

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended March 31, 2020**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-38678**

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**UPWORK INC.**

(Exact Name of Registrant as Specified in its Charter)

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**Delaware**

(State or other jurisdiction of incorporation or organization)

**2625 Augustine Drive, Suite 601**

**Santa Clara, California**

(Address of principal executive offices)

**46-4337682**

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

**95054**

(Zip Code)

**(650) 316-7500**

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, \$0.0001 par value per share	UPWK	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of April 30, 2020, there were 115,142,604 shares of the registrant's common stock outstanding.

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Unless otherwise expressly stated or the context otherwise requires, references in this Quarterly Report on Form 10-Q (this "Quarterly Report" or "report") to "Upwork," "Company," "our," "us," and "we" and similar references refer to Upwork Inc. and its wholly-owned subsidiaries.

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report contains forward-looking statements within the meaning of the federal securities laws. All statements contained in this Quarterly Report, other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, potential growth or growth prospects, future research and development, sales and marketing and general and administrative expenses, and our objectives for future operations, are forward-looking statements. In addition, any statements regarding the impacts of the COVID-19 pandemic on our business and actions we have taken in response to the COVID-19 pandemic are forward-looking statements. Words such as “believes,” “may,” “will,” “estimates,” “potential,” “continues,” “anticipates,” “intends,” “expects,” “could,” “would,” “projects,” “plans,” “targets,” and variations of such words and similar expressions are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections as of the date of this filing about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, “Risk Factors” in this Quarterly Report and the impact of the COVID-19 pandemic. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report and in other documents we file from time to time with the Securities and Exchange Commission (the “SEC”) that disclose risks and uncertainties that may affect our business. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and circumstances discussed in this Quarterly Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance, or achievements. In addition, the forward-looking statements in this Quarterly Report are made as of the date of this filing, and we do not undertake, and expressly disclaim any duty, to update such statements for any reason after the date of this Quarterly Report or to conform statements to actual results or revised expectations, except as required by law.

You should read this Quarterly Report and the documents that we reference herein and have filed with the SEC as exhibits to this Quarterly Report with the understanding that our actual future results, performance, and events and circumstances may be materially different from what we expect.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

**UPWORK INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)  
(Unaudited)

	March 31, 2020	December 31, 2019
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 65,635	\$ 48,392
Marketable securities	79,693	85,481
Funds held in escrow, including funds in transit	123,556	108,721
Trade and client receivables – net of allowance of \$2,102 and \$2,215 as of March 31, 2020 and December 31, 2019, respectively	35,260	30,156
Prepaid expenses and other current assets	8,387	7,885
Total current assets	312,531	280,635
Property and equipment, net	24,989	21,454
Goodwill	118,219	118,219
Intangible assets, net	2,668	3,335
Operating lease asset	22,620	21,908
Other assets, noncurrent	1,040	829
<b>Total assets</b>	<b>\$ 482,067</b>	<b>\$ 446,380</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 1,719	\$ 652
Escrow funds payable	123,556	108,721
Debt, current	22,589	7,584
Accrued expenses and other current liabilities	23,394	18,342
Deferred revenue	14,386	13,799
Total current liabilities	185,644	149,098
Debt, noncurrent	8,814	10,699
Operating lease liability, noncurrent	22,489	21,186
Other liabilities, noncurrent	6,384	5,973
Total liabilities	223,331	186,956
Commitments and contingencies (Note 6)		
Stockholders' equity		
Common stock, \$0.0001 par value; 490,000,000 shares authorized as of March 31, 2020 and December 31, 2019; 114,866,938 and 113,604,398 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	11	11
Additional paid-in capital	440,703	431,370
Accumulated deficit	(181,978)	(171,957)
Total stockholders' equity	258,736	259,424
<b>Total liabilities and stockholders' equity</b>	<b>\$ 482,067</b>	<b>\$ 446,380</b>

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

**UPWORK INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Revenue	\$ 83,196	\$ 68,476
Cost of revenue	23,485	21,125
Gross profit	59,711	47,351
Operating expenses		
Research and development	19,348	15,800
Sales and marketing	30,678	20,518
General and administrative	17,824	15,661
Provision for transaction losses	912	637
Total operating expenses	68,762	52,616
Loss from operations	(9,051)	(5,265)
Interest expense	230	373
Other (income) expense, net	731	(479)
Loss before income taxes	(10,012)	(5,159)
Income tax provision	(9)	(1)
Net loss	\$ (10,021)	\$ (5,160)
Net loss per share, basic and diluted	\$ (0.09)	\$ (0.05)
Weighted-average shares used to compute net loss per share, basic and diluted	114,119	106,639

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

**UPWORK INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands, except share amounts)  
(Unaudited)

**Three Months Ended March 31, 2020**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balances as of December 31, 2019	113,604,398	\$ 11	\$ 431,370	\$ (171,957)	\$ 259,424
Issuance of common stock upon exercise of stock options	949,887	—	3,165	—	3,165
Stock-based compensation expense	—	—	5,327	—	5,327
Issuance of common stock for settlement of RSUs	312,653	—	—	—	—
Tides Foundation common stock warrant expense and other	—	—	841	—	841
Net loss	—	—	—	(10,021)	(10,021)
Balances as of March 31, 2020	114,866,938	\$ 11	\$ 440,703	\$ (181,978)	\$ 258,736

**Three Months Ended March 31, 2019**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balances as of December 31, 2018	106,454,321	\$ 11	\$ 387,233	\$ (143,499)	\$ 243,745
Cumulative effect adjustment from adoption of new accounting pronouncement	—	—	—	(11,799)	(11,799)
Issuance of common stock upon exercise of stock options	273,105	—	767	—	767
Stock-based compensation expense	—	—	4,188	—	4,188
Issuance of common stock for settlement of RSUs	2,332	—	—	—	—
Net loss	—	—	—	(5,160)	(5,160)
Balances as of March 31, 2019	106,729,758	\$ 11	\$ 392,188	\$ (160,458)	\$ 231,741

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

**UPWORK INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (10,021)	\$ (5,160)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for transaction losses	767	415
Depreciation and amortization	2,308	1,532
Amortization of debt issuance costs	13	13
Amortization of discount on purchases of marketable securities	(174)	(283)
Amortization of operating lease asset	969	1,072
Tides Foundation common stock warrant expense	188	252
Stock-based compensation expense	5,537	4,295
Changes in operating assets and liabilities:		
Trade and client receivables	(5,891)	(26,149)
Prepaid expenses and other assets	(464)	(886)
Operating lease liability	(459)	(378)
Accounts payable	994	(596)
Accrued expenses and other liabilities	3,881	(4,125)
Deferred revenue	650	603
Net cash used in operating activities	(1,702)	(29,395)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of marketable securities	(26,789)	(71,713)
Proceeds from maturities of marketable securities	33,000	—
Purchases of property and equipment	(1,288)	(3,604)
Internal-use software and platform development costs	(1,999)	(1,210)
Net cash provided by (used in) investing activities	2,924	(76,527)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Changes in escrow funds payable	14,834	21,899
Proceeds from exercises of stock options	3,165	764
Proceeds from borrowings on debt	15,000	25,000
Repayment of debt	(1,893)	—
Net cash provided by financing activities	31,106	47,663
<b>NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	<b>32,328</b>	<b>(58,259)</b>
Cash, cash equivalents, and restricted cash—beginning of period	159,603	230,067
Cash, cash equivalents, and restricted cash—end of period	<u>\$ 191,931</u>	<u>\$ 171,808</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 239	\$ 357
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES:</b>		
Property and equipment purchased but not yet paid	\$ 2,435	\$ 1,190
Internal-use software and platform development costs incurred but not yet paid	\$ 40	\$ 20

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

**UPWORK INC.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 1—Description of Business**

Upwork Inc. (the “Company” or “Upwork”) operates an online talent solution that enables businesses (“clients”) to find and work with highly-skilled independent professionals (“freelancers,” and, together with clients, “users”). The Company was originally incorporated in the state of Delaware in December 2013 prior to and in connection with the combination (the “Elance-oDesk Combination”) of Elance, Inc. (“Elance”) and oDesk Corporation (“oDesk”). The Company changed its name to Elance-oDesk, Inc. shortly before the Elance-oDesk Combination in March 2014, and later to Upwork Inc. in May 2015. In 2015, the Company relaunched as Upwork and commenced consolidation of its two operating platforms. In 2016, following completion of the platform consolidation, the Company began operating under a single platform. The Company is currently headquartered in Santa Clara, California.

Unless otherwise expressly stated or the context otherwise requires, the terms “Upwork” and the “Company” in these notes to the condensed consolidated financial statements refer to Upwork and its wholly-owned subsidiaries.



## **Note 2—Basis of Presentation and Summary of Significant Accounting Policies**

### ***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) and applicable rules and regulations of the SEC regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this Quarterly Report should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 (the “Annual Report”), filed with the SEC on March 2, 2020.

The condensed consolidated balance sheet as of December 31, 2019 included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by U.S. GAAP.

The condensed consolidated financial statements include the accounts of Upwork Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

The accompanying condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, changes in stockholders’ equity and cash flows for the interim periods, but do not purport to be indicative of the results of operations or financial condition to be anticipated for the full year ending December 31, 2020.

### ***Use of Estimates***

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the periods presented. Such estimates include, but are not limited to: the useful lives of assets; assessment of the recoverability of long-lived assets; goodwill impairment; standalone selling price of material rights and the period of time over which to defer and recognize the consideration allocated to the material rights; allowance for doubtful accounts; liabilities relating to transaction losses; the valuation of warrants; stock-based compensation; and accounting for income taxes. Management bases its estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances. The Company evaluates its estimates, assumptions, and judgments on an ongoing basis using historical experience and other factors and revises them when facts and circumstances dictate.

Due to the COVID-19 pandemic, there has been uncertainty and disruption in the global economy. The Company is not aware of any specific event or circumstance that would require an update to its estimates or judgments or a revision of the carrying value of its assets or liabilities. These estimates may change as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

### Impacts of Recently Adopted Accounting Pronouncements on 2019 Interim Reporting

On December 31, 2019, the Company adopted Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (“Topic 606”), ASU No. 2016-02, Leases (“Topic 842”), and ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“Topic 230”) effective as of January 1, 2019. As a result, interim results for reporting periods beginning on or after January 1, 2019 will differ from amounts previously reported on the Company’s quarterly reports on Form 10-Q. The following table summarizes the impacts of adopting these standards on the Company’s previously issued condensed consolidated statements of operations and cash flows for the three months ended March 31, 2019 (in thousands):

	<b>March 31, 2019</b>				
	<b>Balances, Previously Issued</b>	<b>Topic 606</b>	<b>Topic 842 <sup>(1)</sup></b>	<b>Topic 230</b>	<b>Balances, as Reported</b>
<b>Condensed Consolidated Statement of Operations</b>					
Revenue	\$ 68,924	\$ (448)	\$ —	\$ —	\$ 68,476
Operating expense—General and administrative	15,677	—	(16)	—	15,661
Net loss	(4,728)	(448)	16	—	(5,160)
Net loss per share, basic and diluted	(0.04)	(0.01)	—	—	(0.05)
<b>Condensed Consolidated Statement of Cash Flows</b>					
<b>Operating activities</b>					
Net loss	\$ (4,728)	\$ (448)	\$ 16	\$ —	\$ (5,160)
Amortization of operating lease asset	—	—	1,072	—	1,072
Trade and client receivables	(26,431)	282	—	—	(26,149)
Prepaid expenses and other assets	(991)	—	105	—	(886)
Operating lease liability	—	—	(378)	—	(378)
Accrued expenses and other liabilities	(3,042)	(268)	(815)	—	(4,125)
Deferred revenue	169	434	—	—	603
Investing activities—decrease (increase) in restricted cash	250	—	—	(250)	—
Financing activities—changes in funds held in escrow, including funds in transit	(21,899)	—	—	21,899	—
<b>NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	<b>(79,908)</b>	<b>—</b>	<b>—</b>	<b>21,649</b>	<b>(58,259)</b>
Cash, cash equivalents, and restricted cash—beginning of period	129,128	—	—	100,939	230,067
Cash, cash equivalents, and restricted cash—end of period	49,220	—	—	122,588	171,808

<sup>(1)</sup> Amounts include other adjustments made in conjunction with the adoption of Topic 842.

### Recently Adopted Accounting Pronouncements

The significant accounting policies applied in the Company’s audited consolidated financial statements, as disclosed in the Annual Report, are applied consistently in these unaudited interim condensed consolidated financial statements, except as noted below.

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The Company adopted ASU No. 2016-13 and related updates on January 1, 2020. The adoption did not have a material impact on the Company’s condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Others (Topic 350): Simplifying the Test for Goodwill Impairment. ASU No. 2017-04 eliminates Step 2 from the goodwill impairment test, which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. The Company adopted ASU No. 2017-04 on January 1, 2020. The adoption did not have a material impact on the Company’s condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements on fair value measurements. The Company adopted ASU No. 2018-13 on January 1, 2020. The adoption did not have a material impact on the Company’s condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. ASU No. 2018-15 aligns the requirements for capitalizing implementation costs in a cloud computing arrangement service contract with the requirements for capitalizing implementation costs incurred for an internal-use software license. The Company adopted ASU No. 2018-15 on January 1, 2020 using the prospective adoption method. The adoption did not have a material impact on the Company’s condensed consolidated financial statements.

***Recent Accounting Pronouncements Not Yet Adopted***

The Company has reviewed all other accounting pronouncements issued during the three months ended March 31, 2020 and concluded they were either not applicable or not expected to have a material impact on the Company’s condensed consolidated financial statements.

### Note 3—Revenue

#### Disaggregation of Revenue

See “Note 9—Segment and Geographical Information” for the Company’s revenue disaggregated by type of service and geographic area.

#### Remaining Performance Obligations

As of March 31, 2020, the Company had approximately \$17.6 million of remaining performance obligations. The Company’s remaining performance obligations consist of transaction price that has been allocated to unexercised material rights related to the Company’s arrangements with freelancers subject to tiered service fees, subscriptions, memberships, “Connects” (virtual tokens that allow freelancers to bid on projects on the Company’s platform), and certain incentive payments made to the Company by payment processors. As of March 31, 2020, the Company expects to recognize approximately \$14.4 million over the next 12 months, with the remaining balance recognized thereafter.

The Company has applied the practical expedients and exemptions and does not disclose the value of remaining performance obligations for (i) contracts with an original expected length of one year or less; and (ii) contracts for which the variable consideration is allocated entirely to a wholly unsatisfied promise to transfer a distinct service that forms part of a single performance obligation under the series guidance.

#### Contract Balances

The following table provides information about the balances of the Company’s trade and client receivables, net of allowance and contract liabilities included in deferred revenue and other liabilities, noncurrent (in thousands):

	March 31, 2020	December 31, 2019
Trade and client receivables, net of allowance	\$ 35,260	\$ 30,156
<b>Contract liabilities</b>		
Deferred revenue	14,386	13,799
Deferred revenue (component of other liabilities, noncurrent)	3,215	3,153

During the three months ended March 31, 2020, changes in the contract liabilities balances were a result of normal business activity and deferral of revenue related to arrangements with freelancers subject to tiered service fees and related allocation of transaction price to material rights.

Revenue recognized during the three months ended March 31, 2020 that was included in deferred revenue as of December 31, 2019 was \$5.1 million. Revenue recognized during the three months ended March 31, 2019 that was included in deferred revenue as of January 1, 2019 was \$3.5 million.

#### Note 4—Fair Value Measurements

The Company defines fair value as the exchange price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The authoritative guidance describes three levels of inputs that may be used to measure fair value:

- Level I—Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets;
- Level II—Observable inputs other than Level I prices, such as unadjusted quoted prices for similar assets or liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level III—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These inputs are based on the Company’s own assumptions used to measure assets and liabilities at fair value and require significant management judgment or estimation.

The categorization of a financial instrument within the fair value hierarchy is based upon the lowest level of input that is significant to its fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the assets or liabilities.

The Company’s financial instruments that are carried at fair value consist of Level I and Level II assets as of March 31, 2020 and December 31, 2019. The following tables set forth the fair value of the Company’s financial assets measured at fair value on a recurring basis based on the three-tier fair value hierarchy (in thousands):

	March 31, 2020			
	Level I	Level II	Level III	Total
Cash equivalents—money market funds	\$ 59,479	\$ —	\$ —	\$ 59,479
Marketable securities				
Commercial paper	—	44,790	—	44,790
U.S. government securities	34,903	—	—	34,903
Total financial assets	\$ 94,382	\$ 44,790	\$ —	\$ 139,172

	December 31, 2019			
	Level I	Level II	Level III	Total
Cash equivalents—money market funds	\$ 35,286	\$ —	\$ —	\$ 35,286
Marketable securities				
Commercial paper	—	50,794	—	50,794
U.S. government securities	34,687	—	—	34,687
Total financial assets	\$ 69,973	\$ 50,794	\$ —	\$ 120,767

For each of the three months ended March 31, 2020 and 2019, the gross unrealized gains and losses on the Company’s marketable securities were immaterial. As of March 31, 2020 and 2019, the Company considered any decreases in market value to be temporary in nature and did not consider any of the Company’s marketable securities to be other-than-temporarily impaired. As such, the Company did not record any impairment charges with respect to its marketable securities during each of the three months ended March 31, 2020 and 2019.

## Note 5—Balance Sheet Components

### *Cash and Cash Equivalents, Restricted Cash, and Funds Held In Escrow, Including Funds In Transit*

The following table reconciles cash and cash equivalents, restricted cash, and funds held in escrow that are restricted as reported in the condensed consolidated balance sheets to the total of the same amounts shown in the condensed consolidated statements of cash flows as of March 31, 2020 and December 31, 2019 (in thousands):

	March 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 65,635	\$ 48,392
Restricted cash	2,740	2,490
Funds held in escrow, including funds in transit	123,556	108,721
Total cash, cash equivalents, and restricted cash as shown in the condensed consolidated statement of cash flows	<u>\$ 191,931</u>	<u>\$ 159,603</u>

### *Property and Equipment, Net*

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

	March 31, 2020	December 31, 2019
Computer equipment and software	\$ 3,989	\$ 3,613
Internal-use software and platform development	14,303	12,726
Leasehold improvements	13,381	10,576
Office furniture and fixtures	2,865	2,454
Total property and equipment	34,538	29,369
Less: accumulated depreciation	(9,549)	(7,915)
Property and equipment, net	<u>\$ 24,989</u>	<u>\$ 21,454</u>

For the three months ended March 31, 2020 and 2019, depreciation expense related to property and equipment was \$0.7 million and \$0.8 million, respectively.

For the three months ended March 31, 2020 and 2019, the Company capitalized \$1.6 million and \$1.1 million of internal-use software and platform development costs, respectively.

For the three months ended March 31, 2020, amortization expense related to the capitalized internal-use software and platform development costs was \$0.9 million. For the three months ended March 31, 2019, amortization expense related to the capitalized internal-use software and platform development costs was immaterial.

### *Intangible Assets, Net*

All of the Company's identifiable intangible assets were acquired in March 2014 from the Elance-oDesk Combination. Amortization expense of intangible assets was \$0.7 million for each of the three months ended March 31, 2020 and 2019. Amortization expense is included in general and administrative expenses.

### **Accrued Expenses and Other Current Liabilities**

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

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Accrued compensation and related benefits	\$ 6,089	\$ 5,344
Accrued freelancer costs	1,665	622
Accrued indirect taxes	1,746	2,401
Accrued vendor expenses	9,499	5,485
Accrued payment processing fees	870	832
Operating lease liability, current	3,134	3,214
Other	391	444
Total accrued expenses and other current liabilities	<u>\$ 23,394</u>	<u>\$ 18,342</u>

In February 2020, the Company made changes to its organizational structure to better align with its business strategies and streamline the delivery of its end-to-end user experiences. During the three months ended March 31, 2020, the Company incurred \$1.6 million related to these initiatives, of which \$0.4 million is included in accrued compensation and related benefits as of March 31, 2020.

### **Operating Leases**

On January 1, 2020, the Company commenced an operating lease of one additional floor in its Chicago, Illinois office. As a result, the Company recognized a \$1.7 million operating lease asset and \$1.7 million operating lease liability on January 1, 2020, which are included in operating lease asset and operating lease liability, noncurrent, respectively, on the condensed consolidated balance sheet as of March 31, 2020. The lease has an initial term of five years with the option to renew for an additional five years at the end of the initial lease term. Total minimum lease payments under the initial term are \$2.1 million. For the initial measurement of the present value of the lease payments associated with this lease, the Company used its incremental borrowing rate, which is a collateralized rate and approximates the rate at which the Company could borrow, on a secured basis for a similar term, an amount equal to its lease payments in a similar economic environment.

The Company includes lease payments associated with renewal options in its operating lease asset and liability only when it becomes reasonably certain that the Company will exercise the renewal option. The Company has not included renewal options for any of its operating leases in its determination of lease liabilities as of March 31, 2020.

## **Note 6—Commitments and Contingencies**

### ***Letters of Credit***

In conjunction with the operating lease agreements, as of March 31, 2020 and December 31, 2019, the Company had three irrevocable letters of credit outstanding in the aggregate amounts of \$1.0 million and \$0.8 million, respectively. No amounts had been drawn against these letters of credit as of March 31, 2020 and December 31, 2019.

### ***Contingencies***

The Company accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. From time to time in the normal course of business, various claims and litigation have been asserted or commenced. Due to uncertainties inherent in litigation and other claims, the Company can give no assurance that it will prevail in any such matters, which could subject the Company to significant liability or damages. Any claims or litigation could have an adverse effect on the Company's business, financial position, results of operations, or cash flows in or following the period that claims or litigation are resolved.

As of March 31, 2020 and December 31, 2019, the Company was not a party to any material legal proceedings or claims, nor is the Company aware of any pending or threatened litigation or claims that could reasonably be expected to have a material adverse effect on its business, operating results, cash flows, or financial condition. Accordingly, the Company has determined that the existence of a material loss as of these dates is neither probable nor reasonably possible.

