$ (156)	$ (218)
Discount rate increase of 50%	$ (306)	$ (429)
Loss rate assumption:		
Loss rate increase of 25%	$ (108)	$ (165)
Loss rate increase of 50%	$ (157)	$ (243)
Prepayment rate assumption:		
Prepayment rate decrease of 25%	$ (20)	$ (30)
Prepayment rate decrease of 50%	$ (40)	$ (59)

Profit Share Liability

On January 1, 2021, we entered into a commercial agreement with an enterprise partner, in which we are obligated to share in the profitability of transactions facilitated by our platform. Upon capture of a loan under this program, we record a liability associated with the estimated future profit to be shared over the life of the loan based on estimated program profitability levels. This liability is measured using a discounted cash flow model and recorded at fair value and presented within accrued expenses and other liabilities on the interim condensed consolidated balance sheets.

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The following table summarizes the activity related to the fair value of the profit share liability (in thousands):

	Three Months Ended September 30,	
	2023	2022
Fair value at beginning of period	$ 1,832	$ 1,987
Facilitation of loans	928	1,133
Actual performance	1,672	(2,876)
Subsequent changes in fair value	(3,353)	1,632
Fair value at end of period	$ 1,079	$ 1,876

Significant unobservable inputs used for our Level 3 fair value measurement of the profit share liability are the discount rate and estimated program profitability. Significant increases or decreases in any of the inputs in isolation could result in a significantly lower or higher fair value measurement.

The following tables present quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the profit sharing liability as of September 30, 2023 and June 30, 2023:

	September 30, 2023		
Unobservable Input	Minimum	Maximum	Weighted Average [(1)]
Discount rate	30.00%	30.00%	30.00%
Program profitability	0.73%	0.73%	0.73%

	June 30, 2023		
Unobservable Input	Minimum	Maximum	Weighted Average [(1)]
Discount rate	30.00%	30.00%	30.00%
Program profitability	1.13%	1.13%	1.13%

(1) Unobservable inputs were weighted by relative fair value

Risk Sharing Arrangements

In connection with certain capital funding arrangements with third party loan buyers, we have entered into risk sharing agreements where we may be required to make a payment to the loan buyer or are entitled to receive a payment from the loan buyer, depending on the actual versus expected loan performance as contractually agreed to with the counterparty, and subject to a cap based on a percentage of the principal balance of loans sold. Loan performance is evaluated at a cohort level based on the month loans were sold. Through September 30, 2023 we have sold $1.3 billion unpaid principal balance of loans under these risk sharing arrangements, of which our maximum exposure to losses is $27.1 million.This amount includes our maximum potential loss with respect to risk sharing liabilities and the fair value of risk sharing assets of $3.8 million, as of September 30, 2023.

We account for these arrangements as derivatives measured at fair value with gains and losses recognized in Gain on sale of loans in our interim condensed consolidated statements of operations and comprehensive loss. For each counterparty, we have recognized a net asset or net liability based on the estimated fair value of future payments we expect to receive from or make to the counterparty. As of September 30, 2023, we held assets and liabilities related to these arrangements of $3.8 million and $0.5 million, respectively. As of June 30, 2023, we estimated that the fair value of risk sharing liabilities was $0 based on the limited time passed and available loan performance since entering into these agreements. We did not have any risk sharing arrangements where we had recognized an asset as of June 30, 2023.

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As of September 30, 2023, we estimated the fair value of future settlements using a discounted cash flow model. Significant assumptions used in the valuation of our risk sharing assets and liabilities include the discount rate, loss rate and the prepayment rate.

The following table summarizes the activity related to the fair value of the risk sharing assets (in thousands):

	Three Months Ended September 30, 2023
Fair value at beginning of period	$ —
Initial transfers of financial assets	3,814
Subsequent changes in fair value	—
Fair value at end of period	**$ 3,814**

The following table summarizes the activity related to the fair value of the risk sharing liabilities (in thousands):

	Three Months Ended September 30, 2023
Fair value at beginning of period	$ —
Initial transfers of financial liabilities	—
Subsequent changes in fair value	471
Fair value at end of period	$ 471

The following tables present quantitative information about the significant unobservable inputs used for our Level 3 fair value measurement of the risk sharing arrangements as of September 30, 2023:

		September 30, 2023		
	Unobservable Input	**Minimum**	**Maximum**	**Weighted Average [(1)]**
Risk sharing assets	Discount rate	20.00%	20.00%	20.00%
	Loss rate	9.36%	9.36%	9.36%
	Prepayment rate	31.90%	31.90%	31.90%
Risk sharing liabilities	Discount rate	20.00%	20.00%	20.00%
	Loss rate	4.00%	5.16%	4.35%

(1) Unobservable inputs were weighted by principal balance of loans sold under each cohort

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The following table summarizes the effect that adverse changes in estimates would have on the fair value of the risk sharing assets and liabilities given hypothetical changes in significant unobservable inputs (in thousands):

		September 30, 2023
Risk sharing assets		
Prepayment rate assumption:		
Prepayment rate increase of 25%	$	(243,524)
Prepayment rate increase of 50%	$	(477,053)
Loss rate assumption:		
Loss rate increase of 25%	$	(1,330,723)
Loss rate increase of 50%	$	(2,642,491)
Discount rate assumption:		
Discount rate increase of 25%	$	(273,602)
Discount rate increase of 50%	$	(516,753)
Risk sharing liabilities		
Loss rate assumption:		
Loss rate increase of 25%	$	9,908,013
Loss rate increase of 50%	$	16,992,497
Discount rate assumption:		
Discount rate increase of 25%	$	(23,519)
Discount rate increase of 50%	$	(45,008)

Financial Assets and Liabilities Not Recorded at Fair Value

The following tables present the fair value hierarchy for financial assets and liabilities not recorded at fair value as of September 30, 2023 and June 30, 2023 (in thousands):

	September 30, 2023				
	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets:					
Loans held for sale	$ 145	$ —	$ 145	$ —	$ 145
Loans held for investment, net	4,317,354	—	—	4,482,857	4,482,857
Other assets	8,995	—	8,995	—	8,995
Total assets	$ 4,326,494	$ —	$ 9,140	$ 4,482,857	$ 4,491,996
Liabilities:					
Convertible senior notes, net [1]	$ 1,415,080	$ —	$ 1,074,772	$ —	$ 1,074,772
Notes issued by securitization trusts	2,398,758	—	—	2,383,850	2,383,850
Funding debt [2]	1,725,011	—	—	1,725,027	1,725,027
Total liabilities	$ 5,538,849	$ —	$ 1,074,772	$ 4,108,877	$ 5,183,649

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	June 30, 2023									
	Carrying Amount		Level 1		Level 2		Level 3		Balance at Fair Value	
Assets:										
Loans held for sale	$	76	$	—	$	76	$	—	$	76
Loans held for investment, net		4,198,431		—		—		4,397,931		4,397,931
Other assets		9,325		—		9,325		—		9,325
Total assets	$	4,207,832	$	—	$	9,401	$	4,397,931	$	4,407,332
Liabilities:										
Convertible senior notes, net [1]	$	1,414,208	$	—	$	1,053,866	$	—	$	1,053,866
Notes issued by securitization trusts		2,165,577		—		—		1,748,772		1,748,772
Funding debt [2]		1,775,698		—		—		1,777,635		1,777,635
Total liabilities	$	5,355,483	$	—	$	1,053,866	$	3,526,407	$	4,580,273

(1) The estimated fair value of the convertible senior notes is determined based on a market approach, using the estimated or actual bids and offers of the notes in an over-the-counter market on the last business day of the period.

(2) As of September 30, 2023 and June 30, 2023, debt issuance costs in the amount of $15.3 million and $10.9 million, respectively, was included within funding debt.

14. Stockholders' Equity

Common Stock

We had shares of common stock reserved for issuance as follows:

	September 30, 2023	June 30, 2023
Available outstanding under equity compensation plans	53,347,042	52,572,230
Available for future grant under equity compensation plans	47,162,302	37,245,232
Total	100,509,344	89,817,462

The common stock is not redeemable. We have two classes of common stock: Class A common stock and Class B common stock. Each holder of Class A common stock has the right to one vote per share of common stock. Each holder of Class B common stock has the right to 15 votes and can be converted at any time into one share of Class A common stock. Holders of Class A and Class B common stock are entitled to notice of any stockholders' meeting in accordance with the bylaws of the corporation, and are entitled to vote upon such matters and in such manner as may be provided by law. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of the common stock are entitled to receive, when and as declared by the Board of Directors, out of any assets of the corporation legally available therefore, such dividends as may be declared from time to time by the Board of Directors.

Common Stock Warrants

Common stock warrants are included as a component of additional paid in capital within the interim condensed consolidated balance sheets.

During the year ended June 30, 2022, we granted warrants to purchase 22,000,000 shares of common stock in connection with our commercial agreements with Amazon. 7,000,000 of the warrant shares have an exercise price of $0.01 per share and a term of 3.5 years, while the remaining 15,000,000 warrant shares have an exercise price of $100 per share and a term of 7.5 years. We valued the warrants at the grant date using the Black-Scholes-Merton option pricing model with the following assumptions: a dividend yield of zero; years to maturity of 3.5 and 7.5

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years, respectively; volatility of 45%; and a risk-free rate of 0.93% and 1.47%, respectively. We recognized an asset of $133.5 million associated with the portion of the warrants that were fully vested at the grant date. Refer to Note 6. Balance Sheet Components for more information on the asset and related amortization during the period. The remaining grant-date fair value of the warrants will be recognized within our interim condensed consolidated statements of operations and comprehensive loss as a component of sales and marketing expense as the warrants vest, based upon Amazon's satisfaction of the vesting conditions. During the three months ended September 30, 2023 and 2022, a total of $106.3 million and $119.1 million, respectively, was recognized within sales and marketing expense which included $10.4 million in amortization expense of the commercial agreement asset for both periods and $95.9 million and $108.7 million, respectively, in expense based upon the grant-date fair value of the warrant shares that vested.

15. Equity Incentive Plans

2012 Stock Plan

Under our Amended and Restated 2012 Stock Plan (the "Plan"), we may grant incentive and nonqualified stock options, restricted stock, and restricted stock units ("RSUs") to employees, officers, directors, and consultants. As of September 30, 2023, the maximum number of shares of common stock which may be issued under the Plan is 161,051,508 Class A shares. As of September 30, 2023 and June 30, 2023, there were 47,162,302 and 37,245,232 shares of Class A common stock, respectively, available for future grants under the Plan.

Stock Options

For stock options granted before our IPO in January 2021, the minimum expiration period is seven years after termination of employment or 10 years from the date of grant. For stock options granted after our IPO, the minimum expiration period is three months after termination of employment or 10 years from the date of grant. Stock options generally vest over a period of four years or with 25% vesting on the 12 month anniversary of the vesting commencement date, and the remainder vesting on a pro-rata basis each month over the next three years.

The following table summarizes our stock option activity for the three months ended September 30, 2023:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of June 30, 2023	18,505,138	$ 14.34	6.07	
Granted	1,743,514	23.35		
Exercised	(496,213)	7.45		
Forfeited, expired or cancelled	(637,348)	30.13		
Balance as of September 30, 2023	19,115,091	14.81	6.12	
Vested and exercisable, September 30, 2023	14,503,031	$ 11.31	5.33	$ 182,338
Vested and exercisable, and expected to vest thereafter[1] September 30, 2023	18,565,399	$ 14.11	6.05	$ 187,952

[1] Options expected to vest reflect the application of an estimated forfeiture rate.

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The weighted-average grant date fair value of options granted during the three months ended September 30, 2023 was $16.10. As of September 30, 2023, unrecognized compensation expense related to unvested stock options was approximately $56.1 million, which is expected to be recognized over a remaining weighted-average period of 2.7 years.

When an employee exercises stock options, we collect and remit taxes on the employee's behalf to applicable taxing authorities. As of September 30, 2023 and June 30, 2023, the balance of equity exercise taxes payable was $5.8 million and $3.4 million, respectively, which is included in accounts payable on the interim condensed consolidated balance sheets.

Value Creation Award

In November 2020, in connection with an overall review of the compensation of Max Levchin, our Chief Executive Officer, in advance of the IPO, and taking into account Mr. Levchin's leadership since the inception of the Company, the comparatively modest level of cash compensation he had received from the Company during his many years of service, and that he did not hold any unvested equity awards, the Company's Board of Directors approved a long-term, multi-year performance-based stock option grant providing Mr. Levchin with the opportunity to earn the right to purchase up to 12,500,000 shares of the Company's Class A common stock (the "Value Creation Award"). We recognize stock-based compensation on these awards based on the grant date fair value using an accelerated attribution method over the requisite service period, and only if performance-based conditions are considered probable of being satisfied. During the three months ended September 30, 2023 and 2022, we incurred stock-based compensation expense of $19.6 million and $27.5 million, respectively, associated with the Value Creation Award as a component of general and administrative expense within the interim condensed consolidated statements of operations and comprehensive loss.

As of September 30, 2023, unrecognized compensation expense related to the Value Creation Award was approximately $93.3 million, which is expected to be recognized over a remaining weighted-average period of 2.3 years.

Restricted Stock Units

RSUs granted prior to the IPO were subject to two vesting conditions: a service-based vesting condition (i.e., employment over a period of time) and a performance-based vesting condition (i.e., a liquidity event in the form of either a change of control or an initial public offering, each as defined in the Plan), both of which must be met in order to vest. The performance-based condition was met upon the IPO. We record stock-based compensation expense for those RSUs on an accelerated attribution method over the requisite service period, which is generally four years. RSUs granted after IPO are subject to a service-based vesting condition. We record stock-based compensation expense for service-based RSUs on a straight-line basis over the requisite service period, which is generally one to four years.

During the three months ended September 30, 2023, we modified the vesting terms of approximately 5,300 RSU grants that vested on a monthly basis. Pursuant to the modified vesting schedule, these RSU grants will now vest on a quarterly basis. During the three months ended September 30, 2023, we recorded a one-time expense of $28.1 million in connection with the transition to a quarterly vesting schedule.

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The following table summarizes our RSU activity during the three months ended September 30, 2023:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2023	21,653,196	$ 26.99
Granted	6,626,710	18.25
Vested	(5,719,367)	27.65
Forfeited, expired or cancelled	(828,588)	26.23
Non-vested at September 30, 2023	21,731,951	$ 24.18

As of September 30, 2023, unrecognized compensation expense related to unvested RSUs was approximately $447.7 million, which is expected to be recognized over a remaining weighted-average period of 1.9 years.

2020 Employee Stock Purchase Plan

On November 18, 2020, our Board of Directors adopted and approved the 2020 Employee Stock Purchase Plan (“ESPP”). The purpose of the ESPP is to secure the services of new employees, to retain the services of existing employees and to provide incentives for such individuals to exert maximum effort towards the success of the Company and that of its affiliates. A total of 13.8 million shares of Class A common stock are reserved and available for issuance under the ESPP and 1.1 million shares have been issued as of September 30, 2023. The ESPP provides for six-month offering periods beginning December 1 and June 1 of each year. At the end of each offering period, shares of our Class A common stock are purchased on behalf of each ESPP participant at a price per share equal to 85% of the lesser of (1) the fair market value of the Class A common stock on first day of the offering period (the grant date) or (2) the fair market value of the Class A common stock on the last day of the offering period (the purchase date). We use the Black-Scholes-Merton option pricing model to measure the fair value of the purchase rights issued under the ESPP at the first day of the offering period, which represents the grant date. We record stock-based compensation expense on a straight-line basis over each six-month offering period, the requisite service period of the award.

Stock-Based Compensation Expense

The following table presents the components and classification of stock-based compensation (in thousands):

	Three Months Ended September 30,	
	2023	2022
General and administrative	$ 70,184	$ 67,340
Technology and data analytics	35,135	43,428
Sales and marketing	5,465	8,128
Processing and servicing	1,575	912
Total stock-based compensation in operating expenses	112,359	119,808
Capitalized into property, equipment and software, net	38,803	21,204
Total stock-based compensation	$ 151,162	$ 141,012

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16. Restructuring and other

On February 8, 2023, we committed to a restructuring plan (the "Plan") designed to manage our operating expenses in response to current macroeconomic conditions and ongoing business prioritization efforts. As part of the Plan, we reduced our workforce by approximately 500 employees, representing approximately 19% of our employees and incurred lease exit costs related to vacating a portion of our San Francisco office.

Restructuring and other consisted of $1.7 million of employee severance pay and related costs for the three months ended September 30, 2023.

Our restructuring accrual activity for the three months ended September 30, 2023 is summarized as follows (in thousands):

	2023 Restructuring Plan	Other Exit and Disposal Activities [1]
Accrued restructuring costs, June 30, 2023	$ 308	$ 2,116
Additions	200	1,633
Cash paid	(168)	—
Adjustments	(90)	—
Accrued restructuring costs, September 30, 2023	$ 250	$ 3,749

(1) Includes employee severance pay and related costs, contract cancellation charges, among other items, related to other exit and disposal activities

17. Income Taxes

The quarterly provision for income taxes is based on the current estimate of the annual effective income tax rate and the tax effect of discrete items occurring during the quarter. Our quarterly provision and the estimate of the annual effective tax rate are subject to significant variation due to several factors, including variability in the pre-tax jurisdictional mix of earnings and the impact of discrete items.

For the three months ended September 30, 2023, we recorded income tax expense (benefit) of $1.0 million which was primarily attributable to deferred tax expense recognized by our Canadian subsidiary, various U.S state and other foreign income taxes, and the tax amortization of certain intangibles. For the three months ended September 30, 2022, we recorded income tax expense (benefit) of $(0.2) million which was primarily attributable to deferred tax benefits recognized by our Canadian subsidiary and partially offset by various U.S state and other foreign income taxes, as well as the tax amortization of certain intangibles.

As of September 30, 2023, we continue to recognize a full valuation allowance against our U.S. federal and state and certain foreign net deferred tax assets. This determination was based on the assessment of the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to utilize the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by us for the prior three fiscal years. The presence of a three-year cumulative loss limits the ability to consider other subjective evidence, such as our expectations of future taxable income and projections for growth.

As a result of the integration and consolidation of our PayBright business into and with Affirm's Canadian business, the expansion of our overall business in Canada, and other objectively verifiable positive evidence available, all of which we have concluded is sufficient to outweigh the existing negative evidence – including the presence of a three-year cumulative loss attributable to the Canadian jurisdiction, we have determined that it is more likely than not that our Canadian deferred tax assets will be realized and a valuation allowance is not required.

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18. Net Loss per Share Attributable to Common Stockholders

The following table presents basic and diluted net loss per share attributable to common stockholders for Class A and Class B common stock (in thousands, except share and per share data):

	Three Months Ended September 30,			
	2023		2022	
	Class A	Class B	Class A	Class B
Numerator:				
Net loss	$ (138,078)	$ (33,705)	$ (199,355)	$ (51,914)
Net loss attributable to common stockholders - basic and diluted	$ (138,078)	$ (33,705)	$ (199,355)	$ (51,914)
Denominator:				
Weighted average shares of common stock - basic	244,224,777	59,614,893	230,821,045	60,108,225
Weighted average shares of common stock - diluted	244,224,777	59,614,893	230,821,045	60,108,225
Net loss per share:				
Basic	$ (0.57)	$ (0.57)	$ (0.86)	$ (0.86)
Diluted	$ (0.57)	$ (0.57)	$ (0.86)	$ (0.86)

The following common stock equivalents, presented based on amounts outstanding, were excluded from the calculation of diluted net loss per share attributable to common stockholders because their inclusion would have been anti-dilutive:

	As of September 30,	
	2023	2022
Restricted stock units	21,731,951	23,341,125
Stock options, including early exercise of options	19,115,091	20,235,040
Common stock warrants	5,743,523	5,870,677
Employee stock purchase plan shares	476,156	524,596
Total	47,066,721	49,971,438

For the purpose of this section only, unless the context requires otherwise, references to the "Company" are to Affirm, and references to "we", "us" and "our" shall be construed accordingly.

The following management discussion and analysis of the results of Affirm is extracted from the annual reports of Affirm for the years ended 30 June 2021, 2022 and 2023 and the first quarterly report of Affirm for the three months ended 30 September 2023. It should be read in conjunction with the financial information of Affirm for the years ended 30 June 2021, 2022 and 2023 and the three months ended 30 September 2023 set forth in Appendix II to this circular. The management discussion and analysis of the results of Affirm was issued in English and the Chinese translated version is provided for information purposes only. In case of discrepancies between the two versions, the English version shall prevail.

The Directors wish to emphasise that the extracts reproduced below are not prepared for incorporation into this circular and the Group has not participated in their preparation. As such, the Directors do not express any view as to their truth, accuracy or completeness, and the Shareholders and investors should exercise caution and should not place undue reliance on such information.

ITEM 7. 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 consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K ("Form 10-K"). You should review the sections titled "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. For the periods presented, references to originating bank partners are to Cross River Bank and Celtic Bank. Unless the context otherwise requires, all references in this report to "Affirm," the "Company," "we," "our," "us," or similar terms refer to Affirm Holdings, Inc. and its subsidiaries. A discussion regarding our financial condition and results of operations for the fiscal year ended June 30, 2021 compared to the fiscal year ended June 30, 2020 is presented below. A discussion regarding our financial condition and results of operations for the fiscal year ended June 30, 2020 compared to the fiscal year ended June 30, 2019 can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Final Prospectus dated January 12, 2021 and filed with the SEC pursuant to Rule 424(b)(4) on January 14, 2021.

Overview

We are building the next generation platform for digital and mobile-first commerce. We believe that by using modern technology, the very best engineering talent, and a mission-driven approach, we can reinvent payments and commerce. Our solutions, which are built on trust and transparency, make it easier for consumers to spend responsibly and with confidence, easier for merchants to convert sales and grow, and easier for commerce to thrive.

Our point-of-sale solution allows consumers to pay for purchases in fixed amounts without deferred interest, hidden fees, or penalties. We empower consumers to pay over time rather than paying for a purchase entirely upfront. This increases consumers' purchasing power and gives them more control and flexibility. Our platform facilitates both true 0% APR payment options and interest-bearing loans. On the merchant side, we offer commerce enablement, demand generation, and customer acquisition tools. Our solutions empower merchants to more efficiently promote and sell their products, optimize their customer acquisition strategies, and drive incremental sales. We also provide valuable product-level data and insights — information that merchants cannot easily get elsewhere — to better inform their strategies. Finally, our consumer app unlocks the full suite of Affirm products for a delightful end-to-end consumer experience. Consumers can use our app to manage payments, open a high-yield savings account, and access a personalized marketplace.

Our company is predicated on the principles of simplicity, transparency, and putting people first. By adhering to these principles, we have built enduring, trust-based relationships with consumers and merchants that we believe will set us up for long-term, sustainable success. We believe our innovative approach uniquely positions us to define the future of commerce and payments.

Technology and data are at the core of everything we do. Our expertise in sourcing, aggregating, and analyzing data has been what we believe to be the key competitive advantage of our platform since our founding. We believe our proprietary technology platform and data give us a unique advantage in pricing risk. We use data to inform our risk scoring in order to generate value for our consumers, merchants, and capital partners. We collect and store petabytes of information that we carefully structure and use to regularly recalibrate and revalidate our models, thereby getting to risk scoring and pricing faster, more efficiently, and with a higher degree of confidence. We also prioritize building our own technology and investing in product and engineering talent as we believe these are enduring competitive advantages that are difficult to replicate. Our solutions use the latest in machine learning, artificial intelligence, cloud-based technologies, and other modern tools to create differentiated and scalable products.

We have achieved significant growth in recent periods. Our total revenue, net was $870.5 million, $509.5 million, and $264.4 million for the years ended June 30, 2021, 2020, and 2019 respectively. We incurred net losses

of $430.9 million, $112.6 million, and $120.5 million for the years ended June 30, 2021, 2020, and 2019 respectively.

The combination of our differentiated product offering, efficient go-to-market strategy, and strong monetization engine has resulted in rapid growth.

- ***Accelerating GMV growth.*** We grew our Gross Merchandise Volume ("GMV") by 79% year-over-year to $8.3 billion during the fiscal year ended June 30, 2021. During the fiscal year ended June 30, 2020, GMV was $4.6 billion, which represented 77% growth over the fiscal year ended June 30, 2019.
- ***Increased consumer engagement.*** The number of active consumers on our platform grew by 3.5 million consumers from June 30, 2020 to June 30, 2021, an increase of 97% to a total of 7.1 million.
- ***Expanded merchant network.*** We have also continued to scale the breadth and reach of our platform. From June 30, 2020 to June 30, 2021, our merchant base expanded by 412% to 28,995 active merchants.
- ***Compelling network revenue growth.*** Network revenue, which combines merchant network revenue and virtual card network revenue, increased 56% year-over-year compared to the year ended June 30, 2020. We believe that the continued growth of network revenue demonstrates the value of our platform to our merchants.

Our business was designed to scale efficiently. Our partnerships with banks and other funding relationships have allowed us to remain equity capital efficient. Since July 1, 2016, we have processed approximately $17.5 billion of GMV on our platform. As of June 30, 2021, we had over $6.5 billion in funding capacity from a diverse set of capital partners, including through our warehouse facilities, securitization trusts, and forward flow arrangements, an increase of $3.2 billion from $3.3 billion as of June 30, 2020.

Through the diversity of these funding relationships, the equity capital required to build our total platform portfolio has declined from approximately 9% of the total platform portfolio as of June 30, 2020, to approximately 4% as of June 30, 2021. We define our total platform portfolio as the unpaid principal balance outstanding of all loans facilitated through our platform as of the balance sheet date, including both those loans held for investment and those loans owned by third-parties. This amount totaled $4.7 billion and $2.5 billion as of June 30, 2021 and June 30, 2020, respectively. Additionally, we define the equity capital required as the balance of loans held for investment, plus loans held for sale, less funding debt and notes issued by securitization trusts, per our consolidated balance sheet. This amount totaled $178.1 million and $220.8 million as of June 30, 2021 and June 30, 2020, respectively. Equity capital required as a percent of the last twelve months' GMV was 2% and 5% as of June 30, 2021 and June 30, 2020, respectively.

We have focused on growing our platform and plan to continue making investments to drive future growth, as evidenced by our strategic acquisitions. In January 2021, we acquired PayBright, one of Canada's leading providers of installment payment plans for e-commerce and in-store purchases, to expand the scale and reach of our platform, creating a larger, more diverse merchant and consumer network across the United States and Canada. In May 2021, we acquired Returnly, a leader in online return experiences and post-purchase payments, to expand the capabilities of our platform and address the full shopping journey by enabling seamless return experiences that drive customer loyalty and satisfaction.

We believe that our continued success will depend on many factors, including our ability to attract additional merchant partners, retain our existing merchant partners, and grow and develop our relationships with new and existing merchant partners (including our relationship with Amazon), help our merchants grow their revenue on our platform, and develop new innovative solutions to establish the ubiquity of our network and breadth of our platform. For a further discussion of trends, uncertainties and other factors that could impact our operating results, see the section entitled "Risk Factors" in Item 1A, which is incorporated herein by reference.

Our Financial Model

Our Revenue Model

From merchants, we earn a fee when we help them convert a sale and facilitate a transaction. While merchant fees depend on the individual arrangement between us and each merchant, and vary based on the terms of the product offering, we generally earn larger merchant fees on 0% APR financing products and financial products with longer term lengths. For the years ended June 30, 2021, 2020, and 2019, 0% APR financing represented 43%, 43%, and 33%, respectively, of total GMV facilitated through our platform.

From consumers, we earn interest income on the simple interest loans that we purchase from our originating bank partners. Interest rates charged to our consumers vary depending on the transaction risk, creditworthiness of the consumer, the repayment term selected by the consumer, the amount of the loan, and the individual arrangement with a merchant. Because our consumers are never charged deferred or compounding interest, late fees, or penalties on the loans, we are not incentivized to profit from our consumers' hardships.

In order to accelerate our ubiquity, we facilitate the issuance of virtual cards directly to consumers through our app, allowing them to shop with merchants that may not yet be fully integrated with Affirm. When these virtual cards are used over established card networks, we earn a portion of the interchange fee from the transaction.

Our Loan Origination and Servicing Model

When a consumer applies for a loan through our platform, the loan is underwritten using our proprietary risk model. Once approved for the loan, the consumer then selects his/her preferred repayment option. The substantial majority of these loans are funded and issued by our originating bank partners.

A substantial majority of the loans facilitated through our platform are originated through our originating bank partners: Cross River Bank, an FDIC-insured New Jersey state-chartered bank, and Celtic Bank, an FDIC-insured Utah state-chartered industrial bank. These partnerships allow us to benefit from our partners' ability to originate loans under their banking licenses while complying with various federal, state, and other laws. Under this arrangement, we must comply with our originating bank partners' credit policies and underwriting procedures, and our originating bank partners maintain ultimate authority to decide whether to originate a loan. When an originating bank partner originates a loan, it funds the loan out of its own funds and may subsequently offer and sell the loan to us. Pursuant to our agreements with these partners, we are obligated to purchase the loans facilitated through our platform that our partner offers us and our obligation is secured by cash deposits. To date, we have purchased all of the loans facilitated through our platform and originated by our originating bank partners. When we purchase a loan from an originating bank partner, the purchase price is equal to the outstanding principal balance of the loan, plus a fee and any accrued interest. The originating bank partner also retains an interest in the loans purchased by us through a loan performance fee that is payable by us on the aggregate principal amount of a loan that is paid by a consumer. See Note 13. Fair Value of Financial Assets and Liabilities for more information on the performance fee liability.

We are also able to originate loans directly under our lending, servicing, and brokering licenses in Canada and across various states in the U.S. through our consolidated subsidiaries. We started originating loans directly in Canada in October 2019 and, through June 30, 2021, we had originated approximately $257.7 million of loans in Canada. As of June 30, 2021, we had directly originated $336.1 million of loans in the U.S. pursuant to our state licenses.

We act as the servicer on all loans that we originate directly or purchase from our originating bank partners and earn a servicing fee on loans we sell to our funding sources. We do not sell the servicing rights on any of the loans, allowing us to control the consumer experience end-to-end. To allow for flexible staffing to support overflow and seasonal traffic, we partner with several sub-servicers to manage customer care, first priority collections, and third-party collections in accordance with our policies and procedures.

Our Funding Sources

We maintain a capital-efficient model through a diverse set of funding sources. When we originate a loan directly or purchase a loan originated by our originating bank partners, we often utilize warehouse facilities with certain lenders to finance our lending activities or loan purchases. We sell the loans we originate or purchase from our originating bank partners to whole loan buyers and securitization investors through forward flow arrangements and securitization transactions, and earn servicing fees from continuing to act as the servicer on the loans.

Key Operating Metrics

We collect and analyze operating and financial data of our business to assess our performance, formulate financial projections, and make strategic decisions. In addition to revenue, net (loss) income, and other results under accounting principles generally accepted in the United States ("U.S. GAAP"), the following tables set forth key operating metrics we use to evaluate our business.

	Year Ended June 30,		
	2021	2020	2019
	(in thousands)		
Gross Merchandise Volume ("GMV")	$ 8,292,031	$ 4,637,220	$ 2,620,059

GMV

We measure gross merchandise volume to assess the volume of transactions that take place on our platform. We define GMV as the total dollar amount of all transactions on the Affirm platform during the applicable period, net of refunds. GMV does not represent revenue earned by us. However, the GMV processed through our platform is an indicator of the success of our merchants, value provided to our consumers, and the strength of our platform. For the year ended June 30, 2021, GMV was $8.3 billion, which represented an increase of approximately 79% as compared to $4.6 billion for the year ended June 30, 2020. For the year ended June 30, 2020, GMV was $4.6 billion, which represented an increase of approximately 77% as compared to $2.6 billion for the fiscal year ended June 30, 2019. Our acquisitions of PayBright and Returnly contributed an incremental $153.8 million of GMV during the year ended June 30, 2021.

	June 30, 2021	June 30, 2020	June 30, 2019
	(in thousands, except per consumer data)		
Active Consumers	7,121	3,618	2,045
Transactions per Active Consumer (x)	2.3	2.1	2.0

Active Consumers

We assess consumer adoption and engagement by the number of active consumers across our platform. Active consumers are the primary measure of the size of our network. We define an active consumer as a consumer who engages in at least one transaction on our platform during the twelve months prior to the measurement date. As of June 30, 2021, we had 7.1 million active consumers, representing an increase of approximately 97% compared to 3.6 million as of June 30, 2020, and approximately 77% compared to 2.0 million at June 30, 2019. Active consumers include an incremental 1.1 million consumers who engaged in at least one transaction on the PayBright or Returnly platforms during the twelve months prior to the measurement date, including prior to the acquisitions of PayBright and Returnly by Affirm.

Transactions per Active Consumer

We believe the value of our network is amplified with greater consumer engagement and repeat usage, highlighted by increased transactions per active consumer. Transactions per active consumer is defined as the average number of transactions that an active consumer has conducted on our platform during the twelve months

prior to the measurement date. As of June 30, 2021, we had approximately 2.3 transactions per active consumer, representing an increase of 8% as compared to 2.1 as of June 30, 2020 and an increase of 13% compared to June 30, 2019. Transactions per active consumer includes incremental transactions completed by active consumers on the PayBright or Returnly platforms during the twelve months prior to the measurement date and prior to the acquisitions of PayBright and Returnly by Affirm.

Factors Affecting Our Performance

Expanding our Network, Diversity, and Mix of Funding Relationships

Our capital efficient funding model is integral to the success of our platform. As we scale the number of transactions on our network and grow GMV, we maintain a variety of funding relationships in order to support our network. Our diversified funding relationships include warehouse facilities, securitization trusts, forward flow arrangements, and partnerships with banks. Given the short duration and strong performance of our assets, funding can be recycled quickly, resulting in a high-velocity, capital efficient funding model. We have continued to reduce the percentage of our equity capital required to fund our total platform portfolio from approximately 9% as of June 30, 2020, to approximately 4% as of June 30, 2021. The mix of on-balance sheet and off-balance sheet funding will also impact our results in any given period.

Mix of Business on Our Platform

The mix of products that our merchants offer and our consumers purchase in any period affects our operating results. The mix impacts GMV, revenue, and the financial results of that period. Differences in product mix relate to different loan durations, APR mix, and varying proportion of 0% APR versus interest-bearing financings. For example, our low AOV products generally benefit from shorter duration, but also have lower revenue as a percentage of GMV when compared to high AOV products. These mix shifts are driven in part by merchant-side activity relating to the marketing of their products, whether the merchant is fully integrated within our network, and general economic conditions affecting consumer demand. In addition, we expect that our commercial agreement with Shopify to offer Shop Pay Installments powered by Affirm and our recent Split Pay offering, a short-term payment plan for purchases under $250 with 0% APR, will increase the mix of our shorter duration, low AOV products. Differences in the mix of high versus low AOV will also impact our results. For example, we expect that transactions per active consumer may increase while revenue as a percentage of GMV may decline in the medium term to the extent that a greater portion of our GMV comes from Split Pay and other low-AOV offerings.

Sales and Marketing Investment

We have historically relied on the strength of our merchant relationships and positive user experience to develop our consumer brand and grow the ubiquity of our platform. During the year ended June 30, 2021, we increased our investment in sales and marketing channels that we believe will drive further brand awareness and preference among both consumers and merchants. Given the nature of our revenue, our investment in sales and marketing in a given period may not impact results until subsequent periods. Additionally, given the increasingly competitive nature of merchant acquisition, we expect that we may make significant investments in retaining and acquiring new merchants. We are focused on the effectiveness of sales and marketing spending and will continue to be strategic in maintaining efficient consumer and merchant acquisition.

Seasonality

We experience seasonal fluctuations in our revenue as a result of consumer spending patterns. Historically, our revenue has been the strongest during the second quarter of our fiscal year due to increases in retail commerce during the holiday season. Additionally, revenue associated with the purchase of home fitness equipment historically has been strongest in the third quarter of our fiscal year. Adverse events that occur during these months could have a disproportionate effect on our financial results for the fiscal year.

Timing of Merchant Transaction Recognition Change

The timing of our revenue recognition is tied to when a merchant captures payment and confirms a transaction financed through our platform, which we refer to as the merchant capture date. If a merchant recognizes the payment collection and confirms the transaction later in their transaction process, we expect that this change would delay the merchant capture date, which would delay our recognition of GMV and revenue related to that merchant's transactions by a corresponding amount. Such a delay would adversely affect the GMV and revenue that we recognize from such merchant's transactions in the quarterly period of such change, as the merchant capture date for a portion of such transactions would shift to a future quarterly period. We typically experience small timing differences between the consumer purchase date and the date when a merchant captures payment; however, these differences have historically been immaterial.

In December 2020, the implementation of such a change began with respect to our largest merchant, Peloton, who implemented a change in the timing of when the transaction is considered captured. This resulted in a delay in the recognition of GMV and revenue related to these transactions in the period ended December 31, 2020.

For the year ended June 30, 2021, we facilitated $66.3 million more transaction volume on our platform than was captured and confirmed by our merchants, an increase of $54.1 million from the year ended June 30, 2020, during which we facilitated $12.2 million more transaction volume than was captured and confirmed by our merchants. As of June 30, 2021 and over the multi-year life of our merchant partnership with Peloton, we had facilitated approximately $73.5 million more transaction volume than had been captured and confirmed by the merchant. This is an increase of $73.5 million from June 30, 2020 and an increase of $7.8 million from March 31, 2021.

For more information on factors affecting our performance, see *"Item 1A. Risk Factors."*

Impact of COVID-19

The COVID-19 pandemic has had, and continues to have, a significant impact on the U.S. economy and the markets in which we operate. Our positive performance during this period demonstrates the value and effectiveness of our platform, the resiliency of our business model, and the capabilities of our risk management and underwriting approach. However, some of the COVID-19 related trends underlying this positive performance, in particular the significant revenue generated from certain types of merchants, may not continue at current levels.

Diversified Mix of Merchant Partners

We have a diversified set of merchant partners across industries, which allows us to capitalize on industry tailwinds and changing consumer spending behavior, economic conditions, and other factors that may affect a particular type of merchant or industry. For example, following the onset of the COVID-19 pandemic, our revenue from merchant partners in the travel, hospitality, and entertainment industries declined significantly, but we saw a significant increase in revenue from merchant partners offering home fitness equipment, home office products, and home furnishings. While we have benefited as a result of such consumer spending trends, there can be no assurance that such trends will continue or that the levels of total revenue and merchant network revenue that we generate from merchants in fitness equipment, home office products, and home furnishings industries will continue; in fact, we have begun to see these trends begin to reverse as access to COVID-19 vaccinations has increased. The decline of sales by our merchants for any reason will generally result in lower credit sales and, therefore, lower loan volume and associated fee income for us. However, the beginnings of economic reopening and recovery present new opportunities for growth in our diverse merchant base, including early indications of strong recovery in the travel and hospitality sectors, in which we believe we are well positioned.

Dynamic Changes to Risk Model

As part of our risk mitigation platform, we closely track data and trends to measure risk and manage exposure, leveraging our flexibility to quickly adjust and adapt. In response to the macroeconomic impact of the COVID-19 pandemic, we initiated a series of refinements to our risk model based on our real-time data observations

and analysis. We were able to respond, implement, and test the updates to our model quickly due to the adaptability of our infrastructure, underwriting, and risk management models. This resulted in decreases across both charge-offs and delinquencies. As macroeconomic conditions improved, the embedded flexibility of the model allowed our risk tolerances to return closer to pre-pandemic levels while still maintaining low losses. Our proprietary risk model was not designed to take into account the longer-term impacts of social, economic, and financial disruptions caused by the COVID-19 pandemic, and while we continue to make refinements to our risk model as new information becomes available to us, any changes to our risk model may be ineffective and the performance of our risk model may decline.

Resilient Allowance Model

At the onset of the COVID-19 pandemic in March 2020, we factored in updated loss multiples using macroeconomic data to reflect stressed expected loss scenarios emerging from forecasted delinquencies and defaults. This stressing of the model resulted in an increase of the allowance for credit losses as a percentage of loans held for investment from 8.9% as of February 29, 2020 to 14.8% as of March 31, 2020. In the months subsequent to this, we have seen stronger than expected repayment history in the portfolio, resulting in a release of the allowance. As of June 30, 2021 and June 30, 2020, the allowance for credit losses as a percentage of loans held for investment was 6% and 9%, respectively. Our allowance for credit losses has declined as a percentage of loans held for investment as we retained a higher portion of longer-term, 0% APR loans on our balance sheet since completing our consolidated 2020-Z1 and 2020-Z2 securitizations during the year ended June 30, 2021. These longer-term, 0% APR loans tend to have lower expected losses than our interest bearing loans and generally carry lower loss reserves as a percentage of initial principal balance. Additionally, improved macroeconomic conditions have resulted in an overall improved credit outlook and reduced expected losses. Should macroeconomic factors or expected losses change, we may increase or decrease the allowance for credit losses.

For more information on the risks related to the COVID-19 pandemic, see *"Item 1A. Risk Factors — Risks Related to Our Business and Industry."*

Components of Results of Operations

Revenue

Merchant Network Revenue

Merchant partners are charged a fee on transactions processed through the Affirm platform. The fees vary depending on the individual arrangement between us and each merchant and on the terms of the product offering. The fee is recognized at the point in time the terms of the executed merchant agreement have been fulfilled and the merchant successfully confirms the transaction. We may originate certain loans via our wholly-owned subsidiaries, with zero or below market interest rates. In these instances, the par value of the loans originated is in excess of the fair market value of such loans, resulting in a loss, which we record as a reduction to merchant network revenue when we estimate that these losses will be recoverable over the term of our contract with the merchant. In order to continue to expand our consumer base, we may originate loans under certain merchant arrangements that we do not expect to achieve positive revenue. In these instances, the loss is recorded as sales and marketing expense. During the years ended June 30, 2021, 2020, and 2019, we generated 44%, 50% and 50% of our revenue, respectively, from merchant network fees.

Virtual Card Network Revenue

A smaller portion of our revenue comes from our Virtual Card product. We have agreements with issuer processors to facilitate transactions through the issuance of virtual debit cards to be used by consumers at checkout. Consumers can apply for a virtual debit card through the Affirm app and, upon approval, receive a single-use virtual debit card to be used for their purchase online or offline at a non-integrated merchant. The virtual debit card is funded at the time a transaction is authorized using cash held by the issuer processor in a reserve fund, which is ultimately funded and maintained by us. Our originating bank partner then originates a loan to the consumer once the transaction is confirmed by the merchant. The non-integrated merchants are charged interchange fees by the

issuer processor for virtual debit card transactions, as with all debit card purchases, and the issuer processor shares a portion of this revenue with us. We also leverage this issuer processor as a means of integrating certain merchants. Similarly, for these arrangements with integrated merchants, the merchant is charged interchange fees by the issuer processor and the issuer processor shares a portion of this revenue with us. This revenue is recognized as a percentage of both our loan volume transacted on the payment processor network and net interchange income, and this revenue is presented net of associated processing fees. We generated 6%, 4%, and 3% of our revenue from virtual card network fees for the years ended June 30, 2021, 2020, and 2019, respectively.

Interest Income

We also earn revenue through interest earned on loans facilitated by our platform. Interest income includes interest charged to consumers over the term of the consumers' loans based on the principal outstanding and is calculated using the effective interest method. In addition, interest income includes the amortization of any discounts or premiums on loan receivables created upon either the purchase of a loan from our originating bank partners or the origination of a loan. These discounts and premiums are accreted or amortized over the life of the loan using the effective interest method and represented 31%, 19%, and 18% of total interest income for the years ended June 30, 2021, 2020, and 2019, respectively. During the years ended June 30, 2021, 2020, and 2019, we generated 37%, 37%, and 45% of our revenue from interest income, respectively.

Gain on Sales of Loans

We sell a portion of the loans we originate or purchase from our originating bank partners to third-party investors. We recognize a gain or loss on sale of such loans as the difference between the proceeds received, adjusted for initial recognition of servicing assets and liabilities obtained at the date of sale, and the carrying value of the loan. During the years ended June 30, 2021, 2020, and 2019, we generated 10%, 6% and 0% of our revenue from gain (loss) on sales of loans, respectively.

Servicing Income

We earn a specified fee from providing professional services to manage loan portfolios on behalf of our third-party loan owners. Under the servicing agreements with our capital markets partners, we are entitled to collect servicing fees on the loans that we service, which are paid monthly based upon an annual fixed percentage of the outstanding loan portfolio balance. During the years ended June 30, 2021, 2020, and 2019, we generated 3%, 3%, and 2% of our revenue from servicing fees, respectively.

We expect our revenue may vary from period to period based on, among other things, the timing and size of onboarding of new merchants, the mix of 0% APR loans versus interest-bearing loans with simple interest, type and mix of products that our merchants offer to their customers, the rate of repeat transactions, transaction volume, and seasonality of or fluctuations in usage of our platform.

Operating Expenses

Our operating expenses consist of the loss on loan purchase commitment made to our originating bank partners, the provision for credit losses, funding costs, processing and servicing, technology and data analytics, sales and marketing, and general and administrative expenses. Salaries and personnel-related costs, including benefits, bonuses, and stock-based compensation expense, comprise a significant component of several of these expense categories. An allocation of overhead, such as rent and other occupancy expenses, is based on employee headcount and included in processing and servicing, technology and data analytics, sales and marketing, and general and administrative expenses.

As of June 30, 2021, we had 1,641 employees, compared to 893 employees as of June 30, 2020. We increased our headcount and personnel related costs across our business in order to support our growth strategy. We expect headcount to continue to increase during fiscal year 2022 given our focus on growth and expansion.

Loss on Loan Purchase Commitment

We purchase certain loans from our originating bank partners that are processed through our platform and our originating bank partner puts back to us. Under the terms of the agreements with our originating bank partners, we are generally required to pay the principal amount plus accrued interest for such loans. In certain instances, our originating bank partners may originate loans with zero or below market interest rates that we are required to purchase. In these instances, we may be required to purchase the loan for a price in excess of the fair market value of such loans, which results in a loss. These losses are recognized as loss on loan purchase commitment in our consolidated statements of operations and comprehensive loss. These costs are incurred on a per loan basis.

Provision for Credit Losses

Provision for credit losses consists of amounts charged against income during the period to maintain an allowance for credit losses. Our allowance for credit losses represents our estimate of the credit losses inherent in our loans held for investment and is based on a variety of factors, including the composition and quality of the portfolio, loan specific information gathered through our collection efforts, current economic conditions, and our historical net charge-off and loss experience. These costs are incurred on a per loan basis.

Funding Costs

Funding costs consist of the interest expense we incur on our borrowings and amortization of fees and other costs incurred in connection with funding the purchase and origination of loans. Excluding the amortization of debt issuance costs, which totaled $6.4 million, $2.3 million, and $1.7 million for the years ended June 30, 2021, 2020, and 2019, respectively, we incur an expense per loan pledged to our debt funding sources.

Processing and Servicing

Processing and servicing expense consists primarily of payment processing fees, third-party customer support and collection expense salaries and personnel-related costs of our customer care team, and allocated overhead. Payment processing costs are primarily driven by the number and dollar value of consumer repayments which grow as the number of transactions and GMV processed on our platform increases. Customer care loan servicing costs are primarily staffing costs related to third-party and in-house loan servicing agents, the demand for which generally increases with the number of transactions on our platform. Collection fees are fees paid to agencies as percentages of the dollars of repayment they recuperate from borrowers whose loans had previously been charged off. Processing and servicing expenses are predominantly per transaction processing fees and third-party staffing fees that generally increase with consumer contact.

Technology and Data Analytics

Technology and data analytics expense consists primarily of the salaries, stock-based compensation, and personnel-related costs of our engineering and product employees as well as our credit and analytics employees who develop our proprietary risk model, and totaled $182.2 million, $75.8 million, and $53.2 million for the years ended June 30, 2021, 2020, and 2019, respectively.

Additionally, for the years ended June 30, 2021, 2020, and 2019, $29.0 million, $17.1 million, and $12.6 million, respectively, of salaries and personnel costs that relate to the development of internal-use software were capitalized into property, equipment and software, net on the consolidated balance sheets, and amortized into technology and data analytics expense over the useful life of the internal-use software. This amortization expense totaled $10.3 million, $5.5 million, and $2.9 million for the years ended June 30, 2021, 2020, and 2019, respectively. Additional technology and data analytics expenses include platform infrastructure and hosting costs, third-party data acquisition expenses, and expenses related to the maintenance of existing technology assets and our technology platform as a whole.

Sales and Marketing

Sales and marketing expense consists primarily of salaries and personnel-related costs, as well as costs of general marketing and promotional activities, promotional event programs, sponsorships, and allocated overhead. In July 2020, we recognized an asset in connection with a commercial agreement with Shopify in which we granted warrants in exchange for their promotion of the Affirm platform with potential new merchant partners. This asset represents the probable future economic benefit to be realized over the four-year expected benefit period and is valued based on the fair value of the warrants at the grant date. This value is amortized on a straight-line basis over the four-year expected benefit period into sales and marketing expense, due to the nature of the expected benefit.

Additionally, in order to continue to expand our consumer base, we may originate certain loans via our wholly-owned subsidiaries with zero or below market interest rates under certain merchant arrangements that we do not expect to achieve positive revenue. In these instances, losses measured as the difference between the par value and fair market value of such loans are recorded as a sales and marketing expense when the loans are originated. These losses are recorded as sales and marketing expense. These losses totaled $1.7 million during the year ended June 30, 2021. We expect that our sales and marketing expense will increase as a percentage of revenue as we expand our sales and marketing efforts to drive our growth, expansion, and diversification.

General and Administrative

General and administrative expenses consist primarily of expenses related to our finance, legal, risk operations, human resources, and administrative personnel. General and administrative expenses also include costs related to fees paid for professional services, including legal, tax and accounting services, and allocated overhead.

We expect to incur additional expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, and increased expenses for insurance, investor relations, and professional services. We expect that our general and administrative expense will increase in absolute dollars as our business grows.

Other Income and Expenses

Other Income (Expense), Net

Other income (expense), net consists of interest earned on our money market funds included in cash and cash equivalents and restricted cash, gains and losses incurred on both our constant maturity swaps and as related to bifurcated derivatives associated with our convertible debt, and fair value adjustments resulting from changes in the fair value of our contingent consideration liability.

Income Tax (Benefit) Expense

Our income tax (benefit) expense consists of U.S. federal and state income taxes and Canadian federal and provincial income taxes. Through June 30, 2021, we had not been required to pay any material U.S. federal, state, or foreign income taxes due to accumulated net operating losses.

Results of Operations

The following tables set forth selected consolidated statements of operations and comprehensive loss data for each of the periods presented in dollars:

	Year Ended June 30,		
	2021	2020	2019
		(in thousands)	
Revenue			
Merchant network revenue	$ 379,551	$ 256,752	$ 132,363
Virtual card network revenue	49,851	19,340	7,911
Total network revenue	429,402	276,092	140,274
Interest income [(1)]	326,417	186,730	119,404
Gain on sales of loans [(1)]	89,926	31,907	(440)
Servicing income	24,719	14,799	5,129
Total Revenue, net	**$ 870,464**	**$ 509,528**	**$ 264,367**
Operating Expenses [(2)]			
Loss on loan purchase commitment	$ 246,700	$ 161,452	$ 73,383
Provision for credit losses	65,878	105,067	78,025
Funding costs	52,700	32,316	25,895
Processing and servicing	73,767	49,831	32,669
Technology and data analytics	256,082	122,378	76,071
Sales and marketing	184,279	25,044	16,863
General and administrative	370,251	121,230	88,902
Total Operating Expenses	**1,249,657**	**617,318**	**391,808**
Operating Loss	**$ (379,193)**	**$ (107,790)**	**$ (127,441)**
Other income (expense), net	(54,073)	(4,432)	7,022
Loss Before Income Taxes	**$ (433,266)**	**$ (112,222)**	**$ (120,419)**
Income tax (benefit) expense	(2,343)	376	36
Net Loss	**$ (430,923)**	**$ (112,598)**	**$ (120,455)**
Excess return to preferred stockholders on repurchase	—	(13,205)	(14,113)
Net Loss Attributable to Common Stockholders	**$ (430,923)**	**$ (125,803)**	**$ (134,568)**
Other Comprehensive Income (Loss)			
Foreign currency translation adjustments	$ 7,042	$ (302)	$ —
Unrealized gains on investments	29	—	—
Net Other Comprehensive Income (Loss)	**7,071**	**(302)**	**—**
Comprehensive Loss	**$ (423,852)**	**$ (112,900)**	**$ (120,455)**

[(1)] Upon purchase of a loan from our originating bank partners at a price above the fair market value of the loan or upon the origination of a loan with a par value in excess of the fair market value of the loan, a discount is included in the amortized cost basis of the loan. For loans held for investment, this discount is amortized over the life of the loan into interest income. When a loan is sold to a third-party loan buyer, the unamortized discount is released in full at the time of sale and recognized as part of the gain or loss on sales of loans. However, the cumulative value of the loss on loan purchase commitment or loss on origination, the interest income recognized over time from the amortization of discount while retained, and the release of discount into gain (loss) on sales of

loans, together net to zero over the life of the loan. The following table details activity for the discount, included in loans held for investment, for the periods indicated:

	Year Ended June 30,		
	2021	2020	2019
		(in thousands)	
Balance at the beginning of the period	$ 28,659	$ 13,068	$ 5,201
Additions from loans purchased, net of refunds	264,725	157,426	$ 70,700
Amortization of discount	(101,078)	(35,251)	$ (21,833)
Unamortized discount released on loans sold	(139,129)	(106,584)	$ (41,000)
Balance at the end of the period	$ 53,177	$ 28,659	$ 13,068

(2) Amounts include stock-based compensation as follows:

	Year Ended June 30,		
	2021	2020	2019
		(in thousands)	
General and administrative	$ 183,055	$ 13,682	$ 22,647
Technology and data analytics	83,390	12,285	13,913
Sales and marketing	19,181	4,040	4,179
Processing and servicing	2,407	82	132
Total stock-based compensation in operating expenses	288,033	30,089	40,871
Capitalized into property, equipment and software, net	13,999	2,921	2,882
Total stock-based compensation expense	$ 302,032	$ 33,010	$ 43,753

Comparison of the Years Ended June 30, 2021 and 2020

Total Revenue, net

	Year Ended June 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Merchant network revenue	$379,551	$256,752	$122,799	48 %
Virtual card network revenue	49,851	19,340	30,511	158 %
Total network revenue	429,402	276,092	153,310	56 %
Interest income	326,417	186,730	139,687	75 %
Gain (loss) on sales of loans	89,926	31,907	58,019	182 %
Servicing income	24,719	14,799	9,920	67 %
Total Revenue, net	$870,464	$509,528	$360,936	71 %

Total Revenue, net for the year ended June 30, 2021 increased by $360.9 million or 71%, compared to the year ended June 30, 2020, primarily due to an increase of $3,654.8 million or 79% in GMV on our platform, from $4,637.2 million for the year ended June 30, 2020 to $8,292.0 million for the year ended June 30, 2021. This increase in GMV was driven by the strong network effects of the expansion of our active merchant base from 5,664 as of June 30, 2020 to 28,995 as of June 30, 2021, growth in active consumers from 3.6 million as of June 30, 2020 to 7.1 million as of June 30, 2021, and an increase in average transactions per consumer from 2.1 as of June 30, 2020 to 2.3 as of June 30, 2021.

Merchant network revenue for the year ended June 30, 2021 increased by $122.8 million or 48%, compared to the year ended June 30, 2020. Merchant network revenue as a percentage of GMV for the year ended June 30, 2021 decreased to 4.6% compared to 5.5% for the year ended June 30, 2020.

Merchant network revenue growth is generally correlated with both GMV growth and the mix of loans on our platform as different loan characteristics are positively or negatively correlated with merchant fee revenue as a percentage of GMV. In particular, merchant network revenue as a percentage of GMV typically increases with the term length and average order value of our loans ("AOV"), and typically decreases in higher APR loans. Specifically, 0% APR loans typically carry higher merchant fees as a percentage of GMV. The increases in merchant network revenue during the year ended June 30, 2021 were primarily driven by growth in GMV, partially offset by reductions in average term length and AOV. For both the years ended June 30, 2021 and June 30, 2020, 0% APR loans accounted for 43% of our total GMV. For the year ended June 30, 2021, loans with a term length greater than 12 months accounted for 29% of GMV, compared with 34% for the year ended June 30, 2020. AOV was lower at $550 for the year ended June 30, 2021, compared to $609 for the year ended June 30, 2020.

These increases were partially offset by a reduction of merchant network revenue of $11.4 million for the year ended June 30, 2021 associated with the creation of discounts on self-originated loans with a par value in excess of the fair value of such loans. These discounts on certain self-originated loans are amortized into interest income over the life of the loan and were not incurred during the year ended June 30, 2020.

Additionally, during the third fiscal quarter of 2021, we recorded a reduction of merchant network revenue of $3.1 million associated with estimated merchant fees previously earned on the facilitation of transactions related to products involved in a recall announced by our largest merchant partner, Peloton. This estimate was derived in part based on estimates of return rates provided by Peloton for the quarter ended March 31, 2021, in its Form 10-Q. Based on actual return activity observed, we recorded a further reduction of merchant network revenue of $2.3 million during the fourth fiscal quarter, bringing the total reduction of merchant network revenue associated with the recall to $5.4 million for the year ended June 30, 2021.

Virtual card network revenue for the year ended June 30, 2021 increased by $30.5 million or 158%, compared to the year ended June 30, 2020. This increase was driven by an increase in GMV processed through our issuer processor of 148% for the year ended June 30, 2021 due to increased activity on our virtual card-enabled mobile application and growth in existing and new merchants integrated using our virtual card platform, as well as improved economics with our virtual card issuer processor partner.

Interest income for the year ended June 30, 2021 increased by $139.7 million or 75%, compared to the year ended June 30, 2020. Generally, interest income is correlated with the changes in the average balance of loans held for investment, as we recognize interest on loans held for investment using the effective interest method over the life of the loan. The average balance of loans held for investment increased by 87% to $1,710.9 million for the year ended June 30, 2021, compared to the same periods in the prior fiscal year.

As a percentage of average loans held for investment, total interest income decreased slightly from approximately 20% during the year ended June 30, 2020 to 19% during the year ended June 30, 2021. This change was driven by an increase in the average proportion of 0% APR loans being held on our consolidated balance sheet as a percentage of the total loans held for investment, which increased from 29% during the year ended June 30, 2020, compared to 46% during the year ended June 30, 2021. The shift was largely due to strong volume of longer-term 0% APR loans as well as short-term Split Pay loans being held for investment and the addition of our 0% APR 2020-Z1 and 2020-Z2 consolidated securitizations.

While we do recognize interest income on 0% APR loans via the amortization of the loan discount, this is generally earned at a lower rate than consumer interest on interest-bearing loans. The total amortization of discounts on loans held for investment increased by $65.8 million or 187%, for the year ended June 30, 2021, compared with the year ended June 30, 2020, and represented 31% of total interest income for the year ended June 30, 2021, compared to 19% for the year ended June 30, 2020. This increase included the amortization of discounts arising from self-originated loans held for investment of $18.2 million during the year ended June 30, 2021, which was nil for the year ended June 30, 2020.

Gain (loss) on sales of loans for the year ended June 30, 2021 increased by $58.0 million or 182%, compared to the year ended June 30, 2020. We sold loans with an unpaid balance of $3,232.9 million for the year ended June 30, 2021 and $2,664.4 million for the year ended June 30, 2020, for which we retained servicing rights. This increase was primarily due to higher loan sale volume, favorable loan sale pricing terms, and optimizing the allocation of loans to loan buyers with higher pricing terms.

Servicing income for the year ended June 30, 2021 increased by $9.9 million or 67%, compared to the year ended June 30, 2020. This increase was primarily due to an increase in the average unpaid principal balance of loans owned by third-party loan owners and increases in negotiated servicing rates with new and existing third-party loan owners. Additionally, during the year ended June 30, 2020, we recognized a reduction of servicing income of $1.0 million related to the changes in fair value of servicing assets and liabilities compared with an addition to servicing income of $1.5 million during the year ended June 30, 2021.

Operating Expenses

	Year Ended June 30,	
	2021	2020
	(in thousands)	
Loss on loan purchase commitment	$ 246,700	$ 161,452
Provision for credit losses	65,878	105,067
Funding costs	52,700	32,316
Processing and servicing	73,767	49,831
Total transaction costs	439,045	348,666
Technology and data analytics	256,082	122,378
Sales and marketing	184,279	25,044
General and administrative	370,251	121,230
Total Operating Expenses	$ 1,249,657	$ 617,318

Loss on Loan Purchase Commitment

	Year Ended June 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Loss on loan purchase commitment	$246,700	$161,452	$ 85,248	53 %
Percentage of total revenue, net	28 %	32 %		

Loss on loan purchase commitment for the year ended June 30, 2021 increased by $85.2 million or 53%, compared to the year ended June 30, 2020. This increase was due to a significant increase in the volume of loans purchased above fair market value, primarily as a result of an increase in purchases of 0% APR loans from our originating bank partners during the period. During the year ended June 30, 2021, we purchased $7.9 billion of loan receivables from our originating bank partners, representing an increase of $3.2 billion or 68%, compared to the year ended June 30, 2020.

Provision for Credit Losses

	Year Ended June 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Provision for credit losses	$ 65,878	$105,067	$ (39,189)	(37)%
Percentage of total revenue, net	8 %	21 %		

Provision for credit losses generally represents the amount of expense required to maintain the allowance for credit losses on our consolidated balance sheet, which represents management's estimate of future losses. In the event that our loans outperform expectation and/or we reduce our expectation of credit losses in future periods, we may release reserves and thereby reduce the allowance for credit losses, yielding income in the provision for credit losses. The provision is determined by the change in estimates for future losses and the net charge-offs incurred in the period. We record provision expense for each loan we retain as loans held for investment, whether we originate the loan or purchase it from one of our originating bank partners.

At the onset of the COVID-19 pandemic in March 2020, we factored in updated loss multiples using macroeconomic data to reflect stressed expected loss scenarios emerging from forecasted delinquencies and defaults. This stressing of the model resulted in an increase of the allowance for credit losses up to 14.6% at its peak as of March 31, 2020. In the months subsequent to this, we have seen stronger than expected repayment history in the portfolio, resulting in a release of the allowance over time. While the allowance for credit losses increased by 24% compared to June 30, 2020, the balance of loans held for investment increased 96% compared to the prior period. As of June 30, 2021, the allowance for credit losses as a percentage of loans held for investment decreased to 5.8%, compared to 9.2% as of June 30, 2020.

This decrease in the allowance for credit losses as a percentage of loans held for investment over time was due to a combination of factors. Firstly, continued stronger than expected repayment performance of the portfolio accounted for a decrease of 62% in our net charge-offs as a percentage of our average loans held for investment to 3.0%, compared with 7.9% for the year ended June 30, 2020. Secondly, we began transitioning to a new underlying data model which incorporates internal improvements to our underwriting and collections processes while allowing for a more granular segmentation of the loan portfolio. This change in model resulted in a decrease in the allowance of approximately $48.2 million. These decreases were offset by allowances recognized on new purchases and originations of loans held for investment in the period, though with generally higher credit quality and pledged to securitization trusts. This combination of factors, coupled with the in-period charge-offs and recoveries, resulted in a decrease in the provision for credit losses of $39.2 million compared to the year ended June 30, 2020.

Funding Costs

	Year Ended June 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Funding costs	$ 52,700	$ 32,316	$ 20,384	63 %
Percentage of total revenue, net	6 %	6 %		

Funding costs for the year ended June 30, 2021 increased by $20.4 million or 63%, compared to the year ended June 30, 2020. Funding costs for a given period are correlated with the sum of the average balance of funding debt and the average balance of notes issued by securitization trusts. This increase was primarily due to the introduction of notes issued by securitization trusts during the current fiscal year, which bear interest at fixed rates. The average balance of notes issued by securitization trusts during the year ended June 30, 2021 was $747.0 million, which did not exist during the prior year period. The average balance of funding debt for the year ended June 30, 2021 increased by $38.0 million or 5%, compared to the year ended June 30, 2020, while the average reference interest rate decreased by 91% during the period.