### ***Indemnification***

The Company has indemnification agreements with its officers, directors, and certain key employees to indemnify them while they are serving in good faith in their respective positions. In the ordinary course of business, the Company enters into contractual arrangements under which it agrees to provide indemnification of varying scope and terms to clients, business partners, vendors, and other parties, including, but not limited to, losses arising out of the Company's breach of such agreements, claims related to potential data or information security breaches, intellectual property infringement claims made by third parties, and other liabilities relating to or arising from the Company's products and services or its acts or omissions. In addition, subject to the terms of the applicable agreement, as part of the Company's Upwork Enterprise offering, the Company indemnifies clients that subscribe to worker classification services for losses arising from worker misclassification. It is not possible to determine the maximum potential loss under these indemnification provisions due to the Company's limited history of prior indemnification claims and the facts and circumstances involved in each particular provision.



**Note 7—Debt**

The following table presents the carrying value of the Company’s debt obligations as of March 31, 2020 and December 31, 2019 (in thousands):

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
First Term Loan—18 months of interest-only payments ended in March 2019 followed by 36 equal monthly installments of principal plus interest, maturing March 2022; interest at prime plus 0.25% per annum	\$ 10,000	\$ 11,250
Second Term Loan—17 months of interest-only payments ended in March 2019 followed by 42 equal monthly installments of principal plus interest, maturing September 2022; interest at prime plus 0.25% per annum	6,428	7,071
Line of credit—interest at prime with accrued interest due monthly; matures September 2020	15,000	—
Total debt	31,428	18,321
Less: unamortized debt discount issuance costs	(25)	(38)
Balance	31,403	18,283
Debt, current	(22,589)	(7,584)
Debt, noncurrent	\$ 8,814	\$ 10,699
Weighted-average interest rate	4.31 %	6.93 %

Under the Company’s Loan and Security Agreement, as amended (the “Loan Agreement”), the aggregate amount of the facility is up to \$49.0 million, consisting of a term loan in the original principal amount of \$15.0 million (the “First Term Loan”), a term loan in the original principal amount of \$9.0 million (the “Second Term Loan” and, together with the First Term Loan, the “Term Loans”), and a revolving line of credit, which permits borrowings of up to \$25.0 million subject to customary conditions. Among other things, the Company may only borrow funds under the revolving line of credit if, after giving effect thereto, total borrowings under the line of credit do not exceed a specified percentage of eligible trade and client accounts receivable. The Company has granted its lender first-priority liens against substantially all of its assets, as collateral, excluding the Company’s intellectual property (but including proceeds therefrom) and the funds and assets held by the Company’s subsidiary, Upwork Escrow Inc. The Company has also agreed to a negative pledge on its intellectual property. The Loan Agreement also requires that the Company maintain an adjusted quick ratio of 1.75. The Loan Agreement also includes a restrictive covenant on dividend payments other than dividends paid solely in common stock. The Company was in compliance with its covenants under the Loan Agreement as of March 31, 2020 and December 31, 2019.

As a result of the uncertainty caused by the COVID-19 pandemic, the Company drew down \$15.0 million under the revolving line of credit in March 2020. During the three months ended March 31, 2020, the Company repaid \$1.3 million related to the First Term Loan and \$0.6 million related to the Second Term Loan. Pursuant to the terms of the Loan Agreement, the Company commenced repayment on the Term Loans in April 2019; accordingly, there were no repayments during the three months ended March 31, 2019.

**Note 8—Net Loss per Share**

The following table sets forth the computation of the Company's basic and diluted net loss per share for the periods presented (in thousands, except share and per share data):

	Three Months Ended March 31,	
	2020	2019
<b>Numerator:</b>		
Net loss	\$ (10,021)	\$ (5,160)
<b>Denominator:</b>		
Weighted-average shares used to compute net loss per share, basic and diluted	114,118,958	106,639,079
Net loss per share, basic and diluted	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>

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

	As of March 31,	
	2020	2019
Options to purchase common stock	13,181,714	23,304,831
Common stock issuable upon exercise of common stock warrants	450,000	898,331
Common stock issuable upon vesting of restricted stock units	6,132,421	1,087,759
Common stock issuable in connection with employee stock purchase plan	1,454,352	—
Total	<u>21,218,487</u>	<u>25,290,921</u>

**Note 9—Segment and Geographical Information**

The Company operates as one operating and reportable segment for purposes of allocating resources and evaluating financial performance.

The following table sets forth total revenue by type of service for the periods presented (in thousands):

	Three Months Ended March 31,	
	2020	2019
Marketplace	\$ 74,782	\$ 60,455
Managed services	8,414	8,021
Total revenue	\$ 83,196	\$ 68,476

The Company generates its revenue from freelancers and clients. The following table sets forth total revenue by geographic area based on the billing address of its freelancers and clients for the periods presented (in thousands):

	Three Months Ended March 31,	
	2020	2019
Freelancers		
United States	\$ 13,997	\$ 11,769
India	7,473	6,564
Philippines	5,137	4,531
Rest of world	24,355	21,478
Total freelancers	50,962	44,342
Clients		
United States	22,959	17,674
Rest of world	9,275	6,460
Total clients	32,234	24,134
Total revenue	\$ 83,196	\$ 68,476

Substantially all of the Company's long-lived assets were located in the United States as of March 31, 2020 and December 31, 2019.

**Note 10—Subsequent Events**

As a result of the uncertainty caused by the COVID-19 pandemic, the Company drew down an additional \$3.0 million under the revolving line of credit in April 2020.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*You should read the following discussion and analysis of our financial condition and results of operations together with the section titled “Risk Factors” and the condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, as well as assumptions that may never materialize or that may be proven incorrect. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in the sections titled “Special Note Regarding Forward-Looking Statements” and “Risk Factors,” and in other parts of this Quarterly Report.*

### **Overview**

We operate the largest online talent solution that enables businesses to find and work with highly-skilled independent professionals, as measured by gross services volume (“GSV”). GSV represents the total amount that clients spend on our marketplace offerings and our managed services offering as well as additional fees we charge to both clients and freelancers for other services. Freelancers are an increasingly sought-after, critical, and expanding segment of the global workforce. We define freelancers as users of our platform that advertise and provide services to clients through our platform, and we define clients as users of our platform that work with freelancers through our platform. The freelancers on our platform include independent professionals and agencies of varying sizes. The clients on our platform range in size from small businesses to Fortune 500 companies. Our platform enabled \$0.6 billion and \$0.5 billion of GSV in over 180 countries for the three months ended March 31, 2020 and 2019, respectively. For purposes of determining countries where we enable GSV, we include both the countries in which the clients that paid for the applicable services are located, as well as the countries in which the freelancers that provided those services are located.

We generate a majority of our revenue from fees charged to freelancers. We also generate revenue through fees charged to clients for transacting payments through our platform and fees for premium offerings, foreign currency exchange fees, and Upwork Payroll service fees. In addition, we provide a managed services offering where we engage freelancers to complete projects, directly invoice the client, and assume responsibility for work performed. For the three months ended March 31, 2020 and 2019, we generated total revenue of \$83.2 million and \$68.5 million, respectively, representing a period-over-period increase of 21%.

For the three months ended March 31, 2020, we generated a net loss of \$10.0 million and adjusted EBITDA loss of \$1.0 million, compared to a net loss of \$5.2 million and adjusted EBITDA of \$0.8 million for the three months ended March 31, 2019. During the three months ended March 31, 2020, we incurred \$1.6 million related to our changes in organizational structure to better align with our business strategies and streamline the delivery of our end-to-end user experiences. Excluding the impact of these initiatives, our adjusted EBITDA loss of \$1.0 million would be adjusted EBITDA of \$0.6 million for the three months ended March 31, 2020. Adjusted EBITDA is a financial measure that is not prepared in accordance with, and is not an alternative to, financial measures prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). See the section titled “Key Financial and Operational Metrics—Non-GAAP Financial Measures” below for a definition of adjusted EBITDA and information regarding our use of adjusted EBITDA and a reconciliation of adjusted EBITDA to net loss, the most directly comparable financial measure prepared under U.S. GAAP.

### **Impact of the COVID-19 Pandemic on Our Business**

In March 2020, the World Health Organization declared the outbreak of COVID-19 to be a pandemic, which continues to spread throughout the United States and the world, and has resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, shelter-in-place orders, and business limitations and shutdowns. To support the health and well-being of our employees, clients, partners, and communities, all of our employees are currently working remotely. With our unique, remote-based business model, the COVID-19 pandemic has not impacted our clients’ ability to engage highly-skilled independent professionals on our platform to complete short- and long-term projects.

Although the COVID-19 pandemic did not have a material adverse impact on our financial results for the first quarter of 2020, the rapidly changing market and economic conditions caused by the COVID-19 pandemic has disrupted the businesses of many of our clients. We began seeing the impact of the pandemic on our results beginning in the second week of March, when we began to experience a decline in GSV. We believe that this

decline contributed to a reduction in revenue growth by approximately 1% year-over-year during the three months ended March 31, 2020. While we have seen increased spend from some of our existing clients as a result of the COVID-19 pandemic, the revenue from this increased spend may not fully offset the impact of lower client acquisition resulting from the pandemic. We derive a substantial portion of our GSV and revenue from small- and medium-sized business clients and the pandemic and related effects may significantly affect demand for our products and services from these clients in particular, although we expect that economic conditions may affect spend from clients of all sizes. As a result, we expect revenue in the second quarter will be lower than we initially anticipated at the beginning of 2020, specifically as a result of a decline in client spend on our platform from our clients that have been impacted by the COVID-19 pandemic.

In light of the COVID-19 pandemic and the global macroeconomic downturn and their effect on client spend on our platform, we have identified certain opportunities to prioritize our advertising and marketing efforts in order to reach those new and existing clients seeking to engage with remote freelancers in light of the prevailing shelter-in-place orders or similar measures. In addition, we may also implement a reduction or elimination of certain fees normally charged to users or may implement other promotions in an effort to support those affected by the COVID-19 pandemic or those seeking to engage freelancers for the first time, and any such changes may result in a reduction in revenue. We are continuously evaluating the nature and extent to which the ongoing COVID-19 pandemic will continue to have on our business, operating results, and financial condition.

While we have not incurred significant disruptions to our business thus far from the COVID-19 pandemic, at this time, we are unable to fully assess the aggregate impact it will have on our business due to various uncertainties, which include, but are not limited to, the duration of the pandemic, actions that may be taken by governmental authorities, the impact to the businesses of our clients, and other factors identified in Part II, Item 1A “Risk Factors” in this Quarterly Report, including the risk factor titled “Our business is experiencing, and is expected to continue to experience, an adverse impact from the ongoing COVID-19 pandemic.”

### Key Financial and Operational Metrics

We monitor the following key financial and operational metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make strategic decisions. Our key metrics were as follows as of or for the periods presented:

	Three Months Ended March 31,	
	2020	2019
	<i>(in thousands)</i>	
GSV	\$ 559,493	\$ 486,647
Marketplace revenue	74,782	60,455
Marketplace take rate	13.6 %	12.6 %
Net loss	(10,021)	(5,160)
Adjusted EBITDA <sup>(1)</sup>	(1,018)	814

<sup>(1)</sup> Adjusted EBITDA is not prepared in accordance with, and is not an alternative to, financial measures prepared in accordance with U.S. GAAP. See “Key Financial and Operational Metrics—Non-GAAP Financial Measures” below for a definition of adjusted EBITDA and for information regarding our use of adjusted EBITDA and a reconciliation of adjusted EBITDA to net loss, the most directly comparable financial measure prepared under U.S. GAAP.

	As of March 31,	
	2020	2019
	<i>(in thousands, except percentages)</i>	
Core clients	128.8	110.6
Client spend retention	102 %	107 %

As discussed below with respect to each key metric, we believe these key financial and operational metrics are useful to evaluate period-over-period comparisons of our business and in understanding our operating results, and

management uses these metrics to track our performance. GSV represents the total amount that clients spend on our marketplace offerings and our managed services offering, as well as additional fees we charge to both clients and freelancers for other services. We believe that GSV is an important metric, as it represents the overall amount of business transacted through our platform, which in turn is a key driver of our financial results. We believe our marketplace revenue, which represents a majority of our revenue, will grow as GSV grows, although they could grow at different rates. We evaluate the correlation between marketplace revenue and GSV by measuring marketplace take rate, which is calculated as marketplace revenue divided by marketplace GSV. We use the number of core clients to track the number of clients that we consider are actively using our platform, and this metric in any given period drives both GSV and client spend retention. Similarly, client spend retention impacts the growth rate of GSV. For information on how we define core clients and how we calculate client spend retention and marketplace take rate, see “—Core Clients,” “—Client Spend Retention,” and “—Marketplace Take Rate,” respectively, below. For a discussion of limitations in the measurement of our key financial and operational metrics, see “Risk Factors—We track certain performance metrics with internal tools and do not independently verify such metrics. Certain of our performance metrics are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business” in Part II, Item 1A of this Quarterly Report.

### ***Core Clients***

We define a core client as a client that has spent in the aggregate at least \$5,000 since it began using our platform and also had spend-activity on our platform during the 12 months preceding the date of measurement. We believe that aggregate spend of at least \$5,000 indicates that the client is actively using our platform. Historically, these core clients have been more likely to continue using our platform. We continue to see businesses of all sizes use our platform in a recurring way for larger, more complex projects, and we expect the number of core clients to continue to increase over time. Over the last two years, we have added between approximately 4,000 and 5,000 additional core clients per quarter. We believe we will continue to add approximately 4,000 core clients per quarter in the coming quarters, but the number of core clients could vary quarter by quarter depending, in part, on the extent to which the COVID-19 pandemic impacts our business, the businesses of our clients, and other factors identified in Part II, Item 1A “Risk Factors” in this Quarterly Report, including the risk factor titled “Our business is experiencing, and is expected to continue to experience, an adverse impact from the ongoing COVID-19 pandemic.” We believe that the number of core clients is a key indicator of our growth and the overall health of our business because core clients are a primary driver of GSV and, therefore, marketplace revenue.

### ***Gross Services Volume***

GSV includes both client spend and additional fees charged for other services. Client spend, which we define as the total amount that clients spend on both our marketplace offerings and our managed services offering, is the primary component of GSV. GSV also includes additional fees charged to both clients and freelancers for other services, such as freelancer memberships, purchases of “Connects” (virtual tokens that allow freelancers to bid on projects on our platform), freelancer withdrawals, and foreign currency exchange.

GSV is an important metric because it represents the amount of business transacted through our platform. Our marketplace revenue is primarily comprised of the service fees paid by freelancers as a percentage of the total amount freelancers charge clients for services accessed through our platform. Therefore, marketplace revenue is correlated to GSV, and we believe that our marketplace revenue will grow as GSV grows, although they could grow at different rates. For a discussion of how we measure and evaluate the correlation between marketplace revenue and GSV, see “—Marketplace Take Rate” below. Growth in the number of core clients and increased client spend retention are the primary drivers of GSV growth, and we expect the client spend retention trends discussed in “—Client Spend Retention,” below, to affect the rate at which GSV grows. We expect our GSV to fluctuate between periods due to a number of factors, including the volume of projects that are posted by clients on our platform as well as the characteristics of those projects, such as size, duration, pricing, and other factors, including the current COVID-19 pandemic, the impact of the pandemic on our clients’ businesses, and the timing of the removal of restriction-in-place orders, both globally and in localized areas.

### ***Client Spend Retention***

We calculate client spend retention by dividing our recurring client spend by our base client spend. We define base client spend as the aggregate client spend from all clients during the four quarters ended one year prior to the date of measurement. We define our recurring client spend as the aggregate client spend during the four quarters ended on the date of measurement from the same clients included in our measure of base client spend. Our business is recurring in nature even though clients are not contractually required to spend on a recurring basis. We believe that client spend retention is a key indicator of the value of our platform and the overall health of our business because it impacts the growth rate of GSV, and, therefore, marketplace revenue.

Long-term and recurring use by freelancers and clients are the primary drivers of growth in our marketplace and give us increased revenue visibility. While continued use of our platform by freelancers is a factor that impacts our ability to attract and retain clients, our platform currently has a significant surplus of freelancers in relation to the number of clients actively engaging freelancers. This surplus has increased as a result of the COVID-19 pandemic, as we have experienced an increase in the number of independent professionals applying to join our platform. As a result of this surplus, we primarily focus our efforts on retaining client spend and acquiring new clients, as opposed to acquiring new freelancers and retaining existing freelancers. Moreover, we generate revenue when clients engage and pay freelancers, therefore, our key metrics and operating results are directly impacted by client spend. On the other hand, the number of freelancers retained between periods is merely one of many factors that may impact client spend in a particular period and is not a primary driver of our key metrics and operating results. For these reasons, we do not calculate or consider freelancer retention metrics in evaluating our business.

As of March 31, 2020, client spend retention was 102%, down from 107% as of March 31, 2019. We believe that this decline in client spend retention—from its historically highest levels in 2018 and the first quarter of 2019—follows from the acceleration in client spend retention that occurred subsequent to the launch of our U.S.-to-U.S. domestic marketplace offering in the second half of 2017, which initiated a substantial increase in the average hourly earnings rate of freelancers. These hourly rates stabilized over the course of 2019, causing the reduction in retention rate. We believe this trend will continue in 2020, and we expect the long-term historical performance of this metric to range between 98% and 100%. Moreover, following the launch of our U.S.-to-U.S. domestic marketplace offering, an increasing proportion of U.S. clients are engaging primarily U.S. freelancers. We are observing that U.S. clients that engage solely U.S. freelancers post higher-budget projects and pay higher rates initially but, to date, have exhibited lower client spend retention than the rest of our clients. As we acquire more mid-market, large enterprise, and global clients in current and future periods, we expect them to continue to make positive contributions to our client spend retention in future years. For these and other reasons, client spend retention will continue to vary from period to period due to client size and spending behavior, among other factors, including the impact of the ongoing COVID-19 pandemic, the related shelter-in-place orders, and the resulting macroeconomic downturn on the businesses and spending behavior of our clients.

### ***Marketplace Revenue***

Marketplace revenue, which represents the majority of our revenue, consists of revenue derived from our Upwork Basic, Plus, Business, and Enterprise offerings, and our other premium offerings. We generate marketplace revenue from both freelancers and clients. Our marketplace revenue is primarily comprised of the service fees paid by freelancers as a percentage of the total amount freelancers charge clients for services accessed through our platform, and to a lesser extent, payment processing and administration fees charged to clients. We also generate marketplace revenue from fees for premium offerings, freelancer membership fees, Connects purchases, and other services, such as foreign currency exchange fees and Upwork Payroll service fees.

Marketplace revenue is an important metric because it is the primary driver of our business model, and we believe it provides greater comparability to other online marketplaces. The growth rate of marketplace revenue fluctuates in relation to the growth rate of GSV. Therefore, marketplace revenue is correlated to GSV, and we believe that our marketplace revenue will grow as GSV grows, although they could grow at different rates. We expect our marketplace revenue growth rates to continue to vary from period to period due to a variety of other factors such as the impact of the COVID-19 pandemic on the businesses and spending behavior of our current and prospective clients; the number of Sundays (i.e., the day we bill and recognize revenue for the majority of our freelancer service fees each week) in any given quarter, or the number of Mondays (i.e., the day we bill and recognize revenue for a substantial portion of our client fees each week); the lapping of significant launches of new products, pricing



changes, and other monetization efforts; the performance of client spend retention; and the ability of the recent and continued investment in our enterprise sales team to accelerate the acquisition of, and achieve increased spend from, Upwork Enterprise and Business clients, and the timing of those results.

### **Marketplace Take Rate**

Marketplace take rate measures the correlation between marketplace revenue and GSV and is calculated by dividing marketplace revenue by marketplace GSV. Marketplace take rate is an important metric because it is the key indicator of how well we monetize spend on our platform from our Upwork Basic, Plus, Business, and Enterprise offerings, and other premium offerings. We expect our marketplace take rate to vary from period to period as marketplace revenue and GSV vary as a result of a variety of factors, such as the number of Sundays (i.e., the day we bill and recognize revenue for the majority of our freelancer service fees each week) in any given quarter, or the number of Mondays (i.e., the day we bill and recognize revenue for a substantial portion of our client fees each week); pricing changes; the ability of the recent and continued investment in our enterprise sales team to accelerate the acquisition of, and achieve increased spend from, our Upwork Enterprise and Business clients and the timing of those results; and ongoing efforts to improve processes on our platform, including, but not limited to, project proposals and purchases of Connects.

### **Non-GAAP Financial Measures**

In addition to our results determined in accordance with U.S. GAAP, adjusted EBITDA is a non-GAAP measure that we believe is useful in evaluating our operating performance.

We define adjusted EBITDA as net income (loss) adjusted for stock-based compensation expense, depreciation and amortization, interest expense, other (income) expense, net, income tax (benefit) provision, and, if applicable, other non-cash transactions. Adjusted EBITDA is not prepared in accordance with, and is not an alternative to, financial measures prepared in accordance with U.S. GAAP.

The following table presents a reconciliation of net loss, the most directly comparable financial measure prepared in accordance with U.S. GAAP, to adjusted EBITDA for each of the periods indicated (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Net Loss	\$ (10,021)	\$ (5,160)
Add back (deduct):		
Stock-based compensation expense	5,537	4,295
Depreciation and amortization	2,308	1,532
Interest expense	230	373
Other (income) expense, net	731	(479)
Income tax provision	9	1
Tides Foundation common stock warrant expense	188	252
Adjusted EBITDA	<u>\$ (1,018)</u>	<u>\$ 814</u>

We use adjusted EBITDA as a measure of operational efficiency. We believe that this non-GAAP financial measure is useful to investors for period-to-period comparisons of our business and in understanding and evaluating our operating results for the following reasons:

- adjusted EBITDA is widely used by investors and securities analysts to measure a company's operating performance without regard to items such as stock-based compensation expense, depreciation and amortization, interest expense, other (income) expense, net, income tax (benefit) provision, and, if applicable, other non-cash transactions that can vary substantially from company to company depending upon their financing, capital structures, and the method by which assets were acquired;
- our management uses adjusted EBITDA in conjunction with financial measures prepared in accordance with U.S. GAAP for planning purposes, including the preparation of our annual operating budget, as a

measure of our core operating results and the effectiveness of our business strategy, and in evaluating our financial performance; and

- adjusted EBITDA provides consistency and comparability with our past financial performance, facilitates period-to-period comparisons of our core operating results, and also facilitates comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their U.S. GAAP results.