Processing and Servicing

	Year Ended June 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Processing and servicing	$ 73,767	$ 49,831	$ 23,936	48 %
Percentage of total revenue, net	8 %	10 %		

Processing and servicing expense for the year ended June 30, 2021 increased by $23.9 million or 48%, compared to the year ended June 30, 2020. This increase was primarily due to a $12.5 million or 57% increased in payment processing fees due to increased servicing activity and payments volume for the year ended June 30, 2021. Additionally, processing fees paid to our customer referral partners increased by $3.4 million or 189% for the year ended June 30, 2021. Personnel costs increased by $6.4 million or 119% for the year ended June 30, 2021 driven by growth in headcount, while third-party loan servicing and collections spend remained flat, increasing only 4% due to vendor cost improvements.

Technology and Data Analytics

	Year Ended June 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Technology and data analytics	$256,082	$122,378	$ 133,704	109 %
Percentage of total revenue, net	29 %	24 %		

Technology and data analytics expense for the year ended June 30, 2021 increased by $133.7 million or 109%, compared to the year ended June 30, 2020. This increase was primarily due to a $106.4 million or 140%, increase in engineering, product, and data science personnel costs for the year ended June 30, 2021, compared to the year ended June 30, 2020, net of capitalized costs for internal-use software, to continue to support our growth and technology platform as a whole. The largest component of these personnel costs was stock-based compensation, which accounted for $71.1 million of the increase compared to the year ended June 30, 2020, largely due to the vesting of RSUs for which the service-based condition had been met prior to the IPO and the performance-based condition was met on the IPO date.

Additionally, there was a $15.1 million or 63%, increase in data infrastructure and hosting costs for the year ended June 30, 2021, compared to the year ended June 30, 2020, as well as a $0.9 million or 6%, increase in underwriting data provider costs for the year ended June 30, 2021 compared to the year ended June 30, 2020. Our data infrastructure and hosting and underwriting and data provider costs all benefited from unit level cost improvements achieved as a result of vendor contract renegotiations.

Sales and Marketing

	Year Ended June 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Sales and marketing	$184,279	$ 25,044	$ 159,235	636 %
Percentage of total revenue, net	21 %	5 %		

Sales and marketing expense for the year ended June 30, 2021 increased by $159.2 million or 636%, compared to the year ended June 30, 2020. This increase was primarily due to $64.8 million of expense incurred during the year ended June 30, 2021 associated with the amortization of our commercial agreement asset with Shopify, which was recognized in July 2020. This asset represents the probable future economic benefit to be realized over the four-year expected benefit period and is valued based on the fair value of the warrants granted to Shopify under such commercial agreement at the grant date. This value is amortized on a straight-line basis over the four-year expected benefit period. Additionally, stock-based compensation related to employees in the sales and

marketing functions increased $15.1 million or 375%, compared to the year ended June 30, 2020, largely due to the vesting of RSUs for which the service-based condition had been met prior to the IPO and the performance-based condition was met on the IPO date.

Furthermore, there was a $32.3 million or 1,154% increase in brand and consumer marketing spend during the year ended June 30, 2021 compared to the year ended June 30, 2020, associated with our expanded brand-activation, holiday shopping, lifestyle, and travel marketing campaigns, as well as a $12.4 million or 2,480% increase in business-to-business marketing spend compared to the year ended June 30, 2020. Prior to this fiscal year, we had only engaged in very limited marketing efforts, primarily in the form of co-marketing with merchants.

General and Administrative

	Year Ended June 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
General and administrative	$370,251	$121,230	$ 249,021	205 %
Percentage of total revenue, net	43 %	24 %		

General and administrative expense for the year ended June 30, 2021 increased by $249.0 million or 205%, compared to the year ended June 30, 2020. This increase was primarily due to an increase of $198.9 million or 263% in personnel costs during the year ended June 30, 2021, compared to the year ended June 30, 2020, as a result of increased headcount as we continue to grow our finance, legal, operations, and administrative organizations. The largest component of these personnel costs was stock-based compensation, which increased by $169.4 million compared to the year ended June 30, 2020. This was primarily due to $83.9 million of expense recognized during the year ended June 30, 2021 based on a long-term, multi-year performance-based stock option award granted to our Chief Executive Officer prior to our IPO, as well as the vesting of RSUs for which the service-based condition had been met prior to the IPO and the performance-based condition was met on the IPO date.

Additionally, professional fees increased by $16.3 million or 133% during the year ended June 30, 2021, compared to the year ended June 30, 2020, to support our initial public offering, acquisitions, international expansion, and regulatory compliance programs.

Other Income, net

	Year Ended June 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Other income, net	$(54,073)	$ (4,432)	$ (49,641)	1,120 %
Percentage of total revenue, net	(6)%	(1)%		

For the year ended June 30, 2021, other income (expense), net, was primarily comprised of a loss of $87.2 million recognized based on the change in fair value of the contingent consideration liability associated with our acquisition of PayBright driven by changes in the value of our common stock, and a gain of $30.1 million recognized upon the conversion of convertible notes into shares of Series G-1 preferred stock. The conversion of convertible notes was accounted for as a debt extinguishment since the number of shares of Series G-1 preferred stock issued upon conversion was variable and this gain represented the difference between the carrying value of the debt at the time of extinguishment and the allocated proceeds. Additionally, we recognized a loss of $(1.6) million related to increases in the fair value of investments.

For the year ended June 30, 2020, other income (expense), net was primarily comprised of interest earned on money market funds of $3.9 million, offset by losses on our constant maturity swaps of $4.0 million and a loss of $3.8 million on the extinguishment of our convertible debt derivative liability.

Quarterly Results of Operations and Other Data

The following tables set forth our selected unaudited quarterly consolidated statements of operations data for each of the quarters indicated, as well as the percentage that each line item represents of our total revenue for each quarter presented. The information for each quarter has been prepared on a basis consistent with our audited consolidated financial statements and reflect, in the opinion of management, all adjustments which consist only of a normal, recurring nature that are necessary for a fair statement of the financial information contained in those financial statements. Our historical results are not necessarily indicative of the results that may be expected in the future. The following quarterly financial data should be read in conjunction with our consolidated financial statements included elsewhere in this Form 10-K. Totals may not foot due to rounding.

	Three Months Ended							
	June 30, 2021	March 31, 2021[1]	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
	(in thousands) (unaudited)							
Revenue								
Merchant network revenue	$ 88,657	$ 97,999	$ 99,630	$ 93,265	$ 85,249	$ 67,350	$ 67,764	$ 36,389
Virtual card network revenue	19,264	13,809	10,820	5,958	2,699	5,930	7,110	3,601
Total network revenue	$ 107,921	$ 111,808	$ 110,450	$ 99,223	$ 87,948	$ 73,280	$ 74,874	$ 39,990
Interest income	103,793	94,530	73,857	54,237	49,117	52,372	45,073	40,168
Gain (loss) on sales of loans	42,582	16,350	14,560	16,434	11,578	9,866	4,738	5,725
Servicing income	7,484	7,977	5,174	4,084	4,689	2,755	5,291	2,064
Total Revenue, net	$ 261,780	$ 230,665	$ 204,041	$ 173,978	$ 153,332	$ 138,273	$ 129,976	$ 87,947
Operating Expenses								
Loss on loan purchase commitment	$ 51,010	$ 62,054	$ 67,768	$ 65,868	$ 55,311	$ 43,519	$ 42,661	$ 19,961
Provision for credit losses	25,489	(1,063)	12,521	28,931	(32,171)	82,216	30,178	24,844
Funding costs	15,623	14,665	12,060	10,352	7,817	8,204	8,167	8,128
Processing and servicing	21,924	21,543	16,802	13,498	14,806	13,678	11,652	9,695
Technology and data analytics	71,233	109,447	41,634	33,768	31,744	33,654	31,612	25,368
Sales and marketing	63,544	59,041	39,112	22,582	5,066	7,108	7,651	5,219
General and administrative	137,647	159,415	40,916	32,273	31,439	31,399	30,688	27,704
Total Operating Expenses	$ 386,470	$ 425,102	$ 230,813	$ 207,272	$ 114,012	$ 219,778	$ 162,609	$ 120,919
Operating (Loss) Income	$ (124,690)	$ (194,437)	$ (26,772)	$ (33,294)	$ 39,320	$ (81,505)	$ (32,633)	$ (32,972)
Other income (expense), net	(5,985)	(77,773)	240	29,445	(4,413)	(4,022)	1,730	2,273
(Loss) Income Before Income Taxes	$ (130,675)	$ (272,210)	$ (26,532)	$ (3,849)	$ 34,907	$ (85,527)	$ (30,903)	$ (30,699)
Income tax (benefit) expense	(2,448)	(70)	78	97	94	93	93	96
Net (Loss) Income	$ (128,227)	$ (272,140)	$ (26,610)	$ (3,946)	$ 34,813	$ (85,620)	$ (30,996)	$ (30,795)

[1] We determined that stock based compensation recorded during the three months ended March 31, 2021 was understated, as the estimated fair value of RSUs granted during the three months ended December 31, 2020 did not reflect an increase in share value due to the anticipated IPO. As a result, the accompanying unaudited interim financial information for the three months ended March 31, 2021 has been adjusted to reflect additional stock based compensation expense of $25.0 million from amounts previously reported.

Operating expenses include stock-based compensation as follows:

	Three Months Ended							
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
	(in thousands) (unaudited)							
Processing and servicing	$ 473	$ 1,621	$ 287	$ 26	$ 28	$ 27	$ 32	$ (5)
Technology and data analytics	21,922	56,699	2,556	2,213	1,988	3,360	3,610	3,327
Sales and marketing	6,415	11,425	581	760	868	918	963	1,291
General and administrative	81,771	94,983	3,097	3,204	2,496	3,665	3,689	3,812
Total stock-based compensation expense	$ 110,581	$ 164,728	$ 6,521	$ 6,203	$ 5,380	$ 7,970	$ 8,294	$ 8,425

The following table presents each line item as a percentage of our total revenue for each quarter presented:

	Three Months Ended							
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Revenue								
Merchant network revenue	34 %	42 %	49 %	54 %	56 %	49 %	52 %	41 %
Virtual card network revenue	7 %	6 %	5 %	3 %	2 %	4 %	5 %	4 %
Total network revenue	41 %	48 %	54 %	57 %	57 %	53 %	58 %	45 %
Interest income	40 %	41 %	36 %	31 %	32 %	38 %	35 %	46 %
Gain (loss) on sales of loans	16 %	7 %	7 %	9 %	8 %	7 %	4 %	7 %
Servicing income	3 %	3 %	3 %	2 %	3 %	2 %	4 %	2 %
Total Revenue, net	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Operating Expenses								
Loss on loan purchase commitment	19 %	27 %	33 %	38 %	36 %	31 %	33 %	23 %
Provision for credit losses	10 %	— %	6 %	17 %	(21)%	59 %	23 %	28 %
Funding costs	6 %	6 %	6 %	6 %	5 %	6 %	6 %	9 %
Processing and servicing	8 %	9 %	8 %	8 %	10 %	10 %	9 %	11 %
Technology and data analytics	27 %	47 %	20 %	19 %	21 %	24 %	24 %	29 %
Sales and marketing	24 %	26 %	19 %	13 %	3 %	5 %	6 %	6 %
General and administrative	53 %	69 %	20 %	19 %	21 %	23 %	24 %	32 %
Total Operating Expenses	148 %	184 %	113 %	119 %	74 %	159 %	125 %	137 %
Operating (Loss) Income	(48)%	(84)%	(13)%	(19)%	26 %	(59)%	(25)%	(37)%
Other income (expense), net	(2)%	(34)%	— %	17 %	(3)%	(3)%	1 %	3 %
(Loss) Income Before Income Taxes	(50)%	(118)%	(13)%	(2)%	23 %	(62)%	(24)%	(35)%
Income tax (benefit) expense	(1)%	— %	— %	— %	— %	— %	— %	— %
Net (Loss) Income	(49)%	(118)%	(13)%	(2)%	23 %	(62)%	(24)%	(35)%

The following table sets forth some of the key operating metrics we use to evaluate our business for each of the periods indicated:

	Three Months Ended							
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
	(in thousands) (unaudited)							
Gross Merchandise Volume (GMV)	$ 2,483,616	$ 2,257,374	$ 2,075,112	$1,475,929	$ 1,202,846	$ 1,231,484	$ 1,341,584	$ 861,306

Quarterly Revenue Trends

Total Revenue, net has generally increased sequentially in each of the periods presented due to the continued growth in GMV, increase in active consumers, and expansion of our merchant network. We generally experience seasonality in our business in terms of changes in GMV in accordance with retail and e-commerce trends. We typically see increased revenue in the second fiscal quarter of each year as a result of the increased GMV occurring as a part of the holiday shopping season, which is most evident in merchant network revenue as this revenue is recognized when the terms of the executed merchant agreement have been fulfilled and the merchant successfully confirms the transaction. We believe that this seasonality has affected and will continue to affect our quarterly results; however, to date its effect may have been masked by our rapid growth.

Since we recognize interest income on loans held for investment over the term of the loan, a substantial portion of the revenue we report in each period is attributable to loans created via transactions occurring in prior periods. Consequently, increases or decreases in GMV in one period may not be immediately reflected in our revenue for that period and may positively or negatively affect our revenue in future periods. This effect is lessened by the relatively short duration of loans held for investment but may be increased by shifts in the relative proportion of loans held for investment compared to loans sold to third-party loan buyers.

Quarterly Operating Expense Trends

Operating expenses generally have increased sequentially in each of the periods presented, other than the fourth fiscal quarter of 2020 and fourth fiscal quarter of 2021. Quarterly increases in operating expenses are primarily due to increased costs of operations as our GMV and total platform portfolio have grown and due to increased investments in headcount and other related expenses to support our growth. We expect headcount to continue to increase given our focus on growth and expansion.

The provision for credit losses represents the amount of expense required to maintain the allowance of credit losses on our balance sheet which represents management's estimate of future losses. The provision is determined by the change in estimates for future losses and the net charge offs incurred in the period. Our provision for losses has generally grown in line with the increase in loans held for investment, with the exception of the third and fourth fiscal quarters of 2020 as well as the second and third fiscal quarters of 2021.

In March 2020, at the onset of the COVID-19 pandemic, we increased our allowance for loan losses significantly after factoring in updated loss multiples using macroeconomic data to reflect stressed expected loss scenarios emerging from forecasted delinquencies and defaults. This resulted in a significant increase in provision for credit losses during the period. However, during the following quarter ended June 30, 2020, we saw stronger than expected repayment history in the portfolio, resulting in a decrease in these stressed loss multiples and release of the allowance and therefore, a significant decrease in operating expenses.

During the second and third fiscal quarters of 2021, we saw similarly stronger than expected repayment history as well as improving macroeconomic factors resulting in reduced provision expense. Additionally, we began transitioning to a new underlying data model which incorporates internal improvements to our underwriting and collections processes while allowing for a more granular segmentation of the loan portfolio. This change in model resulted in a decrease to the allowance. These decreases were largely offset by allowances recognized on new purchases and originations of loans held for investment in the period with generally higher credit quality and pledged to securitization trusts, however, this combination of factors, coupled with the in-period charge-offs and repayments, resulted in income recognized from the provision for credit losses of during the three months ended March 31, 2021. Should similar macroeconomic or other factors arise that change our loss expectations, we may increase or decrease the allowance.

Liquidity and Capital Resources

Sources and Uses of Funds

We have incurred losses since our inception, accumulating a deficit of $888.4 million and $447.2 million as of June 30, 2021 and June 30, 2020, respectively. We have historically financed the majority of our operating and capital needs through the private sales of equity securities, borrowings from debt facilities and convertible debt, third-party loan sale arrangements, and cash flows from operations. In September and October 2020, we issued an aggregate of 21,836,687 shares of Series G preferred stock for aggregate cash proceeds of $435.1 million. On January 15, 2021, we closed an initial public offering of our Class A common stock with cash proceeds, before expenses, of $1.3 billion.

As of June 30, 2021, our principal sources of liquidity were cash and cash equivalents, available capacity from revolving debt facilities, revolving securitizations, forward flow loan sale arrangements, and certain cash flows from our operations. We believe that our existing cash balances, available capacity under our revolving debt facilities, revolving securitizations and off-balance sheet loan sale arrangements, and cash from operations, are sufficient to meet both our existing operating, working capital, and capital expenditure requirements and our currently planned growth for at least the next 12 months. We cannot provide assurance, however, that our business will generate sufficient cash flows from operations or that future borrowings will be available to us in an amount sufficient to enable us to fund our liquidity needs. Our ability to do so depends on prevailing economic conditions and other factors, many of which are beyond our control. Our on- and off-balance sheet facilities provide funding subject to various constraining limits on the financed portfolios. These limits are generally tied to loan-level attributes such as loan term, credit quality, and interest rate, as well as borrower- and merchant-level attributes.

Cash and Cash Equivalents

As of June 30, 2021, we had approximately $1.5 billion of cash to fund our future operations compared to approximately $267.1 million as of June 30, 2020. Our cash and cash equivalents were held primarily for continued investment in our business, for working capital purposes, and to facilitate a portion of our lending activities. Our policy is to invest cash in excess of our immediate working capital requirements in short-term investments and deposit accounts to preserve the principal balance and maintain adequate liquidity.

Restricted Cash

Restricted cash consists primarily of: (i) deposits restricted by standby letters of credit for office leases; (ii) funds held in accounts as collateral for our originating bank partners; and (iii) servicing funds held in accounts contractually restricted by agreements with warehouse credit facilities and third-party loan owners. We have no ability to draw on such funds as long as they remain restricted under the applicable arrangements. Our policy is to invest restricted cash held in debt facility related accounts and cash deposited as collateral for leases in investments designed to preserve the principal balance and provide liquidity. Accordingly, such cash is invested primarily in money market instruments that offer daily purchase and redemption and provide competitive returns consistent with our policies and market conditions.

Funding Debt

The following table summarizes our funding debt facilities as of June 30, 2021:

Maturity Fiscal Year	Borrowing Capacity	Principal Outstanding
	(in thousands)	
2022	$ 177,298	$ 104,159
2023	1,325,000	460,289
2024	250,000	22,705
2025	—	—
2026	250,000	102,203
Total	$ 2,002,298	$ 689,356

Warehouse Credit Facilities

Through trusts, we entered into warehouse credit facilities with certain lenders to finance the purchase and origination of our loans. These trusts are consolidated variable interest entities ("VIE"), and each trust entered into a credit agreement and security agreement with a commercial bank as administrative agent and a national banking association as collateral trustee and paying agent. Borrowings under these agreements are referred to as funding debt. These credit agreements contain operating covenants, including limitations on the incurrence of certain indebtedness and liens, restrictions on certain intercompany transactions, and limitations on the amount of dividends and stock repurchases. Our funding debt facilities include concentration limits for various loan characteristics including credit quality, product mix, geography, and merchant concentration. As of June 30, 2021, we were in compliance with all applicable covenants in the agreements. Refer to Note 11. Debt of the accompanying notes to the consolidated financial statements included elsewhere in this Form 10-K for additional information.

These revolving facilities mature between 2022 and 2026, and subject to covenant compliance generally permit borrowings up to 12 months prior to the final maturity date. Borrowings under these facilities generally occur multiple times per week, and generally coincide with the purchase of loans from our originating bank partners. We manage liquidity by accessing diversified pools of capital and avoid concentration with any single counterparty; we are diversified across different types of investors including investment banks, asset managers, and insurance companies.

Borrowings under these facilities bear interest at an annual benchmark rate of LIBOR or at an alternative commercial paper rate (which is either (i) the per annum rate equivalent to the weighted-average of the per annum rates at which all commercial paper notes were issued by certain lenders to fund advances or maintain loans, or (ii) the daily weighted-average of LIBOR, as set forth in the applicable credit agreement), plus a spread ranging from 1.70% to 4.00%. Interest is payable monthly. In addition, these agreements require payment of a monthly unused commitment fee ranging from 0.20% to 0.75% per annum on the undrawn portion available.

Other Funding Facilities

Prior to our acquisition of PayBright on January 1, 2021, PayBright entered into various credit facilities utilized to finance the origination of loans in Canada. Similar to our warehouse credit facilities, borrowings under these agreements are referred to as funding debt, and proceeds from the borrowings may only be used for the purposes of facilitating loan funding and origination. These facilities are secured by PayBright loan receivables pledged to the respective facility as collateral, mature in 2022, and bear interest based on a commercial paper rate plus a spread ranging from 1.25% to 4.25%.

Convertible Debt

On April 29, 2020, we entered into a note purchase agreement with various investors and issued convertible notes in an aggregate amount of $75.0 million with a maturity date of April 29, 2021 and bearing interest at a rate of 1.00% per annum.

On September 11, 2020, as part of our Series G equity financing round, the convertible notes issued in April 2020 were fully converted into 4,444,321 shares of Series G-1 preferred stock.

Revolving Credit Facility

On January 19, 2021, we entered into a revolving credit agreement with a syndicate of commercial banks for a $185.0 million unsecured revolving credit facility. This facility bears interest at a rate equal to, at our option, either (a) a Eurodollar rate determined by reference to adjusted LIBOR for the interest period, plus an applicable margin of 2.50% per annum or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50% per annum, (ii) the rate last quoted by The Wall Street Journal as the U.S. prime rate, and (iii) the one-month adjusted LIBOR plus 1.00% per annum, in each case, plus an applicable margin of 1.50% per annum. The revolving credit agreement has a final maturity date of January 19, 2024. The facility contains certain covenants and restrictions, including certain financial maintenance covenants, and requires payment of a monthly unused commitment fee of 0.35% per annum on the undrawn balance available. There are no borrowings outstanding under the facility at June 30, 2021. Refer to Note 11. Debt.

Securitizations

In connection with asset-backed securitizations, we sponsor and establish trusts to ultimately purchase loans facilitated by our platform. Securities issued from our asset-backed securitizations are senior or subordinated, based on the waterfall criteria of loan payments to each security class. The subordinated residual interests issued from these transactions are first to absorb credit losses in accordance with the waterfall criteria. The assets are transferred into a trust such that the assets are legally isolated from the creditors of Affirm and are not available to satisfy our obligations. These assets can only be used to settle obligations of the underlying trusts. Each securitization trust issued senior notes and residual certificates to finance the purchase of the loans facilitated by our platform. At the closing of each securitization, we contributed loans, facilitated through our technology platform, with an aggregate outstanding principal balance of $1,856.8 million. The 2020-Z1, 2020-Z2, and 2021-Z1 securitizations are secured by static pools of loans contributed at closing, whereas the 2020-A and 2021-A securitizations are revolving and we may contribute additional loans from time to time until the end of the revolving period. Refer to Note 12. Securitizations and Variable Interest Entities.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Year Ended June 30,	
	2021	2020
	(in thousands)	
Net Cash Used in Operating Activities	$ (193,130)	$ (71,302)
Net Cash Used in Investing Activities	(1,022,033)	(253,073)
Net Cash Provided by Financing Activities[1]	2,577,830	294,732

(1) Amounts include net cash provided by the issuance of redeemable convertible preferred stock and convertible debt as follows:

	Year Ended June 30,	
	2021	2020
	(in thousands)	
Proceeds from initial public offering, net	$ 1,305,176	$ —
Proceeds from issuance of redeemable convertible preferred stock, net of repurchases and issuance costs	434,529	(7,110)
Proceeds from issuance of common stock, net of repurchases	46,242	(16,121)
Proceeds from issuance of convertible debt	—	75,000
Net cash (used in) provided by equity-related financing activities	$ 1,785,947	$ 51,769
Net cash provided by debt-related financing activities	950,163	242,963
Payments of tax withholding for stock-based compensation	(158,280)	—
Net cash provided by financing activities	$ 2,577,830	$ 294,732

Operating Activities

Our largest sources of operating cash flows are fees charged to merchant partners on transactions processed through our platform and interest income from consumers' loans. Our primary uses of cash from operating activities are for general and administrative, technology and data analytics, funding costs, processing and servicing, and sales and marketing expenses.

Cash used in operating activities for the year ended June 30, 2021 was $193.1 million, an increase of $121.8 million from $71.3 million for the year ended June 30, 2020. This reflects our net loss of $430.9 million, adjusted for non-cash charges of $332.3 million, net cash outflows of $45.9 million from the purchase and sale of loans held for sale, and net cash inflows of $53.7 million provided by changes in our operating assets and liabilities.

Non-cash charges primarily consisted of: provision for credit losses, which decreased by $39.2 million or 37% due to lower than expected credit losses and improved credit quality of the portfolio; gain (loss) on sales of loans, which increased by $58.0 million from $31.9 million for the year ended June 30, 2020 due to improved loan sale economics and increased loan sales since the fourth quarter of the prior year; and amortization of premiums and discounts, which increased by $62.8 million or 227% due to increased amortization of discounts related to loans purchased from our originating bank partners at a price above fair market value. Additionally, during the year ended June 30, 2021, we recognized a gain of $30.1 million resulting from the conversion of the convertible notes into shares of Series G-1 redeemable convertible preferred stock in September 2020. This gain represented the difference between the carrying value of the debt at the time of extinguishment and the allocated proceeds. We also incurred $69.1 million of amortization expense associated with our commercial agreement assets. None of these non-cash charges were earned or incurred during the year ended June 30, 2020. Furthermore, we incurred $288.0 million of stock-based compensation, up from $29.6 million during the year ended June 30, 2020 due to accelerated vesting of RSUs for which the service-based condition had been met prior to the IPO and the performance-based condition was met on the IPO date, and losses of $87.2 million due to the increase in the fair value of our contingent consideration liability, driven by changes in the value of our common stock.

Our net cash outflows resulting from changes in operating assets and liabilities increased to $53.7 million for the year ended June 30, 2021, compared to cash inflows of $31.0 million for the year ended June 30, 2020. This shift was primarily due to increases to other assets as a result of the recognition of our Shopify commercial agreement asset, which had a balance of $205.8 million at June 30, 2021, partially offset by increases to accrued expenses and other liabilities associated with our contingent consideration liability, which had a balance of $147.8 million at June 30, 2021.

Investing Activities

Cash used in investing activities for the year ended June 30, 2021 was $1,022.0 million, an increase of $769.0 million from $253.1 million for the year ended June 30, 2020. The main driver of this was $5.9 billion of purchases and origination of loans, representing an increase of $3.1 billion or 108% compared to the prior year, due partly to continued growth in GMV but also due to the establishment of five new securitization trusts during the period in which we purchased loans and contributed approximately $1,856.8 million of loan receivables to the trusts, rather than selling to third-party loan buyers and classifying this activity as an operating activity on the statement of cash flows. Additionally, we recorded cash outflows of approximately $222.4 million related to cash consideration for acquisitions, net of cash and restricted cash acquired. These cash outflows were partially offset by $4,324.6 million of repayments of loans and other servicing activity, representing an increase of $2,029.8 million, or 88%, compared to the prior year, due to a higher average balance of loans held for investment and generally increasing credit quality of the portfolio.

Financing Activities

Cash provided by financing activities for the year ended June 30, 2021 was $2,577.8 million, an increase of $2,283.1 million from $294.7 million during the year ended June 30, 2020. A main driver of this was the issuance of common stock upon our initial public offering in January 2021 for $1,305.2 million, net of issuance costs, and issuances of Series G redeemable convertible preferred stock in September 2020 and October 2020 for $434.5 million, net of issuance costs. Additionally, the issuance of notes by our newly formed securitization trusts during the year ended June 30, 2021 resulted in net cash inflows of $1,185.5 million, net of in-period principal repayments. Each of these cash inflows represented new financing activities compared to the year ended June 30, 2020 but were partially offset by $222.8 million of net cash outflows from funding debt as principal repayments on debt exceeded proceeds from draws on these revolving credit facilities. The net cash outflows from funding debt are in contrast to net cash inflows from funding debt of $250.7 million during the year ended June 30, 2020. The shift between periods is largely due to the availability of new funding sources in our securitization trusts. Additionally, we recorded payments of approximately $158.3 million for tax withholding associated with stock-based compensation during the year ended June 30, 2021 which did not occur in prior periods, as the vesting of RSUs was triggered by the initial public offering in January 2021.

Liquidity and Capital Risks and Requirements

There are numerous risks to our financial results, liquidity, capital raising, and debt refinancing plans, some of which may not be quantified in our current liquidity forecasts. The principal factors that could impact our liquidity and capital needs are customer delinquencies and defaults, a prolonged inability to adequately access capital market funding, declines in loan purchases and therefore revenue, fluctuations in our financial performance, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced products, and the continuing market adoption of our platform. We intend to support our liquidity and capital position by pursuing diversified debt financings (including new securitizations and revolving debt facilities) and extending existing secured revolving facilities to provide committed liquidity in case of prolonged market fluctuations.

We may, in the future, enter into arrangements to acquire or invest in complementary businesses, products, and technologies. We may be required to seek additional equity or debt financing in connection with those efforts. In the event that we require additional financing, we may not be able to raise such financing on terms acceptable to us or at all. Additionally, as a result of any of these actions, we may be subject to restrictions and covenants in the agreements governing these transactions that may place limitations on us, and we may be required to pledge additional collateral as security. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in continued innovation, we may not be able to compete successfully, which would harm our business, operations, and financial condition. It is also possible that the actual outcome of one or more of our plans could be materially different than expected or that one or more of our significant judgments or estimates could prove to be materially incorrect.

Concentrations of Revenue

For the years ended June 30, 2021, 2020, and 2019 approximately 20%, 28%, and 20% of total revenue, respectively, was driven by one merchant partner, Peloton. We believe we have a strong relationship with Peloton and, in September 2020, we entered into a renewed merchant agreement with Peloton with an initial three-year term ending in September 2023, which automatically renews for additional and successive one-year terms until terminated. While we believe our growth will facilitate both revenue growth and merchant diversification as we continue to integrate with a wide range of merchants, our revenue concentration may cause our financial performance to fluctuate significantly from period to period based on the revenue from such merchant partner.

Contractual Obligations

The following table summarizes our contractual obligations as of June 30, 2021:

	Payments Due By Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
			(in thousands)		
Funding debt	$ 689,356	$ 104,159	$ 482,994	$ 102,203	$ —
Notes issued by securitization trusts	1,184,415	—	—	1,184,415	—
Operating lease commitments(1)	88,535	15,303	31,438	31,374	10,420
Purchase commitments(2)	81,369	39,702	41,667	—	—
Contingent consideration liability(3)	147,820	—	147,820	—	—
Commercial agreement liability(3)	25,357	—	25,357	—	—
Total	$ 2,216,852	$ 159,164	$ 729,276	$ 1,317,992	$ 10,420

(1) Consists of payment obligations under our office leases.

(2) In May 2020, we entered into an addendum to our agreement with our cloud computing web services provider which included annual spending commitments, as further described below.

(3) Refer to Note 6. Balance Sheet Components for a description of the contingent consideration liability and commercial agreement liability, each recorded as a component of accrued expenses and other liabilities on the consolidated balance sheets.

The commitment amounts in the table above are associated with contracts that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the actions under the contracts.

In February 2012, we entered into an agreement with a third-party cloud computing web services provider for our cloud computing and hosting services. In May 2020, we entered into an addendum to our agreement with our cloud computing web services provider which included annual spending commitments for the period between May 2020 and April 2023 with an aggregate committed spend of $120.0 million during such period. Our agreement with our cloud computing web services provider will continue indefinitely until terminated by either party. Our cloud-computing web services provider may terminate the customer agreement for convenience with 30 days prior written notice and may, in some cases, terminate the agreement immediately for cause upon notice. If we fail to meet the minimum purchase commitment during any year, we may be required to pay the difference. We pay our cloud-computing web services provider monthly, and we may pay more than the minimum purchase commitment to our cloud-computing web services provider based on usage.

Off-Balance Sheet Arrangements

Off-balance sheet loans relate to unconsolidated securitization transactions and loans sold to third-party investors for which we have some form of continuing involvement, including as servicer. For an off-balance sheet

loan where servicing is the only form of continuing involvement, we would only experience a loss if we were required to repurchase such a loan due to a breach in representations and warranties associated with our loan sale or servicing contracts. As of June 30, 2021, the aggregate outstanding balance of loans held by third-party investors or off-balance sheet VIEs was $2.5 billion. As of June 30, 2021, we had one off-balance sheet VIE, the 2021-Z1 securitization. In the unlikely event principal payments on the loans backing any off-balance sheet securitization are insufficient to pay senior note holders, including any retained interest, then any amounts the Company contributed to the securitization reserve accounts may be depleted. See Note 12. Securitizations and Variable Interest Entities of the accompanying notes to our consolidated financial statements for more information.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. U.S. GAAP requires us to make certain estimates and judgments that affect the amounts reported in consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Because certain of these accounting policies require significant judgment, our actual results may differ materially from our estimates. To the extent that there are differences between our estimates and actual results, our future consolidated financial statement presentation, financial condition, results of operations, and cash flows will be affected.

We evaluate our significant estimates on an ongoing basis, including, but not limited to, estimates related to merchant network revenue, loss on loan purchase commitment, allowance for credit losses, stock-based compensation, and income taxes. We believe these estimates have the greatest potential effect on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. For further information, all of our significant accounting policies, including recent accounting pronouncements, are described in Note 2. Summary of Significant Accounting Policies of the accompanying notes to our consolidated financial statements included in this Form 10-K.

Merchant Network Revenue

Merchant network revenue consists primarily of merchant fees. Merchants are charged a fee on each transaction processed through the Affirm platform. The fees range depending on the individual arrangement between us and each merchant and vary based on the terms of the product offering. The fee is recognized as earned when the terms of the executed merchant agreement have been fulfilled and the merchant successfully confirms the transaction. We present our transaction with the merchant separate from our transactions with our originating bank partners. Except where we originate certain loans via our wholly-owned subsidiaries, our bank partners are the originator of the loan extended to the merchant’s customer, and accordingly we account for the loan separate from the fee received from the merchant.

When we originate loans via our wholly-owned subsidiaries, certain loans may have zero or below market interest rates. In these instances, the par value of the loans originated is in excess of the fair market value of such loans, resulting in a loss, which we record as a reduction to merchant network revenue when we estimate that these losses will be recoverable over the term of our contract with the merchant. In order to continue to expand our consumer base, we may originate loans under certain merchant arrangements that we do not expect to achieve positive revenue. In these instances, the loss is recorded as sales and marketing expense.

Loss on Loan Purchase Commitment

We purchase loans from our originating bank partners that are facilitated through our platform. Under the terms of the agreement, we are generally required to pay the principal amount plus accrued interest for such loans. In certain instances, our originating bank partner may originate loans with zero or below market interest rates that we are required to purchase. In these instances, we may be required to purchase the loan for a price in excess of the fair market value of such loans, which results in a loss on loan purchase and is recognized as loss on loan purchase commitment in our consolidated statements of operations. The fair value is determined by taking the difference

between the estimated fair value of the loan and the anticipated purchase price. When the loan is purchased, the liability is included in the amortized cost basis of the purchased loan as a discount, which is then amortized into interest income over the life of the loan.

Allowance for Credit Losses

The allowance for credit losses on loans held for investment is determined based on management's current estimate of expected credit losses over the remaining contractual term, historical credit losses, consumer payment trends, estimates of recoveries, and future expectations on individual loans as of each balance sheet date. We immediately recognize an allowance for expected credit losses upon origination of a loan. Adjustments to the allowance each period for changes in our estimate of lifetime expected credit losses are recognized in earnings through the provision for credit losses presented on our consolidated statements of operations and comprehensive loss. We have made an accounting policy election to not measure an allowance for credit losses for accrued interest receivables. Previously recognized interest receivable from charged-off loans that is accrued but not collected from the consumer is reversed.

In estimating the allowance for credit losses, management utilizes a migration analysis of delinquent and current loan receivables. Migration analysis is a technique used to estimate the likelihood that a loan receivable will progress through various stages of delinquency and to charge-off. The analysis focuses on the pertinent factors underlying the quality of the loan portfolio. These factors include historical performance, the age of the receivable balance, seasonality, customer credit-worthiness, changes in the size and composition of the loan portfolio, delinquency levels, bankruptcy filings, actual credit loss experience, and current economic conditions. We also take into consideration certain qualitative factors where we adjust our quantitative baseline using our best judgement to consider the inherent uncertainty regarding future economic conditions and consumer loan performance. For example, the Company considers the impact of current economic and environmental factors at the reporting date that did not exist over the period from which historical experience was used. As of June 30, 2021, we have considered the impact of government intervention and legislation in the form of stimulus checks, extended unemployment benefits, and small business relief on loan repayment and consumer behavior patterns.

When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. Loans are charged-off in accordance with our charge-off policy, as the contractual principal becomes 120 days past due. Subsequent recoveries of the unpaid principal balance, if any, are credited to the allowance for credit losses.

The underlying assumptions, estimates, and assessments we use to provide for losses are updated periodically to reflect our view of current conditions, which can result in changes to our assumptions. Changes in such estimates can significantly affect the allowance and provision for credit losses. It is possible that we will experience loan losses that are different from our current estimates.

Stock-Based Compensation Expense

Compensation expense related to stock-based transactions, including employee, consultant, and non-employee director stock option awards and restricted stock units ("RSUs"), is measured and recognized in the consolidated financial statements based on fair value. The fair value of each equity-classified option award is estimated on the grant date using the Black Scholes option-pricing model. Expense is recognized on a straight-line basis over the vesting period of the award based on the estimated portion of the award that is expected to vest.

Our option-pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, the expected term of the option, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock. The assumptions used in our option-pricing model represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

Additionally, we have granted stock option awards with service-based and performance-based vesting conditions, with market-based conditions that are incorporated into the grant date fair value. We determined the grant date fair value of these awards by utilizing a Monte Carlo simulation model that incorporates the possibility that the market-based conditions may not be satisfied. The Monte Carlo simulation also incorporates assumptions including expected stock price volatility, expected term, and risk-free interest rates. We estimate the volatility of common stock on the date of grant based on the weighted-average historical stock price volatility of comparable publicly-traded companies in our industry group. We estimate the expected term of the award based on various exercise scenarios. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term set forth.

We will continue to use judgment in evaluating the assumptions related to our stock-based compensation on a prospective basis. As we continue to accumulate additional data related to our common stock, we may have refinements to our estimates, which could materially impact our future stock-based compensation expense.

Income Taxes

We report income taxes in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 740, Income Taxes ("ASC 740"), which requires an asset and liability approach in accounting for income taxes. Under this method, the deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance reduces the deferred tax assets to the amount that is more likely than not to be realized.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex federal and state tax laws and regulations. ASC 740 states that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits.

We record unrecognized tax benefits as liabilities in accordance with ASC 740 and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

We assess the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred for the years ended June 30, 2021, 2020, and 2019. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. On the basis of this evaluation, as of June 30, 2021, 2020, and 2019, a full valuation allowance has been recorded against our gross deferred tax asset, net of future reversing deferred tax liabilities. The amount of the deferred tax assets considered realizable, however, could be adjusted if estimates of the future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth.

Recent Accounting Pronouncements

Refer to Note 2. Summary of Significant Accounting Policies of the accompanying notes to our consolidated financial statements.

ITEM 7. 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 consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K ("Form 10-K"). You should review the sections titled "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. For the periods presented, references to originating bank partners are to Cross River Bank and Celtic Bank. Unless the context otherwise requires, all references in this report to "Affirm," the "Company," "we," "our," "us," or similar terms refer to Affirm Holdings, Inc. and its subsidiaries. A discussion regarding our financial condition and results of operations for the fiscal year ended June 30, 2022 compared to the fiscal year ended June 30, 2021 is presented below. A discussion regarding our financial condition and results of operations for the fiscal year ended June 30, 2021 compared to the fiscal year ended June 30, 2020 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

Overview

We are building the next generation platform for digital and mobile-first commerce. We believe that by using modern technology, the very best engineering talent, and a mission-driven approach, we can reinvent payments and commerce. Our solutions, which are built on trust and transparency, make it easier for consumers to spend responsibly and with confidence, easier for merchants to convert sales and grow, and easier for commerce to thrive.

Our point-of-sale solutions allow consumers to pay for purchases in fixed amounts without deferred interest, late fees, or penalties. We empower consumers to pay over time rather than paying for a purchase entirely upfront. This increases consumers' purchasing power and gives them more control and flexibility. Our platform facilitates both true 0% APR payment options and interest-bearing loans. On the merchant side, we offer commerce enablement, demand generation, and customer acquisition tools. Our solutions empower merchants to more efficiently promote and sell their products, optimize their customer acquisition strategies, and drive incremental sales. We also provide valuable product-level data and insights — information that merchants cannot easily get elsewhere — to better inform their strategies. Finally, our consumer app unlocks the full suite of Affirm products for a delightful end-to-end consumer experience. Consumers can use our app to manage payments, open a high-yield savings account, and access a personalized marketplace.

Our company is predicated on the principles of simplicity, transparency, and putting people first. By adhering to these principles, we have built enduring, trust-based relationships with consumers and merchants that we believe will set us up for long-term, sustainable success. We believe our innovative approach uniquely positions us to define the future of commerce and payments.

Technology and data are at the core of everything we do. Our expertise in sourcing, aggregating, and analyzing data has been what we believe to be the key competitive advantage of our platform since our founding. We believe our proprietary technology platform and data give us a unique advantage in pricing risk. We use data to inform our risk scoring in order to generate value for our consumers, merchants, and capital partners. We collect and store petabytes of information that we carefully structure and use to regularly recalibrate and revalidate our models, thereby getting to risk scoring and pricing faster, more efficiently, and with a higher degree of confidence. We also prioritize building our own technology and investing in product and engineering talent as we believe these are enduring competitive advantages that are difficult to replicate. Our solutions use the latest in machine learning, artificial intelligence, cloud-based technologies, and other modern tools to create differentiated and scalable products.

We have achieved significant growth in recent periods. Our total revenue, net was approximately $1,349.3 million, $870.5 million, and $509.5 million for the years ended June 30, 2022, 2021, and 2020 respectively. We

incurred net losses of $707.4 million, $441.0 million, and $112.6 million for the years ended June 30, 2022, 2021, and 2020 respectively.

The combination of our differentiated product offerings, efficient go-to-market strategy, and strong monetization engine has resulted in fast growth.

- ***Rapid GMV growth.*** We grew our GMV by approximately 87% year-over-year to $15.5 billion during the fiscal year ended June 30, 2022. During the fiscal year ended June 30, 2021, GMV was $8.3 billion, which represented 79% growth over the fiscal year ended June 30, 2020.

- ***Increased consumer engagement.*** The number of active consumers on our platform grew by 6.9 million consumers from June 30, 2021 to June 30, 2022, an increase of 96%, to a total of 14.0 million.

- ***Expanded merchant network.*** We have also continued to scale the breadth and reach of our platform. From June 30, 2021 to June 30, 2022, our merchant base expanded from 28,995 to 234,847 active merchants due primarily to continued expansion to merchants related to the Shopify partnership.

Our business is designed to scale efficiently. Our partnerships with banks and other funding relationships have allowed us to remain equity capital efficient. Since July 1, 2016, we have processed approximately $33.0 billion of GMV on our platform. As of June 30, 2022, we had over $10.6 billion in funding capacity from a diverse set of capital partners, including through our warehouse facilities, securitization trusts, and forward flow arrangements, an increase of $4.1 billion from $6.5 billion as of June 30, 2021.

Through the diversity of these funding relationships, the equity capital required to build our total platform portfolio has declined from approximately 4% of the total platform portfolio as of June 30, 2021, to approximately 3% as of June 30, 2022. This metric measures the equity intensity of our business or the amount of capital used in relation to the scale of our enterprise. We define our total platform portfolio as the unpaid principal balance outstanding of all loans facilitated through our platform as of the balance sheet date, including both those loans held for investment and those loans owned by third-parties. This amount totaled $7.1 billion and $4.7 billion as of June 30, 2022 and June 30, 2021, respectively. Additionally, we define the equity capital required as the balance of loans held for investment plus loans held for sale less funding debt and notes issued by securitization trusts, per our consolidated balance sheet. This amount totaled $206.1 million and $178.1 million as of June 30, 2022 and June 30, 2021, respectively. Equity capital required as a percent of the last twelve months' GMV was 1% and 2% as of June 30, 2022 and June 30, 2021, respectively.

We believe that our continued success will depend on many factors, including our ability to attract additional merchant partners, retain our existing merchant partners, and grow and develop our relationships with new and existing merchant partners, help our merchants grow their revenue on our platform, and develop new innovative solutions to establish the ubiquity of our network and breadth of our platform. For a further discussion of trends, uncertainties and other factors that could impact our operating results, see the section entitled "Risk Factors" in Item 1A, which is incorporated herein by reference.

Our Financial Model

Our Revenue Model

From merchants, we earn a fee when we help them convert a sale and facilitate a transaction. While merchant fees depend on the individual arrangement between us and each merchant and vary based on the terms of the product offering, we generally earn larger merchant fees on 0% APR financing products. For the years ended June 30, 2022, 2021, and 2020, Split Pay and Core 0% loans represented 22% and 21%, 11% and 32%, and 6% and 37%, respectively, of total GMV facilitated through our platform.

From consumers, we earn interest income on the simple interest loans that we originate or purchase from our originating bank partners. Interest rates charged to our consumers vary depending on the transaction risk, creditworthiness of the consumer, the repayment term selected by the consumer, the amount of the loan, and the

individual arrangement with a merchant. Because our consumers are never charged deferred or compounding interest, late fees, or penalties on the loans, we are not incentivized to profit from our consumers' hardships. In addition, interest income includes the amortization of any discounts or premiums on loan receivables created upon either the purchase of a loan from one of our originating bank partners or the origination of a loan.

In order to accelerate our ubiquity, we facilitate the issuance of virtual cards directly to consumers through our app, allowing them to shop with merchants that may not yet be fully integrated with Affirm. When these virtual cards are used over established card networks, we earn a portion of the interchange fee from the transaction.

Our Loan Origination and Servicing Model

When a consumer applies for a loan through our platform, the loan is underwritten using our proprietary risk model. Once approved for the loan, the consumer then selects his/her/their preferred repayment option. The substantial majority of these loans are funded and issued by our originating bank partners.

A substantial majority of the loans facilitated through our platform are originated through our originating bank partners: Cross River Bank, an FDIC-insured New Jersey state-chartered bank, and Celtic Bank, an FDIC-insured Utah state-chartered industrial bank. These partnerships allow us to benefit from our partners' ability to originate loans under their banking licenses while complying with various federal, state, and other laws. Under this arrangement, we must comply with our originating bank partners' credit policies and underwriting procedures, and our originating bank partners maintain ultimate authority to decide whether to originate a loan or not. When an originating bank partner originates a loan, it funds the loan through its own funding sources and may subsequently offer and sell the loan to us. Pursuant to our agreements with these partners, we are obligated to purchase the loans facilitated through our platform that our partner offers us and our obligation is secured by cash deposits. To date, we have purchased all of the loans facilitated through our platform and originated by our originating bank partners. When we purchase a loan from an originating bank partner, the purchase price is equal to the outstanding principal balance of the loan, plus a fee and any accrued interest. The originating bank partner also retains an interest in the loans purchased by us through a loan performance fee that is payable by us on the aggregate principal amount of a loan that is paid by a consumer. See Note 14. Fair Value of Financial Assets and Liabilities for more information on the performance fee liability.

We are also able to originate loans directly under our lending, servicing, and brokering licenses in Canada and across various states in the U.S. through our consolidated subsidiaries. We originated approximately $817.1 million and $257.7 million of loans in Canada for the years ended June 30, 2022 and June 30, 2021, respectively. We directly originated loans in the U.S. pursuant to our state licenses of approximately $2.5 billion and $336.1 million, for the years ended June 30, 2022 and June 30, 2021, respectively. For the year ended June 30, 2022, we self-originated 21% of total loan origination volume through our state and other licenses, compared to 7% for the year ended June 30, 2021.

We act as the servicer on all loans that we originate directly or purchase from our originating bank partners and earn a servicing fee on loans we sell to our funding sources. We do not sell the servicing rights on any of the loans, allowing us to control the consumer experience end-to-end. To allow for flexible staffing to support overflow and seasonal traffic, we partner with several sub-servicers to manage customer care, first priority collections, and third-party collections in accordance with our policies and procedures.

Our Funding Sources

We maintain a capital-efficient model through a diverse set of funding sources. When we originate a loan directly or purchase a loan originated by our originating bank partners, we often utilize warehouse facilities with certain lenders to finance our lending activities or loan purchases. We sell the loans we originate or purchase from our originating bank partners to whole loan buyers and securitization investors through forward flow arrangements and securitization transactions, and earn servicing fees from continuing to act as the servicer on the loans.

Key Operating Metrics

We collect and analyze operating and financial data of our business to assess our performance, formulate financial projections, and make strategic decisions. In addition to revenue, net (loss) income, and other results under accounting principles generally accepted in the United States ("U.S. GAAP"), the following tables set forth key operating metrics we use to evaluate our business.

GMV

	Year ended June 30,		
	2022	2021	2020
	(in thousands)		
Gross Merchandise Volume	$ 15,483,237	$ 8,292,031	$ 4,637,220

We measure GMV to assess the volume of transactions that take place on our platform. We define GMV as the total dollar amount of all transactions on the Affirm platform during the applicable period, net of refunds. GMV does not represent revenue earned by us. However, the GMV processed through our platform is an indicator of the success of our merchants and the strength of our platform. For the year ended June 30, 2022, GMV was $15.5 billion, which represents an increase of approximately 87% as compared to $8.3 billion for the year ended June 30, 2021. For the year ended June 30, 2021, GMV was $8.3 billion, which represents an increase of approximately 79% as compared to $4.6 billion for the year ended June 30, 2020.

Active Consumers

	June 30, 2022	June 30, 2021	June 30, 2020
	(in thousands, except per consumer data)		
Active Consumers	13,980	7,121	3,618
Transactions per Active Consumer (x)	3.0	2.3	2.1

We assess consumer adoption and engagement by the number of active consumers across our platform. Active consumers are the primary measure of the size of our network. We define an active consumer as a consumer who engages in at least one transaction on our platform during the 12 months prior to the measurement date. As of June 30, 2022, we had 14.0 million active consumers, representing an increase of approximately 96% compared to 7.1 million as of June 30, 2021, and approximately 97% compared to 3.6 million as of June 30, 2020. Active consumer includes users on the PayBright and Returnly platforms during the twelve months prior to the respective measurement dates.

Transactions per Active Consumer

We believe the value of our network is amplified with greater consumer engagement and repeat usage, highlighted by increased transactions per active consumer. Transactions per active consumer is defined as the average number of transactions that an active consumer has conducted on our platform during the 12 months prior to the measurement date. As of June 30, 2022, we had approximately 3.0 transactions per active consumer, an increase of approximately 31% compared to June 30, 2021 and an increase of 41% compared to June 30, 2020. Transactions per active consumer includes transactions on the PayBright and Returnly platforms during the twelve months prior to the respective measurement dates.

Factors Affecting Our Performance

Expanding our Network, Diversity, and Mix of Funding Relationships

Our capital efficient funding model is integral to the success of our platform. As we scale the number of transactions on our network and grow GMV, we maintain a variety of funding relationships in order to support our network. Our diversified funding relationships include warehouse facilities, securitization trusts, forward flow arrangements, and partnerships with banks. Given the short duration and strong performance of our assets, funding can be recycled quickly, resulting in a high-velocity, capital efficient funding model. We have continued to reduce the percentage of our equity capital required to fund our total platform portfolio from approximately 4% as of June 30, 2021, to approximately 3% as of June 30, 2022. The mix of on-balance sheet and off-balance sheet funding is a function of both how we choose to allocate loan volume and the available supply of capital, both of which may also impact our results in any given period.

Mix of Business on Our Platform

The mix of products that our merchants offer and our consumers purchase in any period affects our operating results. In addition, shifts in volume among merchants in any period also affects our operating results. These mix impacts affect GMV, revenue, our financial results, and our key operating metric performance for that period. Differences in product mix relate to different loan durations, APR mix, and varying proportion of 0% APR versus interest-bearing financings.

Differences in merchant mix relate to the variations in the product and economic terms of the commercial agreements among our merchants. For example, our low average order value ("AOV") products generally benefit from shorter duration, but also have lower revenue as a percentage of GMV when compared to high AOV products. Merchant mix shifts are driven in part by the products offered by the merchant, the economic terms negotiated with the merchant, merchant-side activity relating to the marketing of their products, whether the merchant is fully integrated within our network, and general economic conditions affecting consumer demand. Our revenue as a percentage of GMV in any given period varies across products. As such, as we continue to expand our network to include more merchants, revenue as a percentage of GMV will vary. In addition, our commercial agreement with Shopify to offer Shop Pay Installments powered by Affirm and our Split Pay offering, a short-term payment plan with 0% APR, will continue to impact the mix of our shorter duration, low AOV products. Differences in the mix of high versus low AOV will also impact our results. For example, we expect that transactions per active consumer may increase while revenue as a percentage of GMV may decline in the medium term to the extent that a greater portion of our GMV comes from Split Pay and other low-AOV offerings.

Sales and Marketing Investment

We rely on the strength of our merchant relationships and positive user experience to develop our consumer brand and grow the ubiquity of our platform. During the year ended June 30, 2022, we continued to grow our investment in sales and marketing channels that we believe will drive further brand awareness and preference among both consumers and merchants. Given the nature of our revenue, our investment in sales and marketing in a given period may not impact results until subsequent periods. Additionally, given the increasingly competitive nature of merchant acquisition, we have previously made, and expect that we may make, significant investments in retaining and acquiring new merchants. We are focused on the effectiveness of sales and marketing spending and will continue to be strategic in maintaining efficient consumer and merchant acquisition.

Seasonality

We experience seasonal fluctuations in our revenue as a result of consumer spending patterns. Historically, our revenue has been the strongest during the second quarter of our fiscal year due to increases in retail commerce during the holiday season. Adverse events that occur during these months could have a disproportionate effect on our financial results for the fiscal year.

Components of Results of Operations

Revenue

Merchant Network Revenue

Merchant partners (or merchants) are generally charged a fee based on GMV processed through the Affirm platform. The fees vary depending on the individual arrangement between us and each merchant and on the terms of the product offering. The fee is recognized at the point in time the merchant successfully confirms the transaction, which is when the terms of the executed merchant agreement are fulfilled. We may originate certain loans via our wholly-owned subsidiaries, with zero or below market interest rates. In these instances, the par value of the loans originated is in excess of the fair market value of such loans, resulting in a loss, which we record as a reduction to merchant network revenue. In certain cases, the losses incurred on loans originated for a merchant may exceed the total network revenue earned on those loans. We record the excess loss amounts as a sales and marketing expense. During the years ended June 30, 2022, 2021, and 2020 we generated 34%, 44%, and 50% of our revenue, respectively, from merchant network fees.

Virtual Card Network Revenue

A smaller portion of our revenue comes from our Virtual Card product. We have agreements with issuer processors to facilitate transactions through the issuance of virtual debit cards to be used by consumers at checkout. Consumers can apply for a virtual debit card through the Affirm app and, upon approval, receive a single-use virtual debit card to be used for their purchase online or offline at a non-integrated merchant. The virtual debit card is funded at the time a transaction is authorized using cash held by the issuer processor in a reserve fund. We, or our originating bank partner, then originates a loan to the consumer once the transaction is confirmed by the merchant. The non-integrated merchants are charged interchange fees by the issuer processor for virtual debit card transactions, as with all debit card purchases, and the issuer processor shares a portion of this revenue with us. We also leverage this issuer processor as a means of integrating certain merchants. Similarly, for these arrangements with integrated merchants, the merchant is charged interchange fees by the issuer processor and the issuer processor shares a portion of this revenue with us. This revenue is recognized as a percentage of both our captured volume transacted on the payment processor network and net interchange income, and this revenue related to net interchange income is presented net of associated processing fees. We generated 7%, 6%, and 4% of our revenue from virtual card network fees for the years ended June 30, 2022, 2021, and 2020, respectively.

Interest Income

We also earn revenue through interest earned on loans facilitated through our platform. Interest income includes interest charged to consumers over the term of the consumers' loans based on the principal outstanding and is calculated using the effective interest method. In addition, interest income includes the amortization of any discounts or premiums on loan receivables created upon either the purchase of a loan from our originating bank partners or the origination of a loan. These discounts and premiums are accreted or amortized over the life of the loan using the effective interest method and represented 35%, 31%, and 19% of total interest income for the years ended June 30, 2022, 2021, and 2020, respectively. During the years ended June 30, 2022, 2021, and 2020, respectively, we generated 39%, 37%, and 37% of our revenue from interest income, respectively.

Gain on Sales of Loans

We sell a portion of the loans we originate or purchase from our originating bank partners to third-party investors. We recognize a gain or loss on sale of such loans as the difference between the proceeds received, adjusted for initial recognition of servicing assets and liabilities obtained at the date of sale, and the carrying value of the loan. During the years ended June 30, 2022, 2021, and 2020, we generated 15%, 10%, and 6% of our revenue from gain on sales of loans.

Servicing Income

We earn a specified fee from providing professional services to manage loan portfolios on behalf of our third-party loan owners. Under the servicing agreements with our third-party loan owners, we are entitled to collect servicing fees on the loans that we service, which are paid monthly based upon an annual fixed percentage of the outstanding loan portfolio balance. Servicing income also includes fair value adjustments for servicing assets and servicing liabilities. During the years ended June 30, 2022, 2021, and 2020, we generated 5%, 3%, and 3% of our revenue from servicing income, respectively.

We expect our revenue may vary from period to period based on, among other things, the timing of onboarding and size of new merchants, the mix of 0% APR loans versus interest-bearing loans with simple interest, loan funding strategy and mix, type and mix of products that our merchants offer to their customers, the rate of repeat transactions, transaction volume, and seasonality of or fluctuations in usage of our platform.

Operating Expenses

Our operating expenses consist of the loss on loan purchase commitment made to our originating bank partners, the provision for credit losses, funding costs, processing and servicing, technology and data analytics, sales and marketing, and general and administrative expenses. Salaries and personnel-related costs, including benefits, bonuses, stock-based compensation expense and occupancy, comprise a significant component of several of these expense categories. An allocation of overhead, such as rent and other overhead, is based on employee headcount and included in processing and servicing, technology and data analytics, sales and marketing, and general and administrative expenses.

As of June 30, 2022, we had 2,552 employees, compared to 1,641 employees as of June 30, 2021. We increased our headcount and personnel related costs across our business in order to support our growth expansion strategy. We expect headcount to continue to increase during fiscal year 2023 given our focus on growth and expansion.

Loss on Loan Purchase Commitment

We purchase certain loans from our originating bank partners that are processed through our platform and our originating bank partners put back to us. Under the terms of the agreements with our originating bank partners, we are generally required to pay the principal amount plus accrued interest for such loans. In certain instances, our originating bank partners may originate loans with zero or below market interest rates that we are required to purchase. In these instances, we may be required to purchase the loan for a price in excess of the fair market value of such loans, which results in a loss. These losses are recognized as loss on loan purchase commitment in our consolidated statements of operations and comprehensive loss. These costs are incurred on a per loan basis.

Provision for Credit Losses

Provision for credit losses consists of amounts charged against income during the period to maintain an allowance for credit losses. Our allowance for credit losses represents our estimate of the credit losses inherent in our loans held for investment and is based on a variety of factors, including the composition and quality of the portfolio, loan specific information gathered through our collection efforts, current economic conditions, future reasonable and supportable forecasts, and our historical net charge-off and loss experience. These costs are incurred on a per loan basis.

Funding Costs

Funding costs consist of interest expense and the amortization of fees for certain borrowings including on balance sheet VIEs and sale and repurchase agreements, and other costs incurred in connection with funding the purchases and originations of loans. Amortization of debt issuance costs totaled $16.2 million, $6.4 million, and $2.3 million for the years ended June 30, 2022, 2021, and 2020, respectively.

Processing and Servicing

Processing and servicing expense consists primarily of payment processing fees, third-party customer support and collection expense, salaries and personnel-related costs of our customer care team, platform fees, and allocated overhead. Payment processing costs are primarily driven by the number and dollar value of consumer repayments which grow as the number of transactions and GMV processed on our platform increases. Customer care loan servicing costs are primarily staffing costs related to third-party and in-house loan servicing agents, the demand for which generally increases with the number of transactions on our platform. Collection fees are fees paid to agencies as percentages of the dollars of repayment they recuperate from borrowers whose loans had previously been charged off. Platform fees are revenue sharing fees paid to our e-commerce platform partners.

Technology and Data Analytics

Technology and data analytics expense consists primarily of the salaries, stock-based compensation, and personnel-related costs of our engineering and product employees as well as our credit and analytics employees who develop our proprietary risk model, which totaled $254.6 million, $171.5 million, and $75.8 million for the years ended June 30, 2022, 2021, and 2020, respectively.

Additionally, for the years ended June 30, 2022, 2021, and 2020, $133.7 million, $29.0 million, and $17.1 million, respectively, of salaries and personnel costs that relate to the creation of internally-developed software were capitalized into property, equipment and software, net on the consolidated balance sheets, and amortized into technology and data analytics expense over the useful life of the developed software. This amortization expense totaled $23.9 million, $10.3 million, and $5.5 million for the years ended June 30, 2022, 2021, and 2020, respectively. Additional technology and data analytics expenses include platform infrastructure and hosting costs, third-party data acquisition expenses, amortization of intangible assets, and expenses related to the maintenance of existing technology assets and our technology platform as a whole.

Sales and Marketing

Sales and marketing costs consist of the expense related to warrants and other share-based payments granted to our enterprise partners, salaries and personnel-related costs, as well as costs of general marketing and promotional activities, promotional event programs, sponsorships, and allocated overhead. In July 2020, we recognized an asset in connection with a commercial agreement with Shopify in which we granted warrants in exchange for their promotion of the Affirm platform with potential new merchant partners. This asset represents the probable future economic benefit to be realized over the expected benefit period and is valued based on the fair value of the warrants on the grant date. The expected benefit period of the asset was initially estimated to be four years, and the remaining useful life of the asset is reevaluated each reporting period. During the year ended June 30, 2022 the remaining expected benefit period was extended by two years upon the execution of an amendment to the commercial agreement with Shopify which extended the term of the agreement.

In November 2021, we entered into a commercial agreement with Amazon and granted warrants in exchange for certain exclusivity provisions and the benefit of acquiring new users. In connection with the agreements, we recognized an asset associated with the portion of the warrants that were fully vested upon execution of the agreement. The asset is valued based on the fair value of the warrants on the grant date and represents the probable future economic benefit to be realized over the approximately 3.2 year remaining initial term of the commercial agreement. For the year ended June 30, 2022, we recognized $281.0 million of expenses related to the warrants within sales and marketing expense, respectively, which included the amortization expense of the commercial agreement asset and the expense based upon the grant-date fair value for the warrant shares that vested during the period. For the year ended June 30, 2022, the expense related to warrants and other share-based payments comprised 64% of sales and marketing expenses, compared to 36% for the year ended June 30, 2021.

Additionally, in order to continue to expand our consumer base, we may originate certain loans via our wholly-owned subsidiaries with zero or below market interest rates. In these instances, the par value of the loans originated is in excess of the fair market value of such loans, resulting in a loss, which we record as a reduction to merchant network revenue. In certain cases, the losses incurred on loans originated for a merchant may exceed the total network revenue earned on those loans. We record the excess loss amounts as a sales and marketing expense. These losses totaled $19.8 million, during the year ended June 30, 2022, compared to $1.7 million for the year ended June 30, 2021. We expect that our sales and marketing expense will continue to increase as we expand our sales and marketing efforts to drive our growth, expansion, and diversification.

General and Administrative

General and administrative expenses consist primarily of expenses related to our finance, legal, risk operations, human resources, and administrative personnel. General and administrative expenses also include costs related to fees paid for professional services, including legal, tax and accounting services, allocated overhead, and certain discretionary expenses incurred from operating our technology platform.

We continue to incur additional expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, and increased expenses for insurance, investor relations, and professional services. We expect that our general and administrative expense will increase in absolute dollars as our business grows.

Other Income and Expenses

Other (Expense) Income, Net

Other (expense) income, net consists primarily of interest earned on our money market funds included in cash and cash equivalents and restricted cash, interest earned on securities available for sale, gains and losses incurred on derivative agreements, amortization of convertible debt issuance cost and revolving debt facility issuance costs, and fair value adjustments resulting from changes in the fair value of our contingent consideration liability, primarily driven by changes in the market price of our Class A common stock.

Income Tax Expense

Our Income tax expense (benefit) consists of U.S. federal and state income taxes, Canadian federal and provincial income taxes, and income taxes attributable to other foreign jurisdictions.