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

- adjusted EBITDA excludes stock-based compensation expense, which has recently been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy;
- although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect: (a) changes in, or cash requirements for, our working capital needs; (b) interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us; or (c) tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate adjusted EBITDA or similarly titled measures differently, which reduces the usefulness of this measure for comparative purposes.

Because of these and other limitations, you should consider adjusted EBITDA along with other financial performance measures, including net loss and our other financial results prepared in accordance with U.S. GAAP.

## Components of Our Results of Operations

### Revenue

**Marketplace Revenue.** Marketplace revenue is generated from our Upwork Basic, Plus, Business, and Enterprise offerings, and other premium offerings. Under these marketplace offerings, we generate revenue from both freelancers and clients. Marketplace revenue, which represents the majority of our total revenue, is primarily comprised of the service fees paid by freelancers as a percentage of the total amount that freelancers charge clients for services accessed through our platform and, to a lesser extent, payment processing and administration fees paid by clients.

<h3>Basic</h3> <p>The essentials to start hiring, today.</p>	<h3>Plus</h3> <p>For teams looking to stand out to quality talent and scale hiring fast.</p>	<h3>Business</h3> <p>For businesses looking for a flexible talent solution that scales with them.</p>	<h3>Enterprise</h3> <p>For companies looking for a solution that fits into their talent program.</p>
<ul style="list-style-type: none"> <li>✓ Verified freelancer work history and reviews on Upwork</li> <li>✓ Unlimited proposals from freelancers</li> <li>✓ Built-in collaboration tools and easy payments</li> </ul>	<p>Everything in <b>Basic</b>, and:</p> <ul style="list-style-type: none"> <li>✓ Dedicated account managers to help you find and hire quality talent fast</li> <li>✓ Project tracking and collaboration tools for teams</li> <li>✓ Tailored search results featuring Top Rated and Rising Talent</li> </ul>	<p>Everything in <b>Plus</b>, and:</p> <ul style="list-style-type: none"> <li>✓ Consolidated billing and invoicing with net 30 pay</li> <li>✓ Dedicated team of advisors to get you hiring faster and more successfully</li> <li>✓ Detailed reporting with company insights and trends</li> </ul>	<p>Everything in <b>Business</b>, and:</p> <ul style="list-style-type: none"> <li>✓ Custom configurable contracting and onboarding process</li> <li>✓ Worker classification compliance services</li> <li>✓ Project-based solutions and dedicated account executive</li> </ul>
<p><b>Client fee:</b> 3% of freelancer billing to client</p> <p><b>Freelancer fee:</b> 20% of the first \$500, 10% for the next \$9,500, and 5% for any amount over \$10,000 billed to client</p>	<p><b>Client fees:</b> Approximately \$50 monthly subscription charge; plus 3% of freelancer billing to client (Fee waived if client pays via ACH)</p> <p><b>Freelancer fee:</b> 20% of the first \$500, 10% for the next \$9,500, and 5% for any amount over \$10,000 billed to client</p>	<p><b>Client fees:</b> Approximately \$850 monthly subscription charge; plus 10% of freelancer billing to client</p> <p><b>Freelancer fee:</b> 10% of billing to client, waived if freelancer was brought to the platform by the client due to preexisting relationship ("BYO" program)</p>	<p><b>Client fees:</b> Individualized monthly subscription charge; plus 10% of freelancer billing to client (20% if client is using Compliance offering)</p> <p><b>Freelancer fee:</b> 10% of billing to client, waived if freelancer was brought to the platform by the client due to preexisting relationship ("BYO" program)</p>

Although the COVID-19 pandemic did not have a material adverse impact on our financial results for the first quarter of 2020, it may result in significant reductions in demand for our products and services, especially with respect to our small- and medium-sized business clients, from which we derive a substantial portion of our GSV and revenue. As a result, we expect revenue will be lower in the second quarter than we initially anticipated at the beginning of 2020. We are continuously evaluating the nature and extent of the impact to our business, operating results, and financial condition.

**Managed Services Revenue.** Through our managed services offering, we are responsible for providing services and engaging freelancers directly or as employees of third-party staffing providers to perform services for clients on our behalf. The freelancers providing services in connection with our managed services include independent professionals and agencies of varying sizes. Under U.S. GAAP, we are deemed to be the principal in these managed services arrangements and therefore recognize the entire GSV of managed services projects as managed services revenue, as compared to recognizing only the percentage of the client spend that we receive, as we do with our marketplace offerings.

## **Cost of Revenue and Gross Profit**

**Cost of Revenue.** Cost of revenue consists primarily of the cost of payment processing fees, amounts paid to freelancers to deliver services for clients under our managed services offering, personnel-related costs for our services and support personnel, third-party hosting fees for our use of Amazon Web Services (“AWS”), and the amortization expense associated with acquired intangibles and capitalized internal-use software and platform development costs. We define personnel-related costs as salaries, bonuses, benefits, travel and entertainment, and stock-based compensation costs for employees and the costs related to other service providers we engage.

We expect cost of revenue to increase in absolute dollars in future periods due to higher payment processing fees, third-party hosting fees, and personnel-related costs in order to support growth on our platform. We expect third-party hosting fees to temporarily increase for a period of time in 2020 as we migrate from the AWS data centers in California to the AWS data center in Oregon, as we will need to use both AWS facilities during the migration period. We plan to complete this migration in the first half of 2020 and believe this migration will ultimately reduce third-party hosting costs once completed.

Amounts paid to freelancers in connection with our managed services offering are tied to the volume of managed services used by our clients. The level and timing of all of these items could fluctuate and affect our cost of revenue in the future.

**Gross Profit and Gross Margin.** Our gross profit and gross margin may fluctuate from period-to-period. Such fluctuations may be influenced by our revenue, the mix of payment methods that our clients choose, the timing and amount of investments to expand hosting capacity, our continued investments in our services and support teams, the timing and amounts paid to freelancers in connection with our managed services offering, and the amortization expense associated with capitalized internal-use software and platform development costs. In addition, gross margin will be impacted by fluctuations in our revenue mix between marketplace revenue and managed services revenue. For example, our managed services revenue grew at a slower rate than our marketplace revenue for the three months ended March 31, 2020 compared to the same period in 2019, and we anticipate this trend to continue, as we primarily focus on increasing client usage of and spend on our marketplace offerings. We expect gross margin to remain consistent throughout 2020 primarily due to the costs we will incur in the second half of 2020 as a result of our migration from the AWS data centers in California to the AWS data center in Oregon.

## **Operating Expenses**

**Research and Development.** Research and development expense primarily consists of personnel-related costs and third-party hosting costs related to development. Research and development costs are expensed as incurred, except to the extent that such costs are associated with internal-use software and platform development that qualifies for capitalization. We believe continued investments in research and development are important to attain our strategic objectives and expect research and development expense to increase in absolute dollars for the foreseeable future, although this expense, expressed as a percentage of total revenue, may vary from period to period.

**Sales and Marketing.** Sales and marketing expense consists primarily of expenses related to personnel-related costs, including sales commissions, which we expense as they are incurred, and advertising and marketing activities. We continue to invest in our sales and marketing capabilities and in light of COVID-19 are focused on increasing our investment in brand awareness, marketing campaigns, and, to a lesser extent, in our enterprise sales team in an effort to accelerate our acquisition of Upwork Enterprise and Business clients. We expect this expense to increase in absolute dollars in future periods, although this expense expressed as a percentage of total revenue may vary from period-to-period.

**General and Administrative.** General and administrative expense consists primarily of personnel-related costs for our executive, finance, legal, human resources, corporate development, and operations functions; outside consulting, legal, and accounting services; and insurance. We expect to continue to invest in corporate infrastructure and to incur additional expenses associated with operating as a public company, including increased legal and accounting costs, investor relations costs, insurance premiums, and compliance costs. As a result, we expect general and administrative expense to increase in absolute dollars in future periods, although this expense, expressed as a percentage of total revenue, may vary from period to period.

**Provision for Transaction Losses.** Provision for transaction losses consists primarily of losses resulting from fraud and bad debt expense associated with our trade and client receivables balance and transaction losses associated with chargebacks. Provisions for these items represent estimates of losses based on our actual historical incurred losses and other factors. We expect provisions for transaction losses to increase proportionally as GSV grows and may experience higher transaction losses as a result of COVID-19. As a result, we expect provision for transaction losses to increase in absolute dollars in future periods, although expressed as a percentage of total revenue, this expense may vary from period to period.

**Interest Expense**

Interest expense consists of interest on our outstanding borrowings.

**Other (Income) Expense, Net**

Other (income) expense, net consists primarily of gains and losses from foreign currency exchange transactions and interest income that we earn from our deposits in money market funds and investments in marketable securities.

## Results of Operations

The following table sets forth our condensed consolidated results of operations for the periods presented (in thousands):

	Three Months Ended March 31,	
	2020	2019
Revenue		
Marketplace	\$ 74,782	\$ 60,455
Managed services	8,414	8,021
Total revenue	83,196	68,476
Cost of revenue <sup>(1)</sup>	23,485	21,125
Gross profit	59,711	47,351
Operating expenses		
Research and development <sup>(1)</sup>	19,348	15,800
Sales and marketing <sup>(1)</sup>	30,678	20,518
General and administrative <sup>(1)</sup>	17,824	15,661
Provision for transaction losses	912	637
Total operating expenses	68,762	52,616
Loss from operations	(9,051)	(5,265)
Interest expense	230	373
Other (income) expense, net	731	(479)
Loss before income taxes	(10,012)	(5,159)
Income tax provision	(9)	(1)
Net loss	\$ (10,021)	\$ (5,160)

<sup>(1)</sup> Includes stock-based compensation expense as follows (in thousands):

	Three Months Ended March 31,	
	2020	2019
Cost of revenue	\$ 174	\$ 144
Research and development	1,950	1,380
Sales and marketing	928	642
General and administrative	2,485	2,129
Total stock-based compensation	\$ 5,537	\$ 4,295

## Comparison of the Three Months Ended March 31, 2020 and 2019

### Revenue

(in thousands, except percentages)

	Three Months Ended March 31,			
	2020	2019	Change	
Marketplace	\$ 74,782	\$ 60,455	\$ 14,327	24 %
Percentage of total revenue	90 %	88 %		
Managed services	\$ 8,414	\$ 8,021	393	5 %
Percentage of total revenue	10 %	12 %		
<b>Total revenue</b>	<b>\$ 83,196</b>	<b>\$ 68,476</b>	<b>\$ 14,720</b>	<b>21 %</b>

For the three months ended March 31, 2020, total revenue was \$83.2 million, an increase of \$14.7 million, or 21%, as compared to the same period in 2019.

For the three months ended March 31, 2020, marketplace revenue represented 90% of total revenue and increased by \$14.3 million, or 24%, compared to the same period in 2019. Marketplace revenue increased primarily due to an increase in GSV, which grew by 15%, primarily driven by a 16% increase in the number of core clients as of March 31, 2020 compared to March 31, 2019. We believe these increases in marketplace revenue, GSV, and core clients were primarily due to investments in sales and marketing to acquire new clients and drive brand awareness, the launch of new offerings such as Upwork Plus and Upwork Business, and to ramp up our sales organization, the recent changes made in the pricing and packaging of Connects purchases in 2019, and investments in research and development to build new product features, and we intend to continue to focus on these efforts. As a result of the COVID-19 pandemic, market and economic conditions are rapidly changing and are disrupting the businesses of many of our clients, which resulted in a reduction in spend on our platform and led to a reduction in revenue growth by approximately 1% year-over-year during the three months ended March 31, 2020. As a result of a decline in client spend on our platform from our clients that have been impacted by the COVID-19 pandemic, we expect revenue in the second quarter will be lower than we initially anticipated at the beginning of 2020. Freelancer service fees generated \$44.1 million and \$40.6 million of marketplace revenue during the three months ended March 31, 2020 and 2019, respectively. Client payment processing and administration fees generated \$12.2 million and \$9.3 million of marketplace revenue during the three months ended March 31, 2020 and 2019, respectively.

Managed services revenue represented 10% and 12% of total revenue for the three months ended March 31, 2020 and 2019, respectively. Managed services revenue increased by \$0.4 million, or 5%, for the three months ended March 31, 2020 compared to the same period in 2019. Managed services revenue grew at a slower rate than our marketplace revenue in the three months ended March 30, 2020 compared to the same period in 2019, and we anticipate this trend to continue as we primarily focus on increasing client usage of and spend on our marketplace offerings.

### Cost of Revenue and Gross Margin

(in thousands, except percentages)

	Three Months Ended March 31,			
	2020	2019	Change	
Cost of revenue	\$ 23,485	\$ 21,125	\$ 2,360	11 %
Components of cost of revenue:				
Cost of freelancer services to deliver managed services	6,962	6,763	199	3 %
Other components of cost of revenue	16,523	14,362	2,161	15 %
<b>Total gross margin</b>	<b>72 %</b>	<b>69 %</b>		

For the three months ended March 31, 2020, cost of revenue increased by \$2.4 million, or 11%, compared to the same period in 2019. The increase was primarily due to a \$2.2 million, or 15%, increase in other components of cost of revenue, which was driven by an increase of \$0.9 million in payment processing fees due to an increase in client spend on our platform, \$0.7 million in amortization of capitalized platform development costs, and a \$0.5 million increase in third-party hosting costs.

### Research and Development

(in thousands, except percentages)

	Three Months Ended March 31,			
	2020	2019	Change	
Research and development	\$ 19,348	\$ 15,800	\$ 3,548	22 %
Percentage of total revenue	23 %	23 %		

For the three months ended March 31, 2020, research and development expense increased by \$3.5 million, or 22%, as compared to the same period in 2019. The increase was primarily due to an increase in personnel-related costs of \$4.5 million, including \$0.4 million related to our changes in organizational structure, partially offset by the capitalization of \$1.1 million of additional internal-use software and platform development costs.

### Sales and Marketing

(in thousands, except percentages)

	Three Months Ended March 31,			
	2020	2019	Change	
Sales and marketing	\$ 30,678	\$ 20,518	\$ 10,160	50 %
Percentage of total revenue	37 %	30 %		

For the three months ended March 31, 2020, sales and marketing expense increased by \$10.2 million, or 50%, as compared to the same period in 2019. This increase was primarily due to year-over-year increases of \$4.6 million in marketing and advertising costs due to our ongoing digital marketing and advertising programs and our TV and radio advertising campaign, \$4.5 million in personnel-related costs to build out our enterprise sales team, including both sales commissions that we expense as incurred and \$0.5 million related to our changes in organizational structure, and \$1.1 million in amortization of licensed software and facilities-related and other costs resulting from ongoing business growth. In an effort to accelerate our acquisition of Upwork Enterprise and Business clients, we will continue to invest in our sales and marketing capabilities and, in light of COVID-19, are focused on increasing our investment in brand awareness, marketing campaigns, and, to a lesser extent, in our enterprise sales team.

### General and Administrative

(in thousands, except percentages)

	Three Months Ended March 31,			
	2020	2019	Change	
General and administrative	\$ 17,824	\$ 15,661	\$ 2,163	14 %
Percentage of total revenue	21 %	23 %		

For the three months ended March 31, 2020, general and administrative expense increased by \$2.2 million, or 14%, as compared to the same period in 2019. This increase was primarily due to increases of \$2.3 million in personnel-related costs and \$0.5 million in outside consulting and other professional services, partially offset by reductions in software and other expenses of \$0.6 million.

### Provision for Transaction Losses

(in thousands, except percentages)

	Three Months Ended March 31,			
	2020	2019	Change	
Provision for transaction losses	\$ 912	\$ 637	\$ 275	43 %
Percentage of total revenue	1 %	1 %		

For the three months ended March 31, 2020, provision for transaction losses increased by \$0.3 million, or 43%, as compared to the same period in 2019, and represented approximately 1% of revenue for each period. We expect provisions for transaction losses to be between 1% and 2% of revenue and to increase proportionally as GSV grows; however, as a result of COVID-19, provision for transaction losses may increase as a percentage of revenue.



### **Interest Expense and Other (Income) Expense, Net**

(in thousands, except percentages)

	Three Months Ended March 31,			
	2020	2019	Change	
Interest expense	\$ 230	\$ 373	\$ (143)	(38)%
Other (income) expense, net	731	(479)	1,210	(253)%

For the three months ended March 31, 2020, other expense, net was \$0.7 million, as compared to other income, net of \$0.5 million for the same period in 2019, which was primarily driven by higher volumes of foreign currency transactions resulting from additional foreign currencies added in the second quarter of 2019, as well as additional exchange losses in the three months ended March 31, 2020.

### **Liquidity and Capital Resources**

Our principal sources of liquidity are our cash and cash equivalents, marketable securities, and amounts available for borrowing under our Loan and Security Agreement, as amended (the “Loan Agreement”) referred to below under “—Term and Revolving Loans.” Our cash equivalents and marketable securities primarily consist of commercial paper, treasury bills, and U.S. government securities. As of March 31, 2020 and December 31, 2019, we had \$65.6 million and \$48.4 million in cash and cash equivalents, respectively. As of March 31, 2020 and December 31, 2019, we had \$79.7 million and \$85.5 million in marketable securities, respectively.

We believe our existing cash and cash equivalents, marketable securities, cash flow from operations (in periods in which we generate cash flow from operations), and amounts available for borrowing under the Loan Agreement will be sufficient to meet our working capital requirements for at least the next 12 months. To the extent existing cash and cash equivalents, cash from marketable securities, cash from operations (in periods in which we generate cash flow from operations), and amounts available for borrowing under the Loan Agreement are insufficient to fund our working capital requirements, or should we require additional cash for other purposes, we will need to raise additional funds. In the future, we may attempt to raise additional capital through the sale of equity securities or through equity-linked or debt financing arrangements. If we raise additional funds by issuing equity or equity-linked securities, the ownership and economic interests of our existing stockholders will be diluted. If we raise additional financing by incurring additional indebtedness, we will be subject to additional debt service requirements and could also be subject to additional restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. Any future indebtedness we incur may result in terms that could also be unfavorable to our equity investors. There can be no assurances that we will be able to raise additional capital on terms we deem acceptable, or at all. The inability to raise additional capital as and when required would have an adverse effect, which could be material, on our results of operations, financial condition and ability to achieve our business objectives.

We also believe that our principal sources of liquidity will allow us to manage the impact of the COVID-19 pandemic on our business operations for the foreseeable future, which could include reductions in revenue and delays in payments from users, as further described below in “Risk Factors—Our business is experiencing, and is expected to continue to experience, an adverse impact from the ongoing COVID-19 pandemic” in Part II, Item 1A in this Quarterly Report. The challenges posed by the COVID-19 pandemic on our business are expected to evolve rapidly. Consequently, we will continue to evaluate our financial position in light of future developments, particularly those relating to the COVID-19 pandemic.

### **Escrow Funding Requirements**

As a licensed internet escrow agent, we offer escrow services to users of our platform and, as such, we are required to hold our users’ escrowed cash and in-transit cash in trust as an asset and record a corresponding liability for escrow funds held on behalf of freelancers and clients on our balance sheet. Escrow regulations require us to fund the trust with our operating cash to cover shortages due to the timing of cash receipts from clients for completed hourly billings. As of March 31, 2020 and December 31, 2019, funds held in escrow were \$123.6 million and \$108.7 million, respectively. To the extent we have not yet collected funds for hourly billings from clients which are in transit due to timing differences in receipt of cash from clients and payments of cash to freelancers, we may, from time to time, utilize the revolving line of credit under our Loan Agreement to satisfy escrow funding requirements.

### **Term and Revolving Loans**

Under our Loan Agreement, the aggregate amount of the facility is up to \$49.0 million, consisting of a term loan in the original principal amount of \$15.0 million (the “First Term Loan”), a term loan in the original principal amount of \$9.0 million (the “Second Term Loan” and, together with the First Term Loan, the “Term Loans”), and a revolving line of credit, which permits borrowings of up to \$25.0 million subject to customary conditions. Among other things, we may only borrow funds under the revolving line of credit if, after giving effect thereto, total borrowings under the line of credit do not exceed a specified percentage of eligible trade and client accounts receivable. The First Term Loan, Second Term Loan, and revolving line of credit mature in March 2022, September 2022, and September 2020, respectively. All borrowings under the Loan Agreement bear interest at floating rates, and, therefore, our borrowing costs are affected by changes in market interest rates.

As a result of the uncertainty caused by the COVID-19 pandemic, we drew down \$15.0 million under the revolving line of credit in March 2020 and an additional \$3.0 million in April 2020.

Our obligations under the Loan Agreement are secured by first priority liens on substantially all of our assets excluding our intellectual property (but including proceeds therefrom) and the funds and assets held by our subsidiary Upwork Escrow Inc. (“Upwork Escrow”). The Loan Agreement prohibits us from pledging our intellectual property. The Loan Agreement also includes a restriction on dividend payments, other than dividends payable solely in common stock. The Loan Agreement contains affirmative covenants, including a covenant requiring that we maintain an adjusted quick ratio, and also contains certain non-financial covenants. We were in compliance with our covenants under the Loan Agreement as of March 31, 2020 and December 31, 2019.

During the three months ended March 31, 2020, we repaid \$1.3 million related to the First Term Loan and \$0.6 million related to the Second Term Loan. Pursuant to the terms of the Loan Agreement, we commenced repayment on the Term Loans in April 2019; accordingly, there were no repayments during the three months ended March 31, 2019.

### **Cash Flows**

The following table summarizes our cash flows for the periods presented (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Net cash used in operating activities	\$ (1,702)	\$ (29,395)
Net cash provided by (used in) investing activities	2,924	(76,527)
Net cash provided by financing activities	31,106	47,663
Net increase (decrease) in cash, cash equivalents, and restricted cash	\$ 32,328	\$ (58,259)

### **Operating Activities**

Our largest source of cash from operating activities is revenue generated from our platform. Our primary uses of cash from operating activities are for personnel-related expenditures, marketing activities, including advertising, payment processing fees, amounts paid to freelancers to deliver services for clients under our managed services offering, and third-party hosting costs. In addition, because we are licensed as an internet escrow agent, our total cash and cash provided by (used in) operating activities may be impacted by the timing of the end of our fiscal quarter as discussed in the section titled “—Liquidity and Capital Resources—Escrow Funding Requirements.”