Results of Operations

The following tables set forth selected consolidated statements of operations and comprehensive loss data for each of the periods presented in dollars:

	Year ended June 30,		
	2022	2021	2020
		(in thousands)	
Revenue			
Merchant network revenue	$ 458,511	$ 379,551	$ 256,752
Virtual card network revenue	100,696	49,851	19,340
Total network revenue	559,207	429,402	276,092
Interest income [(1)]	527,880	326,417	186,730
Gain on sales of loans [(1)]	196,435	89,926	31,907
Servicing income	65,770	24,719	14,799
Total Revenue, net	**$ 1,349,292**	**$ 870,464**	**$ 509,528**
Operating Expenses [(2)]			
Loss on loan purchase commitment	$ 204,081	$ 246,700	$ 161,452
Provision for credit losses	255,272	65,878	105,067
Funding costs	69,694	52,700	32,316
Processing and servicing	157,814	73,578	49,831
Technology and data analytics	418,643	249,336	122,378
Sales and marketing	532,343	182,190	25,044
General and administrative	577,493	383,749	121,230
Total Operating Expenses	**2,215,340**	**1,254,131**	**617,318**
Operating Loss	**$ (866,048)**	**$ (383,667)**	**$ (107,790)**
Other (expense) income, net	141,217	(59,703)	(4,432)
Loss Before Income Taxes	**$ (724,831)**	**$ (443,370)**	**$ (112,222)**
Income tax expense (benefit)	(17,414)	(2,343)	376
Net Loss	**$ (707,417)**	**$ (441,027)**	**$ (112,598)**
Excess return to preferred stockholders on repurchase	—	—	(13,205)
Net Loss Attributable to Common Stockholders	**$ (707,417)**	**$ (441,027)**	**$ (125,803)**
Other Comprehensive Income (Loss)			
Foreign currency translation adjustments	$ (5,900)	$ 7,046	$ (302)
Unrealized gain (loss) on securities available for sale, net	(8,022)	29	—
Net Other Comprehensive Income (Loss)	**(13,922)**	**7,075**	**(302)**
Comprehensive Loss	**$ (721,339)**	**$ (433,952)**	**$ (112,900)**

(1) Upon purchase of a loan from our originating bank partners at a price above the fair market value of the loan or upon the origination of a loan with a par value in excess of the fair market value of the loan, a discount is included in the amortized cost basis of the loan. For loans held for investment, this discount is amortized over the life of the loan into interest income. When a loan is sold to a third-party loan buyer or off-balance sheet securitization trust, the unamortized discount is released in full at the time of sale and recognized as part of the gain or loss on sales of loans. However, the cumulative value of the loss on loan purchase commitment or loss

on origination, the interest income recognized over time from the amortization of discount while retained, and the release of discount into gain on sales of loans, together net to zero over the life of the loan. The following table details activity for the discount, included in loans held for investment, for the periods indicated:

	Year ended June 30,		
	2022	2021	2020
	(in thousands)		
Balance at the beginning of the period	$ 53,177	$ 28,659	$ 13,068
Additions from loans purchased or originated, net of refunds	366,279	264,725	157,426
Amortization of discount	(185,050)	(101,078)	(35,251)
Unamortized discount released on loans sold	(191,626)	(139,129)	(106,584)
Balance at the end of the period	$ 42,780	$ 53,177	$ 28,659

(2) Amounts include stock-based compensation as follows:

	Year ended June 30,		
	2022	2021	2020
	(in thousands)		
General and administrative	$ 248,797	$ 196,554	$ 13,682
Technology and data analytics	116,531	76,643	12,285
Sales and marketing	23,224	17,092	4,040
Processing and servicing	2,431	2,218	82
Total stock-based compensation in operating expenses	390,983	292,507	30,089
Capitalized into property, equipment and software, net	54,542	13,999	2,921
Total stock-based compensation expense	$ 445,525	$ 306,506	$ 33,010

Comparison of the Years Ended June 30, 2022 and 2021

Total Revenue, net

	Year ended June 30,		Change	
	2022	2021	$	%
	(in thousands, except percentage)			
Merchant network revenue	$ 458,511	$ 379,551	$ 78,960	21 %
Virtual card network revenue	100,696	49,851	50,845	102 %
Total network revenue	559,207	429,402	129,805	30 %
Interest income	527,880	326,417	201,463	62 %
Gain on sales of loans	196,435	89,926	106,509	118 %
Servicing income	65,770	24,719	41,051	166 %
Total Revenue, net	$ 1,349,292	$ 870,464	478,828	55 %

Total Revenue, net for the year ended June 30, 2022 increased by $478.8 million or 55%, compared to the year ended June 30, 2021. The increase is primarily due to an increase of $7.2 billion or 87% in GMV on our platform during the year, from $8.3 billion for the year ended June 30, 2021 to $15.5 billion for the year ended June 30, 2022. This increase in GMV was driven by the strong network effects of the expansion of our active merchant base from 28,995 as of June 30, 2021 to 234,847 as of June 30, 2022, an increase in active consumers from 7.1 million as of June 30, 2021 to 14.0 million as of June 30, 2022, and an increase in average transactions per consumer from 2.3 as of June 30, 2021 to 3.0 as of June 30, 2022.

Merchant network revenue for the year ended June 30, 2022 increased by $79.0 million or 21%, compared to the year ended June 30, 2021. Merchant network revenue as a percentage of GMV for the year ended June 30, 2022 decreased to 3.0% compared to 4.6% for the year ended June 30, 2021.

Merchant network revenue growth is generally correlated with both GMV growth and the mix of loans on our platform as different loan characteristics are positively or negatively correlated with merchant fee revenue as a percentage of GMV. In particular, merchant network revenue as a percentage of GMV typically increases with the term length and AOV of our loans, and typically decreases with shorter duration and higher APR loans. Specifically, long-term 0% APR loans typically carry higher merchant fees as a percentage of GMV and have higher AOVs.

The increase in merchant network revenue during the year ended June 30, 2022 was primarily driven by an increase in GMV, partially offset by reductions in the concentration of long-term 0% APR loans, our highest merchant fee category, which decreased from 21% of total GMV during the year ended June 30, 2021 to 11% during the year ended June 30, 2022. For the year ended June 30, 2022, approximately 8%, of total revenue was driven by our largest merchant partner by merchant network revenue, Peloton, for which we facilitate long-term 0% APR loans with a higher merchant fee, compared with 20% of total revenue in the comparative period. More broadly, for the year ended June 30, 2022, loans with term lengths greater than 12 months accounted for 20% of GMV, compared to 29% for the year ended June 30, 2021, primarily due to the increased adoption of our Split Pay product. AOV was lower at $403 for the year ended June 30, 2022, compared to $550 for the year ended June 30, 2021, primarily due to the increased adoption of our Split Pay product.

The increases were partially offset by a reduction of merchant network revenue of $80.4 million for the year ended June 30, 2022, associated with the creation of discounts upon the self-origination of loans with par values in excess of the fair value of such loans, compared to $11.4 million during the year ended June 30, 2021. These reductions to merchant network revenue are primarily due to our Split Pay product and our 0% APR lending programs outside of the United States, which we self-originate. For the year ended June 30, 2022, we self-originated $3.3 billion of loans, an increase of 453.9% compared to $0.6 billion during year ended June 30, 2021. While the discounts created upon the origination of a loan reduce merchant network revenue at the time of origination, the discounts are amortized into interest income over the life of the respective loans when retained on the balance sheet and any unamortized discount is reflected in the cost basis when determining gain on sale of loans.

Virtual card network revenue for the year ended June 30, 2022 increased by $50.8 million or 102%, compared to the year ended June 30, 2021. This increase was driven by an increase in GMV processed through our issuer processor of 100% for the year ended June 30, 2022, due to increased activity on our virtual card-enabled mobile application as well as growth in existing and new merchants integrated using our virtual card platform, growing from 756 merchants as of June 30, 2021 to 1,099 merchants as of June 30, 2022. Virtual card network revenue is also impacted by the mix of merchants as different merchants can have different interchange rates depending on their industry or size, among other factors.

Interest income for the year ended June 30, 2022 increased by $201.5 million or 62%, compared to the year ended June 30, 2021. Generally, interest income is correlated with the changes in the average balance of loans held for investment, as we recognize interest on loans held for investment using the effective interest method over the life of the loan. The average balance of loans held for investment increased by 27% to $2.3 billion for the year ended June 30, 2022, compared to the same period in the prior fiscal year.

As an annualized percentage of average loans held for investment, total interest income increased from approximately 18% during the year ended June 30, 2021 to 23% during the year ended June 30, 2022. This change was driven by a decrease in the average proportion of 0% APR loans being held on our consolidated balance sheet as a percentage of the average loans held for investment, which decreased from 46% during the year ended June 30, 2021 to 39% during the year ended June 30, 2022. The shift was largely due to increased concentration of loans with large enterprise merchant partners; those loans tend to be interest-bearing.

We recognize interest income on 0% APR loans via the amortization of the loan discount. Short term 0% APR loans, including Split Pay loans, carry higher annualized discounts as percentages of annualized loan balances than longer term loans, and thus amortize more discount into interest income as percentages of unpaid principal balance than longer term loans. Therefore, the change in the mix of 0% APR loans held for investment is also

contributing to the increase in interest income as an annualized percentage of average loans held for investment. The total amortization of discounts on loans held for investment increased by $84.0 million or 83% for the year ended June 30, 2022, compared with the year ended June 30, 2021. The amortization of discounts represented 35% of total interest income for the year ended June 30, 2022, compared to 31% for the year ended June 30, 2021, respectively. This increase included the amortization of discounts arising from self-originated loans held for investment of $106.1 million during the year ended June 30, 2022, which was $18.2 million for the year ended June 30, 2021.

Gain on sales of loans for the year ended June 30, 2022 increased by $106.5 million or 118%, compared to the year ended June 30, 2021. We sold loans with an unpaid balance of $3.2 billion for the year ended June 30, 2021, and $7.1 billion for the year ended June 30, 2022, for which we retained servicing rights. This increase was primarily due to higher loan sale volume to third-party loan buyers and off-balance sheet securitizations, favorable loan sale pricing terms, and optimizing the allocation of loans to loan buyers with higher pricing terms. The increase was partially offset by a reduction of $6.2 million due to the net impact of the servicing assets and liabilities of the loans sold during the year ended June 30, 2022, compared to a reduction of $1.5 million for the year ended June 30, 2021

Servicing income for the year ended June 30, 2022 increased by $41.1 million or 166%, compared to the year ended June 30, 2021. This increase was primarily due to an increase in the average unpaid principal balance of loans owned by third-party loan owners, which increased from $1.8 billion during the year ended June 30, 2021 to $3.6 billion during the year ended June 30, 2022. Additionally, we recognized an increase of servicing income of $6.3 million related to the changes in fair value of servicing assets and liabilities during the year ended June 30, 2022, compared with a reduction to servicing income of $1.5 million during the year ended June 30, 2021.

Operating Expenses

	Year ended June 30,	
	2022	2021
	(in thousands)	
Loss on loan purchase commitment	$ 204,081	$ 246,700
Provision for credit losses	255,272	65,878
Funding costs	69,694	52,700
Processing and servicing	157,814	73,578
Total transaction costs	686,861	438,856
Technology and data analytics	418,643	249,336
Sales and marketing	532,343	182,190
General and administrative	577,493	383,749
Total operating expenses	$ 2,215,340	$ 1,254,131

Loss on Loan Purchase Commitment

	Year ended June 30,		Change	
	2022	2021	$	%
	(in thousands, except percentage)			
Loss on loan purchase commitment	$ 204,081	$ 246,700	$ (42,619)	(17)%
Percentage of total revenue, net	15 %	28 %		

Loss on loan purchase commitment for the year ended June 30, 2022 decreased by $42.6 million or 17%, compared to the year ended June 30, 2021. This decrease was due to a decrease in the volume of long-term 0% APR loans purchased from our originating bank partners compared to the prior period, which are purchased above fair market value. The decrease in loss on loan purchase commitment is also impacted by changes in the estimate of fair value of the loans driven primarily by the mix of loan terms. The differences in fair values and purchase values for our loans are generally correlated with the term length, so the reduction in long term loans reduced the differences between the estimates of fair value and purchase value. During the year ended June 30, 2022, we purchased $3,251.5

million, of 0% APR loan receivables from our originating bank partners, representing a decrease of $33.1 million or 1% compared to the year ended June 30, 2021.

Provision for Credit Losses

	Year ended June 30,		Change	
	2022	2021	$	%
	(in thousands, except percentage)			
Provision for credit losses	$ 255,272	$ 65,878	$ 189,394	287 %
Percentage of total revenue, net	19 %	8 %		

Provision for credit losses generally represents the amount of expense required to maintain the allowance for credit losses on our consolidated balance sheet, which represents management's estimate of future losses. In the event that our loans outperform expectation and/or we reduce our expectation of credit losses in future periods, we may release reserves and thereby reduce the allowance for credit losses, yielding income in the provision for credit losses. The provision is determined by the change in estimates for future losses and the net charge-offs incurred in the period. We record provision expense for each loan we retain as loans held for investment, whether we originate the loan or purchase it from one of our originating bank partners.

Additionally, during the prior fiscal year, following the loss of our emerging growth company status, we adopted Accounting Standard Update ("ASU") 2016-13, "Financial Instruments — Credit Losses (Topic 326)" using the modified retrospective approach. The amendments replaced the incurred loss impairment methodology for computing our allowance for credit losses with the current expected credit loss model ("CECL"), effective July 1, 2020. As part of this modified retrospective approach to adoption, we recorded an adjustment increasing the provision for credit losses by $10.1 million for the year ended June 30, 2021.

During the year ended June 30, 2022, the allowance as a percentage of loans held for investment increased from 5.8% as of June 30, 2021 to 6.2% as of June 30, 2022, primarily due to a deconcentration of long-term, lower-credit-risk 0% APR loans on our balance sheet and growth of new platforms and merchant partnerships with generally higher expected losses. Prior year provision for credit losses was unusually low due to release of stressed expected loss scenarios and the adoption of CECL. Those prior year impacts, combined with an overall larger loan population, shifting product mix, and normalized credit environment, resulted in an increase in provision for credit losses expense of $189.4 million or 287% compared to the year ended June 30, 2021.

Funding Costs

	Year ended June 30,		Change	
	2022	2021	$	%
	(in thousands, except percentage)			
Funding costs	$ 69,694	$ 52,700	$ 16,994	32 %
Percentage of total revenue, net	5 %	6 %		

Funding costs for the year ended June 30, 2022 increased by $17.0 million or 32%, compared to the year ended June 30, 2021. Funding costs for a given period are correlated with the sum of the average balance of funding debt and the average balance of notes issued by securitization trusts. This increase was primarily due to the increase of notes issued by securitization trusts during the current fiscal year, which bear interest at fixed rates. The average balance of notes issued by securitization trusts during the year ended June 30, 2022 was $1,490.1 million, compared with $747.0 million, during the year ended June 30, 2021. The average balance of funding debt for the year ended June 30, 2022 was $677.0 million, compared with $752.6 million, during the year ended June 30, 2021. Combined, average total debt for the year ended June 30, 2022 increased by $667.6 million or 45%, respectively, compared to the year ended June 30, 2021 while the average reference interest rate increased by 163% during the period.

Processing and Servicing

	Year ended June 30,		Change	
	2022	2021	$	%
	(in thousands, except percentage)			
Processing and servicing	$ 157,814	$ 73,578	$ 84,236	114 %
Percentage of total revenue, net	12 %	8 %		

Processing and servicing expense for the year ended June 30, 2022 increased by $84.2 million or 114%, compared to the year ended June 30, 2021. This increase was primarily due to a $56.1 million or 163% increase in payment processing fees related to increased servicing activity and payments volume for the year ended June 30, 2022. Additionally, processing fees paid to our platform partners increased by $5.4 million or 104%, for the year ended June 30, 2022. Personnel costs increased by $5.6 million or 47% for the year June 30, 2022 driven by growth in headcount. For the year ended June 30, 2022, third-party loan servicing and collections spend increased $17.0 million or 82%, due to increased loan volume.

Technology and Data Analytics

	Year ended June 30,		Change	
	2022	2021	$	%
	(in thousands, except percentage)			
Technology and data analytics	$ 418,643	$ 249,336	$ 169,307	68 %
Percentage of total revenue, net	31 %	29 %		

Technology and data analytics expense for the year ended June 30, 2022 increased by $169.3 million or 68%, compared to the year ended June 30, 2021. For the year ended June 30, 2022, we saw a $83.1 million or 48% increase in personnel costs compared to the year ended June 30, 2021 primarily due to an increased headcount as we continue to support our growth and technology platform as a whole. A portion of these personnel costs was stock-based compensation, which accounted for a $39.9 million increase compared to the year ended June 30, 2021, respectively, largely due to vesting of RSUs.

Additionally, there was a $51.9 million or 132%, increase in data infrastructure and hosting costs for the year ended June 30, 2022, compared to the year ended June 30, 2021, due to increased capacity requirements of our technology platform driven by increase in active users and transactions per active consumer. There was a $12.8 million or 75%, increase in underwriting data provider costs for the year ended June 30, 2022, compared to the year ended June 30, 2021, due to an increase in applications, partially offset by cost improvements achieved as a result of contract renegotiations. Furthermore, amortization of internally-developed software increased by $13.6 million or 132%, compared to the year ended June 30, 2021, primarily as a result of an increase in the number of capitalized projects during the period due to our ongoing investment in software development. Capitalized projects grew 370% from 30 projects for the year ended June 30, 2021 to 141 projects for the year ended June 30, 2022.

Sales and Marketing

	Year ended June 30,		Change	
	2022	2021	$	%
	(in thousands, except percentage)			
Sales and marketing	$ 532,343	$ 182,190	$ 350,153	192 %
Percentage of total revenue, net	39 %	21 %		

Sales and marketing expense for the year ended June 30, 2022 increased by $350.2 million or 192%, compared to the year ended June 30, 2021. This increase was primarily due to $281.0 million of expense related to warrants granted to Amazon during the year ended June 30, 2022. Additionally, personnel costs related to employees in the sales and marketing functions increased $19.5 million or 45%, compared to the year ended June 30, 2021 largely due to an increased headcount. Loss on loan originations increased $18.1 million or 1,067%, compared to the year ended June 30, 2021, primarily due to an increase in self-originated loans.

Furthermore, there was a $20.9 million or 59%, increase in brand and consumer marketing spend during the year ended June 30, 2022, compared to the year ended June 30, 2021, associated with our expanded brand-activation, holiday shopping, lifestyle, and travel marketing campaigns, as well as a $5.1 million or 40% increase in business-to-business marketing spend compared to the year ended June 30, 2021.

General and Administrative

	Year ended June 30,		Change	
	2022	2021	$	%
	(in thousands, except percentage)			
General and administrative	$ 577,493	$ 383,749	$ 193,744	50 %
Percentage of total revenue, net	43 %	44 %		

General and administrative expense for the year ended June 30, 2022 increased by $193.7 million or 50%, compared to the year ended June 30, 2021 primarily due to an increased headcount as we continue to grow our finance, legal, operations, and administrative organizations. Additionally, professional fees increased by $16.0 million or 56%, during the year ended June 30, 2022 compared to the year ended June 30, 2021, to support our acquisitions, international expansion, and regulatory compliance programs.

Other (Expense) Income, net

	Year ended June 30,		Change	
	2022	2021	$	%
	(in thousands, except percentage)			
Other (expense) income, net	$ 141,217	$ (59,703)	$ 200,920	(337)%
Percentage of total revenue, net	10 %	(7)%		

For the year ended June 30, 2022, other (expense) income, net, was largely comprised of a gain of $89.3 million, recognized based on the change in fair value of the contingent consideration liability associated with our acquisition of PayBright, driven by decreases in the value of our common stock. Additionally other (expense) income, net included a gain of $48.6 million on hedging instruments due to increases in fair value of interest rate caps as a direct correlation with LIBOR and increased volatility in the market.

For the year ended June 30, 2021, other (expense) income, net was primarily comprised of a loss of $92.9 million recognized based on the change in fair value of the contingent consideration liability associated with our acquisition of PayBright, driven by changes in the value of our common stock. Additionally, for the year ended June 30, 2021, other (expense) income, net included a gain of $30.1 million recognized upon the conversion of convertible notes into shares of Series G-1 preferred stock. The conversion of convertible notes was accounted for as a debt extinguishment since the number of shares of Series G-1 preferred stock issued upon conversion was variable and this gain represented the difference between the carrying value of the debt at the time of extinguishment and the allocated proceeds.

Income tax expense (benefit)

	Year ended June 30,		Change	
	2022	2021	$	%
	(in thousands, except percentage)			
Income tax expense (benefit)	$ (17,414)	$ (2,343)	$ (15,071)	643 %
Percentage of total revenue, net	(1)%	— %		

The income tax benefit for the year ended June 30, 2022 was primarily attributable to a change in our assessment of the future realization of certain foreign deferred tax assets, while the income tax benefit for the year ended June 30, 2021 was primarily attributable to an adjustment to the Company's valuation allowance resulting from a deferred tax liability assumed with the acquisition of Returnly.

In evaluating our ability to recover our deferred tax assets in the jurisdiction from which they arise, we consider all available positive and negative evidence, including our historical financial performance, projections of future taxable income - incorporating any changes in circumstance for the business, future reversals of existing taxable temporary differences, and any carryback available. The assumptions about future taxable income require the use of Management's judgment and are consistent with the plans and estimates we are using to manage the underlying businesses, yet they are subject to change from period to period.

As a result of (i) the integration and consolidation of our PayBright business into and with Affirm's Canadian business, which makes PayBright's tax attributes utilizable against future income in the combined Canadian operations, (ii) the expansion of our overall business in Canada, and (iii) other objectively verifiable positive evidence that became available during the year ended June 30, 2022 - all of which we have concluded is sufficient to outweigh the existing negative evidence, including the presence of a three-year cumulative loss attributable to the related foreign jurisdiction, we have determined that it is more likely than not that our foreign deferred tax assets will be realized and a valuation allowance is not required.

Even though our determination that our foreign deferred tax assets will more likely than not be realized is primarily based on sufficient, objectively verifiable positive evidence, consideration was still required for the underlying projections of future income. If our assumptions change in the future and we determine that we will not be able to realize our foreign deferred tax assets, the tax benefits related to any release of the valuation allowance on foreign deferred tax assets as of June 30, 2022 will be reversed and recorded as an increase of income tax expense for the period.

We continue to recognize a full valuation allowance against our U.S. federal and state net deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by the Company for the years ended June 30, 2022, 2021, and 2020. The presence of a three-year cumulative loss limits the ability to consider other subjective evidence, such as our expectations of future taxable income and projections for growth, and the other positive evidence available is not sufficient to outweigh the existing negative evidence at this time.

Liquidity and Capital Resources

Sources and Uses of Funds

We have incurred losses since our inception, accumulating a deficit of $1.6 billion and $0.9 billion as of June 30, 2022 and June 30, 2021, respectively. We have historically financed the majority of our operating and capital needs through the sales of equity securities, borrowings from debt facilities and convertible debt, third-party loan sale arrangements, and cash flows from operations. In September and October 2020, we issued an aggregate of 21,836,687 shares of Series G preferred stock for aggregate cash proceeds of $435.1 million. On January 15, 2021, we closed an initial public offering of our Class A common stock with cash proceeds, before expenses, of $1.3 billion. On November 23, 2021, we issued the 2026 Notes, generating cash proceeds of $1.7 billion.

As of June 30, 2022, our principal sources of liquidity were available for sale securities and cash and cash equivalents, available capacity from revolving debt facilities, revolving securitizations, forward flow loan sale arrangements, and certain cash flows from our operations. We believe that our existing cash balances, available capacity under our revolving debt facilities, revolving securitizations and off-balance sheet loan sale arrangements, and cash from operations, are sufficient to meet both our existing operating, working capital, and capital expenditure requirements and our currently planned growth for at least the next 12 months. We cannot provide assurance, however, that our business will generate sufficient cash flows from operations or that future borrowings will be available to us in an amount sufficient to enable us to fund our liquidity needs in the long-term. Our ability to do so depends on prevailing economic conditions and other factors, many of which are beyond our control. Our on- and off-balance sheet facilities provide funding subject to various constraining limits on the financed portfolios. These limits are generally tied to loan-level attributes such as loan term, credit quality, and interest rate, as well as borrower- and merchant-level attributes.

Cash and Cash Equivalents

As of June 30, 2022, we had approximately $1.3 billion of cash and cash equivalents to fund our future operations compared to approximately $1.5 billion as of June 30, 2021. Our cash and cash equivalents were comprised of operating bank accounts, money market funds, certificates of deposits, corporate bonds, and other commercial paper with maturities less than three months. Cash and cash equivalents are held primarily for continued investment in our business, for working capital purposes, and to facilitate a portion of our lending activities. Our policy is to invest cash in excess of our immediate working capital requirements in liquid investments and deposit accounts to preserve the principal balance and maintain adequate liquidity.

Restricted Cash

Restricted cash consists primarily of: (i) deposits restricted by standby letters of credit for office leases and merchant partnership agreements; (ii) funds held in accounts as collateral for our originating bank partners; and (iii) servicing funds held in accounts contractually restricted by agreements with warehouse credit facilities and third-party loan owners. We have no ability to draw on such funds as long as they remain restricted under the applicable arrangements.

Securities, Available for Sale

As of June 30, 2022, we had $1.6 billion of investments in marketable debt securities classified as available-for-sale, compared to $16.2 million as of June 30, 2021. Our securities available for sale at fair value primarily consist of certificates of deposits, corporate bonds, commercial paper, and government bonds with maturities greater than three months. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner.

Funding Debt

The following table summarizes our funding debt facilities as of June 30, 2022. The funding debt consists of warehouse credit facilities, other funding facilities, revolving credit facilities, and repurchase liabilities:

Maturity Fiscal Year	Borrowing Capacity	Principal Outstanding
	(in thousands)	
2023	$ 271,055	$ 158,547
2024	1,812,972	421,484
2025	—	—
2026	—	—
2027	250,000	34,428
2028 and thereafter	600,000	68,936
Total	**$ 2,934,027**	**$ 683,395**

Warehouse Credit Facilities

Through trusts, we entered into warehouse credit facilities with certain lenders to finance the purchase and origination of our loans. These trusts are consolidated variable interest entities ("VIEs"), and each trust entered into a credit agreement and security agreement with a commercial bank as administrative agent and a national banking association as collateral trustee and paying agent. Borrowings under these agreements are referred to as funding debt. These credit agreements contain operating covenants, including limitations on the incurrence of certain indebtedness and liens, restrictions on certain intercompany transactions, and limitations on the amount of dividends and stock repurchases. Our funding debt facilities include concentration limits for various loan characteristics including credit quality, product mix, geography, and merchant concentration. As of June 30, 2022, we were in

ITEM 7. 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 consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K ("Form 10-K"). You should review the section titled "Risk Factors" for a discussion of important factors that could cause our actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. Unless the context otherwise requires, all references in this Report to "Affirm," the "Company," "we," "our," "us," or similar terms refer to Affirm Holdings, Inc. and its subsidiaries. A discussion regarding our financial condition and results of operations for the fiscal year ended June 30, 2023 compared to the fiscal year ended June 30, 2022 is presented below. A discussion regarding our financial condition and results of operations for the fiscal year ended June 30, 2022 compared to the fiscal year ended June 30, 2021 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2022.

Overview

We are building the next generation platform for digital and mobile-first commerce. We believe that by using modern technology, superior engineering talent, and a mission-driven approach, we can reinvent payments and commerce. Our solutions, which are built on trust and transparency, make it easier for consumers to spend responsibly and with confidence, easier for merchants to convert sales and grow, and easier for commerce to thrive.

Our point-of-sale solutions allow consumers to pay for purchases in fixed amounts without deferred interest, late fees, or penalties. We empower consumers to pay over time rather than paying for a purchase entirely upfront. This increases consumers' purchasing power and gives them more control and flexibility. Our platform facilitates both true 0% APR payment options and interest-bearing loans. On the merchant side, we offer commerce enablement, demand generation, and customer acquisition tools. Our solutions empower merchants to more efficiently promote and sell their products, optimize their customer acquisition strategies, and drive incremental sales. We also provide valuable product-level data and insights — information that merchants cannot easily get elsewhere — to better inform their strategies. Finally, our consumer app unlocks the full suite of Affirm products for a delightful end-to-end consumer experience. Consumers can use our app to apply for installment loans, and upon approval, they can use the Affirm Card digitally online or in-stores to complete a purchase. Additionally, consumers can manage the pre- and post purchase split of Affirm Card transactions into loan, manage payments, open a high-yield savings account, and access a personalized marketplace.

Our Company is predicated on the principles of simplicity, transparency, and putting people first. By adhering to these principles, we have built enduring, trust-based relationships with consumers and merchants that we believe will set us up for long-term, sustainable success. We believe our innovative approach uniquely positions us to define the future of commerce and payments.

Technology and data are at the core of everything we do. Our expertise in sourcing, aggregating, and analyzing data has been what we believe to be the key competitive advantage of our platform since our founding. We believe our proprietary technology platform and data give us a unique advantage in pricing risk. We use data to inform our risk scoring in order to generate value for our consumers, merchants, and capital partners. We also prioritize building our own technology and investing in product and engineering talent as we believe these are enduring competitive advantages that are difficult to replicate. Our solutions use the latest in machine learning, artificial intelligence, cloud-based technologies, and other modern tools to create differentiated and scalable products.

	Year ended June 30,			2023 vs 2022		2022 vs 2021	
	2023	2022	2021	$	%	$	%
	(in thousands, except percentages)						
Total revenue, net	**$ 1,587,985**	**$ 1,349,292**	**$ 870,464**	**$ 238,693**	**18 %**	**$ 478,828**	**55 %**
Total operating expenses	**2,788,847**	**2,215,340**	**1,254,131**	**573,507**	**26 %**	**961,209**	**77 %**
Operating loss	**$(1,200,862)**	**$ (866,048)**	**$ (383,667)**	**$ (334,814)**	**39 %**	**$ (482,381)**	**126 %**
Other (expense) income, net	211,617	141,217	(59,703)	70,400	50 %	200,920	(337)%
Loss before income taxes	**$ (989,245)**	**$ (724,831)**	**$ (443,370)**	**$ (264,414)**	**36 %**	**$ (281,461)**	**63 %**
Income tax benefit	(3,900)	(17,414)	(2,343)	13,514	(78)%	(15,071)	643 %
Net loss	**$ (985,345)**	**$ (707,417)**	**$ (441,027)**	**$ (277,928)**	**39 %**	**$ (266,390)**	**60 %**

Our Financial Model

Our Revenue Model

From merchants, we earn a fee when we help them convert a sale and facilitate a transaction. While merchant fees depend on the individual arrangement between us and each merchant and vary based on the terms of the product offering, we generally earn larger merchant fees on 0% APR financing products. For the years ended June 30, 2023, 2022, and 2021, Pay-in-4 represented 19%, 22%, and 11%, respectively, of total GMV facilitated through our platform and 0% APR Core loans represented 13%, 21%, and 32%, respectively, of total GMV facilitated through our platform.

From consumers, we earn interest income on the simple interest loans that we originate or purchase from our originating bank partners. Interest rates charged to our consumers vary depending on the transaction risk, creditworthiness of the consumer, the repayment term selected by the consumer, the amount of the loan, and the individual arrangement with a merchant. Because our consumers are never charged deferred or compounding interest, late fees, or penalties on the loans, we are not incentivized to profit from our consumers' hardships. In addition, interest income includes the amortization of any discounts or premiums on loan receivables created upon either the purchase of a loan from one of our originating bank partners or the origination of a loan. For the years ended June 30, 2023, 2022, and 2021, interest bearing loans represented 68%, 58%, and 57% of total GMV facilitated through our platform, respectively.

In order to accelerate our ubiquity, we facilitate the issuance of virtual cards directly to consumers through our app, allowing them to shop with merchants that may not yet be fully integrated with Affirm. Similarly, we also facilitate the issuance of the Affirm Card, a debit card that can be used physically or virtually and which allows consumers to link a bank account to pay in full, or pay later by accessing credit through the Affirm App. When these cards are used over established card networks, we earn a portion of the interchange fee from the transaction.

Our Loan Origination and Servicing Model

When a consumer applies for a loan through our platform, the loan is underwritten using our proprietary risk model. Once approved for the loan, the consumer then selects their preferred repayment option. A portion of these loans are funded and issued by our originating bank partners, which include Cross River Bank, an FDIC-insured New Jersey state-chartered bank, and Celtic Bank, an FDIC-insured Utah state-chartered industrial bank. These partnerships allow us to benefit from our partners' ability to originate loans under their banking licenses while complying with various federal, state, and other laws. Under this arrangement, we must comply with our originating bank partners' credit policies and underwriting procedures, and our originating bank partners maintain ultimate authority to decide whether to originate a loan or not. When an originating bank partner originates a loan, it funds the loan through its own funding sources and may subsequently offer and sell the loan to us. Pursuant to our agreements with these partners, we are obligated to purchase the loans facilitated through our platform that such partner offers us and our obligation is secured by cash deposits. To date, we have purchased all of the loans facilitated through our platform and originated by our originating bank partners. When we purchase a loan from an

originating bank partner, the purchase price is equal to the outstanding principal balance of the loan, plus a fee and any accrued interest. The originating bank partner also retains an interest in the loans purchased by us through a loan performance fee that is payable by us on the aggregate principal amount of a loan that is paid by a consumer. See Note 13. Fair Value of Financial Assets and Liabilities for more information on the performance fee liability.

We are also able to originate loans directly under our lending, servicing, and brokering licenses in Canada and across several states in the U.S. through our consolidated subsidiaries. We directly originated approximately $3.7 billion, or 18%, and $3.3 billion, or 21%, of loans for the years ended June 30, 2023 and June 30, 2022, respectively.

We act as the servicer on all loans that we originate directly or purchase from our originating bank partners and earn a servicing fee on loans we sell to our funding sources. In the normal course of business, we do not sell the servicing rights on any of the loans. To allow for flexible staffing to support overflow and seasonal traffic, we partner with several sub-servicers to manage customer care, first priority collections, and third-party collections in accordance with our policies and procedures.

Factors Affecting Our Performance

Our performance has been and may continue to be affected by many factors, including those identified below, as well as the factors discussed in the section titled "Risk Factors" in this Form 10-K.

Expanding our Network, Diversity, and Mix of Funding Relationships

Our capital efficient funding model is integral to the success of our platform. As we scale the number of transactions on our network and grow GMV, we maintain a variety of funding relationships in order to support our network. Our diversified funding relationships include warehouse credit facilities, securitization trusts, forward flow arrangements, and partnerships with banks. Given the short duration and strong performance of our assets, funding can be recycled quickly, resulting in a high-velocity, capital efficient funding model. While we have continued to improve our equity capital efficiency, the percentage of our equity capital as a percentage of our total platform portfolio increased from approximately 3% as of June 30, 2022, to approximately 5% as of June 30, 2023. The increase was due to an increase in on-balance sheet loans, and a lower percentage of our on balance sheet loans funded through securitizations, which generally require a lower percentage of equity capital compared to our warehouse credit facilities. This shift in our funding mix in response to the current market environment given our ability to allocate loans to warehouse credit facilities with better economic terms at a given time to support the growth of our business while optimizing cost of funds. The mix of on-balance sheet and off-balance sheet funding is a function of how we choose to allocate loan volume, which is determined by the economic arrangements and supply of capital available to us, both of which may also impact our results in any given period.

Mix of Business on Our Platform

The shifts in volume among merchants and the products that our merchants offer and our consumers purchase in any period affects our operating results. These mix impacts GMV, revenue, our financial results, and our key operating metric performance for that period. Differences in loan product mix result in varying loan durations, APR, and mix of 0% APR and interest-bearing financings.

Product and economic terms of commercial agreements vary among our merchants. For example, our low average order value ("AOV") products generally benefit from shorter duration, but also have lower revenue as a percentage of GMV when compared to high AOV products. Merchant mix shifts are driven in part by the products offered by the merchant, the economic terms negotiated with the merchant, merchant-side activity relating to the marketing of their products, whether or not the merchant is fully integrated within our network, and general economic conditions affecting consumer demand. Our revenue as a percentage of GMV in any given period varies across products. As such, as we continue to expand our network to include more merchants, revenue as a percentage of GMV may vary. In addition, our commercial agreement with Shopify to offer Shop Pay Installments powered by Affirm and our Pay-in-4 offering may continue to impact the mix of our shorter duration, low AOV products.

Differences in the mix of high versus low AOV may also impact our results. For example, we expect that transactions per active consumer may increase while revenue as a percentage of GMV may decline in the medium term to the extent that a greater portion of our GMV comes from Pay-in-4 and other low-AOV offerings.

Seasonality

We experience seasonal fluctuations in our business as a result of consumer spending patterns. Historically, our GMV has been the strongest during the second quarter of our fiscal year due to increases in retail commerce during the holiday season. Despite these higher GMV levels, in fiscal 2023 and 2022, we generated less in period revenue as a percentage of GMV during our second fiscal quarter due to the comparatively higher proportion of interest bearing loans originated in the latter half of the period, which typically results in lower merchant network revenue, which is recognized in period, and higher levels of interest income, which is recognized over a longer time horizon. We expect these seasonal patterns to continue in future periods, and any adverse events that occur during our second fiscal quarter could have a disproportionate effect on our financial results for the fiscal year.

Macroeconomic Environment

We regularly monitor the direct and indirect impacts of the current macroeconomic conditions on our business, financial condition, and results of operations. During fiscal 2023, the macroeconomic environment presented a number of challenges to our business. In response to continued inflationary pressure, the U.S. Federal Reserve raised, and may continue to raise, the federal funds interest rate. Simultaneously, economic uncertainty and the prospect of economic recession impacted consumer spending. These developments have affected, and may continue to affect, our business and results of operations in the following ways:

- ***Deceleration in consumer demand:*** We have experienced a deceleration in consumer demand for discretionary items, which has adversely impacted GMV growth.
- ***Increased borrowing costs:*** Our costs of borrowing have increased, resulting in higher transaction costs.
- ***Volatile capital markets:*** In response to volatile capital markets conditions, we have retained more loans on our balance sheet funded through our consolidated securitizations and warehouse lines in recent fiscal quarters. Retaining loans on our balance sheet leads to the recognition of interest income over the life of the loan, effectively delaying the revenue that would have been realized upon the loan's sale.
- ***Managing delinquency rates:*** We are continuously optimizing our underwriting to manage delinquency rates. While these actions have adversely affected our GMV growth rates during fiscal 2023, as of June 30, 2023, our 30-day delinquency rates for monthly installment loans were comparable to, and our allowance rates for loan losses improved over, those experienced as of June 30, 2022.

Macroeconomic factors can also cause fluctuations of available capital in our lending marketplace due to shifts in the risk preferences of our lending partners and institutional investors or for other reasons. For example, since the beginning of March 2023, there have been public reports of instability at certain financial institutions. Despite the steps taken to date by U.S. and foreign agencies and institutions, the follow-on effects of this instability are unknown and may lead to disruptions to the businesses and operations of our funding sources.

Restructuring Plan

On February 8, 2023, we committed to a restructuring plan designed to manage our operating expenses in response to macroeconomic conditions and ongoing business prioritization efforts. As part of the plan, we reduced our workforce by approximately 500 employees, representing approximately 19% of our employees at that time, and vacated a portion of our leased San Francisco office. For further information, refer to Note 16. Restructuring and other to the consolidated financial statements in this Form 10-K.

Pricing Initiatives

We have begun implementing certain pricing initiatives that have the dual purpose of offsetting our increased funding costs while also enabling us to responsibly extend access to credit to a larger number of consumers. These pricing initiatives include the following:

- increasing the maximum APR for loans facilitated on our platform from 30% to 36%;
- increasing the merchant fees payable by some merchants on 0% APR financing products;
- expanding the use of down payments and requested loan amounts;
- offering merchant-subsidized low APR loans (4% to 9.99%) as an alternative to monthly 0% APR programs; and
- shortening loan lengths and minimum order sizes for monthly 0% APR programs.

Regulatory Developments

We are subject to the regulatory and enforcement authority of the Consumer Financial Protection Board (the "CFPB") as a facilitator, servicer, acquirer or originator of consumer credit. As such, the CFPB has in the past requested reports concerning our organization, business conduct, markets, and activities, and we expect that the CFPB will continue to do so from time to time in the future.

In addition, we expect the CFPB to begin to supervise us in the immediate future. The CFPB's supervision of us will enable it, among other things, to conduct comprehensive and rigorous examinations to assess our compliance with consumer financial protection laws, which could result in investigations, enforcement actions, regulatory fines and mandated changes to our business products, policies and procedures.

Key Operating Metrics

We focus on several key operating metrics to measure the performance of our business and help determine our strategic direction. In addition to revenue, net loss, and other results under U.S. GAAP, the following tables set forth key operating metrics we use to evaluate our business.

	Year ended June 30,		
	2023	**2022**	**2021**
		(in billions)	
Gross merchandise volume (GMV)	$ 20.2	$ 15.5	$ 8.3

GMV

We measure GMV to assess the volume of transactions that take place on our platform. We define GMV as the total dollar amount of all transactions on the Affirm platform during the applicable period, net of refunds. GMV does not represent revenue earned by us; however, it is an indicator of the success of our merchants and the strength of our platform.

For the year ended June 30, 2023, GMV was $20.2 billion, an increase of approximately 30% from $15.5 billion for the year ended June 30, 2022 and an increase of approximately 144% from $8.3 billion for the year ended June 30, 2021. Overall, the increase in GMV was primarily driven by the expansion of our active merchant base and increases in active consumers and the average number of transactions per consumer.

For the years ended June 30, 2023, 2022, and 2021, our top five merchants, including our largest platform partner represented approximately 42%, 32%, and 30%, respectively, of total GMV. GMV attributable to Amazon increased during each period but represented less than 20% of total GMV for all such periods. No other single merchant or platform partner exceeded 20% of total GMV for the year ended June 30, 2023.

	June 30, 2023	June 30, 2022	June 30, 2021
	(in thousands, except per consumer data)		
Active consumers	16,469	13,980	7,121
Transactions per active consumer (x)	3.9	3.0	2.3

Active Consumers

We assess consumer adoption and engagement by the number of active consumers across our platform. Active consumers are the primary measure of the size of our network. We define an active consumer as a consumer who engages in at least one transaction on our platform during the 12 months prior to the measurement date.

As of June 30, 2023, we had approximately 16.5 million active consumers inclusive of 1.0 million active consumers who only transacted on Returnly, which represented an increase of 18% compared to approximately 14.0 million as of June 30, 2022, and 131% compared to approximately 7.1 million as of June 30, 2021. The increase was primarily due to a high retention rate of existing consumers and the acquisition of new consumers through an expanding active merchant base.

Transactions per Active Consumer

We believe the value of our network is amplified with greater consumer engagement and repeat usage, highlighted by increased transactions per active consumer. Transactions per active consumer is defined as the average number of transactions that an active consumer has conducted on our platform during the 12 months prior to the measurement date.

As of June 30, 2023, we had approximately 3.9 transactions per active consumer, an increase of 30% compared to June 30, 2022 and an increase of 70% compared to June 30, 2021. This was primarily due to platform growth and a higher frequency of repeat users driven by consumer engagement.

Results of Operations

The following tables set forth selected consolidated statements of operations and comprehensive loss data for each of the periods presented:

	Year ended June 30,			2023 vs 2022		2022 vs 2021	
	2023	2022	2021	$ Change	% Change	$ Change	% Change
		(in thousands)					
Revenue							
Merchant network revenue	$ 507,600	$ 458,511	$ 379,551	$ 49,089	11 %	$ 78,960	21 %
Card network revenue	119,338	100,696	49,851	18,642	19 %	50,845	102 %
Total network revenue	626,938	559,207	429,402	67,731	12 %	129,805	30 %
Interest income [1]	685,217	527,880	326,417	157,337	30 %	201,463	62 %
Gain on sales of loans [1]	188,341	196,435	89,926	(8,094)	(4) %	106,509	118 %
Servicing income	87,489	65,770	24,719	21,719	33 %	41,051	166 %
Total revenue, net	**$ 1,587,985**	**$1,349,292**	**$ 870,464**	**$ 238,693**	**18 %**	**$ 478,828**	**55 %**
Operating expenses [2]							
Loss on loan purchase commitment	$ 140,265	$ 204,081	$ 246,700	$ (63,816)	(31) %	$ (42,619)	(17) %
Provision for credit losses	331,860	255,272	65,878	76,588	30 %	189,394	287 %
Funding costs	183,013	69,694	52,700	113,319	163 %	16,994	32 %
Processing and servicing	257,343	157,814	73,578	99,529	63 %	84,236	114 %
Technology and data analytics	615,818	418,643	249,336	197,175	47 %	169,307	68 %
Sales and marketing	638,280	532,343	182,190	105,937	20 %	350,153	192 %
General and administrative	586,398	577,493	383,749	8,905	2 %	193,744	50 %
Restructuring and other	35,870	—	—	35,870	NM*	—	NM*
Total operating expenses	**2,788,847**	**2,215,340**	**1,254,131**	**573,507**	**26 %**	**961,209**	**77 %**
Operating loss	**$ (1,200,862)**	**$ (866,048)**	**$ (383,667)**	**$ (334,814)**	**39 %**	**$ (482,381)**	**126 %**
Other (expense) income, net	211,617	141,217	(59,703)	70,400	50 %	200,920	(337) %
Loss before income taxes	**$ (989,245)**	**$ (724,831)**	**$ (443,370)**	**$ (264,414)**	**36 %**	**$ (281,461)**	**63 %**
Income tax benefit	(3,900)	(17,414)	(2,343)	13,514	(78) %	(15,071)	643 %
Net loss	**$ (985,345)**	**$ (707,417)**	**$ (441,027)**	**$ (277,928)**	**39 %**	**$ (266,390)**	**60 %**

* Not meaningful

(1) Upon purchase of a loan from our originating bank partners at a price above the fair market value of the loan or upon the origination of a loan with a par value in excess of the fair market value of the loan, a discount is included in the amortized cost basis of the loan. For loans held for investment, this discount is amortized over the life of the loan into interest income. When a loan is sold to a third-party loan buyer or off-balance sheet securitization trust, the unamortized discount is released in full at the time of sale and recognized as part of the gain or loss on sales of loans. However, the cumulative value of the loss on loan purchase commitment or loss on loan origination, the interest income recognized over time from the amortization of discount while retained, and the release of discount into gain on sales of loans, together net to zero over the life of the loan. The following table details activity for the discount, included in loans held for investment, for the periods indicated:

	Year ended June 30,		
	2023	2022*	2021*
		(in thousands)	
Balance at the beginning of the period	$ 42,780	$ 53,177	$ 28,659
Additions from loans purchased or originated, net of refunds	259,720	366,900	266,717
Amortization of discount	(158,703)	(185,050)	(101,078)
Unamortized discount released on loans sold	(46,885)	(191,612)	(141,130)
Impact of foreign currency translation	(336)	(635)	9
Balance at the end of the period	$ 96,576	$ 42,780	$ 53,177

* Prior period balances have been adjusted to include impact of foreign currency translation.

(2) Amounts include stock-based compensation as follows:

	Year ended June 30,		
	2023	2022	2021
		(in thousands)	
General and administrative	$ 239,923	$ 248,797	$ 196,554
Technology and data analytics	181,396	116,531	76,643
Sales and marketing	25,914	23,224	17,092
Processing and servicing	4,476	2,431	2,218
Total stock-based compensation in operating expenses	451,709	390,983	292,507
Capitalized into property, equipment and software, net	80,108	54,542	13,999
Total stock-based compensation	$ 531,817	$ 445,525	$ 306,506

Comparison of the Years Ended June 30, 2023 and 2022

Merchant Network Revenue

Merchant network revenue is impacted by both GMV and the mix of loans originated on our platform as merchant fees vary based on loan characteristics. In particular, merchant network revenue as a percentage of GMV typically increases with longer-term, non-interest-bearing loans with higher AOVs, and decreases with shorter-term, interest-bearing loans with lower AOVs.

Merchant network revenue for the year ended June 30, 2023 increased by $49.1 million, or 11%, compared to the same period in 2022. The increase is primarily attributed to an increase of $4.7 billion in GMV for the year ended June 30, 2023. The increase in GMV is a result of the expansion of our active merchant base and consumers, reaching approximately 254,000 and 16.5 million, respectively, as of June 30, 2023, up from approximately 235,000 and 14.0 million, respectively, as of June 30, 2022. Additionally, the average transactions per consumer increased from 3.0 as of June 30, 2022 to 3.9 as of June 30, 2023. The increase in consumers and average transactions per consumer is partially offset by a decrease in AOVs. For the year ended June 30, 2023 AOV was $318 down from $374 for the same period in fiscal 2022. The decrease in AOV due to the diversification of our merchant base and our initiative to drive repeat usage of our platform beyond one-time high AOV purchases.

Card Network Revenue

Card network revenue for the year ended June 30, 2023 increased by $18.6 million, or 19%, compared to the same period in 2022. Card network revenue growth is correlated with the growth of GMV processed by our issuer processors. As such, the increase is primarily driven by the $5.9 billion of GMV processed through our issuer processors, an increase of 25% for the year ended June 30, 2023, as compared to the same period in 2022. This was driven by increased card activity as well as growth in existing and new merchants using our card platform, growing from approximately 1,100 merchants as of June 30, 2022 to approximately 1,300 merchants as of June 30, 2023.

Card network revenue is also impacted by the mix of merchants as different merchants can have different interchange rates depending on their industry or size, among other factors.

Interest Income

Interest income for the year ended June 30, 2023 increased by $157.3 million, or 30%, compared to the year ended June 30, 2022. Generally, interest income is correlated with changes in the average balance of loans held for investment, as we recognize interest on loans held for investment using the effective interest method over the life of the loan. The average balance of loans held for investment increased by 50% to $3.4 billion for the year ended June 30, 2023, compared to the same period in fiscal 2022. The increase in loans held for investment on our consolidated balance sheet was in response to the current market environment and our ability to allocate loans to warehouse credit facilities with better economic terms while optimizing cost of funds. As a result of the increase in loans held for investment on our consolidated balance sheet, interest income from interest-bearing loans increased by $195.2 million, or 53%, compared to the same period in 2022. This increase was partially due to our recent pricing initiatives, including the increase of the maximum APR for loans facilitated on our platform from 30% to 36% and the introduction of merchant-subsidized low APR loans (4% to 9.99%) as an alternative to monthly 0% APR programs.

Gain on Sale of Loans

Gain on sales of loans for the year ended June 30, 2023 decreased by $8.1 million, or 4%, compared to the same period in 2022. The decrease was partially driven by higher benchmark interest rates and a more conservative credit outlook, which impacted pricing terms for loan sales. The decrease was partially offset by an increase in loan sale volume to third-party loan buyers. We sold loans with a unpaid principal balance of $7.5 billion for the year ended June 30, 2023, compared to $7.1 billion for the year ended June 30, 2022.

Servicing Income

Servicing income includes net servicing fee revenue and fair value adjustments for servicing assets and liabilities, and is recognized for loan portfolios sold to third party loan buyers and for loans held within our off balance sheet securitizations. Servicing fee revenue varies by contractual servicing fee arrangement and is earned as a percentage of the average unpaid principal balance of loans held by each counterparty where we have a servicing agreement. We reduce servicing income for certain fees we are required to pay per our contractual servicing arrangement.

With respect to fair value adjustments, we remeasure the fair value of servicing assets and liabilities each period and recognize the change in fair value in servicing income. We utilize a discounted cash flow approach to remeasure the fair value of servicing rights. Because we earn servicing income based on the outstanding principal balance of the portfolio, fair value adjustments are impacted by the timing and amount of loan repayments. As such, over the term of each loan portfolio sold, fair value adjustments for servicing assets will decrease servicing income and fair value adjustments for servicing liabilities will increase servicing income. We discuss our valuation methodology and significant Level 3 inputs for servicing assets and liabilities within Note 13. Fair Value of Financial Assets and Liabilities.

Servicing income for the year ended June 30, 2023 increased by $21.7 million, or 33%, compared to the same period in 2022. The increase was primarily due to the average unpaid principal balance of loans owned by third-party loan owners, which increased from $3.6 billion during the year ended June 30, 2022 to $4.5 billion during the year ended June 30, 2023. In addition to the increase in servicing income related to the unpaid principal balance of loans outstanding, we recognized a gain of $8.3 million related to changes in fair value of servicing assets and liabilities during the year ended June 30, 2023, an increase of $2.0 million, compared to the same period in 2022.

Loss on Loan Purchase Commitment

We purchase certain loans from our originating bank partners that are processed through our platform and our originating bank partners put back to us. Under the terms of the agreements with our originating bank partners, we are generally required to pay the principal amount plus accrued interest for such loans. In certain instances, our originating bank partners may originate loans with zero or below market interest rates that we are required to purchase. In these instances, we may be required to purchase the loan for a price in excess of the fair market value of such loans, which results in a loss. These losses are recognized as loss on loan purchase commitment in our consolidated statements of operations and comprehensive loss. These costs are incurred on a per loan basis.

Loss on loan purchase commitment for the year ended June 30, 2023 decreased by $63.8 million, or 31%, compared to the same period in 2022. The decrease was due to a decrease in the volume of long-term 0% APR loans purchased from our originating bank partners compared to the prior period, which are purchased above fair market value. The difference between fair value and purchase price for our loans is generally correlated with the term length and APR of the loans. Additionally, as the percentage of our portfolio shifts towards more interest-bearing loans, loss on loan purchase commitment is expected to decrease as a percentage of the originated principal amount. During the year ended June 30, 2023, we purchased $1.4 billion, of long-term 0% APR loan receivables from our originating bank partners, which represented a decrease of $0.7 billion, or 33%, compared to the same period in 2022.

Provision for Credit Losses

Provision for credit losses generally represents the amount of expense required to maintain the allowance for credit losses on our consolidated balance sheet, which represents management's estimate of future losses. In the event that our loans outperform expectation and/or we reduce our expectation of credit losses in future periods, we may release reserves and thereby reduce the allowance for credit losses, yielding income in the provision for credit losses. The provision is determined based on our estimate of expected future losses on loans originated during the period and held for investment on our balance sheet, changes in our estimate of future losses on loans outstanding as of the end of the period and the net charge-offs incurred in the period.

Provision for credit losses increased by $76.6 million, or 30%, for the year ended June 30, 2023 compared to the same period in 2022, driven by growth in the volume of loans held for investment and partially offset by improvements in the credit quality of loans outstanding. Loans held for investment as of June 30, 2023 was $4.4 billion, an increase of $1.9 billion, or 76% as compared to the same period in 2022. The allowance for credit losses as a percentage of loans held for investment decreased from 6.2% as of June 30, 2022 to 4.6% as of June 30, 2023, primarily driven by improvements in credit quality of loans outstanding and repayment trends.

Funding Costs

Funding costs consist of interest expense and the amortization of fees for certain borrowings collateralized by our loans including warehouse credit facilities and consolidated securitizations, sale and repurchase agreements collateralized by our retained securitization interests, and other costs incurred in connection with funding the purchases and originations of loans. Funding costs for a given period are driven by the average outstanding balance of funding debt and notes issued by securitization trusts as well as our contractual interest expense, net of the impact of any designated cash flow hedges.

Funding costs for the year ended June 30, 2023 increased by $113.3 million or 163%, compared to the same period in 2022. The increase was primarily due to higher benchmark interest rates and an increase of funding debt and notes issued by securitization trusts during the year ended June 30, 2023. The average total of funding debt from warehouses and securitizations for the year ended June 30, 2023 was $2.5 billion compared to $2.2 billion during the same period in 2022, an increase of $326.0 million, or 15%. The increase was also attributable to a larger volume of on-balance sheet loans being retained during the period. The average loan balance on-balance sheet was $3.4 billion for the year ended June 30, 2023, an increase of 53% compared to $2.2 billion during the same period in 2022.

Processing and Servicing

Processing and servicing expense consists primarily of payment processing fees, third-party customer support and collection expense, salaries and personnel-related costs of our customer care team, platform fees, and allocated overhead.

Processing and servicing expense for the year ended June 30, 2023 increased by $99.5 million, or 63%, compared to the same period in 2022. This increase was primarily due to a $46.0 million, or 51%, increase in payment processing fees related to increased servicing activity and payment volume for the year ended June 30, 2023. Additionally, our platform fees increased by $30.8 million, or 290%, for the year ended June 30, 2023 due to an increase in our platform partner volume with a large enterprise partner. Third-party customer support and collections spend increased by $13.7 million, or 36%, compared to the same period in 2022 due to increased loan volume and transaction growth during the period.

Technology and Data Analytics

Technology and data analytics expense consists primarily of the salaries, stock-based compensation, and personnel-related costs of our engineering, product, and credit and analytics employees, as well as the amortization of internally-developed software and technology intangible assets, and our infrastructure and hosting costs.

Technology and data analytics expense for the year ended June 30, 2023 increased by $197.2 million or 47%, compared to the same period in 2022. This increase is primarily driven by an increase of $100.4 million, or 39%, in stock-based compensation and payroll and personnel-related costs for the year ended June 30, 2023, compared to the same period in 2022, partially due to an increased average headcount as we continue to support our growth and technology platform, despite a reduction in force in connection with the 2023 Restructuring Plan . Additionally, amortization of internally-developed software and intangible assets increased by $70.8 million or 184%, compared to the same period in 2022, primarily as a result of an increase in the number of capitalized projects and our periodic reassessment of the remaining useful lives of those assets. Capitalized projects grew by 148% from approximately 270 projects as of June 30, 2022 to 660 projects as of June 30, 2023. Infrastructure and hosting costs increased by $20.6 million, or 23%, and data provider costs increased by $11.5 million, or 38%, for the year ended June 30, 2023, compared to the same period in 2022, due to increased capacity requirements of our technology platform driven by increases in active users and transactions per active consumer.

Sales and Marketing

Sales and marketing costs consist of the expense related to warrants and other share-based payments granted to our enterprise partners, salaries and personnel-related costs, as well as costs of general marketing and promotional activities, promotional event programs, sponsorships, and allocated overhead.

Sales and marketing expense for the year ended June 30, 2023 increased by $105.9 million or 20%, compared to the same period in 2022. The increase was primarily driven by Amazon warrant expense which increased from $281.0 million for the year ended June 30, 2022 to $463.3 million for the year ended June 30, 2023, as fiscal 2023 was the first full year of the Amazon warrants vesting. The increase was partially offset by a $36.1 million, or 65%, decrease in brand and consumer marketing spend, as well as a decrease of $15.2 million, or 84%, in business-to-business marketing spend during the year ended June 30, 2023, compared to the same period in 2022, primarily due to a reduced number of paid brand marketing campaigns and brand partnerships. Additionally, the amortization of our commercial agreement with Shopify decreased by $26.4 million, or 42%, during the year ended June 30, 2023, compared to the same period in 2022 due to an amendment made in our partnership agreement, which extended the period of benefit over which we amortize the commercial agreement asset.

General and Administrative

General and administrative expenses consist primarily of expenses related to our finance, legal, risk operations, human resources, and administrative personnel. General and administrative expenses also include costs related to fees paid for professional services, including legal, tax and accounting services, allocated overhead, and certain discretionary expenses incurred from operating our technology platform.

General and administrative expense for the year ended June 30, 2023 increased by $8.9 million or 2%, compared to the same period in 2022. The increase was primarily driven by a $28.5 million, or 7%, increase in payroll and personnel-related costs due to an increase in average headcount compared to the same period in 2022, despite a reduction in force in connection with the 2023 Restructuring Plan. The increase was partially offset by a $9.7 million, or 24%, decrease in professional service fees due to reduced spend related to acquisitions and international expansion programs. Additionally, recruitment costs decreased by $9.8 million, or 78%, in line with our restructuring and cost management plans.

Restructuring and Other

Restructuring and other for the year ended June 30, 2023 increased by $35.9 million compared to the same period in 2022. During the year ended June 30, 2023, we committed to a restructuring plan designed to manage our operating expenses in response to current macroeconomic conditions and ongoing business prioritization efforts. The associated restructuring charges during the year ended June 30, 2023 were approximately $35.9 million, which included expenditures of $29.7 million relating to employee severance and other employment termination benefits and $6.2 million of accelerated amortization expense due to a reduction of right-of-use lease assets resulting from our exiting leased office space. For further information on the associated restructuring liability, refer to Note 16. Restructuring and other in the notes to the consolidated financial statements in this Form 10-K.

Other (Expense) Income, net

Other (expense) income, net includes interest earned on our money market funds included in cash and cash equivalents and restricted cash, interest earned on securities available for sale, gains on derivative agreements driven by increases in fair value, amortization of convertible debt issuance cost as well as gains (losses) on extinguishment, revolving credit facility issuance costs, and fair value adjustments resulting from changes in the fair value of our contingent consideration liability, primarily driven by changes in the market price of our Class A common stock.

Other (expense) income, net increased by $70.4 million, or 50%, during the year ended June 30, 2023, compared to the same period in 2022. The increase is primarily driven by a gain of $89.8 million recognized on the early extinguishment of our convertible debt resulting from a repurchase of a portion of our 2026 Notes during the year ended June 30, 2023, as well as an increase of $65.9 million in interest income from cash and investments due to higher interest rates. The increase was partially offset by a gain of $8.2 million recognized on the change in fair value of the contingent consideration liability associated with our acquisition of PayBright, driven by changes in the value of our common stock, as compared to a gain of $89.3 million in the same period in 2022, a decrease of $81.1 million.

Income Tax Expense (Benefit)

The income tax benefit for the year ended June 30, 2023 decreased by $13.5 million, or 78%, compared to the same period in 2022. The tax benefit recognized for the year ended June 30, 2022 was primarily attributable to a change in our assessment of the future realization of certain Canadian deferred tax assets during the period, which resulted in a one-time income tax benefit for the release of all of the valuation allowance against our Canadian deferred tax assets.

Liquidity and Capital Resources

Sources and Uses of Funds

We maintain a capital-efficient model through a diverse set of funding sources. When we originate a loan directly or purchase a loan originated by our originating bank partners, we often utilize warehouse credit facilities with certain lenders to finance our lending activities or loan purchases. We sell the loans we originate or purchase from our originating bank partners to whole loan buyers and securitization investors through forward flow arrangements and securitization transactions, and earn servicing fees from continuing to act as the servicer on the loans. We proactively manage the allocation of loans on our platform across various funding channels based on several factors including, but not limited to, internal risk limits and policies, capital market conditions and channel economics. With rising interest rates and inflation, our excess funding capacity and committed and long-term relationships with a diverse group of existing funding partners help provide flexibility as we optimize our funding to support the growth in loan volume.

Our principal sources of liquidity are cash and cash equivalents, available for sale securities, available capacity from warehouse and revolving credit facilities, revolving securitizations, forward flow loan sale arrangements, and certain cash flows from our operations. As of June 30, 2023, we had $2.1 billion in cash and cash equivalents and available for sale securities, $2.1 billion in available funding debt capacity, excluding our purchase commitments from third party loan buyers, and $205.0 million in borrowing capacity available under our revolving credit facility.

The following table summarizes our cash, cash equivalents and investments in debt securities (in thousands):

	June 30, 2023	June 30, 2022
Cash and cash equivalents [1]	$ 892,027	$ 1,255,171
Investments in short-term debt securities [2]	915,003	1,295,811
Investments in long-term debt securities [2]	259,650	299,562
Cash, cash equivalent and investments in debt securities	**$ 2,066,680**	**$ 2,850,544**

(1) Cash and cash equivalents consist of checking, money market and savings accounts held at financial institutions and short term highly liquid marketable securities, including money market funds, government bonds, and other corporate securities purchased with an original maturity of three months or less.

(2) Securities available for sale at fair value primarily consist of certificates of deposits, corporate bonds, commercial paper, and government bonds. Short-term securities have maturities less than or equal to one year, and long-term securities range from greater than one year to less than five years.

Funding Debt

Our funding debt as of June 30, 2023 primarily include warehouse credit facilities and sale and repurchase agreements. A detailed description of each of our borrowing arrangements is included in Note 9. Debt in the notes to the consolidated financial statements. The following table summarizes our funding debt facilities as of June 30, 2023.

Maturity Fiscal Year	Borrowing Capacity	Principal Outstanding
	(in thousands)	
2024	$ 500,000	$ 202,245
2025	1,213,170	563,350
2026	838,617	542,288
2027	—	—
2028	39,155	39,155
Thereafter	1,257,478	428,660
Total	**$ 3,848,420**	**$ 1,775,698**

U.S.

Our warehouse credit facilities allow us to borrow up to an aggregate of $3.3 billion, mature between 2024 and 2029 and subject to covenant compliance, generally permit borrowings up to 12 months prior to the final maturity date. As of June 30, 2023, we have drawn an aggregate of $1.4 billion on our warehouse credit facilities. As of June 30, 2023, we were in compliance with all applicable covenants in the agreements. Refer to Note 9. Debt in the notes to the consolidated financial statements for further details on our warehouse credit facilities.