For the three months ended March 31, 2020, net cash used in operating activities was \$1.7 million, which resulted from non-cash charges of \$9.6 million, offset by a net loss of \$10.0 million and net cash outflows of \$1.3 million from changes in operating assets and liabilities. The change in operating assets and liabilities primarily resulted from the increase in trade and client receivables of \$5.9 million. Due to fluctuations in revenue and the number of transactions on our platform, coupled with fluctuations in the timing of cash receipts from clients and the impact of the COVID-19 pandemic on our business, our trade and client receivables will likely continue to fluctuate in the future.

For the three months ended March 31, 2019, net cash used in operating activities was \$29.4 million, which resulted from non-cash charges of \$7.3 million, offset by a net loss of \$5.2 million and net cash outflows of \$31.5 million

from changes in operating assets and liabilities. The end of the first quarter of 2019 fell on a Sunday, which directly impacted our trade and client receivables balance as of March 31, 2019. The change in operating assets and liabilities primarily resulted from the increase in trade and client receivables of \$26.1 million. Additionally, changes in accrued expenses and other liabilities generated net cash outflows of \$4.1 million primarily related to the payment of fixed asset purchases that we accrued for at December 31, 2018.

#### ***Investing Activities***

For the three months ended March 31, 2020, net cash provided by investing activities was \$2.9 million, which was primarily a result of investing \$26.8 million in various marketable securities, as well as \$2.0 million of internal-use software and platform development costs that we paid during the period and purchases of property and equipment of \$1.3 million primarily for leasehold improvements and furniture related to our office lease in Chicago, Illinois. These uses of cash were partially offset by proceeds from maturities of marketable securities of \$33.0 million.

For the three months ended March 31, 2019, net cash used in investing activities was \$76.5 million, which was primarily a result of investing a portion of our initial public offering proceeds of \$71.7 million in various marketable securities during the first quarter of 2019, as well as \$1.2 million of internal-use software and platform development costs that we paid during the period and purchases of property and equipment of \$3.6 million primarily for leasehold improvements and furniture related to our new office leases.

#### ***Financing Activities***

For the three months ended March 31, 2020, net cash provided by financing activities was \$31.1 million, which resulted primarily from an increase in escrow funds payable of \$14.8 million, net proceeds from borrowings on debt of \$13.1 million, and cash received from stock option exercises of \$3.2 million.

For the three months ended March 31, 2019, net cash provided by financing activities was \$47.7 million, which resulted from an increase in escrow funds payable of \$21.9 million, the \$25.0 million draw on our revolving line of credit in order to satisfy our escrow funding requirements as of March 31, 2019, as well as cash received from stock option exercises of \$0.8 million.

## Obligations and Other Commitments

Our principal commitments consist of obligations under our non-cancellable operating leases for office space and the Loan Agreement. The following table summarizes our contractual obligations as of March 31, 2020 (in thousands):

	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 - 3 Years</b>	<b>3 - 5 Years</b>	<b>More Than 5 Years</b>
Leases <sup>(1)</sup>	\$ 37,774	\$ 6,445	\$ 13,085	\$ 11,871	\$ 6,373
Debt principal	31,428	22,571	8,857	—	—
<b>Total contractual obligations</b>	<b>\$ 69,202</b>	<b>\$ 29,016</b>	<b>\$ 21,942</b>	<b>\$ 11,871</b>	<b>\$ 6,373</b>

<sup>(1)</sup> Represents minimum operating lease payments under operating leases for office facilities, excluding potential lease renewals, net of tenant improvement allowances.

In the ordinary course of business, we enter into contracts and agreements that contain a variety of representations and warranties and provide for indemnification. In addition, we have entered into indemnification agreements with our directors and executive officers and certain key employees that require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as our directors, executive officers, or employees. The terms of such obligations may vary. To date, we have not paid any material claims or been required to defend any actions related to our indemnification obligations.

As of March 31, 2020 and December 31, 2019, we had accrued liabilities related to uncertain non-income tax positions based on management's best estimate of its liability, which are reflected on our condensed consolidated balance sheets. We could be subject to examination in various jurisdictions related to income and non-income tax matters. The resolution of these types of matters, giving recognition to the recorded reserve, could have an adverse impact on our business.

## Off-Balance Sheet Arrangements

As of March 31, 2020, we did not have any relationships with other entities or financial partnerships such as entities often referred to as structured finance or special purpose entities that have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

## Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of the condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors and adjust those estimates and assumptions when facts and circumstances dictate. Actual results could materially differ from these estimates and assumptions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. We believe estimates and assumptions associated with the evaluation of revenue recognition criteria, including the determination of revenue reporting as gross versus net in our revenue arrangements, internal-use software and platform development costs, the fair values of stock-based awards, and income taxes have the greatest potential impact on our condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

Except as otherwise disclosed in "Note 2—Basis of Presentation and Summary of Significant Accounting Policies" of the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report, there have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended December 31, 2019 (our "Annual Report").

**Recent Accounting Pronouncements**

See “Note 2—Basis of Presentation and Summary of Significant Accounting Policies” of the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report for recently issued accounting pronouncements not yet adopted as of the date of this report.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate and foreign currency exchange rates.

#### ***Interest Rate Risk***

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. We do not make investments for trading or speculative purposes. Because our cash and cash equivalents have a relatively short maturity, our portfolio's fair value is relatively insensitive to interest rate changes. Borrowings under our Loan Agreement have variable interest rates. We had \$31.4 million and \$18.3 million aggregate principal amount of borrowings outstanding under our Loan Agreement as of March 31, 2020 and December 31, 2019, respectively. We do not believe that a hypothetical increase or decrease in interest rates of 100 basis points would have a material impact on our operating results or financial condition.

#### ***Foreign Currency Risk***

Our operating results and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. In addition to the U.S. dollar, we offer clients the option to settle invoices denominated in the U.S. dollar in the following currencies: Euro, British Pound, Australian dollar, Canadian dollar, Singapore dollar, South African rand, New Zealand dollar, Polish zloty, Swiss franc, Norwegian krone, Danish krone, Swedish krona, Turkish lira, Japanese yen, and Hong Kong dollar. When clients make payments in one of these currencies, we are exposed to foreign currency risk during the period between when payment is made and when the payment amounts settle. To mitigate this risk, we have entered into forward contracts. As such, the impact of foreign currency exchange rate fluctuations to our operating results have been insignificant to date.

### **Item 4. Controls and Procedures.**

#### ***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of March 31, 2020. Our disclosure controls and procedures are designed to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures, and is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC"). Because of the material weakness in our internal control over financial reporting previously disclosed in our Annual Report, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2020, our disclosure controls and procedures were not effective.

#### ***Previously Reported Material Weakness***

As disclosed in the section titled "Risk Factors" in Part II, Item 1A of this Quarterly Report, we previously identified a material weakness in our internal control over financial reporting related to the identification of a number of adjustments to our consolidated financial statements that resulted in a revision to previously issued financial statements as of and for the year ended December 31, 2016. We identified the cause of these adjustments was due to growth in the business, which required additional qualified accounting personnel with an appropriate level of experience, and additional controls in the period-end financial reporting process commensurate with the complexity of the business. Accordingly, we have determined that this control deficiency constituted a material weakness in our internal control over financial reporting. A material weakness is a deficiency or combination of deficiencies in our internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our consolidated financial statements would not be prevented or detected on a timely basis.

#### ***Remediation Plans***

As disclosed in the section titled "Risk Factors" in Part II, Item 1A of this Quarterly Report, we have implemented measures to remediate the identified material weakness. The execution of our remediation is ongoing and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of

financial reporting cycles. Management expects to complete its remediation plan during the year ending December 31, 2020.

***Changes in Internal Control over Financial Reporting***

Except as disclosed above with respect to our remediation measures, there were no changes to our internal control over financial reporting that occurred during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

We are not a party to any material pending legal proceedings. From time to time, we may be subject to legal proceedings and claims arising in the ordinary course of business.

#### Item 1A. Risk Factors.

*A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider the risks and uncertainties described below, as well as the other information in this Quarterly Report, including our condensed consolidated financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The occurrence of any of the events or developments described below, or of additional risks and uncertainties not presently known to us or that we currently deem immaterial, could materially and adversely affect our business, results of operations, financial condition, and growth prospects. In such an event, the market price of our common stock could decline and you could lose all or part of your investment.*

#### Risks Related to our Business and Industry

***Our growth depends on our ability to attract and retain a community of freelancers and clients, and the loss of our users, failure to maintain or grow spend of our current users, or failure to attract new users could adversely impact our business.***

The size of our community of users, including both freelancers and clients, is critical to our success. Our ability to achieve significant growth in revenue in the future will depend, in large part, upon our ability to attract new users, including new mid-market, large enterprise, and global account clients, to, and retain existing users on, our platform. Moreover, if we retain users but they do not spend at the rates we expect, our growth will be negatively impacted. Achieving growth in, and retention of, our community of users may require us to increasingly engage in sophisticated, costly, and lengthy sales and marketing efforts that may not result in additional spending users or effectively retain our current users, or may not do so in a cost-effective manner. We may also modify our pricing model or other services and features to attract and retain such users. Such modifications may not have the intended effect of attracting and retaining users and may have unintended negative consequences such as a loss of users or a reduction of user activity or spend on our platform.

In particular, as discussed below in the risk factor titled “Our business is experiencing, and is expected to continue to experience, an adverse impact from the ongoing COVID-19 pandemic,” the COVID-19 pandemic and the resulting global macroeconomic downturn has adversely affected, and is expected to continue to adversely affect, client spend on our platform. In addition, in response to the impact of the COVID-19 pandemic, we may also implement a reduction or elimination of certain fees normally charged to users or may implement other promotions in an effort to support those affected by the COVID-19 pandemic and to retain users or respond to increased competitive conditions or to attract those seeking to engage freelancers for the first time, and any such changes may result in a reduction in revenue and adversely affect our business.

If we fail to attract new users, new users fail to spend at the rates we expect, or we fail to maintain or expand existing relationships in a cost-effective manner or at all, our revenue will grow more slowly than expected or may decline and our business could be adversely impacted.

Freelancers have many different ways of marketing their services, securing clients, and obtaining payments from clients, including meeting and contacting prospective clients through advertising to prospective clients online or offline through other methods, signing up for online or offline third-party agencies, using other online or offline platforms, signing up with staffing firms, using other payment services, or finding full-time or part-time employment through an agency or directly with a business. If we fail to attract new freelancers, freelancers decrease their use of, or cease using, our platform, the quality or types of services provided by freelancers that use our platform are not satisfactory to clients, or freelancers increase their fees for services more than clients are willing to pay, clients may decrease their use of, or cease using, our platform and our revenue may be adversely impacted.

Clients have similarly diverse options to find and pay service providers, such as engaging and paying service providers directly, finding service providers through other online or offline platforms or through staffing firms and agencies, using other payment services, or hiring temporary, full-time, or part-time employees directly or through an agency. For the years ended December 31, 2019 and 2018, we generated more than 10% of revenue from one client,



to which we provide services through our managed services offering. Therefore, a decrease in revenue from this client could have an adverse effect on our operating results. Moreover, revenue from this client has grown at a slower rate than revenue generated from the rest of our business, and we anticipate this trend to continue, which could adversely affect our financial condition.

Beginning in the second half of 2019, we began evolving our offerings, products, brand positioning, and marketing to better address mid-market, large enterprise, and global account prospects and clients with larger, longer-term talent needs. And more recently, in the wake of the COVID-19 pandemic, we have prioritized our advertising and marketing efforts to reach those new and existing clients seeking to engage with remote freelancers in light of the prevailing shelter-in-place orders or similar measures. The evolution of these and other efforts, either individually or in the aggregate, may not be successful in producing sales or growing client spend from the target clients, and in the event these efforts result in the loss of or reduction in spend by other clients that is not offset by increased activity from mid-market, large enterprise, and global account clients, they may result in a temporary or long-term deceleration in GSV growth.

Users can generally decide to cease using our platform and related services at any time. Users may stop using our platform and related services if the quality of the user experience on our platform, including our support capabilities in the event of a problem, does not meet their expectations or keep pace with the quality of the user experience generally offered by competitive products and services. Users may also choose, and in the past have chosen, to cease using our platform if they perceive that our pricing model, including associated fees, is not in line with the value they derive from our platform, or for other reasons, including cost-cutting measures or other effects of the COVID-19 pandemic. Moreover, as discussed below in the risk factor titled “Users may circumvent our platform, which could adversely impact our business,” users may circumvent our platform and pay freelancers directly, which may happen more frequently during the COVID-19 pandemic, as users may be more cost sensitive or reduce their spending altogether during such period. In addition, expenditures by clients may be cyclical and may reflect overall economic conditions or budgeting patterns.

Any decrease in the attractiveness of our platform, failure to retain users, or reduced spending by clients could lead to decreased traffic on our platform, diminished network effects, or a drop in GSV on our platform, which could adversely affect our business, revenue, financial condition, and operating results. We expect our GSV to fluctuate between periods due to a number of factors, including the volume and characteristics of projects that are posted by clients on our platform, such as size, duration, pricing, and other factors.

If users stop using, or reduce their use of, our platform and services for any reason, including the foregoing reasons, our revenue and business would be adversely affected.

***We have a history of net losses, anticipate increasing our operating expenses in the future, and may not achieve or sustain profitability.***

We have a history of incurring net losses, and we expect to incur net losses for the foreseeable future. For the three months ended March 31, 2020 and the years ended December 31, 2019 and 2018, we incurred net losses of \$10.0 million, \$16.7 million, and \$19.9 million, respectively. As of March 31, 2020, we had an accumulated deficit of \$182.0 million. We expect to make significant future expenditures related to the development and expansion of our business, including investing in marketing programs and activities, such as brand promotion efforts; enhancing our Upwork Enterprise, Upwork Business and other premium offerings; expanding our sales force; broadening and deepening the categories on our platform; expanding our delivery models; promoting client engagement of those freelancers that typically optimize to deliver larger projects, including through our Upwork Payroll offering; enhancing our U.S.-to-U.S. domestic marketplace offering and our mobile product offering; and in connection with legal, accounting, and other administrative expenses related to operating as a public company. These and other efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently, or at all, to offset these higher expenses. While our revenue has grown in recent years, we may not be able to sustain the same level of growth in future periods, or at all. If our revenue declines or fails to grow at a rate faster than increases in our operating expenses, we will not be able to achieve and maintain profitability in future periods. As a result, we may continue to generate losses. We cannot ensure that we will achieve profitability in the future or that, if we do become profitable, we will be able to sustain profitability.

***We have a limited operating history under our current business strategy and pricing model, which makes it difficult to evaluate our business and future prospects.***

We recently evolved, and will continue to evolve, our sales, marketing, and brand positioning efforts to expand our focus on mid-market, large enterprise, and global account clients with larger, longer-term talent needs. To better serve this market segment, in recent years we have expanded our Upwork Enterprise offering and recently launched our Upwork Business offering, both of which help enterprises and other larger businesses connect with freelancers and provide these larger clients with additional products and services. We also continue to develop our current offerings and create and test additional premium offerings, features, and services. Moreover, we made significant changes to our pricing model in 2016 and launched our U.S.-to-U.S. domestic marketplace offering in the second half of 2017. In 2019, we launched other pricing changes, including new paid membership types for clients and new Connects pricing for freelancers. In addition, we recently launched “Direct Contracts,” a service for freelancers to easily charge clients that are not registered users on Upwork’s platform. As a result, our current business strategy and pricing model have not been fully proven, and we have only a limited operating history under our current business strategy and pricing model to evaluate our business and future prospects, which subjects us to a number of uncertainties, including our ability to plan for and model future growth and make projections regarding our future performance. Our historical revenue growth should not be considered indicative of our future performance. We have encountered, and will continue to encounter, risks, difficulties, and uncertainties frequently experienced by growing companies in rapidly changing industries, including our ability to achieve market acceptance of our platform and attract and retain users, as well as increasing competition and increasing expenses as we continue to grow our business. In addition, we have in the past, and may in the future, see unexpected or unintended effects, sometimes negative, as a result of changes to our pricing model, products and offerings, and sales, brand positioning, and marketing efforts, including a failure to attract new clients or the loss of spend from existing clients. For example, in 2019 we experienced a decline in client spend retention, which we believe was related to the launch of our U.S.-to-U.S. domestic marketplace offering in the second half of 2017, as discussed in the section titled “Management’s Discussion and Analysis for Financial Condition and Results of Operations—Key Financial and Operational Metrics.” We cannot ensure that we will be successful in addressing these and other challenges we may face in the future, and our business may be adversely affected if we do not manage these challenges successfully. In addition, we may not achieve sufficient revenue to achieve or maintain positive cash flow from operations or profitability in any given period, or at all.

***Because we derive the substantial majority of our revenue from our marketplace offerings, with most of our marketplace revenue derived from our Upwork Basic, Plus, Business, and Enterprise offerings, our inability to generate revenue from our marketplace offerings would adversely affect our business operations, financial results, and growth prospects.***

Currently, we derive, and expect to continue to derive in the near future, the substantial majority of our revenue from our marketplace offerings, with most of our marketplace revenue derived from our Upwork Basic, Plus, Business, and Enterprise offerings. As such, market acceptance of our marketplace offerings is critical to our continued success, and any failure of our platform to meet users’ expectations with respect to user experience or the failure of specific features to be effective in attracting and retaining users, such as onboarding, search, or matching features, could have a negative impact on our business. Demand for our marketplace offerings is affected by a number of factors beyond our control, including the timing of development and release of new products and services by our competitors, our ability to respond to technological change and to innovate and grow, contraction in our market, client spending patterns, macroeconomic effects, such as those resulting from the COVID-19 pandemic, and the other risks identified herein. Moreover, as a result of the COVID-19 pandemic, we are experiencing an increase in the number of users requesting a reduction of our fees and an increase in transaction losses due to declined payment methods and chargebacks. If we are unable to continue to meet user demands, to expand the categories of services offered on our platform, or to achieve and maintain more widespread market acceptance of our marketplace offerings, our business operations, financial results, and growth prospects could be adversely affected.

***If we are not able to develop and release new products and services, or develop and release successful enhancements, new features, and modifications to our existing products and services, our business could be adversely affected.***

The market for our platform is characterized by rapid technological change, frequent product and service introductions and enhancements, changing user demands, and evolving industry standards. The introduction of

products and services embodying new technologies can quickly make existing products and services obsolete and unmarketable. We invest substantial resources in researching and developing new products and services and enhancing our platform by incorporating additional features, improving functionality, and adding other improvements to meet our users' evolving demands in our highly competitive industry. The success of any enhancements or improvements to, or new features of, our platform or any new products and services depends on several factors, including timely completion, competitive pricing, adequate quality testing, integration with new and existing technologies on our platform and third-party partners' technologies, overall demand and market acceptance, and resulting user activity that is consistent with the intent of such products or services. We cannot be sure that we will succeed, on a timely or cost-effective basis, in developing, marketing, and delivering enhancements or new features to our platform or any new products and services that respond to continued changes in the market for talent or business services, nor can we be sure that any enhancements or new features to our platform or any new products and services will achieve market acceptance or produce the intended effect. In the past, we have experienced unintended negative effects, including reduced client spend retention, from certain modifications to our products and services. For example, in 2019 we experienced a decline in client spend retention which we believe was related to the launch of our U.S.-to-U.S. domestic marketplace offering in the second half of 2017, as discussed in the section titled "Management's Discussion and Analysis for Financial Condition and Results of Operations—Key Financial and Operational Metrics."

Because further development of our platform is complex, challenging, and dependent upon an array of factors, the timetable for the release of new products and services and enhancements to existing products and services is difficult to predict, and we may not offer new products and services as rapidly as users of our platform require or expect. Any new products or services that we develop may not be introduced in a timely or cost-effective manner, may contain errors or defects, may not be properly integrated with new and existing technologies on our platform or third-party partners' technologies, may not achieve the broad market acceptance necessary to generate sufficient revenue, or may adversely impact existing client spend and user growth and retention. Moreover, even if we introduce new products and services, we may experience a decline in revenue from our existing products and services that is not offset by revenue from the new products or services. In addition, we may lose existing users that choose to use competing products or services. This could result in a temporary or permanent decrease in revenue and adversely affect our business.

***Our business is experiencing, and is expected to continue to experience, an adverse impact from the ongoing COVID-19 pandemic.***

The COVID-19 pandemic has adversely impacted our business and could result in significant reductions in demand for our products and services, especially with respect to our small- and medium-sized business clients, which could be most impacted by the resulting macroeconomic downturn and from which we derive a substantial portion of our GSV and revenue. If these clients reduce their spending or cease operations entirely, the COVID-19 pandemic may have a material adverse effect on our business, financial condition, results of operations, and cash flows. The extent to which the ongoing COVID-19 pandemic will continue to adversely affect our business, financial condition, results of operations, and cash flow will depend on future developments, which are highly uncertain and cannot reasonably be predicted with confidence at this time, including the duration, spread, and severity of the outbreak; government responses to the pandemic and potential restrictions on our business and the businesses of our users; the impact of the pandemic on the U.S. and global economies and demand for our offerings; how quickly and to what extent normal economic and operating conditions resume; and the reaction of users and potential users to these developments, among others, and nearly all aspects of our business could be adversely affected. The potential impacts of such developments include, but are not limited to:

- Reduced client demand for freelancer services through our platform, resulting in lower GSV and lower revenue;
- Reduced client spend on our products and services;
- Delayed or missed client payments to us or freelancers on our platform, which may also result in increased transaction losses, numbers of disputes with users, and costs as we seek to compel payment, which we may not be able to recover;
- Increased costs or reduced revenue as a result of marketing and promotional efforts to reach and support those affected by the COVID-19 pandemic;

- Increased obligations to satisfy our escrow funding requirements with our own funds or by drawing on our line of credit as a result of more frequent declines of client payment methods or increased client-issued chargebacks, which would negatively impact our cash flows and may result in higher credit card processing fees and higher interest payments under our Loan Agreement;
- Increased risk of fraud or other illegal activity conducted by bad actors seeking to take advantage of our customers or us due to the uncertainty around the COVID-19 pandemic;
- Reduced GSV and revenue as a result of increased user circumvention of our platform;
- Reduced availability of key personnel to conduct important business activities, such as providing support to users and developing new products or offerings;
- The diversion of resources and attention of our management and workforce away from important ongoing initiatives, including the introduction of new, or modifications to existing, offerings and products, as well as long-term strategic investments and business objectives;
- Impacts on payment partners, disbursement partners, or other important third-party partners may cause delays in processing payments to freelancers or other important functions of our platform, result in an increase in payment transaction costs, or cause a decline in quality of service, negatively affect our reputation or user activity on our platform, or increase our operating costs;
- Reduced ability to attract, train, integrate, and retain highly-skilled personnel;
- Longer sales cycles due to slower decision-making, reduced budgets, or delays in planned work by existing and potential clients;
- Difficulty in business planning and forecasting due to significant uncertainty in the impact of COVID-19 on all aspects of our business and on our clients and freelancers and other business partners;
- Significant disruption of global financial markets, which may impact our ability to access capital now or in the future or make capital available only on terms less favorable to us;
- Impairments to our goodwill or other long-term assets if their carrying value exceeds their fair value;
- Reduced spend by clients or availability of freelancers located in areas or regions more affected by the COVID-19 pandemic;
- Reduced sublease income as a result of our sublease tenants being unable or unwilling to make the rental payments set forth in their respective sublease agreement;
- Reduced ability to maintain our financial reporting systems and internal control over financial reporting, including our ability to ensure timely compliance with disclosure requirements under the Securities Exchange Act of 1934; and
- De-globalization, which may result in clients being less willing to connect with non-U.S. users of our platform.