International

We use various credit facilities to finance the origination of loan receivables in Canada. Similar to our U.S. warehouse credit facilities, borrowings under these agreements are referred to as funding debt, and proceeds from the borrowings may only be used for the purposes of facilitating loan funding and origination. These facilities are secured by Canadian loan receivables pledged to the respective facility as collateral, mature between 2025 and 2029. As of June 30, 2023, the aggregate commitment amount of these facilities was $548.4 million on a revolving basis, of which $349.6 million was drawn. Refer to Note 9. Debt in the notes to the consolidated financial statements for further details on our other funding facilities.

Sale and Repurchase Agreements

We have various sale and repurchase agreements pursuant to our retained interests in our off-balance sheet securitizations where we have sold these securities to a counterparty with an obligation to repurchase at a future date and price. These agreements have an initial term of three months and subject to mutual agreement by Affirm and the counterparty, we may enter into one or more repurchase date extensions, each for an additional three month term at market interest rates on such extension date. We had $11.0 million and $27.0 million in debt outstanding under our sale and repurchase agreements disclosed within funding debt on the consolidated balance sheets as of June 30, 2023 and June 30, 2022, respectively. Refer to Note 9. Debt in the notes to the consolidated financial statements for further details on our sale and repurchase agreements.

Other Funding Sources

Securitizations

In connection with asset-backed securitizations, we sponsor and establish trusts (deemed to be VIEs) to ultimately purchase loans facilitated by our platform. Securities issued from our asset-backed securitizations are senior or subordinated, based on the waterfall criteria of loan payments to each security class. The subordinated

residual interests issued from these transactions are first to absorb credit losses in accordance with the waterfall criteria. We consolidate securitization VIEs when we are deemed to be the primary beneficiary and therefore have the power to direct the activities that most significantly affect the VIEs' economic performance and a variable interest that could potentially be significant to the VIE. Where we consolidate the securitization trusts, the loans held in the securitization trusts are included in loans held for investment, and the notes sold to third-party investors are recorded in notes issued by securitization trusts in the consolidated balance sheets. Refer to Note 10. Securitization and Variable Interest Entities in the notes to the consolidated financial statements for further details.

Revolving Credit Facility

In February 2022, we entered into a revolving credit agreement for a $165.0 million unsecured revolving credit facility, maturing on February 4, 2025, which was subsequently amended to increase the unsecured revolving commitments to $205.0 million. As of June 30, 2023, there are no borrowings outstanding under the facility. The facility contains certain covenants and restrictions, including certain financial maintenance covenants. As of June 30, 2023, we were in compliance with all applicable covenants in the agreements. Refer to Note 9. Debt in the notes to the consolidated financial statements for further details on our revolving credit facility.

Forward Flow Loan Sale Arrangements

We have forward flow loan sale arrangements that facilitates the sale of whole loans to counterparties. Forward flow arrangements are generally fixed term in nature, with term lengths ranging between one to three years, during which we periodically sell loans to our counterparties.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Year ended June 30,	
	2023	**2022**
	(in thousands)	
Net cash provided by (used in) operating activities	$ 12,181	$ (162,194)
Net cash used in investing activities	$ (1,653,070)	$ (2,011,338)
Net cash provided by financing activities	$ 1,349,945	$ 2,037,119

Operating Activities

Our largest sources of operating cash are fees charged to merchant partners on transactions processed through our platform and interest income from consumers' loans. Our primary uses of cash from operating activities are for general and administrative expenses, technology and data analytics expenses, funding costs, processing and servicing costs, and sales and marketing expenses.

Cash provided by operating activities for the year ended June 30, 2023, was $12.2 million, an increase of $174.4 million from cash used in operating activities of $162.2 million for the year ended June 30, 2022. This reflects our net loss of $985.3 million, adjusted for non-cash charges of $967.4 million and net cash inflows of $30.1 million provided by changes in our operating assets net of operating liabilities.

Non-cash charges primarily consisted of: commercial agreement expense, which increased by $167.3 million primarily as a result of an increase of $182.3 million related to Amazon warrant expenses, partially offset by a decrease of $26.4 million related to amortization expense associated with our commercial agreement asset with Shopify, provision for credit losses, which increased by $76.6 million driven by growth in the volume of loans held for investment and partially offset by improvements in the credit quality of loans outstanding, stock-based compensation, which increased by $60.7 million driven by an increase in amortization of internally developed software and intangible assets primarily as a result of an increase in the number of capitalized projects, which

increased by $81.9 million as a result of accelerated amortization related to property, equipment and software, and an adjustment in fair value of assets and liabilities of $85.9 million, primarily as a result of the gain of $8.2 million recognized based on a change in the fair value of the contingent consideration liability associated with our acquisition of PayBright, driven by changes in the market price of our common stock, as compared to a gain of $89.3 million in the same period in 2022, a decrease of $81.1 million . This was partially offset by a decrease due to a gain on early extinguishment of debt of $89.8 million related to the convertible note repurchases during the period.

Our net cash inflows resulting from changes in operating assets and liabilities increased by $40.0 million for the year ended June 30, 2023 compared to the same period in 2022. This change was primarily driven by net proceeds from the sale and purchase of loans of $165.1 million which increased by $135.7 million compared to the same period in 2022. We also purchased loans of $6.0 billion, which was offset by proceeds from loan sales of $6.2 billion.

Investing Activities

For the year ended June 30, 2023, net cash used in investing activities of $1.7 billion was primarily attributable to purchases and origination of loans held for investment of $13.6 billion, partially offset by repayments of loans and proceeds from sale of loans of $11.6 billion. During the period, we originated loans of $3.6 billion and purchased loans of $10.0 billion, representing a combined increase of $3.2 billion compared to the same period in 2022, due partly to continued growth in GMV. Loan repayments and sale of loans of $11.6 billion during the year ended June 30, 2023, represented an increase of $1.6 billion, compared to the same period in 2022, due in part to the shifting of the length of loan terms on our consolidated balance sheet netted off by higher average balance of loans held for investment compared to the same period in 2022. The additional offset during the year ended June 30, 2023 was related to the net proceeds from maturities of securities available for sale of $0.5 billion, representing an increase of $2.0 billion compared to the same period in 2022.

Financing Activities

For the year ended June 30, 2023, net cash provided by financing activities of $1.3 billion, was primarily attributable to net cash inflows from funding debt of $1.1 billion, and the issuance and repayment of notes and certificates issued by securitization trust of $0.5 billion, partially offset by net cash outflows related to the repayment of a portion of our convertible senior notes of $206.6 million. Additionally, we paid taxes related to RSU vesting of $73.8 million for the year ended June 30, 2023.

Contractual Obligations

	Payments Due By Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
			(in thousands)		
Funding debt	$ 1,775,698	$ 202,245	$ 1,105,638	$ 39,155	$ 428,660
Notes issued by securitization trusts	2,170,559	—	26,451	2,144,108	—
Operating lease commitments [1]	58,552	16,496	31,688	4,865	5,503
Purchase obligations [2]	659,166	96,765	201,306	192,143	168,952
Convertible senior notes [3]	1,425,900	—	—	1,425,900	—
Total	$ 6,089,875	$ 315,506	$ 1,365,083	$ 3,806,171	$ 603,115

(1) Operating lease amounts include minimum rental payments under our non-cancelable leases primarily for office facilities. The amounts presented are consistent with contractual terms and are not expected to differ significantly from actual results under our existing leases.

(2) Purchase obligations amounts include minimum purchase commitments for cloud computing web services entered into in the ordinary course of business.

(3) The 2026 Notes have an aggregated principal balance of $1,425.9 million and do not bear interest. The 2026 Notes mature on November 15, 2026.

The commitment amounts in the table above are associated with contracts that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the actions under the contracts.

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 securitization transactions, which we contractually service.

For off-balance sheet loan sales where servicing is the only form of continuing involvement, we could experience a loss if we were required to repurchase a loan due to a breach in representations and warranties associated with our loan sale or servicing contracts. For unconsolidated securitization transactions where Affirm is the sponsor and risk retention holder, Affirm could experience a loss of up to 5% of both the senior notes and residual certificates. As of June 30, 2023, the aggregate outstanding balance of loans held by third-party investors for off-balance sheet VIEs was $4.1 billion. In the unlikely event principal payments on the loans backing any off-balance sheet securitization are insufficient to pay holders of senior notes and residual certificates, including any retained interests held by Affirm, then any amounts the Company contributed to the securitization reserve accounts may be depleted. See Note 10. Securitization and Variable Interest Entities of the accompanying notes to our consolidated financial statements for more information.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP and requires us to make certain estimates and judgments that affect the amounts reported in our consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Because certain of these accounting policies require significant judgment, our actual results may

differ materially from our estimates. To the extent that there are differences between our estimates and actual results, our future consolidated financial statement presentation, financial condition, results of operations, and cash flows may be affected.

We evaluate our significant estimates on an ongoing basis. We believe the estimates, discussed below, have the greatest potential effect on our consolidated financial statements and are therefore deemed critical in understanding and evaluating our financial results. For further information, our significant accounting policies are described in Note 2. Summary of Significant Accounting Policies within the notes to the consolidated financial statements.

Loss on Loan Purchase Commitment and Loss on Loan Origination

We purchase certain loans from our originating bank partners that are processed through our platform that our originating bank partner puts back to us. In certain instances, our originating bank partners may originate loans with zero or below market interest rates that we are required to purchase. In these instances, we may be required to purchase the loan for a price in excess of the fair market value of such loans, which results in a loss. These losses are recognized as loss on loan purchase commitment in our consolidated statements of operations and comprehensive loss.

Similarly, we may originate certain loans via our wholly-owned subsidiaries, with zero or below market interest rates. In these instances, the par value of the loans originated is in excess of the fair market value of such loans, resulting in a loss, which we record as a reduction to network revenue.

For both loans originated by our bank partners and loans originated through our subsidiaries, the loss is measured as the difference between the estimated fair value of the loan and the par amount of the loan at origination.

The fair value of a loan is estimated based on the present value of expected future cash flows, using both observable and unobservable inputs, including the expected timing and amount of losses, the discount rate, and the recovery rate. These inputs are based on historical performance of loans facilitated through our platform, as well as the consideration of market participant requirements. While our estimate reflects assumptions we believe a market participant would use to calculate fair value, significant judgment is required.

Allowance for Credit Losses

The allowance for credit losses on loans held for investment is determined based on management's current estimate of expected credit losses over the remaining contractual term, historical credit losses, consumer payment trends, estimates of recoveries, and future expectations as of each balance sheet date. We immediately recognize an allowance for expected credit losses upon origination of a loan. Adjustments to the allowance each period for changes in our estimate of lifetime expected credit losses are recognized in earnings through the provision for credit losses presented on our consolidated statements of operations and comprehensive loss. We have made an accounting policy election to not measure an allowance for credit losses for accrued interest receivables. Previously recognized interest receivable from charged-off loans that is accrued but not collected from the consumer is reversed.

In estimating the allowance for credit losses, management utilizes a migration analysis of delinquent and current loan receivables. Migration analysis is a technique used to estimate the likelihood that a loan receivable will progress through various stages of delinquency and to charge-off. The analysis focuses on the pertinent factors underlying the quality of the loan portfolio. These factors include historical performance, the age of the receivable balance, seasonality, customer credit-worthiness, changes in the size and composition of the loan portfolio, delinquency levels, bankruptcy filings and actual credit loss experience. We also take into consideration certain qualitative factors, in which we adjust our quantitative baseline using our best judgement to consider the inherent uncertainty regarding future economic conditions and consumer loan performance. For example, we consider the impact of current economic and environmental factors at the reporting date that did not exist over the period from which historical experience was used.

When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. Loans are charged-off in accordance with our charge-

off policy, as the contractual principal becomes 120 days past due or meets other charge-off policy requirements. Subsequent recoveries of the unpaid principal balance, if any, are credited to the allowance for credit losses.

The underlying assumptions, estimates, and assessments we use to provide for losses are updated periodically to reflect our view of current conditions, which can result in changes to our assumptions. Changes in such estimates can significantly affect the allowance and provision for credit losses. It is possible that we will experience loan losses that are different from our current estimates.

Recent Accounting Pronouncements

Refer to Note 2. Summary of Significant Accounting Policies within the notes to the consolidated financial statements.

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 interim condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q ("Form 10-Q") and our audited consolidated financial statements and the related notes and the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the fiscal year ended June 30, 2023 included in our Annual Report on Form 10-K. Some of the information contained in this discussion and analysis, including information with respect to our planned investments to drive future growth, includes forward-looking statements that involve risks and uncertainties. You should review the sections titled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" of this Form 10-Q and our most recently filed Annual Report on Form 10-K for a discussion of forward-looking statements and important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are building the next generation platform for digital and mobile-first commerce. We believe that by using modern technology, superior engineering talent, and a mission-driven approach, we can reinvent payments and commerce. Our solutions, which are built on trust and transparency, make it easier for consumers to spend responsibly and with confidence, easier for merchants to convert sales and grow, and easier for commerce to thrive.

Our point-of-sale solutions allow consumers to pay for purchases in fixed amounts without deferred interest, late fees, or penalties. We empower consumers to pay over time rather than paying for a purchase entirely upfront. This increases consumers' purchasing power and gives them more control and flexibility. Our platform facilitates both true 0% APR payment options and interest-bearing loans. On the merchant side, we offer commerce enablement, demand generation, and customer acquisition tools. Our solutions empower merchants to more efficiently promote and sell their products, optimize their customer acquisition strategies, and drive incremental sales. We also provide valuable product-level data and insights — information that merchants cannot easily get elsewhere — to better inform their strategies. Finally, our consumer app unlocks the full suite of Affirm products for a delightful end-to-end consumer experience. Consumers can use our app to apply for installment loans, and upon approval, they can use the Affirm Card digitally online or in-stores to complete a purchase. Additionally, consumers can manage the pre- and post purchase split of Affirm Card transactions into loan, manage payments, open a high-yield savings account, and access a personalized marketplace.

Our Company is predicated on the principles of simplicity, transparency, and putting people first. By adhering to these principles, we have built enduring, trust-based relationships with consumers and merchants that we believe will set us up for long-term, sustainable success. We believe our innovative approach uniquely positions us to define the future of commerce and payments.

Technology and data are at the core of everything we do. Our expertise in sourcing, aggregating, and analyzing data has been what we believe to be the key competitive advantage of our platform since our founding. We believe our proprietary technology platform and data give us a unique advantage in pricing risk. We use data to inform our risk scoring in order to generate value for our consumers, merchants, and capital partners. We also prioritize building our own technology and investing in product and engineering talent as we believe these are enduring competitive advantages that are difficult to replicate. Our solutions use the latest in machine learning, artificial intelligence, cloud-based technologies, and other modern tools to create differentiated and scalable products.

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	Three Months Ended September 30,			
	2023	2022	$	%
	(in thousands, except percentages)			
Total revenue, net	**$ 496,547**	**$ 361,624**	**$ 134,923**	**37 %**
Total operating expenses	**705,994**	**649,091**	**56,903**	**9 %**
Operating loss	**$ (209,447)**	**$ (287,467)**	**$ 78,020**	**(27)%**
Other income, net	38,707	36,018	2,689	7 %
Loss before income taxes	**$ (170,740)**	**$ (251,449)**	**$ 80,709**	**(32)%**
Income tax (benefit) expense	1,043	(180)	1,223	(679) %
Net loss	**$ (171,783)**	**$ (251,269)**	**$ 79,486**	**(32)%**

Our Financial Model

Our Revenue Model

From merchants, we earn a fee when we help them convert a sale and facilitate a transaction. While merchant fees depend on the individual arrangement between us and each merchant and vary based on the terms of the product offering, we generally earn larger merchant fees on our 0% APR financing products. For the three months ended September 30, 2023 and 2022, Pay-in-4 represented 15% and 18% of total GMV facilitated through our platform, respectively, while 0% APR Core loans represented 11% and 19%, respectively.

From consumers, we earn interest income on the simple interest loans that we originate or purchase from our originating bank partners. Interest rates charged to our consumers vary depending on the transaction risk, creditworthiness of the consumer, the repayment term selected by the consumer, the amount of the loan, and the individual arrangement with a merchant. Because our consumers are never charged deferred or compounding interest, late fees, or penalties on the loans, we are not incentivized to profit from our consumers' hardships. In addition, interest income includes the amortization of any discounts or premiums on loan receivables created upon either the purchase of a loan from one of our originating bank partners or the origination of a loan. For the three months ended September 30, 2023 and 2022, interest bearing loans represented 74% and 64% of total GMV facilitated through our platform, respectively.

In order to accelerate our ubiquity, we facilitate the issuance of virtual cards directly to consumers through our app, allowing them to shop with merchants that may not yet be fully integrated with Affirm. Similarly, we also facilitate the issuance of the Affirm Card, a debit card that can be used physically or virtually and which allows consumers to link a bank account to pay in full, or pay later by accessing credit through the Affirm App. When these cards are used over established card networks, we earn a portion of the interchange fee from the transaction.

Our Loan Origination and Servicing Model

When a consumer applies for a loan through our platform, the loan is underwritten using our proprietary risk model. Once approved for the loan, the consumer then selects their preferred repayment option. A portion of these loans are funded and issued by our originating bank partners, which include Cross River Bank, an FDIC-insured New Jersey state-chartered bank, Celtic Bank, an FDIC-insured Utah state-chartered industrial bank, and Lead Bank, an FDIC-insured Missouri state-chartered bank. These partnerships allow us to benefit from our partners' ability to originate loans under their banking licenses while complying with various federal, state, and other laws. Under this arrangement, we must comply with our originating bank partners' credit policies and underwriting procedures, and our originating bank partners maintain ultimate authority to decide whether to originate a loan or not. When an originating bank partner originates a loan, it funds the loan through its own funding sources and may subsequently offer and sell the loan to us. Pursuant to our agreements with these partners, we are obligated to purchase the loans facilitated through our platform that such partner offers us and our obligation is secured by cash deposits. To date, we have purchased all of the loans facilitated through our platform and originated by our originating bank partners. When we purchase a loan from an originating bank partner, the purchase price is equal to the outstanding principal balance of the loan, plus a fee and any accrued interest. The originating bank

partner also retains an interest in the loans purchased by us through a loan performance fee that is payable by us on the aggregate principal amount of a loan that is paid by a consumer. See Note 13. Fair Value of Financial Assets and Liabilities for more information on the performance fee liability.

We are also able to originate loans directly under our lending, servicing, and brokering licenses in Canada and across several states in the U.S. through our consolidated subsidiaries. We directly originated approximately $938.3 million, or 17%, and $874.5 million, or 20%, of loans for the three months ended September 30, 2023 and 2022, respectively.

We act as the servicer on all loans that we originate directly or purchase from our originating bank partners and earn a servicing fee on loans we sell to our funding sources. In the normal course of business, we do not sell the servicing rights on any of the loans. To allow for flexible staffing to support overflow and seasonal traffic, we partner with several sub-servicers to manage customer care, first priority collections, and third-party collections in accordance with our policies and procedures.

Factors Affecting Our Performance

Our performance has been and may continue to be affected by many factors, including those identified below, as well as the factors discussed in the section titled "Risk Factors" in this Form 10-Q and in our most recently filed Annual Report on Form 10-K for the fiscal year ended June 30, 2023.

Expanding our Network, Diversity, and Mix of Funding Relationships

Our capital efficient funding model is integral to the success of our platform. As we scale the number of transactions on our network and grow GMV, we maintain a variety of funding relationships in order to support our network. Our diversified funding relationships include warehouse facilities, securitization trusts, forward flow arrangements, and partnerships with banks. Given the short duration and strong performance of our assets, funding can be recycled quickly, resulting in a high-velocity, capital efficient funding model. While we have continued to improve our equity capital efficiency, the percentage of our equity capital as a percentage of our total platform portfolio has remained relatively unchanged at 5% as of September 30, 2023 and June 30, 2023. The mix of on-balance sheet and off-balance sheet funding is a function of how we choose to allocate loan volume, which is determined by the economic arrangements and supply of capital available to us, both of which may also impact our results in any given period.

Mix of Business on Our Platform

The shifts in volume among merchants and the products that our merchants offer and our consumers purchase in any period affects our operating results. This mix impacts GMV, revenue, our financial results, and our key operating metric performance for that period. Differences in loan product mix result in varying loan durations, APR, and mix of 0% APR and interest-bearing financings.

Product and economic terms of commercial agreements vary among our merchants. For example, our low average order value ("AOV") products generally benefit from shorter duration, but also have lower revenue as a percentage of GMV when compared to high AOV products. Merchant mix shifts are driven in part by the products offered by the merchant, the economic terms negotiated with the merchant, merchant-side activity relating to the marketing of their products, whether or not the merchant is fully integrated within our network, and general economic conditions affecting consumer demand. Our revenue as a percentage of GMV in any given period varies across products. As such, as we continue to expand our network to include more merchants, revenue as a percentage of GMV may vary. In addition, our commercial agreement with Shopify to offer Shop Pay Installments powered by Affirm and our Pay-in-4 offering may continue to impact the mix of our shorter duration, low AOV products. Differences in the mix of high versus low AOV may also impact our results. For example, we expect that transactions per active consumer may increase while revenue as a percentage of GMV may decline in the medium term to the extent that a greater portion of our GMV comes from Pay-in-4 and other low-AOV offerings.

Seasonality

We experience seasonal fluctuations in our business as a result of consumer spending patterns. Historically, our GMV has been the strongest during the second quarter of our fiscal year due to increases in retail commerce during the holiday season. Despite these higher GMV levels, in fiscal 2023 and 2022, we generated less in period revenue as a percentage of GMV during our second fiscal quarter due to the comparatively higher proportion of interest bearing loans originated in the latter half of the period, which typically results in lower merchant network revenue, which is recognized in period, and higher levels of interest income, which is recognized over a longer time horizon. We expect these seasonal patterns to continue in future periods, and any adverse events that occur during our second fiscal quarter could have a disproportionate effect on our financial results for the fiscal year.

Macroeconomic Environment

We regularly monitor the direct and indirect impacts of the current macroeconomic conditions on our business, financial condition, and results of operations. Since fiscal 2023, the macroeconomic environment has presented a number of challenges to our business. In response to continued inflationary pressure, the U.S. Federal Reserve raised, and may continue to raise, the federal funds interest rate. Simultaneously, economic uncertainty and the prospect of economic recession impacted consumer spending. These developments have affected, and may continue to affect, our business and results of operations in the following ways:

- ***Deceleration in consumer demand:*** We have experienced a deceleration in consumer demand for discretionary items, which has adversely impacted GMV growth.

- ***Increased borrowing costs:*** Our costs of borrowing have increased, resulting in higher transaction costs.

- ***Volatile capital markets:*** In response to volatile capital markets conditions, we have retained more loans on our balance sheet funded through our consolidated securitizations and warehouse lines in recent fiscal quarters. Retaining loans on our balance sheet leads to the recognition of interest income over the life of the loan, effectively delaying the revenue that would have been realized upon the loan’s sale.

- ***Managing delinquency rates:*** We continue to optimize our underwriting to manage delinquency rates. As of September 30, 2023, our 30-day delinquency rates for monthly installment loans and our allowance rates for loan losses improved over, those experienced as of September 30, 2022.

Macroeconomic factors can also cause fluctuations of available capital in our lending marketplace due to shifts in the risk preferences of our lending partners and institutional investors or for other reasons. For example, since the beginning of March 2023, there have been public reports of instability at certain financial institutions. Despite the steps taken to date by U.S. and foreign agencies and institutions, the follow-on effects of this instability are unknown and may lead to disruptions to the businesses and operations of our funding sources.

Pricing Initiatives

We have substantially implemented certain pricing initiatives that have the dual purpose of offsetting our increased funding costs while also enabling us to responsibly extend access to credit to a larger number of consumers. These pricing initiatives include the following:

- increasing the maximum APR for loans facilitated on our platform from 30% to 36%;

- increasing the merchant fees payable by some merchants on 0% APR financing products;

- expanding the use of down payments and requested loan amounts;

- offering merchant-subsidized low APR loans (4% to 9.99%) as an alternative to monthly 0% APR programs; and

- shortening loan lengths and minimum order sizes for monthly 0% APR programs.

Regulatory Developments

We are subject to the regulatory and enforcement authority of the Consumer Financial Protection Board (the "CFPB") as a facilitator, servicer, acquirer or originator of consumer credit. As such, the CFPB has in the past requested reports concerning our organization, business conduct, markets, and activities, and we expect that the CFPB will continue to do so from time to time in the future.

In addition, we are subject to supervision by the CFPB, which enables it, among other things, to conduct comprehensive and rigorous examinations to assess our compliance with consumer financial protection laws, which in turn could result in matters requiring attention, investigations, enforcement actions, regulatory fines and mandated changes to our business products, policies and procedures.

Key Operating Metrics

We focus on several key operating metrics to measure the performance of our business and help determine our strategic direction. In addition to revenue, net loss, and other results under U.S. GAAP, the following tables set forth key operating metrics we use to evaluate our business.

	Three Months Ended September 30,		
	2023	2022	% Change
	(in billions)		
Gross merchandise volume (GMV)	$ 5.6	$ 4.4	28 %

GMV

We measure GMV to assess the volume of transactions that take place on our platform. We define GMV as the total dollar amount of all transactions on the Affirm platform during the applicable period, net of refunds. GMV does not represent revenue earned by us; however, it is an indicator of the success of our merchants and the strength of our platform.

For the three months ended September 30, 2023, GMV was $5.6 billion, which represented an increase of approximately 28% as compared to the same period in 2022. Overall, the increase in GMV was primarily driven by the expansion of our active merchant base and increases in active consumers and average transactions per consumer. The increase in GMV for the three months ended September 30, 2023 also reflected increased consumer demand at our largest merchant partners by GMV and increased consumer demand in our travel and ticketing and general merchandise categories.

For the three months ended September 30, 2023, our top five merchants and platform partners represented approximately 42% of total GMV, as compared to 38% for the three months ended September 30, 2022. GMV attributable to Amazon increased during the three months ended September 30, 2023 as compared to the same period in 2022 but represented less than 20% of total GMV for all such periods.

	September 30, 2023	September 30, 2022	% Change
	(in thousands, except per consumer data)		
Active consumers	16,933	14,722	15 %
Transactions per active consumer	4.1	3.3	25 %

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Active Consumers

We assess consumer adoption and engagement by the number of active consumers across our platform. Active consumers are the primary measure of the size of our network. We define an active consumer as a consumer who engages in at least one transaction on our platform during the 12 months prior to the measurement date.

As of September 30, 2023, we had approximately 16.9 million active consumers inclusive of 0.8 million active consumers who only transacted on Returnly, which represented an increase of 15% compared to approximately 14.7 million active consumers as of September 30, 2022. The increase was primarily due to a high retention rate of existing consumers and the acquisition of new consumers through an expanding active merchant base.

Transactions per Active Consumer

We believe the value of our network is amplified with greater consumer engagement and repeat usage, highlighted by increased transactions per active consumer. Transactions per active consumer is defined as the average number of transactions that an active consumer has conducted on our platform during the 12 months prior to the measurement date.

As of September 30, 2023, we had approximately 4.1 transactions per active consumer, an increase of 25% compared to September 30, 2022. This was primarily due to platform growth and a higher frequency of repeat users driven by consumer engagement.

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Results of Operations

The following tables set forth selected interim condensed consolidated statements of operations and comprehensive loss data for each of the periods presented:

	Three Months Ended September 30,			
	2023	2022	$	%
	(in thousands, except percentages)			
Revenue				
Merchant network revenue	$ 145,950	$ 113,149	$ 32,801	29 %
Card network revenue	33,476	26,708	6,768	25 %
Total network revenue	179,426	139,857	39,569	28 %
Interest income [1]	262,679	136,802	125,877	92 %
Gain on sales of loans [1]	34,285	63,595	(29,310)	(46) %
Servicing income	20,157	21,370	(1,213)	(6) %
Total revenue, net	**$ 496,547**	**$ 361,624**	**$ 134,923**	**37 %**
Operating expenses [2]				
Loss on loan purchase commitment	$ 34,866	$ 35,610	$ (744)	(2) %
Provision for credit losses	99,696	64,250	35,446	55 %
Funding costs	73,931	25,066	48,865	195 %
Processing and servicing	75,671	54,359	21,312	39 %
Technology and data analytics	132,965	144,961	(11,996)	(8) %
Sales and marketing	146,866	163,873	(17,007)	(10) %
General and administrative	140,334	160,972	(20,638)	(13) %
Restructuring and other	1,665	—	1,665	NM*
Total operating expenses	**705,994**	**649,091**	**56,903**	**9 %**
Operating loss	**$ (209,447)**	**$ (287,467)**	**$ 78,020**	**(27) %**
Other income, net	38,707	36,018	2,689	7 %
Loss before income taxes	**$ (170,740)**	**$ (251,449)**	**$ 80,709**	**(32) %**
Income tax (benefit) expense	1,043	(180)	1,223	(679) %
Net loss	**$ (171,783)**	**$ (251,269)**	**$ 79,486**	**(32) %**

* Not meaningful

(1) Upon purchase of a loan from our originating bank partners at a price above the fair market value of the loan or upon the origination of a loan with a par value in excess of the fair market value of the loan, a discount is included in the amortized cost basis of the loan. For loans held for investment, this discount is amortized over the life of the loan into interest income. When a loan is sold to a third-party loan buyer or off-balance sheet securitization trust, the unamortized discount is released in full at the time of sale and recognized as part of the gain or loss on sales of loans. However, the cumulative value of the loss on loan purchase commitment or loss on origination, the interest income recognized over time from the amortization of discount while retained, and the release of discount into gain on sales of loans, together net to zero over the life of the loan. The following tables detail activity for the discount, included in loans held for investment, for the periods indicated:

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	Three Months Ended September 30,	
	2023	2022
	(in thousands)	
Balance at the beginning of the period	$ 96,576	$ 42,780
Additions from loans purchased or originated, net of refunds	52,420	70,394
Amortization of discount	(45,118)	(38,969)
Unamortized discount released on loans sold	(13,060)	(15,174)
Impact of foreign currency translation	(956)	(1,554)
Balance at the end of the period	$ 89,862	$ 57,477

(2) Amounts include stock-based compensation as follows:

	Three Months Ended September 30,	
	2023	2022
	(in thousands)	
General and administrative	$ 70,184	$ 67,340
Technology and data analytics	35,135	43,428
Sales and marketing	5,465	8,128
Processing and servicing	1,575	912
Total stock-based compensation in operating expenses	112,359	119,808
Capitalized into property, equipment and software, net	38,803	21,204
Total stock-based compensation	$ 151,162	$ 141,012

Comparison of the Three Months Ended September 30, 2023 and 2022

Merchant network revenue

Merchant network revenue is impacted by both GMV and the mix of loans originated on our platform as merchant fees vary based on loan characteristics. In particular, merchant network revenue as a percentage of GMV typically increases with longer-term, non interest-bearing loans with higher AOVs, and decreases with shorter-term, interest-bearing loans with lower AOVs.

Merchant network revenue increased by $32.8 million, or 29%, for the three months ended September 30, 2023, compared to the same period in 2022. The increase is primarily attributed to an increase of $1.2 billion in GMV for the three months ended September 30, 2023, compared to the same time period in 2022. The increase in GMV is a result of the expansion of our active merchant base and consumers, reaching approximately 266,000 and 16.9 million, respectively, as of September 30, 2023, up from approximately 245,000 and 14.7 million, respectively, as of September 30, 2022. Additionally, the average transactions per consumer increased from 3.3 as of September 30, 2022 to 4.1 as of September 30, 2023. The increase in consumers and average transactions per consumer is partially offset by a decrease in AOVs. For the three months ended September 30, 2023 AOV was $299, down from $331 for the same period in fiscal 2022. The decrease in AOV is due to the diversification of our merchant base and our initiative to drive repeat usage of our platform beyond one-time high AOV purchases.

Card network revenue

Card network revenue increased by $6.8 million, or 25%, for the three months ended September 30, 2023 compared to the same period in 2022. Card network revenue growth is correlated with the growth of GMV processed by our issuer processors. As such, the increase is primarily driven by $1.8 billion of GMV processed through our issuer processors, an increase of 35% for the three months ended September 30, 2023 as compared to the same period in 2022. This was driven by increased card activity as well as growth in existing and new merchants using our card platform, growing from approximately 1,100 merchants as of September 30, 2022 to 1,400 merchants

as of September 30, 2023. Card network revenue is also impacted by the mix of merchants as different merchants can have different interchange rates depending on their industry or size, among other factors.