Although the COVID-19 pandemic did not have a material adverse impact on our financial results for the first quarter of 2020, the rapidly changing market and macroeconomic conditions caused by the COVID-19 pandemic has disrupted the business of many of our clients, which resulted in a reduction in spend on our platform for some of those affected clients. Many of these risk factors are unpredictable and outside of our control, and any of these factors could amplify the other risks and uncertainties described elsewhere in this Quarterly Report. It is uncertain what impact that the various legislative and other government responses being undertaken in the United States and other countries in which our users are located will have on the economy, our industry, our partners, our users, and our company. In connection with the COVID-19 pandemic, we have also implemented measures to protect the health of our workforce, including by requiring all employees to work remotely for an indefinite period of time. This and other policies may negatively impact workforce productivity and may cause disruptions to our business. There can be no assurance that these measures will be effective, however, or that we can adopt them without adversely affecting our business operations. Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of the macroeconomic downturn that has occurred as a result and is likely to continue in the future.

***Our operating results may fluctuate from quarter to quarter, which makes our future results difficult to predict.***

Our quarterly operating results have fluctuated in the past and may fluctuate in the future. Additionally, we have a limited operating history under our current business strategy and pricing model, and we make pricing and other changes from time to time, all of which make it difficult to forecast our future results. As a result, you should not rely upon our past quarterly operating results as indicators of future performance. You should take into account the risks, difficulties, and uncertainties frequently encountered by companies in rapidly evolving markets. Our operating results in any given quarter can be influenced by numerous factors, many of which are unpredictable or are outside of our control, including:

- ongoing uncertainty and impact on the global economy and spending by large, medium and small enterprises relating to the COVID-19 pandemic, availability of qualified freelancers, and uncertainty regarding the timing and nature of any future economic recovery, as discussed further above;
- our ability to generate significant revenue from our Upwork Basic, Plus, Business, and Enterprise offerings, and our other premium offerings;
- spending patterns of clients, including whether those clients that use our platform frequently, or for larger projects, reduce their spend, stop using our platform, or change their method of payment to us, including in each case as a result of the implementation of new pricing or the introduction of new or modified products or services on our platform, such as the changes made in the pricing and packaging of Connects purchases in 2019 and any pricing or other changes made in response to the COVID-19 pandemic;
- our ability to maintain and grow our community of users, including our ability to acquire mid-market, large enterprise and global account clients with larger, longer-term talent needs and qualified freelancers;
- our ability to attract, retain and grow small- and medium-sized business client accounts when focusing on larger client growth;
- the success of our marketing and brand positioning efforts;
- the productivity and effectiveness of our sales force;
- the length and complexity of our sales cycles;
- fluctuations in gross margin and managed services revenue due to our recognition of the entire GSV from our managed services offering as revenue, including the amounts paid to freelancers;
- the impact of public health pandemics, especially the COVID-19 pandemic;
- due to our tiered pricing model for freelancer service fees, the mix in any period between freelancers that have billed larger amounts to clients on our platform, where we charge a lower rate on billings, and freelancers that have billed clients less on our platform, where we charge a higher rate on billings;
- the demand for and types and quality of skills and services that are offered on our platform by freelancers;
- the disbursement methods chosen by freelancers;
- the number of users circumventing our platform and our fees, which could increase during economic downturns, such as the current macroeconomic downturn resulting from the COVID-19 pandemic;
- seasonal spending patterns by clients or work patterns by freelancers and seasonality in the labor market, as well as the number of business days, the number of Mondays (i.e., the day we bill and recognize revenue for a substantial portion of our client fees each week), or the number of Sundays (i.e., the day we bill and recognize revenue for the majority of our freelancer service fees each week) in any given quarter, as well as local, national, or international holidays;
- fluctuations in the prices that freelancers charge clients on our platform;
- our ability to introduce new products and services and enhance existing products and services without adversely affecting our existing revenue;
- changes to our pricing model, including associated fees, and any resulting change to how we recognize revenue or change in the number of projects that get posted or completed on our platform;

- our ability to generate significant revenue from new products and services;
- spending patterns and project bidding behavior of freelancers with respect to the products and services available to them on our platform, such as membership fees and Connects purchases;
- changes to financial accounting standards and the interpretation of those standards that may affect the way we recognize and report our financial results, including changes in accounting rules governing recognition of revenue;
- revenue recognition fluctuations for arrangements subject to our tiered pricing model for freelancer service fees under the new revenue recognition standard, which we recently adopted as of January 1, 2019;
- litigation and adverse judgments, settlements, or other litigation-related costs;
- fluctuations in the mix of payment provider costs and the revenue generated from payment providers;
- our ability to respond to competitive developments, including new and emerging competitors, pricing changes, and the introduction of new products and services by our competitors;
- data security or privacy breaches and associated remediation costs and reputational harm;
- changes in the mix of products and services that our enterprise clients or other users demand;
- the episodic nature of freelance work generally or changes to demand for freelance work due to political or regulatory changes or uncertainty;
- changes in the common law, or in the statutory, legislative, or regulatory environment, such as with respect to privacy, data security, wage and hour regulations, worker classification (including classification of independent contractors or similar service providers and classification of employees as exempt or non-exempt), internet regulation, payment processing, global trade, or tax requirements;
- fluctuations in transaction losses;
- fluctuations in trade and client receivables due to the timing of cash receipts from clients and the number of transactions on our platform;
- increases in, and timing of, operating expenses that we may incur to grow and expand our operations and to remain competitive, such as advertising and other marketing expenses, including those associated with evolving our brand positioning;
- the cost and time needed to develop and upgrade our platform to incorporate new technologies;
- the impact of outages of our platform and associated reputational harm;
- potential costs to attract, onboard, retain, and motivate qualified talent to perform services for us;
- the impact of sales, use, and other tax laws and regulations in jurisdictions in which we have users, including the requirement in certain jurisdictions to collect indirect taxes on user fees or to withhold and remit taxes related to income or earnings;
- costs related to the acquisition of businesses, talent, technologies, or intellectual property, including potentially significant amortization costs and possible write-downs;
- operating lease expenses and other real estate expenses that will likely increase as we grow our operations;
- general economic and political conditions and government regulations in the countries where we currently have significant numbers of users or where we currently operate or may expand in the future;
- fluctuations in currency exchange rates;
- changes in the mix of countries in which our users are located, which impacts the amount of revenue we derive from foreign exchange;
- the impact of new laws and regulations, or changes in interpretation of existing laws and regulations, on the products and services offered on our platform;

- non-cash accounting charges such as stock-based compensation expense and depreciation and amortization;
- losses from indemnification and similar contractual obligations we owe to clients; and
- expenses incurred in connection with The Upwork Foundation initiative.

The impact of one or more of the foregoing and other factors may cause our operating results and performance metrics to vary significantly. As such, we believe that quarter-to-quarter comparisons of our operating results and performance metrics may not be meaningful and should not be relied upon as an indication of future performance. If we fail to meet or exceed the expectations of investors or securities analysts, the trading price of our common stock could fall substantially, and we could face costly lawsuits, including securities class action suits.

***If we fail to develop, maintain, and enhance our brand and reputation cost-effectively, our business and financial condition may be adversely affected.***

The Upwork brand did not exist before 2015. We believe that developing, maintaining, and enhancing awareness and integrity of our brand and reputation in a cost-effective manner are important to achieving widespread acceptance and use of our platform and are important elements in attracting new users and retaining existing users. Successful promotion and positioning of our brand, products, and our business model depends on, among other things, the effectiveness of our marketing efforts and brand messaging, our ability to provide a reliable, trustworthy, and useful platform and products at competitive prices, the perceived value of our platform and products, and our ability to provide quality support. In order to reach the brand awareness and acceptance levels of some of our competitors, we will need to continuously invest in marketing programs that may not be successful in achieving meaningful awareness and acceptance levels, particularly during early phases of expansion into newer customer awareness segments. Further, brand promotion activities may not resonate with existing or potential users or yield increased revenue, including any brand promotion efforts in response to the COVID-19 pandemic, and even if they do, the increased revenue may not offset the expenses we incur in building and maintaining our brand and reputation. For example, we invested heavily in advertising in the United States in 2019 and 2020 to increase our brand awareness, and it is not certain that these investments have had or will have a positive impact on our brand or will be cost effective. We have also recently evolved our marketing and brand positioning efforts to expand our focus on mid-market, larger enterprise, and global account clients, with larger, longer-term talent needs and may not be successful in achieving the brand awareness and acceptance levels with this market segment, in a cost-effective manner, or without harming other areas of our business.

To protect our brand, we also expend substantial resources to register and defend our trademarks and to prevent others from using the same or substantially similar marks. Despite these efforts, we may not always be successful in registering, maintaining, opposing cancellation actions, and preventing misappropriation of our own marks and other intellectual property or preventing registration of confusingly similar marks, and we may suffer dilution, loss of reputation, genericization, or other harm to our brand. We also rely on our community of users in a variety of ways, including their willingness to give us feedback regarding our platform, and failure of our users to provide feedback on their experience on our platform or our failure to adequately address any concerns could negatively impact the willingness of prospective users to use our platform. If we fail to promote and maintain our brand successfully or to maintain loyalty among our users, or if we incur substantial expenses in unsuccessful attempts to promote and maintain our brand, we may fail to attract new users or retain our existing users and our business and financial condition may be adversely affected.

***We and our users may be subject to new and existing laws and regulations, both in the United States and internationally.***

We and our users are subject to a wide variety of foreign and domestic laws. Laws, regulations, and standards governing issues that may affect us, such as worker classification, employment, payments, worker confidentiality obligations and whistleblowing, intellectual property, consumer protection, taxation, privacy, and data security are often complex and subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may change or develop over time through judicial decisions or as new guidance or interpretations are provided by regulatory and governing bodies, such as federal and state administrative agencies. Many of these laws were adopted prior to the advent of the internet, mobile, and related technologies and, as a result, do not contemplate or address the unique issues of the internet, mobile, and related technologies. Other laws and regulations may be adopted in response to internet, mobile, and related technologies. New and existing laws and regulations (or changes in interpretation of existing laws and regulations), including those concerning worker

classification, independent contractors, employment, payments, whistleblowing and worker confidentiality obligations, intellectual property, consumer protection, taxation, privacy, data security, benefits, unionizing and collective action, arbitration agreements and class action waiver provisions, unfair competition, terms of service, website accessibility, background checks (such as the Fair Credit Reporting Act, 15 U.S.C. § 1681), escheatment, and federal contracting may also be adopted, implemented, or interpreted to apply to us and other online services marketplaces or our users. Likewise, these laws affect our users, and their application, or uncertainty around their application, may affect demand for our marketplace.

New laws, regulations and orders enacted in response to the COVID-19 pandemic may also affect our business in ways that we did not anticipate, and interpretations of existing laws and regulations may be interpreted and enforced differently than they have in the past in response to the COVID-19 pandemic. These laws may change rapidly and compliance may be costly to us. For example, the shelter-in-place orders or similar measures currently enacted in many jurisdictions may result in a loss of productivity of our workforce and our users and our ability to effectively market to new clients, among other things.

As our platform's geographic scope expands and as we expand the categories of services offered on our platform, regulatory agencies or courts may claim that we, or our users, are subject to additional requirements, or are prohibited from conducting our business, or conducting business with us, in or with certain jurisdictions, either generally or with respect to certain services, or that we are otherwise required to change our business practices. It is also possible that certain provisions in agreements with our users or service providers, or between freelancers and clients, or the fees we charge, may be found to be unenforceable or not compliant with applicable law.

The level of regulatory scrutiny on larger companies, technology companies in general, and companies engaged in dealings with independent contractors, payments, or personal information in particular has increased significantly recently and may continue to do so. Regulatory agencies may enact new laws or promulgate new rules or regulations that are adverse to our business or the interests of our users, or they may view matters or interpret laws and regulations differently than they have in the past or in a manner adverse to our business or the interests of our users. Such regulatory scrutiny or action may create different or conflicting obligations on us from one jurisdiction to another.

New approaches to policy-making and legislation may also produce unintended harms for our business, which may impact our ability to operate our business in the manner in which we are accustomed. For example, there has been increased focus on worker classification and independent contractor regulations which has led in part to the adoption of a new law in California, and it is possible that other jurisdictions will implement similar laws and regulations, as discussed in the risk factor titled "There may be adverse tax, legal, and other consequences if the contractor classification or employment status of freelancers that use our platform is challenged." These laws and regulations may have impact that is far-reaching, including on the independent professionals that use our platform and their clients. Any of these regulations could negatively impact our users, including perceptions regarding their use of our platform, or have a material adverse effect on the demand for freelancers on our platform or on the manner in which we are able to operate our platform.

As we look to expand our international footprint over time, we may become obligated to comply with additional laws and regulations of the countries or markets in which we operate or have users. We may be harmed if we are found to be subject to new or existing laws and regulations or if those laws are interpreted and applied to us in a manner that harms our business or is inconsistent with the application of U.S. laws, including those concerning worker classification, independent contractors, employment, payments, whistleblowing and worker confidentiality obligations, COVID-19 related laws, intellectual property, consumer protection, taxation, privacy, data security, benefits, unionizing and collective action, arbitration agreements and class action waiver provisions, unfair competition, terms of service, website accessibility, background checks, and escheatment. In addition, contractual provisions that are designed to protect and mitigate against risks, including terms of service, arbitration and class action waiver provisions, disclaimers of warranties, limitations of liabilities, releases of claims, and indemnification provisions, could be deemed unenforceable as to the application of these laws and regulations by a court, arbitrator, or other decision-making body. If we are unable to comply with these laws and regulations or manage the complexity of global operations and supporting an international user base successfully or in a cost-effective manner, or if these laws and regulations are found to apply to our users or cause a decline in demand for freelancer services, our business, operating results, and financial condition could be adversely affected.



Our success, or perceived success, and increased visibility may also drive some third parties that view our business model to be a threat, or otherwise problematic, to raise concerns about our business model to local policymakers and regulators. These third parties and their trade association groups or other organizations may take actions and employ significant resources to shape the legal and regulatory regimes in countries where we have, or may seek to have, a significant number of users, in an effort to change such legal and regulatory regimes in ways intended to adversely affect or impede our business and the ability of users to utilize our platform.

***We face intense competition and could lose market share to our competitors, which could adversely affect our business, operating results, and financial condition.***

The market for freelancers and the clients that engage them is highly competitive, rapidly evolving, fragmented, and subject to changing technology, shifting needs, and frequent introductions of new competitors as well as new products and services. We compete with a number of online and offline platforms and services domestically and internationally to attract and retain users and expand our share of user spend. Our main competitors fall into the following categories:

- traditional contingent workforce and staffing service providers and other outsourcing providers, such as The Adecco Group, Randstad, Recruit, Allegis Group, and Robert Half International;
- online freelancer platforms that serve either a diverse range of skill categories, such as Fiverr and Freelancer.com, or specific skill categories;
- other online providers of products and services for individuals or businesses seeking work or to advertise their services, including personal and professional social networks, such as LinkedIn and GitHub (each owned by Microsoft), employment marketplaces, recruiting websites, and project-based deliverable providers;
- software and business services companies focused on talent acquisition, management, invoicing, or staffing management products and services, such as Workday;
- payment businesses, such as PayPal and Payoneer, that can facilitate payments to and from businesses and service providers;
- businesses that provide specialized professional services, including consulting, accounting, marketing, and information technology services; and
- online and offline job boards, classified ads, and other traditional means of finding work and service providers, such as Craigslist, CareerBuilder, Indeed, Monster, and ZipRecruiter.

In addition, well-established internet companies, such as Google, LinkedIn, and Amazon, social media platforms, such as Facebook, and businesses that operate driving, delivery, and other commoditized marketplaces, such as Uber Technologies, have entered or may decide to enter into our market segment. Some of these companies have launched or may launch, or have acquired or may acquire companies or assets that offer products and services that directly compete with our platform. For example, LinkedIn launched ProFinder in 2016 and Open for Business in 2019, both of which are services to connect LinkedIn members with one another for freelance service relationships, and recently announced that it intends to create a series of online vertical marketplaces addressing specific skill categories. Many of these established internet companies and other competitors are considerably larger than we are and have considerably greater financial and other resources than we do.

Internationally, we compete against online and offline channels and products and services in most countries. Local competitors might have greater brand recognition than us in their local country and a stronger understanding of local culture and commerce. They may also offer their products and services in local languages and currencies that we do not offer. As our business grows internationally and we expand and grow our services offerings, we may increasingly compete with these international companies. We also compete against locally-sourced service providers and traditional, offline means of finding work and procuring services, such as staffing businesses, personal and professional networks, classified ads, and recruiters.

We also compete with companies that utilize emerging technologies, such as blockchain, artificial intelligence, augmented reality, and machine learning. These competitors may offer products and services that may, among other

things, provide automated alternatives to the services that freelancers provide on our platform, use machine learning algorithms to connect businesses with service providers, or otherwise change the way that businesses engage or pay service providers so as to make our platform less attractive to users. Many of the companies and services that utilize these technologies in our market are still new and not yet fully mature in their capabilities or network scale; however, we may face increased competition should these companies or services, or new entrants, succeed.

Many of our current and potential competitors, both online and offline, enjoy substantial competitive advantages, such as greater name recognition and more prominent brand reputation; longer operating histories; greater financial, technical, and other resources; more users; and, in some cases, the ability to rapidly combine online platforms with traditional staffing and contingent worker solutions. Some of our current and potential competitors have recently undertaken, or may in the future undertake, an initial public offering, which could improve their competitive position due to enhanced brand recognition and additional working capital. These companies may use these advantages to offer products and services similar to ours at a lower price, develop different or superior products and services to compete with our platform, or respond more quickly and effectively than we do to new or changing opportunities, technologies, standards, regulatory conditions, or user preferences or requirements. In addition, while we compete intensely in more established markets, we also compete in developing technology markets that are characterized by dynamic and rapid technological change, many and different business models, and frequent disruption of incumbents by innovative online and offline entrants. The barriers to entry into these markets can be low, and businesses easily and quickly can launch online or mobile platforms and applications at nominal cost by using commercially available software or partnering with various established companies in these markets.

Moreover, current and future competitors may also make strategic acquisitions or establish cooperative relationships among themselves or with others, including our current or future third-party partners. By doing so, these competitors may increase their ability to meet the needs of our existing or prospective users. These developments could limit our ability to obtain revenue from existing and new users. For all of these reasons, we may not be able to compete successfully against our current and future competitors. If we are unable to compete successfully against current and future competitors, our business, operating results, and financial condition would be adversely impacted.

***Adverse or changing economic conditions may negatively impact our business.***

Our business depends on the overall demand for labor and on the economic health of current and prospective clients that use our platform. Any significant weakening of the economy in the United States or Europe or of the global economy, including the macroeconomic downturn caused by the COVID-19 pandemic, an increase in unemployment rates, more limited availability of credit, a reduction in business confidence and activity, decreased government spending, economic uncertainty, financial turmoil affecting the banking system or financial markets, trade wars and higher tariffs, a more limited market for independent professional service providers or information technology services, and other adverse economic or market conditions may adversely impact our business and operating results. Global economic and political events or uncertainty may cause some of our current or potential clients to curtail spending on our platform, and may ultimately result in new regulatory and cost challenges to our operations. In addition, small- and medium-sized businesses may be disproportionately impacted by a macroeconomic downturn, such as the global downturn resulting from the COVID-19 pandemic, and thus may not join, use, or spend on our platform at rates we expect thus reducing demand for freelancer services. These adverse conditions, including the macroeconomic downturn caused by the COVID-19 pandemic, could result and have resulted in reductions in revenue, increased operating expenses, longer sales cycles, slower adoption of new technologies, and increased competition. There is also risk that when overall global economic conditions are positive, our business could be negatively impacted by a decreased demand for freelancers. We cannot predict the timing, strength, or duration of any economic slowdown, including the macroeconomic downturn caused by the COVID-19 pandemic, or any subsequent recovery generally. If the conditions in the general economy continue to deteriorate as a result of the COVID-19 pandemic or otherwise, our business, financial condition, and operating results could be adversely affected.

***If the market for freelancers and the services they offer develops more slowly than we expect, our growth may slow or stall, and our operating results could be adversely affected.***

The market for online freelancers and the services they offer is relatively new, rapidly evolving, and unproven. Our future success will depend in large part on the continued growth and expansion of this market and the willingness of businesses to engage freelancers to provide services. It is difficult to predict the size, growth rate, and expansion of this market, the entry of products and services that are competitive to ours, the success of existing competitive

products and services, or technological, macroeconomic, legal, regulatory, or other developments that will impact the overall demand for freelancer services. Furthermore, many businesses may be unwilling to engage freelancers for a variety of reasons, including perceived negative connotations with outsourcing work, quality of work, or privacy or data security concerns or the rapidly evolving regulations that may impact the demand for independent contractor services more generally, as discussed further in the risk factor titled “There may be adverse tax, legal, and other consequences if the contractor classification or employment status of freelancers that use our platform is challenged.” If the market for freelancers and the services they offer does not achieve widespread adoption, or there is a reduction in demand for freelancer services, it could result in decreased revenue and our business could be adversely affected.

***Users may circumvent our platform, which could adversely impact our business.***

Our business depends on users transacting through our platform. Despite our efforts to prevent them from doing so, users may, and we believe from time to time do, circumvent our platform and engage with or pay each other through other means to avoid the fees that we charge on our platform. Circumvention by users of our platform may also increase in response to a macroeconomic downturn, such as the macroeconomic downturn resulting from the COVID-19 pandemic, as users may be more cost-sensitive with respect to our fees. In addition, enhancements and changes we make with respect to our product and services may unintentionally cause, and may have unintentionally caused in the past, users to circumvent our platform. The loss of revenue associated with circumvention of our platform may have an adverse impact on our business, cash flows, operating results, and financial condition. In addition, our efforts to reduce circumvention may be costly or disruptive to implement, fail to have the intended effect or have an adverse effect on our brand or user experience, reduce the attractiveness of our platform, divert the attention of management, or otherwise harm our business.

***There may be adverse tax, legal, and other consequences if the contractor classification or employment status of freelancers that use our platform is challenged.***

Clients are generally responsible for properly classifying the freelancers they engage through our platform under our terms of service. Some clients opt to classify freelancers as employees for certain work, while many freelancers are classified as independent contractors.

We offer an optional service to our Upwork Enterprise clients, through which service we help classify freelancers as employees of third-party staffing providers or independent contractors. For clients that subscribe to this service, subject to applicable law and the terms of our agreement with the client, we indemnify clients from misclassification risk and make warranties to the client (e.g., as to compliance with applicable laws). In addition, we offer a number of other premium services where we provide increased assistance to enable users to find and contract with one another with confidence they will receive the value for which they pay. Third-party staffing providers employ freelancers classified as employees for clients, and failure of these staffing providers to comply with all legal and tax requirements could adversely affect our business. We also use our platform to find, classify, and engage freelancers to provide services for us and for our managed services offering. In general, any time a court or administrative agency determines that we or clients that use our platform have misclassified a freelancer as an independent contractor, we or our users could incur tax and other liabilities for failing to properly withhold or pay taxes on the freelancer’s compensation as well as potential wage and hour and other liabilities depending on the circumstances and jurisdiction. We may be subject to administrative inquiries and audits concerning the taxation and classification of our workers and the users of our platform. We cannot be certain that any insurance coverage that we may obtain will extend to or be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

There is often uncertainty in the application of worker classification laws, and consequently there is risk to us and to users, both freelancers and clients, that independent contractors could be deemed to be misclassified under applicable law. The tests governing whether a service provider is an independent contractor or an employee are typically highly fact sensitive and vary by governing law. Laws and regulations that govern the status and misclassification of independent contractors are also subject to change as well as to divergent interpretations by various authorities, which can create uncertainty and unpredictability. For example, in California, we are aware of the state supreme court’s 2018 decision in *Dynamex Operations West, Inc. v. Superior Court of Los Angeles*, as well as Assembly Bill 5 (“AB 5”), which went into effect January 1, 2020 and which has the stated purpose of codifying the *Dynamex* holding. Together, they change the standard in California for determining worker classification and are widely viewed as expanding the scope of the definition of employee for most purposes under California law. Given

the recent enactment of AB 5, there is little guidance from the courts or the regulatory authorities charged with its enforcement and there is a significant degree of uncertainty regarding its application. In addition, AB 5 has been the subject of widespread national discussion and it is possible that other jurisdictions, including New York, Washington, Illinois and other states, may enact similar laws. As a result, there is significant uncertainty regarding what the worker classification regulatory landscape will look like in future years, and compliance with any new legislation or regulations may be costly to us and expose us to litigation, fines, and penalties. In addition, any developments or changes in the regulatory environment impacting worker classification and independent contractors may reduce the demand for independent contractors more generally in one or more jurisdictions and have an adverse effect on our business, operating results, and financial condition.

A misclassification determination, allegation, claim, or audit creates potential exposure for users and for us, including but not limited to reputational harm, monetary exposure arising from or relating to failure to withhold and remit taxes, unpaid wages, and wage and hour laws and requirements (such as those pertaining to minimum wage and overtime); claims for employee benefits, social security contributions, and workers' compensation and unemployment insurance; claims of discrimination, harassment, and retaliation under civil rights laws; claims under laws pertaining to unionizing, collective bargaining, and other concerted activity; and other claims, charges, or other proceedings under laws and regulations applicable to employers and employees, including risks relating to allegations of joint employer liability. Such claims could result in monetary damages (including but not limited to wage-based damages or restitution, compensatory damages, liquidated damages, and punitive damages), interest, fines, penalties, costs, fees (including but not limited to attorneys' fees), criminal and other liability, assessment, injunctive relief, or settlement. These types of claims may become more frequent and more difficult to oppose in light of deteriorating macroeconomic conditions as a result of the COVID-19 pandemic, particularly claims naming our company in light of legislative and regulatory responses to COVID-19, such as the Pandemic Unemployment Assistance ("PUA") program and state programs implementing PUA. Such an allegation, claim, or adverse determination, including but not limited to with respect to the freelancers that provide services to us, or the requirement for us to indemnify a client, could also harm our brand and reputation, which could adversely impact our business. While these risks are mitigated, in part, by our contractual rights of indemnification against third-party claims, any limitations or obligations that we include in our contracts with clients to limit our exposure to claims could be determined to be unenforceable, could be costly to enforce or ineffective, or may otherwise prove inadequate.

***Our sales efforts are increasingly targeted at mid-market, large enterprise, and global account clients, and as a result we may encounter greater pricing, implementation, and customization challenges, we may incur additional costs, and we may have to delay revenue recognition for more complicated transactions, each of which could adversely impact our business and operating results.***

Our sales efforts are increasingly targeted at mid-market, large enterprise, and global account clients, and as a result, we face greater costs, longer sales cycles, and less predictability in completing some of our sales and in increasing spend by existing clients. For larger clients, use of our platform may require approvals by multiple departments and executive-level personnel and require us to provide greater levels of services and client education regarding the uses, benefits, security, privacy, worker classification, payments, and compliance services offered on our platform. Larger enterprises typically have longer decision-making and implementation cycles and may demand more customization, higher levels of support, a broader range of services, and greater payment flexibility. Existing and potential clients may also fail to respond to our sales outreach, slow down decision-making, delay planned work on our platform, or seek to negotiate pricing and other terms that are less favorable to us in response to the COVID-19 pandemic, ultimately resulting in longer sales cycles and otherwise negatively impacting our sales efforts. Restrictions in place to prevent the spread of the COVID-19 coronavirus restrict our ability to travel and negotiate in person, which may also negatively impact our sales efforts. In addition, mid-market, large enterprise, and global account clients may require greater functionality and scalability that can lead to delays in sales or difficulties in growing client spend. We are often required to spend time and resources to better familiarize potential mid-market, large enterprise, and global account clients with the value propositions of our platform generally. Despite our efforts in familiarizing potential mid-market, large enterprise, and global account clients with the benefits of our platform, these potential clients may decide not to use our platform if, among other reasons, they do not feel that their procurement or compliance needs are or will be met. In addition, sales opportunities with mid-market, large enterprise, and global account companies may require us to devote greater sales and administrative support and professional services resources to individual clients, which could increase our costs, lengthen our sales cycle, and divert our own sales and professional services

resources to a smaller number of larger clients. We may spend substantial time, effort, and money in our sales efforts without being successful in producing sales or growing client spend.

Even if we reach an agreement with a client to use our platform, the agreement may not be on pricing or other terms that are favorable to us. Moreover, a significant portion of the fees we typically receive from clients is contingent on the level of spend by the client. If a client negotiates pricing terms that are not favorable to us, does not engage freelancers on our platform, or uses freelancers for few projects or projects of low value, our revenue from the relationship may be minimal.

We also have in the past agreed, and may in the future agree, to take on additional risk for worker classification, privacy, security, work product, payments, or other matters for mid-market, larger enterprise, and global account clients, or to other terms that are unfavorable to us in order to secure a client's business or increase its spend. All these factors can add further risk and expenses to business conducted with these clients even after a successful sale.

***Because a substantial portion of the services offered on our platform is information technology services, a decline in the market for information technology service providers on our platform could adversely affect our business.***

A significant portion of the services offered by freelancers on our platform relates to information technology. If, for any reason, the market for information technology services declines, including as a result of global economic conditions, automation, increased use of artificial intelligence, or otherwise, or if the need for these services slows or businesses satisfy their needs for these services through alternative means, including through use of our competitors' products, the growth in the number of users on our platform may slow or decline and as a result our revenue and business may be adversely impacted.

***Our revenue growth and ability to achieve and sustain profitability will depend in part on being able to expand and increase the productivity and effectiveness of our sales force.***

We have only recently begun generating revenue from our Upwork Business offering in addition to our existing Enterprise offerings and other premium offerings. In order to increase our revenue from these offerings and achieve and sustain profitability, we must increase the size of our sales force and generate additional revenue from new and existing users.

There is significant competition for sales personnel with the skills and technical knowledge that we require. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training, and retaining sufficient numbers of sales and sales support personnel to support our growth. It is difficult to find sales personnel with the specific skills and technical knowledge needed to sell our Upwork Business, Upwork Enterprise, and other premium offerings. We may be unable to hire or retain a sufficient number of qualified sales personnel. Furthermore, hiring sales personnel, particularly in new markets, requires additional costs that we may not recover if the sales personnel fail to achieve full productivity. Even if we are able to hire qualified personnel, doing so may be costly and lengthy, as new sales personnel require significant training and can take a number of months to achieve full productivity. In addition, from time to time new sales personnel do not achieve productivity milestones within the timelines that we have projected, negatively impacting our ability to achieve our long-term financial projections associated with such personnel. Not all of our recent hires and planned hires have or will become productive as quickly as we expect and when our new sales personnel do not become fully productive on the timelines that we have projected, or at all, our revenue will not increase at anticipated rates, or at all, and our ability to achieve long-term projections may be negatively impacted. The productivity of our sales force may also be diminished by the effects of the prolonged shelter-in-place orders to which many of our employees are currently subject as a result of the COVID-19 pandemic, and training new hires may be more difficult as a result of prolonged shelter-in-place orders. If we are unable to hire and train a sufficient number of effective sales personnel, or if our sales personnel are not successful in obtaining new business or increasing sales to our existing user base, our business and results of operations will be adversely affected.

***Changes to our pricing model could adversely affect our business.***

We implemented a significant change to our pricing model in 2016, which, for a period of time following the pricing change, contributed to GSV growing at a faster rate than revenue. From time to time we have made other changes, including in 2019 when we launched new paid membership types for clients and new Connects pricing for freelancers and we anticipate further changes to Connects pricing and policies in the future in an effort to improve fill rates on our platform, which may have a negative impact on our revenue. From time to time, we will make further changes to our pricing model due to a variety of reasons, including in response to the COVID-19 pandemic, due to changes to the market for our products and services or our business strategy, and as competitors introduce new products and services. Changes to any components of our pricing model may, among other things, result in user dissatisfaction, lead to a loss of users on our platform, result in a change to the way we recognize revenue, reduce the amount of revenue we generate as a percentage of GSV, reduce the rate or size of projects that get posted or completed on our platform, or otherwise negatively impact our operating results, financial condition, and cash flows.

***We face payment and fraud risks that could adversely impact our business.***

Requirements on our platform relating to user authentication and fraud detection are complex. If our user authentication and fraud detection measures are not effective, our platform may be perceived as not being secure, our reputation may be harmed, and our business may be adversely impacted. In addition, bad actors around the world use increasingly sophisticated methods to engage in illegal activities involving personal information, such as unauthorized or fraudulent use of another's identity, payment information, or other information; misrepresentation of the user's identity or skills, including using accounts that they have purchased, sold, or leased; and acquisition or use of credit or debit card details and bank account information. These types of illegal activities may increase in the event of a macroeconomic downturn, such as the downturn resulting from the COVID-19 pandemic, as bad actors may seek to take increasing advantage of us or our users. This conduct on our site could result in any of the following, each of which could adversely impact our business:

- bad actors may use our platform, including our payment processing and disbursement methods, to engage in unlawful or fraudulent conduct, such as money laundering, terrorist financing, fraudulent sale of services, bribery, breaches of security, leakage of data, piracy or misuse of software and other copyrighted or trademarked content, and other misconduct;
- we may be, and we historically have been, held liable for the unauthorized use of an account holder's credit card or bank account number and required by card issuers or banks to return the funds at issue and pay a chargeback or return fee, and if our chargeback or return rate becomes excessive, credit card networks may also require us to pay fines or other fees and the California Department of Business Oversight (the "DBO") may require us to hold larger cash reserves;
- we may be subject to additional risk and liability exposure, including for negligence, fraud, or other claims, if employees or third-party service providers, including freelancers that provide services to us, misappropriate our banking or other information or user information for their own gain or facilitate the fraudulent use of such information;
- users that are subjected or exposed to the unlawful, fraudulent, or improper conduct of other users or other third parties, or law enforcement or administrative agencies, may seek to hold us responsible for the conduct of users, may lose confidence in our platform, decrease or cease use of our platform, seek to obtain damages and costs, or impose fines and penalties;
- we may be subject to additional risk if clients fail to pay freelancers for services rendered, as freelancers may seek to hold us responsible for the clients' conduct and may lose confidence in our platform, may decrease or cease use of our platform, or seek to obtain damages and costs;
- if freelancers misstate their qualifications or location, provide misinformation about their skills, identity, or otherwise, perform services they are not qualified or authorized to provide, produce insufficient or defective work product, or work product with a viral or other harmful effect, clients or other third parties may seek to hold us responsible for the freelancers' acts or omissions and may lose confidence in our platform, decrease or cease use of our platform, or seek to obtain damages and costs; and

- we may suffer reputational damage adversely impacting our business as a result of the occurrence of any of the above.

Despite measures we have taken to detect, prevent, and mitigate these risks, we do not have control over users of our platform and cannot ensure that any of our measures will stop or minimize the use of our platform for, or to further, illegal or improper purposes. We have received in the past, and as a result of increased fraudulent activity related to the COVID-19 pandemic, may receive in the future, increased complaints from clients, freelancers, and other third parties concerning misuse of our platform and wrongful conduct of other users. We have also brought claims against clients and other third parties for their misuse of our platform, and may be required to bring similar claims in the future. Even if these claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the attention and resources of our management and adversely affect our business and operating results.

***If we or our third-party partners experience a security breach, other hacking or phishing attack, or other data privacy or security incident, whether intentionally or unintentionally caused by us or by third parties, our platform may be perceived as not being secure, our reputation may be harmed, demand for our platform may be reduced, our operations may be disrupted, we may incur significant legal costs or liabilities, and our business could be adversely affected.***

Our business involves the storage, processing, and transmission of users' proprietary, confidential, and personal information as well as the use of third-party partners and vendors who store, process, and transmit users' proprietary, confidential, and personal information. We also maintain certain other proprietary and confidential information relating to our business and personal information of our personnel. Any security breach, other hacking or phishing attack, or other data privacy or security incident, whether intentionally or unintentionally caused by us or by third parties, that we experience could result in unauthorized access to, misuse of, or unauthorized acquisition of our, our personnel's, or our users' data; the loss, corruption, or alteration of this data; interruptions in our operations; or damage to our computers or systems or those of our users. Any of these could expose us to claims, litigation, fines, other potential liability, and reputational harm. An increasing number of online services have disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their services. Additionally, malware, viruses, social engineering (including business email compromise), and general hacking in our industry have become more prevalent and more complex. Bad actors often use uncertainty caused by a crisis, such as the COVID-19 pandemic, to try to take advantage of us, our users, and our vendors by using social engineering and other methods to persuade their victims to make fraudulent payments, or to download viruses or malware. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not foreseeable or recognized until launched against a target, we and our vendors and third-party partners may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our or our vendors' or third-party partners' security or privacy or other data privacy or security incident occurs, public perception of the effectiveness of our security measures and brand could be harmed, and we could lose users and business. Data security breaches and other data privacy and security incidents may also result from non-technical means, such as, for example, actions taken by employees or contractors, such as freelancers that we engage on our platform to perform services for us. Any compromise of our security or the security of our vendors or third-party partners could result in a violation of applicable privacy and other laws, regulatory or other governmental investigations, enforcement actions, litigation, and legal and financial exposure, including potential contractual liability. These liabilities may exceed the amounts covered by our insurance; further, we cannot be certain that our insurance coverage will extend to or be adequate for liabilities actually incurred, or that insurance will continue to be available to us on economically reasonable terms, or at all. Any such compromise could also result in damage to our reputation and a loss of confidence in our security measures. Any of these effects could adversely impact our business.

Our systems, and the systems of our vendors and third-party partners, may be vulnerable to computer viruses and other malicious software, physical or electronic break-ins, or weakness resulting from intentional or unintentional service provider actions, and similar disruptions that could make all or portions of our website or applications unavailable for periods of time. We may need to expend significant resources to protect against, and to address issues created by, security breaches and other privacy and security incidents. Security breaches and other privacy and security incidents, including any breaches of our security measures or those of parties with which we have commercial relationships (including freelancers, partners, vendors, or other third-party service providers that provide

development or other services to us and other partners) that result in the unauthorized access of our, our users,' or our employees' confidential, proprietary, or personal information, or the belief that any of these have occurred, could damage our reputation and expose us to a risk of loss or litigation and possible liability. Furthermore, if our network or computer systems are breached or unauthorized access to user data is otherwise obtained, we may be held responsible for damages for contract breach, indemnity obligations, penalties for violation of applicable laws or regulations, and significant costs for remediation that may include liability for stolen assets or information and repair of system damage that may have been caused, incentives offered to users or vendors or third-party partners, or other expenditures, in an effort to maintain business relationships, and other liabilities. In addition, significant unavailability of our platform due to security breaches and other privacy and security incidents could cause users to decrease their use of or cease using our platform and adversely affect our business. Although we maintain cyber liability insurance, we cannot be certain our coverage will extend to or be adequate for liabilities actually incurred or will continue to be available to us on reasonable terms, or at all.

***Changes in laws or regulations relating to privacy or the protection, collection, storage, processing, transfer, or use of personal data, or any actual or perceived failure by us to comply with such laws and regulations or our privacy policies, could adversely affect our business.***

We receive, collect, store, process, transfer, and use personal information and other user data. There are numerous federal, state, local, and international laws and regulations regarding privacy, data protection, information security, and the collection, storing, sharing, use, processing, transfer, disclosure, and protection of personal information and other content. The scope of these laws and regulations is changing, subject to differing interpretations, and may be inconsistent among countries, or conflict with other laws and regulations. We are also subject to the terms of our privacy policies and obligations to third parties related to privacy, data protection, and information security. The regulatory framework for privacy and data protection worldwide is, and is likely to remain for the foreseeable future, uncertain and complex, and it is possible that these or other actual or alleged obligations may be interpreted and applied in a manner that we do not anticipate or that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Further, any significant change to applicable laws, regulations, or industry practices regarding the collection, use, retention, security, or disclosure of the data of our users, employees, contractors, or others, or their interpretation or enforcement, or any changes regarding the manner in which the express or implied consent of users for the collection, use, retention, or disclosure of such data must be obtained, including in response to the COVID-19 pandemic, could increase our costs and require us to modify our services and features, possibly in a material manner, which we may be unable to complete in a cost-effective manner, or at all, and may limit our ability to store and process user data or develop new services and features.

We also expect that there will continue to be new laws, regulations, and industry standards concerning privacy, data protection, and information security proposed and enacted in various jurisdictions. For example, European legislators adopted the General Data Protection Regulation (the "GDPR"), which became effective in May 2018, superseded existing European Union ("EU") data protection legislation, imposes more stringent EU data protection requirements, and provides for significant penalties for noncompliance. The GDPR creates new compliance obligations applicable to our business, users, vendors, and third-party partners, which could cause us to change our business practices, and increases financial penalties for noncompliance, including possible fines of up to 4% of global annual turnover for the preceding financial year or €20 million, whichever is higher, for the most serious violations. The GDPR also confers a private right of action on data subjects and consumer associations to lodge complaints with supervisory authorities, seek judicial remedies, and obtain compensation for damages resulting from violations of the GDPR. Compliance with the GDPR has been and will be a rigorous and time-intensive process that may increase our cost of doing business or require us to change our business practices, and there is a risk that we may be subject to governmental investigations or enforcement actions, fines and penalties, claims, litigation, and reputational harm in connection with any European activities. Further, in connection with its process of leaving the EU, the United Kingdom has enacted the Data Protection Act 2018 (the "Data Protection Act") that is substantially consistent with the GDPR.

Additionally, in June 2018, California passed the California Consumer Privacy Act (the "CCPA"), which provides new data privacy rights for consumers and new operational requirements for companies. The CCPA became effective on January 1, 2020. Fines for noncompliance may be up to \$7,500 per violation. Until formal regulations are in place in or about July 2020, and enforcement is undertaken by the Attorney General of California and other offices, the full rights and responsibilities under the CCPA may continue to change. The costs of compliance with,



and other burdens imposed by, the GDPR and CCPA may limit the use and adoption of our products and services and could have an adverse impact on our business. As a result, we may need to modify the way we treat such information. Because the GDPR, Data Protection Act, and CCPA are newly enacted, their application in practice may change or develop over time through judicial decisions or as new guidance or interpretations are provided by regulatory and governing bodies, such as federal and state administrative agencies, and our interpretation of these laws and efforts to comply with the rules and regulations of these laws may be deemed invalid.

Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to users, employees, contractors, or other third parties, or any other legal obligations or regulatory requirements relating to privacy, data protection, or information security may result in governmental investigations or enforcement actions, litigation, claims, or public statements against us by consumer advocacy groups or others and could result in significant liability, cause our users to lose trust in us, and otherwise have an adverse effect on our reputation and business. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our users may limit the adoption and use of, and reduce the overall demand for, our platform.