Interest income

Interest income increased by $125.9 million, or 92%, for the three months ended September 30, 2023, compared to the same period in 2022. Generally, interest income is correlated with the changes in the average balance of loans held for investment. The average balance of loans held for investment increased by 73% to $4.5 billion for the three months ended September 30, 2023 compared to the same period in 2022. The increase in loans held for investment on our interim consolidated balance sheet is in response to the current market environment and our ability to allocate loans to warehouse credit facilities with better economic terms while optimizing cost of funds. As a result of the increase in loans held for investment on our consolidated balance sheet, interest income from interest-bearing loans increased from $106.1 million for the three months ended September 30, 2022 to $226.2 million for three months ended September 30, 2023. This increase was partially due to an increase in volume of interest bearing loans which increased to 74% of total GMV for the three months ended September 30, 2023 compared to 64% of total GMV in the same period in 2022, in addition to recent pricing initiatives, including the increase of the maximum APR and merchant-subsidized low APR loans replacing previously non-interest bearing loans.

Gain on sales of loans

Gain on sales of loans decreased by $29.3 million, or 46%, for the three months ended September 30, 2023 compared to the same period in 2022. The decrease was partially driven by higher benchmark interest rates, which impacted pricing terms on loan sales during the period. The decrease was partially offset by an increase in loan sale volume to third-party loan buyers. We sold loans with an unpaid principal balance of $2.2 billion for the three months ended September 30, 2023 compared to $2.0 billion for the same period in 2022.

Servicing income

Servicing income includes net servicing fee revenue and fair value adjustments for servicing assets and liabilities, and is recognized for loan portfolios sold to third party loan buyers and for loans held within our off balance sheet securitizations. Servicing fee revenue varies by contractual servicing fee arrangement and is earned as a percentage of the average unpaid principal balance of loans held by each counterparty where we have a servicing agreement. We reduce servicing income for certain fees we are required to pay per our contractual servicing arrangement.

With respect to fair value adjustments, we remeasure the fair value of servicing assets and liabilities each period and recognize the change in fair value in servicing income. We utilize a discounted cash flow approach to remeasure the fair value of servicing rights. Because we earn servicing income based on the outstanding principal balance of the portfolio, fair value adjustments are impacted by the timing and amount of loan repayments. As such, over the term of each loan portfolio sold, fair value adjustments for servicing assets will decrease servicing income and fair value adjustments for servicing liabilities will increase servicing income. We discuss our valuation methodology and significant Level 3 inputs for servicing assets and liabilities within Note 13. Fair Value of Financial Assets and Liabilities.

Servicing income decreased by $1.2 million, or 6%, for the three months ended September 30, 2023, compared to the same period in 2022. The decrease was primarily due to the average unpaid principal balance of loans owned by third-party loan owners, which decreased from $4.6 billion during the three months ended September 30, 2022 to $4.4 billion during the three months ended September 30, 2023.

Loss on loan purchase commitment

We purchase certain loans from our originating bank partners that are processed through our platform and put back to us by our originating bank partners . Under the terms of the agreements with our originating bank partners, we are generally required to pay the principal amount plus accrued interest for such loans. In certain instances, our originating bank partners may originate loans with zero or below market interest rates that we are required to purchase. In these instances, we may be required to purchase the loan for a price in excess of the fair market value of such loans, which results in a loss. These losses are recognized as loss on loan purchase commitment in our interim condensed consolidated statements of operations and comprehensive loss. These costs are incurred on a per loan basis.

Loss on loan purchase commitment decreased by $0.7 million, or 2%, for the three months ended September 30, 2023 compared to the same period in 2022. This decrease was due to a decrease in the volume and concentration of long-term 0% APR loans purchased from our originating bank partners which are purchased above fair market value, in contrast to an increase in total loans purchased. The difference between fair value and purchase price for our loans is generally correlated with the term length and APR of the loans. Additionally, as the percentage of our portfolio shifts towards more interest bearing loans, loss on loan purchase commitment is expected to decrease as a percentage of the originated principal amount. During the three months ended September 30, 2023, we purchased $4.6 billion of loans from our originating bank partners, compared to $3.5 billion in the same period in 2022, representing an increase of 31%. Of those loans, $278.8 million were long-term 0% APR loan receivables for the three months ended September 30, 2023, representing a decrease of $117.8 million, or 30%, compared to the same period in 2022.

Provision for credit losses

Provision for credit losses generally represents the amount of expense required to maintain the allowance for credit losses on our consolidated balance sheet, which represents management's estimate of future losses. In the event that our loans outperform expectation and/or we reduce our expectation of credit losses in future periods, we may release reserves and thereby reduce the allowance for credit losses, yielding income in the provision for credit losses. The provision is determined based on our estimate of expected future losses on loans originated during the period and held for investment on our balance sheet, changes in our estimate of future losses on loans outstanding as of the end of the period and the net charge-offs incurred in the period.

Provision for credit losses increased by $35.4 million, or 55%, for the three months ended September 30, 2023 compared to the same period in 2022, driven by growth in the volume of loans held for investment and partially offset by improvements in credit quality of loans outstanding. Loans held for investment as of September 30, 2023 was $4.5 billion, an increase of $1.9 billion, or 70%, as compared to the same period in 2022.

The allowance for credit losses as a percentage of loans held for investment was 5.1% as of September 30, 2023 compared to 5.7% in the same period in 2022 and 4.6% as of June 30, 2023. The decrease from September 30, 2022, was primarily driven by enhancements to our credit underwriting models and collection processes for loans in early stage delinquency. This has allowed us to better predict and mitigate losses and has resulted in stronger performing loans normalized for the same credit quality. The increase in the allowance rate from June 30, 2023 is primarily driven by changes in the loan mix, including holding a higher percentage of seasoned and longer term loans on our balance sheet as of September 30, 2023.

Funding costs

Funding costs consist of interest expense and the amortization of fees for certain borrowings collateralized by our loans including warehouse credit facilities and consolidated securitizations, sale and repurchase agreements collateralized by our retained securitization interests, and other costs incurred in connection with funding the purchases and originations of loans. Funding costs for a given period are driven by the average outstanding balance of funding debt and notes issued by securitization trusts as well as our contractual interest rate and distribution of loans across funding facilities, net of the impact of any designated cash flow hedges.

Funding costs increased by $48.9 million, or 195%, for the three months ended September 30, 2023, respectively, compared to the same period in 2022. The increase was primarily due to higher benchmark interest rates and an increase of funding debt and notes issued by securitization trusts during the three months ended September 30, 2023. The average total of funding debt from warehouses and securitizations for the three months ended September 30, 2023 was $4.0 billion compared to $2.4 billion during the same period in 2022, an increase of $1.6 billion, or 67%. The increase was also attributable to a larger volume of on-balance sheet loans being retained during the period. The average on-balance sheet loan balance was $4.5 billion for the three months ended September 30, 2023, an increase of 72% compared to $2.6 billion during the same period in 2022.

Processing and servicing

Processing and servicing expense consists primarily of payment processing fees, third-party customer support and collection expense, salaries and personnel-related costs of our customer care team, platform fees, and allocated overhead.

Processing and servicing expense increased by $21.3 million, or 39%, for the three months ended September 30, 2023 compared to the same period in 2022. This increase was driven primarily by an increase in payment processing fees of $11.6 million, or 40%, for the three months ended September 30, 2023 related to increased payment volume. Additionally, during the three months ended September 30, 2023, our platform fees increased by $7.8 million, or 107%, due to an increase in volume with a large enterprise partner.

Technology and data analytics

Technology and data analytics expense consists primarily of the salaries, stock-based compensation, and personnel-related costs of our engineering, product, and credit and analytics employees, as well as the amortization of internally-developed software and technology intangible assets, and our infrastructure and hosting costs.

Technology and data analytics expense decreased by $12.0 million, or 8%, for the three months ended September 30, 2023 compared to the same period in 2022. The decrease is primarily driven by a decrease of $18.1 million, or 21%, in stock-based compensation and payroll and personnel-related costs for the three months ended September 30, 2023 compared to the same period in 2022, due to higher capitalized expenses related to internally-developed software. Additionally, data infrastructure and hosting costs decreased by $8.1 million, or 27%, for the three months ended September 30, 2023 compared to the same period in 2022, due to cost improvements achieved as a result of contract renegotiation. The decrease is partially offset by amortization of internally-developed software and intangible assets which increased by $11.8 million, or 61%, for the three months ended September 30, 2023 compared to the same period in 2022, as a result of an increase in the number of capitalized projects. Capitalized projects grew by 83% from approximately 330 projects as of September 30, 2022 to 610 projects as of September 30, 2023. Additionally, data provider costs increased by $1.7 million, or 19%, for the three months ended September 30, 2023, compared to the same period in 2022, due to an increase in transactions on our platform.

Sales and marketing

Sales and marketing costs consist of the expense related to warrants and other share-based payments granted to our enterprise partners, salaries and personnel-related costs, as well as costs of general marketing and promotional activities, promotional event programs, sponsorships, and allocated overhead.

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Sales and marketing expense decreased by $17.0 million, or 10%, during the three months ended September 30, 2023 compared to the same period in 2022. The decrease was primarily driven by Amazon warrant expense which decreased from $119.2 million for the three months ended September 30, 2022 to $106.3 million for the three months ended September 30, 2023 due to a decrease in the number of new users to the Amazon program in the current period, which is the basis for a portion of the warrant expense. Additionally, personnel-related costs decreased by $9.9 million, or 46%, for the three months ended September 30, 2023 compared to the same period in 2022 as a result of our reduction in force and cost management plans. The decrease is partially offset by a $5.6 million increase in the amortization of intangible assets for the three months ended September 30, 2023 compared to the same period in 2022 due to accelerated amortization of Returnly's intangibles assets related to the wind down of our returns management platform.

General and administrative

General and administrative expenses consist primarily of expenses related to our finance, legal, risk operations, human resources, and administrative personnel. General and administrative expenses also include costs related to fees paid for professional services, including legal, tax and accounting services, allocated overhead, and certain discretionary expenses incurred from operating our technology platform.

General and administrative expense decreased by $20.6 million, or 13%, during the three months ended September 30, 2023 compared to the same period in 2022. The decrease was primarily due to a $3.3 million, or 3%, decrease in payroll and personnel-related costs, a $6.6 million, or 45%, decrease in professional service fees and contractor expenses, and a $2.9 million, or 38%, decrease in bonuses during the three months ended September 30, 2023 compared to the same period in 2022, as a result of our reduction in force and cost management plans. Additionally insurance expense decreased by $2.0 million, or 39%, driven by a rate reduction during policy renewals.

Restructuring and other

Restructuring and other for the three months ended September 30, 2023 increased by $1.7 million compared to the same period in 2022. The associated restructuring and other expenses during the three months ended September 30, 2023 related to employee severance and other employment termination benefits offered in connection with the wind down of our returns management platform, Returnly.

Other (expense) income, net

Other income, net includes interest earned on our money market funds included in cash and cash equivalents and restricted cash, interest earned on securities available for sale, gains and losses on derivative agreements and other liabilities driven by changes in fair value, amortization of convertible debt issuance cost as well as gains (losses) on extinguishment, revolving credit facility issuance costs.

Other income, net increased by $2.7 million, or 7%, during the three months ended September 30, 2023 compared to the same period in 2022. The increase is primarily driven by an increase in interest income from cash and investments of $10.5 million during the three months ended September 30, 2023 compared to the same period in 2022 due to higher interest rates. Additionally, we recognized a gain of $3.5 million on the changes in fair value of liabilities, primarily related to our profit sharing liability, during the three months ended September 30, 2023 compared to a loss of $5.3 million on other liabilities in the same period in 2022, an increase of $8.8 million. We also had a $9.9 million increase in other income related to the wind down of Returnly and our partnership with a third party returns provider. The increase is partially offset by a $4.0 million gain on derivative instruments during the three months ended September 30, 2023 compared to a $30.7 million gain during the same period in 2022, a decrease of $26.7 million, primarily driven by more stable interest rates.

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Liquidity and Capital Resources

Sources and Uses of Funds

We maintain a capital-efficient model through a diverse set of funding sources. When we originate a loan directly or purchase a loan originated by our originating bank partners, we often utilize warehouse credit facilities with certain lenders to finance our lending activities or loan purchases. We sell the loans we originate or purchase from our originating bank partners to whole loan buyers and securitization investors through forward flow arrangements and securitization transactions, and earn servicing fees from continuing to act as the servicer on the loans. We proactively manage the allocation of loans on our platform across various funding channels based on several factors including, but not limited to, internal risk limits and policies, capital market conditions and channel economics. With rising interest rates and inflation, our excess funding capacity and committed and long-term relationships with a diverse group of existing funding partners help provide flexibility as we optimize our funding to support the growth in loan volume.

Our principal sources of liquidity are cash and cash equivalents, available for sale securities, available capacity from warehouse and revolving credit facilities, revolving securitizations, forward flow loan sale arrangements, and certain cash flows from our operations. As of September 30, 2023, we had $2.1 billion in cash and cash equivalents and available for sale securities, $2.8 billion in available funding debt capacity, excluding our purchase commitments from third party loan buyers, and $205.0 million in borrowing capacity available under our revolving credit facility.

The following table summarizes our cash, cash equivalents and investments in debt securities (in thousands):

	September 30, 2023	June 30, 2023
Cash and cash equivalents [1]	$ 1,079,261	$ 892,027
Investments in short-term debt securities [2]	782,205	915,003
Investments in long-term debt securities [2]	239,425	259,650
Cash, cash equivalent and investments in debt securities	**$ 2,100,891**	**$ 2,066,680**

[1] Cash and cash equivalents consist of checking, money market and savings accounts held at financial institutions and short term highly liquid marketable securities, including money market funds, government bonds, and other corporate securities purchased with an original maturity of three months or less.

[2] Securities available for sale at fair value primarily consist of certificates of deposits, corporate bonds, commercial paper, and government bonds. Short-term securities have maturities less than or equal to one year, and long-term securities range from greater than one year to less than five years.

Funding Debt

Our funding debt as of September 30, 2023 primarily includes warehouse credit facilities and sale and repurchase agreements. A detailed description of each of our borrowing arrangements is included in Note 9. Debt in the notes to the interim condensed consolidated financial statements. The following table summarizes our funding debt facilities as of September 30, 2023.

Maturity Fiscal Year	Borrowing Capacity	Principal Outstanding
	(in thousands)	
2024	$ 700,000	$ 183,530
2025	842,092	390,881
2026	1,634,184	633,452
2027	—	—
2028	26,660	26,660
Thereafter	1,302,602	490,488
Total	**$ 4,505,538**	**$ 1,725,011**

U.S.

Our warehouse credit facilities allow us to borrow up to an aggregate of $4.0 billion, mature between 2024 and 2031 and subject to covenant compliance, generally permit borrowings up to 12 months prior to the final maturity date. As of September 30, 2023, we have drawn an aggregate of $1.4 billion on our warehouse credit facilities. As of September 30, 2023, we were in compliance with all applicable covenants in the agreements.

International

We use various credit facilities to finance the origination of loan receivables in Canada. Similar to our U.S. warehouse credit facilities, borrowings under these agreements are referred to as funding debt, and proceeds from the borrowings may only be used for the purposes of facilitating loan funding and origination. These facilities are secured by Canadian loan receivables pledged to the respective facility as collateral, mature between 2025 and 2029. As of September 30, 2023, the aggregate commitment amount of these facilities was $505.5 million on a revolving basis, of which $360.4 million was drawn.

Sale and Repurchase Agreements

We have various sale and repurchase agreements pursuant to our retained interests in our off-balance sheet securitizations where we have sold these securities to a counterparty with an obligation to repurchase at a future date and price. These agreements have an initial term of three months and subject to mutual agreement by Affirm and the counterparty, we may enter into one or more repurchase date extensions, each for an additional three month term at market interest rates on such extension date. We had $5.9 million and $11.0 million in debt outstanding under our sale and repurchase agreements disclosed within funding debt on the interim consolidated balance sheets as of September 30, 2023 and June 30, 2023, respectively.

Other Funding Sources

Securitizations

In connection with asset-backed securitizations, we sponsor and establish trusts (deemed to be VIEs) to ultimately purchase loans facilitated by our platform. Securities issued from our asset-backed securitizations are senior or subordinated, based on the waterfall criteria of loan payments to each security class. The subordinated residual interests issued from these transactions are first to absorb credit losses in accordance with the waterfall criteria. We consolidate securitization VIEs when we are deemed to be the primary beneficiary and therefore have

the power to direct the activities that most significantly affect the VIEs' economic performance and a variable interest that could potentially be significant to the VIE. Where we consolidate the securitization trusts, the loans held in the securitization trusts are included in loans held for investment, and the notes sold to third-party investors are recorded in notes issued by securitization trusts in the interim condensed consolidated balance sheets. Refer to Note 10. Securitization and Variable Interest Entities for further details.

Revolving Credit Facility

In February 2022, we entered into a revolving credit agreement for a $165.0 million unsecured revolving credit facility, maturing on February 4, 2025, which was subsequently amended to increase the unsecured revolving commitments to $205.0 million. As of September 30, 2023, there were no borrowings outstanding under the facility. The facility contains certain covenants and restrictions, including certain financial maintenance covenants. As of September 30, 2023, we were in compliance with all applicable covenants in the agreements. Refer to Note 9. Debt in the notes to the interim condensed consolidated financial statements for further details on our revolving credit facility.

Forward Flow Loan Sale Arrangements

We have forward flow loan sale arrangements that facilitate the sale of whole loans to counterparties. Forward flow arrangements are generally fixed term in nature, with term lengths ranging between one to three years, during which we periodically sell loans to our counterparties.

Cash Flow Analysis

The following table provides a summary of cash flow data during the periods indicated:

	Three Months Ended September 30,	
	2023	2022
	(in thousands)	
Net cash provided by (used in) operating activities	98,902	51,215
Net cash provided by investing activities	(15,859)	117,273
Net cash provided by financing activities	148,806	199,542

Cash Flows from Operating Activities

Our largest sources of operating cash are fees charged to merchant partners on transactions processed through our platform and interest income from consumers' loans. Our primary uses of cash from operating activities are for general and administrative, technology and data analytics, funding costs, processing and servicing, and sales and marketing expenses.

For the three months ended September 30, 2023, net cash used in operating activities of $98.9 million stemmed from a net loss of $171.8 million, an unfavorable change in our operating assets net of operating liabilities of $8.9 million, including net cash outflows from the sale and purchase of loans of $5.9 million, partially offset by a positive adjustment for non-cash items of $279.6 million. The change in operating assets net of operating liabilities was primarily a result of an increase of our purchase and sale of loans held for sale activities. We purchased loans of $1.2 billion, which was offset by proceeds from loan sales of $1.2 billion. The positive adjustment for non-cash items primarily consisted of provision for credit losses of $99.7 million, which increased by $35.4 million as a result of the growth in the volume of loans held for investment and gain on sale of loans of $34.3 million which increased by $29.3 million driven by the increase in loan sale volume to third-party loan buyer, partially offset by the amortization expense of $40.1 million associated with our commercial agreement asset with Shopify, which decreased by $12.8 million.

For the three months ended September 30, 2022, net cash provided by operating activities was $51.2 million. This reflects a net loss of $251.4 million, offset by a favorable change in our operating assets net of operating liabilities of $13.4 million, a favorable change in net proceeds from sale and purchase of loans of $52.6

million and a positive adjustment for non-cash items of $236.5 million. The change in operating assets net of operating liabilities was primarily a result of our purchase and sale of loans held for sale activities. We purchased loans of $1.7 billion, which was offset by proceeds from loan sales of $1.7 billion. The positive adjustment for non-cash items was primarily driven by commercial agreement assets of $108.7 million, and stock-based compensation of $119.8 million, which saw an increase resulting from incremental compensation recognized from award modifications and increased headcount, offset by a loss on sale of loans of $63.6 million,

Cash Flows from Investing Activities

For the three months ended September 30, 2023, net cash provided by investing activities of $15.9 million was primarily attributable to repayments of loans and proceeds from sale of loans of $4.1 billion and proceeds from maturities and repayments of securities available for sale of $262.3 million, partially offset by purchases and origination of loans held for investment of $4.2 billion. Loan repayments and sale of loans of $4.1 billion during the period represented an increase of $1.6 billion, compared to the same period in 2022, due in part to shifting of the length of loan terms on our balance sheet netted off by higher average balance of loans held for investment compared to the same period in 2022. During the period we originated loans of $913.6 million and purchased loans of $3.3 billion, representing a combined decrease of $1.5 billion compared to the same period in 2022.

For the three months ended September 30, 2022, net cash provided by investing activities of $117.3 million was primarily attributable to purchases and origination of loans held for investment of $2.7 billion, partially offset by repayments of loans of $2.5 billion. During the period, we originated loans of $836.8 million and purchased loans of $1.9 billion, representing an increase compared to the same quarter of the prior year, due partly to continued growth in GMV. The repayments on loans of $2.5 billion during the period represented an increase compared to the same quarter of the prior year, due to a higher average balance of loans held for investment and generally increasing credit quality of the portfolio. The additional offset during the three months ended September 30, 2022 related to the net proceeds from maturities of securities available for sale of $359.9 million, representing an increase compared to the same quarter of the prior year.

Cash Flows from Financing Activities

For the three months ended September 30, 2023, net cash provided by financing activities of $148.8 million, was primarily attributable to net cash inflows from the issuance and repayment of notes and certificates issued for the securitization trust of $234.6 million, and partially offset by net cash outflows related to the repayment of funding debt of $42.4 million. Our payments of debt issuance costs were in the normal course of business and reflective of our recurring warehouse credit facility activity, which involves securing new warehouse credit facilities and extending existing warehouse credit facilities. Additionally, we paid taxes related to RSU vesting of $36.5 million.

For the three months ended September 30, 2022, net cash provided by financing activities of $199.5 million, was primarily attributable to proceeds from funding debt and notes and residual trust certificates for the securitization trusts of $1.4 billion. These were partially offset by our debt repayments related to our lending activities of $1.2 billion, of which $1.1 billion were related to our warehouse credit facilities. Our payments of debt issuance costs were in the normal course of business and reflective of our recurring warehouse credit facility activity, which involves securing new warehouse credit facilities and extending existing warehouse credit facilities. Finally, we paid taxes related to RSU vesting of $27.3 million.

Contractual Obligations

There were no material changes outside of the ordinary course of business in our commitments and contractual obligations for the three months ended September 30, 2023 from the commitments and contractual obligations disclosed in the section titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations*," set forth in our Annual Report on Form 10-K for the fiscal year ended June 30, 2023, which was filed with the SEC on August 25, 2023.

Off-Balance Sheet Arrangements

In the ordinary course of business, we engage in activities that are not reflected on our interim condensed consolidated balance sheets, generally referred to as off-balance sheet arrangements. These activities involve transactions with unconsolidated VIEs, including our sponsored securitization transactions, which we contractually service.

For off-balance sheet loan sales where servicing is the only form of continuing involvement, we could experience a loss if we were required to repurchase a loan due to a breach in representations and warranties associated with our loan sale or servicing contracts. For unconsolidated securitization transactions where Affirm is the sponsor and risk retention holder, Affirm could experience a loss of up to 5% of both the senior notes and residual trust certificates. As of September 30, 2023, the aggregate outstanding balance of loans held by third-party investors for off-balance sheet VIEs was $4.3 billion. In the unlikely event principal payments on the loans backing any off-balance sheet securitization are insufficient to pay holders of senior notes and residual trust certificates, including any retained interests held by Affirm, then any amounts we contributed to the securitization reserve accounts may be depleted. Refer to Note 10. Securitization and Variable Interest Entities for further details.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP and requires us to make certain estimates and judgments that affect the amounts reported in our consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Because certain of these accounting policies require significant judgment, our actual results may differ materially from our estimates. To the extent that there are differences between our estimates and actual results, our future consolidated financial statement presentation, financial condition, results of operations, and cash flows may be affected. We evaluate our critical accounting policies and estimates on an ongoing basis and update them as necessary based on changes in market conditions or factors specific to us. There have been no material changes in our significant accounting policies or critical accounting estimates during the three months ended September 30, 2023.

For a complete discussion of our significant accounting policies and critical accounting estimates, refer to our Annual Report on Form 10-K for the year ended June 30, 2023 within Note 2 to the Notes to Consolidated Financial Statements and "*Management's Discussion and Analysis of Financial Condition and Results of Operations— Critical Accounting Policies and Estimates*".

A. UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of Brainhole Technology Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as (the "**Group**")) (the "**Unaudited Pro Forma Financial Information**") prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants and on the basis of the notes set out below, to illustrate the financial position of the Group as if the acquisition of listed securities (the "**Major Transaction**") had been completed on 30 June 2023.

This Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Group had the Major Transaction been completed on 30 June 2023. The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

Unaudited pro forma statement of assets and liabilities of the Group

	Unaudited 30 June 2023	**Pro forma adjustment**	**Unaudited Pro forma 30 June 2023**
	HK$'000	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	
Non-current assets			
Plant and equipment	48,235		48,235
Right-of-use assets	5,499		5,499
Intangible assets	891		891
Deferred tax assets	15,748		15,748
Prepayment for plant and equipment	905		905
	71,278		71,278
Current assets			
Inventories	38,915		38,915
Trade and other receivables	95,708		95,708
Contract assets	1,531		1,531
Amounts due from related companies	7,849		7,849
Financial assets at fair value through profit or loss	54,384	24,940	79,324
Bank balances and cash	44,825	(25,002)	19,823
	243,212		243,150

	Unaudited 30 June 2023 *HK$'000* *(Note 1)*	Pro forma adjustment *HK$'000* *(Note 2)*	Unaudited Pro forma 30 June 2023 *HK$'000*
Current liabilities			
Trade and other payables	83,124		83,124
Bank borrowings	5,537		5,537
Lease liabilities	2,394		2,394
Deferred income	387		387
Loan from an immediate holding company	486		486
Loans from related companies	52,973		52,973
Income tax payables	33		33
	144,934		144,934
Net current assets	98,278		98,216
Total assets less current liabilities	169,556		169,494
Non-current liabilities			
Lease liabilities	3,474		3,474
Deferred tax liability	260		260
Deferred income	1,862		1,862
Loan from ultimate controlling party	80,824		80,824
	86,420		86,420
	83,136		83,074
Capital and reserves			
Share capital	8,000		8,000
Reserves	75,136	(62)	75,074
	83,136		83,074

Notes to the unaudited pro forma statement of assets and liabilities of the Group:

(1) The unaudited consolidated statement of financial position of the Company as at 30 June 2023 has been extracted from the interim report of the Company dated 30 August 2023.

(2) The Group acquired Affirm Holdings, Inc (Nasdaq stock code: AFRM) shares ("**Affirm Shares**") through the open market with details below. Total consideration of Affirm Shares was HK$25,002,000, being assumed to the fair value of Affirm Shares as at 30 June 2023.

Trade date	Number of shares acquired	Average purchase price per share	Average purchase price per share	Consideration (excluding stamp duty and related expenses)	Stamp duty and related expenses	Total consideration
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
14 December 2023	33,500	46	357	11,952	30	11,982
19 December 2023	15,700	49	383	6,020	15	6,035
20 December 2023	17,650	51	395	6,967	17	6,985
				24,940	**62**	**25,002**

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from CWK CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of Company, in respect of the unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

The Directors
Suites 1801–03,
18/F, One Taikoo Place,
979 King's Road,
Quarry Bay,
Hong Kong

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Brainhole Technology Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as (the "**Group**")) by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities of the Group as at 30 June 2023, and related notes as set out on pages IV-1 to IV-3 of Appendix IV of the circular dated 8 March 2024 (the "**Circular**") (the "**Unaudited Pro Forma Financial Information**") issued by the Company in connection with the further acquisition of listed securities (the "**Major Transaction**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on IV-1 to IV-3 of Appendix IV of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Major Transaction on the Group's financial position as at 30 June 2023 as if the transaction had taken place at 30 June 2023. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 30 June 2023, on which an unaudited interim report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our firm applies Hong Kong Standard on Quality Management 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of Major Transaction on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

CWK CPA Limited
Certified Public Accountants
Hong Kong,

8 March 2024

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in shares of the Company

As at the Latest Practicable Date, the Directors and chief executives of the Company and their associates had the following interests in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules (the "**Model Code**") to be notified to the Company and the Stock Exchange.

Long positions in the shares and underlying shares of the Company

Name of Director	Nature of interest	Number of ordinary shares held	Approximate percentage of interest in the Company as at Latest Practicable Date
Mr. Zhang Liang Johnson	Interest of controlled Corporation *(Note)*	599,658,000 Shares (L)	74.96%

(L) denotes long position

Note: Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital, through Yoho Bravo Limited which is wholly-owned by him.

(b) Substantial Shareholders' interests and short positions

Name of Shareholder	Nature of interest	Number of ordinary shares held	Approximate percentage of interest in our Company as at the Latest Practicable Date
Yoho Bravo Limited *(Note)*	Beneficial owner	599,658,000 Share (L)	74.96%

(L) denotes long position

Note: Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital, through Yoho Bravo Limited which is wholly-owned by him.

Save as disclosed herein, at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors entered, or proposed to enter, into any service contract with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF THE GROUP

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors had any interest, either directly or indirectly, in any assets which has since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the businesses of any member of the Group.

5. MATERIAL CONTRACTS

The Group has entered into the following contract (not being contract entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date which is or may be material:

(a) on 31 July 2023 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 131,400 American depository shares of XPeng Inc. through the open market at the aggregate consideration of approximately US$2.6 million (equivalent to approximately HK$20.6 million) (for which no written contract was entered into between the parties thereto);

(b) on 20 December 2023 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the Further Acquisition of Affirm Shares through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(c) on 24 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 1,910 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$1.1 million (equivalent to approximately HK$8.9 million) (for which no written contract was entered into between the parties thereto);

(d) on 31 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 1,960 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$8.0 million) (for which no written contract was entered into between the parties thereto);

(e) on 31 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 1,430 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(f) on 6 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 3,220 class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.0 million) (for which no written contract was entered into between the parties thereto);

(g) on 15 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 3,740 class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(h) on 16 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 1,020 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(i) on 20 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 16,370 class A common stocks of Coinbase Global, Inc. through the open market at the aggregate consideration of approximately US$2.9 million (equivalent to approximately HK$22.3 million) (for which no written contract was entered into between the parties thereto);

(j) on 20 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 213,000 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB15.5 million (equivalent to approximately HK$17.1 million) (for which no written contract was entered into between the parties thereto);

(k) on 21 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 51,500 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB3.7 million (equivalent to approximately HK$4.0 million) (for which no written contract was entered into between the parties thereto); and

(l) on 27 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 33,350 Affirm Shares through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$9.9 million) (for which no written contract was entered into between the parties thereto).

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, the Group is not engaged in any material litigation or arbitration proceedings nor is any material litigation or claim pending or threatened against it.

7. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors nor their respective close associates had any interest in any business which competes or is likely to compete, or is in conflict or is likely to be in conflict, either directly or indirectly, with the business of the Group.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice contained in this circular:

Name	Qualification
CWK CPA Limited	Certified Public Accountants under Professional Accountant Ordinance (Cap. 50 of Laws of Hong Kong) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588 of Laws of Hong Kong)

CWK CPA Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter (as the case may be) and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, CWK CPA Limited had no shareholding in any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, CWK CPA Limited did not have any direct or indirect interest in any assets which have been, since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to any member of the Group.

The letter or report (as the case may be) from the above expert is given as at the date of this circular for incorporation therein.

9. GENERAL

(a) The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Suites 1801–03, 18/F, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(c) The Hong Kong share registrar of the Company is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(d) The company secretary of the Company is Ms. Wong Tik. Ms. Wong was appointed as company secretary and authorised representative of the Company on 1 September 2023. Ms. Wong is a certified public accountant and an associate member of the Hong Kong Institute of Certified Public Accountants.

(e) In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version.

10. DOCUMENTS ON DISPLAY

A copy of a memorandum giving full particulars of the transaction contemplated under the Further Acquisition of Affirm Shares (material contract (b) as mentioned above) will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.brainholetechnology.com) for a period of 14 days from the date of this circular.