Additionally, if third parties we work with violate applicable laws, regulations, or agreements, such violations may put the data of our users, employees, contractors, and others at risk, could result in governmental investigations or enforcement actions, fines, litigation, claims, or public statements against us by consumer advocacy groups or others, and could result in significant liability, cause our users to lose trust in us, and otherwise have an adverse effect on our reputation and business. Further, public scrutiny of or complaints about technology companies or their data handling or data protection practices, even if unrelated to our business, industry, or operations, may lead to increased scrutiny of technology companies, including us, and may cause government agencies to enact additional regulatory requirements, or to modify their enforcement or investigation activities, which may disrupt the conduct of our business and increase our costs and risks.

***Having an international community of users and engaging freelancers internationally exposes us to risks that could have an adverse effect on our business, operating results, and financial condition.***

Even though we currently have a limited physical presence outside of the United States, our users have a global footprint that subjects us to the risks of being found to do business internationally. We have users on our platform located in over 180 countries, including some markets where we have limited experience, where challenges can be significantly different from those we have faced in more developed markets, and where business practices may create greater internal control risks. Further, certain skills and services are offered by freelancers concentrated in countries with higher risks of instability and geopolitical uncertainty, such as Russia and Ukraine. In addition, we engage freelancers located in many countries to provide services for our managed services offering and to us for internal projects. Because our website is generally accessible by users worldwide, we have received in the past, and may continue to receive, notices from jurisdictions claiming that we or our users are required to comply with their laws. Laws outside of the United States regulating internet, payments, escrow, data protection, data residency, privacy, taxation, terms of service, website accessibility, consumer protection, intellectual property ownership, services intermediaries, payment intermediaries, labor and employment, wage and hour, worker classification, background checks, and recruiting and staffing companies, among others, which could be interpreted to apply to us, are often less favorable to us than those in the United States, giving greater rights to competitors, users, and other third parties. Compliance with international laws and regulations may be more costly than expected, may require us to change our business practices or restrict our product offerings, and the imposition of any such laws or regulations on us, our users, or third parties that we or our users utilize to provide or use our services, may adversely impact our revenue and business. In addition, we may be subject to multiple overlapping legal or regulatory regimes that impose conflicting requirements which could lead to additional compliance costs and enhanced legal risks.

Risks inherent in conducting business with an international user base and engaging freelancers globally include, but are not limited to:

- being deemed to conduct business or have operations in the jurisdictions where users, including freelancers that provide services to us, are resident and being subject to their laws and regulatory requirements;
- new or changed regulatory requirements;
- varying worker classification standards and regulations;

- compliance with U.S. and foreign laws designed to combat money laundering and the financing of terrorist activities;
- the cost and burden of complying with a wide variety of laws that may be deemed to apply to us, including those relating to labor and employment matters (including but not limited to requirements with respect to works councils or similar labor organizations, worker classification, and taxation on income or earnings, including the obligation to withhold and remit taxes), consumer and data protection, privacy, network security, encryption, data residency, and taxes, as well as securing expertise in local law and related practices;
- tariffs, export and import restrictions, restrictions on foreign investments, sanctions, changes to existing trade arrangements between various countries, and other trade barriers or protection measures;
- regional or global public health crises, such as the COVID-19 pandemic;
- costs of localizing services, including adding the ability for clients to pay in local currencies;
- lack of acceptance of localized services;
- difficulties in, and costs of, staffing, managing, and operating international operations or support functions;
- tax issues;
- weaker intellectual property protection;
- economic weakness or currency related challenges or crises;
- fluctuations in foreign currency exchange rates;
- organizing or similar activity by local unions, works councils, or other labor organizations;
- our ability to adapt to business practices and client requirements in different cultures;
- corporate or state-sponsored espionage or cyberterrorism;
- macroeconomic and political conditions in certain foreign jurisdictions; and
- geopolitical instability and security risks, such as armed conflict and civil or military unrest, political instability, human rights concerns, and terrorist activity in countries where we have users.

The risks described above may also make it difficult for us to expand our operations internationally. Analysis of, and compliance with, global laws and regulations may substantially increase our cost of doing business. We may be unable to keep current with changes in laws and regulations as they develop. Although we have implemented policies and procedures designed to analyze whether these laws apply and, if applicable, support compliance with these laws and regulations, there can be no assurance that we will always maintain compliance, that our interpretation is or will remain correct, or that all of our employees, contractors, partners, users, and agents will comply. Any violations could result in enforcement actions or other proceedings, fines, civil and criminal penalties, damages, interest, costs and fees (including but not limited to legal fees), injunctions, loss of intellectual property rights, or reputational harm. If we are unable to comply with these laws and regulations or manage the complexity of global operations and supporting an international user base successfully and in a cost-effective manner, our business, operating results, and financial condition could be adversely affected.

***Errors, defects, or disruptions in our platform could diminish demand, adversely impact our financial results, and subject us to liability.***

Our platform enables our users to manage important aspects of their businesses, and any errors, defects, or disruptions in our platform, or other performance problems with our platform or infrastructure, including disruptions caused by the COVID-19 pandemic or responses to the pandemic, could harm our brand and reputation and may damage the businesses of users. As the usage of our platform grows, we will need an increasing amount of technical infrastructure, including network capacity and computing power, to continue to operate our platform. It is possible that we may fail to continue to effectively scale and grow our technical infrastructure to accommodate these increased demands, which may adversely affect our user experience. We also rely on third-party software and infrastructure, including the infrastructure of the internet, to provide our platform. Any failure of or disruption to this software and infrastructure could also make our platform unavailable to our users. For example, for a short period of time in May 2019, due to an inadvertent error by a regulatory agency in Bangladesh, users in Bangladesh were unable to access our website and other websites that included “-rk.com” in their website addresses. Also, certain jurisdictions, such as India and Pakistan, have in the past voluntarily shut down the internet in response to civil unrest and, in the event any such governmental action were to take place again, it would adversely affect user activity on our platform throughout the duration of such shut down. Our platform is constantly changing with new updates, which may contain undetected errors when first introduced or released. Any errors, defects, disruptions in service, or other performance or stability problems with our platform, or the inadequacy of our efforts to adequately prevent or timely remedy errors or defects, could result in negative publicity, loss of or delay in market acceptance of our platform, loss of competitive position, our inability to timely and accurately maintain our financial records, inaccurate or delayed invoicing of clients, delay of payment to us or freelancers, claims by users for losses sustained by them, or investigation and corrective action taken by the DBO or other regulatory agency. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help resolve the issue. Accordingly, any errors, defects, or disruptions in our platform could adversely impact our brand and reputation, revenue, and operating results.

***We have experienced growth in recent periods and expect to continue to invest in our growth for the foreseeable future. If we are unable to manage our growth effectively, our business, revenue and profits, and financial condition could be adversely affected.***

We have experienced growth in a relatively short period of time. For example, our total revenue for the three months ended March 31, 2020 was \$83.2 million, representing a period-over-period growth rate of 21% over the same period in 2019. Over time, we plan to continue to expand our operations and personnel significantly. Sustaining our growth will place significant demands on our management as well as on our administrative, operational, and financial resources. To manage our growth, we must continue to improve our operational, financial, and management information systems; expand, motivate, and effectively manage and train our workforce; and effectively collaborate with our third-party partners. If we are unable to manage our growth successfully without compromising our quality of service or our profit margins, or if new systems that we implement to assist in managing our growth do not produce the expected benefits, our business, operating results, financial condition, and ability to successfully market our platform and serve our users could be adversely affected.

Our recent and historical growth should not be considered indicative of our future performance. We have encountered in the past, and will encounter in the future, risks, challenges, and uncertainties frequently experienced by growing companies in rapidly changing industries. If our assumptions regarding these risks, challenges, and uncertainties, which we use to plan and operate our business, are incorrect or change, or if we do not address these risks successfully, our financial condition and operating results could differ materially from our expectations, our growth rates may slow, and our business would be adversely impacted.

***If internet search engines’ methodologies or other channels that we utilize to direct traffic to our website are modified to our disadvantage, or our search result page rankings decline for other reasons, our user growth could decline.***

We depend in part on various internet search engines, such as Google, as well as other channels to direct a significant amount of traffic to our website. Our ability to maintain the number of visitors directed to our website is not entirely within our control. For example, our competitors’ search engine optimization and other efforts such as paid search may result in their websites receiving a higher search result page ranking than ours, internet search

engines or other channels that we utilize to direct traffic to our website could revise their methodologies in a manner that adversely impacts traffic to our website, or we may make changes to our website that adversely impact our search engine optimization rankings and traffic. As a result, links to our website may not be prominent enough to drive sufficient traffic to our website, and we may not be able to influence the results.

Search engines and other channels that we utilize to drive users to our website periodically change their algorithms, policies, and technologies, sometimes in ways that cause traffic to our website to decline. These changes can also result in an interruption in users' ability to access our website or a drop in our search ranking, or have other adverse impacts that negatively affect our ability to maintain and grow the number of users that visit our website. We may also be forced to significantly increase marketing expenditures in the event that market prices for online advertising and paid listings escalate or our organic ranking decreases. Any of these changes could have an adverse impact on our business, user acquisition, and operating results.

***If we are unable to maintain our payment partner relationships on favorable terms, or at all, or if our payment partners cease providing services to us, our business could be adversely affected.***

Our payment partners consist of payment processors and disbursement partners. We rely on banks and card processors to provide us with corporate banking services, escrow trust accounts, clearing, processing, and settlement functions for the funding of all transactions on our platform, and we do not always have duplication in vendors in the event one relationship is terminated for any reason. We also rely on a network of disbursement partners to disburse funds to users.

Our payment partners are critical to our business. In order to maintain these relationships, we have in the past been, and may in the future be, forced to agree to terms that are unfavorable to us. If we are unable to maintain our agreements with current payment partners on favorable terms, or at all, or we are unable to enter into new agreements with new payment partners on favorable terms, or at all, our ability to disburse transactions and our revenue and business may be adversely affected. This could occur for a number of reasons, including the following:

- our payment processors may be unable or unwilling to perform the services we require of them, including in a manner that is satisfactory to us as it relates to compliance with U.S. federal, state, and international laws and regulatory requirements;
- our payment partners may be unable to effectively accommodate changing service needs, such as those which could result from rapid growth or higher volume or those which relate to local jurisdictions;
- our payment partners could choose to terminate or not renew their agreements with us, or only be willing to renew on different or less advantageous terms;
- our payment partners could increase the rates that they charge us or our users, especially in light of increased declines of client payment methods or increased client-issued chargebacks due to the COVID-19 pandemic;
- our payment partners could reduce the services provided to us, cease doing business with us, or cease doing business altogether;
- our payment partners could be subject to delays, limitations, or closures of their own businesses, networks, or systems, especially in light of the COVID-19 pandemic, causing them to be unable to process payments or disburse funds for certain periods of time;
- our payment partners may be subject to investigation, regulatory enforcement, or other proceedings that result in their inability or unwillingness to provide services to us or our unwillingness to continue to partner with them; or
- we may be forced to cease doing business with payment processors if card association operating rules, certification requirements and laws, regulations, or rules governing electronic funds transfers to which we are subject change or are interpreted to make it difficult or impossible for us to comply.

***We may be subject to escrow, payment services, and money transmitter regulations that may adversely affect our business.***

Our subsidiary, Upwork Escrow, is licensed as an internet escrow agent under California's Escrow Law and is subject to regulations applicable to internet escrow agents promulgated by the DBO. While we have received two inquiries, each prior to 2014, from regulatory authorities inquiring whether we are engaging in payment activities through Upwork Escrow or oDesk (which is now Upwork Global Inc. ("Upwork Global")), these inquiries were resolved in our favor and did not require us to obtain a license in the applicable jurisdiction.

Although we believe that our operations comply with existing U.S. federal, state, and international laws and regulatory requirements related to escrow, money transmission, and the handling or moving of money, the laws or regulations may change, and interpretations of existing laws and regulations may also change. As a result, Upwork Escrow or Upwork Global could be required to be licensed as an escrow agent or a money transmitter (or other similar licensee) in U.S. states or other jurisdictions or may choose to obtain such a license even if not required. Such a decision could also require Upwork Escrow or Upwork Global to register as a money services business under federal laws and regulations. It is also possible that Upwork Escrow or Upwork Global could become subject to regulatory enforcement or other proceedings in those states or other jurisdictions with escrow, money transmission, or other similar statutes or regulatory requirements related to the handling or moving of money, which could in turn have a significant impact on our business, even if we were to ultimately prevail in such proceedings. Upwork Escrow or Upwork Global may also be required to become licensed as a payment institution (or obtain a similar license) under the European Payment Services Directive or other international laws and regulations. Any developments in the laws or regulations related to escrow, money transmission, or the handling or moving of money; material changes to the mandate, purview or regulatory approach at the DBO; or increased scrutiny of our business may lead to additional compliance costs and administrative overhead.

The application of laws and regulations related to escrow, money transmission, and the handling or moving of money is subject to significant complexity and uncertainty, particularly as those laws relate to new and evolving business models. If Upwork Escrow or Upwork Global is ultimately deemed to be in violation of one or more escrow or money transmitter or other similar statutes or regulatory requirements related to the handling or moving of money in any U.S. state or other jurisdiction, we may be subject to the imposition of fines or restrictions on our business, our ability to offer some or all of our services in the relevant jurisdiction may be suspended, and we may be subject to civil or criminal liability and our business, operating results, and financial condition could be adversely affected.

***Failure to comply with anti-corruption, anti-money laundering, and sanctions laws, including the U.S. Foreign Corrupt Practices Act (the “FCPA”) and similar laws associated with our activities outside of the United States, could subject us to penalties and other adverse consequences.***

We have voluntarily implemented an anti-money laundering compliance program designed to address the risk of our platform being used to facilitate money laundering, terrorist financing, or other illicit activity. We also have policies, procedures, and sophisticated technology designed to allow us to comply with U.S. economic sanctions laws and prevent our platform from being used to facilitate business in countries or with persons or entities included on designated lists promulgated by the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”) and equivalent foreign authorities. We may be subject to fines or other penalties in one or more jurisdictions levied by federal or state or local regulators, including state attorneys general, as well as those levied by foreign regulators in the event that we engage in any conduct, intentionally or not, that facilitates money laundering, terrorist financing, or other illicit activity, or that violates sanctions or otherwise constitutes sanctionable activity. Regulators continue to increase their scrutiny of compliance with these obligations, which may require us to further revise or expand our compliance program, including the procedures that we use to verify the identity of our users and to monitor our platform for potential illegal activity. In addition, any policies and procedures that we implement to comply with OFAC regulations may not be effective, including in preventing users from using our services within the OFAC-sanctioned countries of North Korea, Syria, and Iran, and the Crimea region of Ukraine. Attempts by individuals or entities that have been designated by OFAC or are located in a country subject to an embargo by the United States to utilize our service or take advantage of us or our users may also be exacerbated during a macroeconomic downturn, such as the one currently being caused by the COVID-19 pandemic. Given the technical limitations in developing controls to prevent, among other things, the ability of users to publish on our platform false or deliberately misleading information or to develop sanctions-evasion methods, it is possible that we may inadvertently and without our knowledge provide services to individuals or entities that have been designated by OFAC or are located in a country subject to an embargo by the United States that may not be in compliance with the economic sanctions regulations administered by OFAC.

Consequences for failing to comply with applicable rules and regulations could include fines, criminal and civil lawsuits, forfeiture of significant assets, or other enforcement actions. We could also be required to make changes to our business practices or compliance programs as a result of regulatory scrutiny. In addition, any perceived or actual breach of compliance by us, our users, or payment partners with respect to applicable laws, rules, and regulations could have a significant impact on our reputation and could cause us to lose existing users, prevent us from obtaining new users, cause other payment partners to terminate or not renew their agreements with us, negatively impact investor sentiment about our company, require us to expend significant funds to remedy problems caused by violations and to avert further violations, and expose us to legal risk and potential liability, all of which may adversely affect our business, operating results, and financial condition and may cause the price of our common stock to decline. Further, even if we maintain proper controls and remain in compliance with OFAC regulations, should any of our competitors not implement sufficient OFAC controls and be found to have violated OFAC regulations, user perception of online freelance marketplaces in general may decrease and our business, brand, and reputation may be adversely affected.

For example, our and other freelancing platforms and websites have been the subject of additional scrutiny and press attention relating to North Korea. A State Department advisory issued in July 2018 stated that “there are cases where North Korean companies exploit the anonymity provided by freelancing websites to sell their IT services to unwitting buyers.” Additionally, press reports have stated that North Korean operatives have used various social media applications and freelancing websites, including ours. Accordingly, although we have controls in place to detect and prevent such OFAC violations and our systems show no access from persons in North Korea, nor from any other OFAC-sanctioned jurisdictions, we may face higher levels of scrutiny by users, partners, and regulators due to the publishing of this advisory and those or similar press reports.

We are also subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, and the UK Bribery Act 2010, and may be subject to other anti-bribery, anti-money laundering, and sanctions laws in countries in which we conduct activities or have users. We face significant risks if we fail to comply with the FCPA and other anti-corruption laws that prohibit companies and their agents and third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to foreign government officials, political parties, or private-sector recipients for the purpose of obtaining or retaining business, directing business to any person, or securing any advantage. In many foreign countries, particularly in countries with

developing economies, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. We may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities, and we may be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners, and agents, even if we prohibit or do not explicitly authorize such activities. We have implemented an anti-corruption compliance policy, but we cannot ensure that all of our employees, users, and agents, as well as those contractors to which we outsource certain of our business operations, will not take actions in violation of our policies or agreements and applicable law, for which we may be ultimately held responsible.

Any violation of the FCPA, other applicable anti-corruption laws, and other laws could result in investigations and actions by federal or state attorneys general or foreign regulators, loss of export privileges, severe criminal or civil fines and penalties or other sanctions, forfeiture of significant assets, whistleblower complaints, and adverse media coverage, which could have an adverse effect on our reputation, business, operating results, and prospects. In addition, responding to any enforcement action may result in a significant diversion of management's attention and resources and significant defense costs and other professional fees.

***Our user growth and engagement on mobile devices depend upon third parties maintaining open application marketplaces and effective operation with mobile operating systems, networks, and standards that we do not control.***

Mobile devices are increasingly used for marketplace transactions. A significant and growing portion of our users access our platform through mobile devices, including through the use of mobile applications. Our mobile applications rely on third parties maintaining open application store platforms, including the Apple App Store and Google Play, which make current and new applications or new versions of our mobile applications available for download and use on mobile devices. We cannot assure you that the platforms through which we distribute our applications will maintain their current structures or terms of access, that such marketplaces will continue to make our mobile applications available for download, or that such marketplaces will not charge us fees to list our applications for download, or charge us fees to offer products and services through our applications. Additionally, there is no guarantee that popular mobile devices will continue to support our platform, that the use of mobile devices for payments or other transactions on our platform will be available on commercially reasonable terms, or that mobile device users will use our platform rather than competing products. We are dependent on the interoperability of our platform with popular mobile operating systems that we do not control, such as Android and iOS, and any changes in such systems that degrade the functionality of our website or applications or give preferential treatment to competitors could adversely affect the usage of our platform on mobile devices. Additionally, in order to deliver high-quality mobile products, it is important that our products are designed effectively and work well with a range of mobile devices, technologies, systems, networks, and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile industry or in developing products that operate effectively with these devices, technologies, systems, networks, or standards. In the event that it is more difficult for our users to access and use our platform on their mobile devices, our users find our mobile offering is not cost-effective, our users find our mobile offering does not meet their needs, our competitors develop products and services that are perceived to operate more effectively on mobile devices, or our users choose not to access or use our platform on their mobile devices or use mobile products that do not offer access to our platform, our user growth, user engagement, and business could be adversely impacted.

***We rely on AWS to deliver our platform to our users, and any disruption of service from AWS or material change to our arrangement with AWS could adversely affect our business. We are also subject to litigation relating to our use of AWS.***

We currently host our platform, serve our users, and support our operations using AWS, a provider of cloud infrastructure services. We do not have control over the operations of the facilities of AWS that we use. AWS's facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, cyber security attacks, terrorist attacks, power losses, telecommunications failures, and similar events or could be subject to break-ins, computer viruses, sabotage, intentional acts of vandalism, and other misconduct. The occurrence of any of these events, a decision to close the facilities or cease or limit providing services to us without adequate notice, or other unanticipated problems could result in interruptions to our platform, including lengthy interruptions. Our platform's continuing and uninterrupted performance is critical to our success and users may become dissatisfied by any system

failure that interrupts our ability to provide our platform to them. We may not be able to easily switch our AWS operations to another cloud or other data center provider if there are disruptions or interference with our use of AWS, and, even if we do switch our operations, other cloud and data center providers are subject to the same risks. Sustained or repeated system failures could reduce the attractiveness of our platform to users, cause users to decrease their use of or cease using our platform, and adversely affect our business. Moreover, negative publicity arising from these types of disruptions could damage our reputation and may adversely impact use of our platform. We may not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any events that cause interruptions in our service and we cannot be certain that insurance will continue to be available to us on economically reasonable terms, or at all.

AWS does not have an obligation to renew its agreements with us on commercially reasonable terms, or at all. If we are unable to renew our agreements or unable to renew on commercially reasonable terms, our agreements are prematurely terminated, or we add additional infrastructure providers, we may experience costs or downtime in connection with the transfer to, or the addition of, new data center providers. If these providers charge high costs for or increase the cost of their services, we may have to increase the fees to use our platform and our operating results may be adversely impacted. We also currently plan to continue to transition in the second half of 2020 to a different AWS facility than the one we are currently using in an effort to reduce long-term costs, to gain access to servers with enhanced functionality, and increase operational resilience. During this transition, we may experience resulting downtime or incur additional costs, particularly if we encounter an unforeseen issue or incident during the migration. We expect to incur increased costs during the migration, as we will need to use two AWS data facilities at one time during the transition period.

In addition, we and other customers of AWS have been subject to litigation by third parties claiming that AWS and basic HTTP functions infringe their patents. Although we expect Amazon to indemnify us with respect to at least a portion of such claims, the litigation has been, and may continue to be, time consuming, and may divert management's attention and, if Amazon fails to fully indemnify us, adversely impact our operating results.

***The applicability of sales, use, and other tax laws or regulations on our business is uncertain. Adverse tax laws or regulations could be enacted or existing laws could be interpreted as applying or otherwise applied to us or users of our platform, which could subject us or our users to additional tax liability and related interest and penalties, and adversely impact our business.***

The application of federal, state, local, and international tax laws to services provided over the internet is evolving. In addition to income taxes, in the United States and various foreign jurisdictions, we may also be subject to non-income based taxes, such as payroll, sales, use, value-added, and goods and services taxes (including the "digital service tax"), and we may also be subject to increased obligations as a withholding agent. Many of the fundamental statutes and regulations that impose these taxes were established before the adoption and growth of the internet and ecommerce. In addition, governments are increasingly looking for ways to increase revenue, which has resulted in aggressive enforcement, discussions about tax reform, and other legislative action to increase tax revenue, including through indirect taxes. New income, payroll, sales, use, value-added, goods and services, or other tax laws, statutes, rules, regulations, or ordinances could be enacted at any time (possibly with retroactive effect), could be applied solely or disproportionately to services provided over the internet, could target certain products and services offered on our platform, or could otherwise affect our or our users' tax obligations or financial position and operating results. Many countries in the EU, as well as the United Kingdom, India, and a number of other countries and organizations, such as the Organisation for Economic Cooperation and Development, have recently proposed or recommended changes to existing tax laws or have enacted new laws that could impact our tax obligations. The impact and burden of these regulations and proposed regulations on our business and the businesses of our users is uncertain, but may have a negative impact on our business.

We currently collect and remit indirect taxes on our fees in a number of jurisdictions and for time to time we may begin collecting and remitting indirect taxes in additional jurisdictions. Our collection of indirect taxes on our fees in these jurisdictions may cause our users to use other platforms or other alternatives that do not collect indirect taxes on their fees, which may in turn affect our financial results. In addition, tax authorities may raise questions about, challenge or disagree with our calculation, reporting, or collection of taxes and may require us to remit additional taxes and interest, and could impose associated penalties and fees. Should any new taxes become applicable, or if the taxes we pay are found to be deficient, our business could be adversely impacted. We have in the past been, and



may in the future be, audited by tax authorities with respect to non-income taxes, and we may have exposure to additional non-income tax liabilities, which could have an adverse effect on our operating results and financial condition. In addition, our future effective tax rates could be favorably or unfavorably affected by changes in tax rates, changes in the valuation of our deferred tax assets or liabilities, the effectiveness of our tax planning strategies, or changes in tax laws or their interpretation. Such changes could have an adverse impact on our operating results and financial condition.

Moreover, state, local, and foreign tax jurisdictions have differing rules and regulations governing sales, income, use, value-added, payroll, and other taxes, and these rules and regulations can be complex and are subject to varying interpretations and enforcement positions that may change over time. Existing tax laws, statutes, rules, regulations, or ordinances could be interpreted, changed, modified, or applied adversely to us (possibly with retroactive effect), which could require us or our users to pay additional tax amounts on prior sales and going forward, as well as require us or our users to pay fines, penalties, and interest for past amounts. Although our terms of service require our users to pay all applicable sales and other taxes and to indemnify us for any requirement that we pay any withholding amount to the appropriate authorities, our platform does not include functionality to easily enable users to charge any applicable taxes to one another, users may be unwilling or unable to pay back taxes and associated interest or penalties and may fail to indemnify us, we may determine that it would not be commercially feasible or cost-effective to seek reimbursement, the indemnification obligation may be deemed unenforceable, or the functionality and indemnification provisions may cause users to seek out other platforms. If we are required to collect and pay back taxes and associated interest and penalties, or we are unsuccessful in collecting such amounts from our users, we could incur potentially substantial unplanned expenses, thereby adversely impacting our operating results and cash flows. In addition, tax laws and regulations may subject us to audit by tax regulators and require us to provide certain data and information, including user information, from our platform to tax regulators in certain jurisdictions. If we are obligated to provide such information to tax regulators in any jurisdiction, users may choose to use other platforms or other alternatives, which may in turn adversely affect our operating results and financial condition.

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

***Our revenue growth depends in part on the success of our strategic relationships with third parties and their continued performance.***

To grow our business, we anticipate that we will need to continue to establish and maintain relationships with third parties, such as staffing providers, banks, software and technology vendors, and payment processing and disbursement providers. For example, we work with third-party staffing providers that support our employment offering, Upwork Payroll. As our agreements with third-party partners terminate or expire, we may be unable to renew or replace these agreements on favorable terms, or at all. Moreover, we cannot guarantee that the parties with which we have strategic relationships will continue to offer the services for which we rely on them at economically reasonable terms or at all, devote the resources necessary to expand our reach, increase our distribution, or support an increased number of users and associated use cases. Some of our strategic partners are experiencing delays, disruptions, or closures due to the COVID-19 pandemic, which may result in disruptions to the services they provide to us and our users. Further, some of our strategic partners offer, or could offer, competing products and services or also work with our competitors. As a result of these factors, many of our third-party partners may choose to develop alternative products and services in addition to, or in lieu of, our platform, either on their own or in collaboration with others, including our competitors. If we are unsuccessful in establishing or maintaining our relationships with third parties on favorable terms, our ability to compete or to grow our total revenue could be impaired and our operating results may be adversely impacted. Even if we are successful in establishing and maintaining these relationships with third parties on comparable terms, we cannot ensure that these relationships will result in increased usage of our platform or increased revenue.

***Our ability to attract and retain users is dependent in part on ease of use and reliability of our platform and the quality of our support, and any failure to offer high-quality support could adversely impact our business, operating results, and financial condition.***

Our ability to attract and retain users is dependent in part on the ease of use and reliability of our platform, including our ability to provide high-quality support. Our users depend on our support organization to resolve any issues relating to our platform and to communicate effectively concerning their accounts. Our ability to provide effective support is largely dependent on our ability to attract, resource, and retain service providers who are not only qualified to support users of our platform, but are also well versed in our platform. As we seek to continue to grow our international user base, our support organization will face additional challenges, including those associated with delivering support and documentation in languages other than English. Any failure to maintain high-quality support or effectively communicate with our users, or any market perception that we do not maintain high-quality support or act professionally, fairly, or effectively in our communications and actions with respect to users, could harm our reputation, adversely affect our ability to sell our platform to existing and prospective users, and could adversely impact our business, operating results, and financial condition.

***Our business model subjects us to disputes with or between users of our platform.***

Our business model involves enabling connections between freelancers and clients that contract directly through our platform. Freelancers and clients are free to negotiate any contract terms they choose, but we also provide optional service contract terms that they can elect to use. Disputes sometimes arise between freelancers and clients with regard to their contract terms, work relationship, or otherwise, including with respect to service standards, payment, confidentiality, work product, and intellectual property ownership and infringement. This may be exacerbated during a macroeconomic downturn, such as the one currently being caused by the COVID-19 pandemic. If either party believes the contract terms were not met, our standard terms provide a mechanism for the parties to request assistance from us, and, for some contracts, if that is unsuccessful, they may choose to resolve the dispute with the help of a third-party arbitrator. Whether or not freelancers and clients decide to seek assistance from us, if these disputes are not resolved amicably, the parties might escalate to formal proceedings, such as by filing claims with a court or arbitral authority. Given our role in facilitating and supporting these arrangements, claims are sometimes brought against us directly as a result of these disputes and freelancers or clients bring us into any claims filed against each other, particularly when the other user is insolvent or facing financial difficulties, like those caused by the COVID-19 pandemic. Through our terms of service we disclaim responsibility and liability for any disputes between users (except with respect to the specified dispute assistance program); however, we cannot guarantee that these terms will be effective in preventing or limiting our involvement in user disputes or that these terms will be enforceable. In addition, from time to time users do, and may continue to, assert claims against us regarding their experience on our platform, including related to their search ranking results, their feedback ratings, our dispute resolution process, or admission or non-admission to the platform or other programs, including those designed to highlight successful freelancers. Moreover, for some premium services in individually negotiated agreements, we provide enhanced services with respect to disputes over work product, and Enterprise clients or freelancers on their engagements may pursue claims against us if they are not satisfied with those enhanced services. Disputes between clients and freelancers and between users and our company may become more frequent in light of deteriorating macroeconomic conditions as a result of the COVID-19 pandemic. An increase in the number of disputes may result in an adverse effect on our company, such as a loss of goodwill with users, reputational harm, lost GSV and revenue, and an increase in costs to us. Even if these claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could result in legal, settlement, or other financial costs; divert the resources of our management; harm our reputation; and adversely affect our business and operating results.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain additional executive management and qualified board members, particularly now that we are a large accelerated filer. The additional requirements we must comply with may further strain our resources and divert management's attention from other business concerns.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the listing requirements of The Nasdaq Global Select Market, and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some

activities more difficult, time-consuming, or costly, and increase demand on our systems and resources, particularly now that we are a large accelerated filer. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire more employees in the future or engage outside consultants, or may have difficulty attracting and retaining sufficient employees, which would increase our costs and expenses.

As a result of no longer being an emerging growth company, we will incur significant additional expenses that we did not previously incur in complying with the Sarbanes-Oxley Act and rules implemented by the SEC. The cost of compliance with Section 404 of the Sarbanes-Oxley Act ("Section 404") has required, and will continue to require, us to incur substantial accounting expense and expend significant management time on compliance-related issues as we implement additional corporate governance practices and comply with reporting requirements.

We have also previously taken advantage of the reduced disclosure requirements of the Jumpstart Our Business Startups Act applicable to emerging growth companies regarding executive compensation disclosures and exemption from the requirements of holding advisory "say-on-pay" votes on executive compensation. We are no longer eligible for such reduced disclosure requirements and exemptions and, as such, we are required to hold a "say-on-pay" vote and a periodic "say-on-frequency" vote at our annual meetings of stockholders. We expect that the increased disclosure requirements will require additional attention from management and will result in increased costs to us, which could include higher legal fees, accounting fees, and fees associated with investor relations activities, among others.

In addition, changing laws, regulations, and standards relating to corporate governance, stockholder litigation, and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, making some activities more time consuming, and increasing the likelihood and expense of litigation. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve or otherwise change over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters, higher costs necessitated by ongoing revisions to disclosure and governance practices, and increased expenses and management attention due to actual or threatened litigation. We intend to invest resources to comply with evolving laws, regulations and standards (or changing interpretations of them), and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with these laws, regulations, and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us, and our business may be adversely affected. Being a public company and complying with the associated rules and regulations, and being subject to heightened likelihood of litigation, makes it more expensive for us to obtain director and officer liability insurance, the costs of which can fluctuate significantly from year-to-year due to general market conditions in obtaining such insurance, but in recent years have risen significantly, consistent with the increase in market rates. As a result, we may be required to accept reduced coverage, incur substantially higher costs to obtain coverage or may be unable to obtain coverage on economically reasonable terms, or at all. These factors could also make it more difficult for us to attract and retain qualified executives and qualified members of our board of directors, particularly to serve on our audit, risk, and compliance committee, our compensation committee, and our nominating and governance committee.

As a result of disclosure of information in filings required of a public company, our business and financial condition has become more visible, which may result in threatened or actual litigation, including by competitors. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

In addition, as a result of our disclosure obligations as a public company, we could face pressure to focus on short-term results, which may adversely affect our ability to achieve long-term profitability.

***Our business depends largely on our ability to attract and retain talented employees, including senior management and key personnel. If we lose the services of Hayden Brown, our President and Chief Executive Officer, or other members of our senior management team or key personnel, we may not be able to execute on our business strategy.***

Our future success depends in large part on the continued services of senior management and other key personnel and our ability to retain and motivate them. In particular, we are dependent on the services of Hayden Brown, our President and Chief Executive Officer, and our technology, platform, future vision, and strategic direction could be compromised if she were to take another position, become ill or incapacitated, or otherwise become unable to serve as our President and Chief Executive Officer. We rely on our leadership team in the areas of product, engineering, operations, security, marketing, sales, support, corporate development, and general and administrative functions. Our senior management and other key personnel are all employed on an at-will basis, which means that they could terminate their employment with us at any time, for any reason, and without notice. Historically, we have maintained, and currently we maintain, a key-person life insurance policy only on our President and Chief Executive Officer. If we lose the services of senior management or other key personnel, if our succession plans prove inadequate, or if we are unable to attract, train, integrate, and retain the highly-skilled personnel we need, our business, operating results, and financial condition could be adversely affected.

From time to time, there may be changes in our management team resulting from the hiring or departure of executives. For example, in December 2019, we announced that our prior President and Chief Executive Officer, Stephane Kasriel, was resigning from this position on December 31, 2019, and that Hayden Brown, our prior Chief Marketing and Product Officer, would take the position of President and Chief Executive Officer effective January 1, 2020. This change may result in increased attrition of our personnel, including key employees, stemming from the resulting organizational restructuring, as new reporting relationships are established, and as other companies may increasingly target our executives. Such changes may also result in a loss of institutional knowledge, cause disruptions to our business or distract or result in the loss of workers.

Volatility or lack of appreciation in our stock price may also affect our ability to attract new talent and retain our key employees. For example, due in part to the COVID-19 pandemic, the market price of our common stock has been and may continue to be volatile, and employees may be more likely to leave us if the market price of our common stock declines or if the exercise price of the options that they hold are above or near the market price of our common stock. Conversely, many of our senior personnel and other key employees have become, or will soon become, vested in a substantial amount of stock or stock options and may be more likely to leave us if the shares they own, or the shares underlying their vested options, have appreciated in value relative to the original purchase price of the shares or the exercise price of the options. If we are unable to retain our employees, or if we need to increase our compensation expenses to retain our employees, our business, operating results, financial condition, and cash flows could be adversely affected.

Our future success also depends on our continuing ability to attract, train, integrate, and retain highly-skilled personnel, including software engineers and sales personnel. We face intense competition for qualified personnel from numerous software and other technology companies. In addition, competition for qualified personnel, particularly software engineers, is particularly intense in the San Francisco Bay Area, where our headquarters are located. We may not be able to retain our current key employees or attract, train, integrate, or retain other highly-skilled personnel in the future, all of which may be more difficult during the COVID-19 pandemic and the resulting shelter-in-place orders. We may incur significant costs to attract and retain highly-skilled personnel, we may lose new employees to our competitors or other technology companies before we realize the benefit of our investment in recruiting and training them, and our succession plans may be insufficient to ensure business continuity if we are unable to retain key personnel. To the extent we move into new geographies, we would need to attract and recruit skilled personnel in those areas. If we are unable to attract and retain suitably qualified individuals who are capable of meeting our growing technical, operational, and managerial requirements, on a timely basis or at all, our business may be adversely affected.

***Our management team has limited experience managing a public company.***

Most members of our management team, including Hayden Brown, our President and Chief Executive Officer, have limited experience managing a publicly traded company in the positions they currently hold, interacting with public company investors, managing significant regulatory oversight and reporting obligations and the continuous scrutiny of securities analysts and investors, and complying with the increasingly complex laws pertaining to public companies. These new obligations and constituents require significant attention from our senior management and

could divert their attention away from the day-to-day management of our business, which could adversely affect our business, financial condition, and operating results.

***We have identified a material weakness in our internal control over financial reporting and if we are not able to remediate this material weakness, or if we fail to develop and maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable laws and regulations could be impaired.***

As previously disclosed, in connection with the preparation of our consolidated financial statements as of and for the year ended December 31, 2017, we identified a number of adjustments relating to previously issued consolidated financial statements that resulted in a revision to our consolidated financial statements as of and for the year ended December 31, 2016. These adjustments were related to complexities involving the accounting for financial instruments and treasury activities. We identified the cause of these adjustments was due to growth in the business, which required additional qualified accounting personnel with an appropriate level of experience, and additional controls in the period-end financial reporting process commensurate with the complexity of the business. Accordingly, we determined that this control deficiency constituted a material weakness in our internal control over financial reporting. A material weakness is a deficiency or combination of deficiencies in our internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our consolidated financial statements would not be prevented or detected on a timely basis. This deficiency could result in additional misstatements to our consolidated financial statements that would be material and would not be prevented or detected on a timely basis.

As discussed in Part II, Item 9A “Controls and Procedures” in our Annual Report on Form 10-K for the year ended December 31, 2019, in connection with management’s annual assessment on internal control over financial reporting for the year ended December 31, 2019, we determined that the material weakness had not been fully remediated and accordingly, we determined that our internal control over financial reporting was not effective. In addition, our independent registered public accounting firm has also concluded that our internal control over financial reporting is not effective. During the year ended December 31, 2019, improvements to the processes of financial reporting were implemented, which included a condensed monthly financial close process providing an increased timeframe to prepare and review financial reporting, enhanced disclosure preparation, and review controls. In addition, management has hired additional qualified accounting personnel with the requisite knowledge of technical accounting and financial reporting requirements for a public company.

The actions that we are taking to improve our internal controls and disclosure controls are subject to ongoing senior management review, as well as audit committee oversight. We will not be able to conclude whether the steps we are taking will fully remediate the material weakness in our internal control over financial reporting until we have completed our remediation efforts and subsequent evaluation of their effectiveness. We may also conclude that additional measures may be required to remediate the material weakness in our internal control over financial reporting, which may necessitate additional evaluation and implementation time.

If we are unable to remediate the material weakness, or if we experience additional material weaknesses or otherwise fail to maintain an effective system of internal controls in the future, we may not be able to accurately or timely report our financial condition or results of operations or prevent fraud, which may adversely affect investor confidence in us and, as a result, the value of our common stock. We cannot assure you that all of our existing material weaknesses have been identified, or that we will not in the future identify additional material weaknesses. Any failure to maintain effective disclosure controls and internal control over financial reporting could have an adverse effect on our business and results of operations and could adversely impact our business, operating results, and financial condition.

If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control, including as a result of the material weakness described above, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline, and we may be subject to investigation or sanctions by the SEC. Furthermore, investor perceptions of our company may suffer if, in the future, material weaknesses are found, and this could cause the price of our common stock to decline. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on The Nasdaq Global Select Market.

***Failure to protect our intellectual property could adversely affect our business.***

Our success depends in large part on our proprietary technology and data. We rely on various intellectual property rights, including patents, copyrights, trademarks, and trade secrets, as well as confidentiality provisions and contractual arrangements, to protect our proprietary rights. If we do not protect and enforce our intellectual property rights successfully or cost-effectively, our competitive position may suffer, which would adversely impact our operating results.

Our pending patent or trademark applications may not be approved, or competitors or others may challenge the validity, enforceability, or scope of our patents, the registrability or validity of our trademarks, or the trade secret status of our proprietary information. If we are unsuccessful in a dispute or litigation, we may be unable to stop competitors or others from using our marks or confusingly similar marks, and we may suffer dilution, loss of reputation, genericization, or other harm to our brand. There can be no assurance that additional patents will be issued or that any patents that are issued will provide significant protection for our intellectual property. In addition, our patents, copyrights, trademarks, trade secrets, and other intellectual property rights may not provide us a significant competitive advantage. There is no assurance that the particular forms of intellectual property protection that we seek, including business decisions about when to file patents or register or renew trademarks and when and how to maintain and protect trade secrets, will be adequate to protect our business.

We may not pursue or file patent applications or apply for registration of copyrights or trademarks in the United States and foreign jurisdictions in which we have a presence with respect to our potentially patentable inventions, works of authorship, and marks and logos for a variety of reasons, including the cost of procuring such rights and the uncertainty involved in obtaining adequate protection from such applications and registrations. Moreover, recent amendments to, developing jurisprudence regarding, and possible changes to intellectual property laws and regulations, including U.S. and foreign patent law, may affect our ability to protect and enforce our intellectual property rights. If the intellectual property rights that we develop are not sufficient to protect our proprietary technology and data or our brand, our business, financial condition and operating results could be adversely affected.

In addition, the laws of some countries do not provide the same level of protection for our intellectual property as do the laws of the United States. As our global reputation grows and we expand our international activities, our exposure to unauthorized copying and use of our platform and proprietary information will likely increase. Despite our precautions, our intellectual property is vulnerable to unauthorized access through employee or third-party error or actions, theft, cyber security incidents, and other security breaches and incidents. It is possible for third parties to infringe upon or misappropriate our intellectual property, to copy our platform, and to use information that we regard as proprietary to create products and services that compete with ours. Effective intellectual property protection may not be available to us in every country in which our platform is available. In addition, many countries limit the enforceability of patents or other intellectual property rights against certain third parties, including government agencies or government contractors. In these countries, patents or other intellectual property rights may provide limited or no benefit. Further, certain countries impose additional conditions on the transfer of intellectual property rights from individuals to companies, which may make it more difficult for us to secure and maintain intellectual property protection in those countries. We may need to expend additional resources to defend our intellectual property rights domestically or internationally, which could be costly, time consuming, and distracting to management and could impair our business or adversely affect our domestic or international expansion. If we cannot adequately protect and defend our intellectual property, we may not remain competitive, and our business, operating results, and financial condition may be adversely affected.

We rely on trade secrets as an important aspect of our intellectual property program and to cover much of our technology and know-how. We seek to protect our trade secrets through confidentiality and invention assignment or intellectual property ownership agreements with our employees, contractors and other parties. In addition, for employees of third-party staffing providers or other contractors, the employer agrees to enter into these agreements with individual workers. We also take other measures to protect our information and data, including implementing acceptable use policies, limiting access to our information and data through technological means, and monitoring and limiting the dissemination of our information and data outside of company-owned information systems. We cannot ensure that these agreements, or all the terms thereof, will be enforceable or compliant with applicable law, or these agreements and other measures will be effective in controlling access to, use of, and distribution of our proprietary information or in effectively securing exclusive ownership of intellectual property developed by our

current or former employees and contractors. For example, when working with contractors, particularly those who are off-site, it may be more difficult to control use of confidential materials, increasing the risk that our source code or other confidential or trade secret information may be exposed. Further, these agreements with our employees, contractors, and other parties may not prevent other parties from independently developing technologies that are substantially equivalent or superior to our platform. Any failure to protect intellectual property that we develop or our proprietary technology and data would adversely affect our business, operating results, and financial condition.

We may need to spend significant time and resources securing and monitoring our intellectual property rights, and we may or may not be able to detect infringement by third parties. Our competitive position may be adversely impacted if we cannot detect infringement or enforce our intellectual property rights quickly or at all. In some circumstances, we may choose not to pursue enforcement because an infringer has a dominant intellectual property position or for other business reasons. In addition, competitors might avoid infringement by designing around our intellectual property rights or by developing non-infringing competing technologies. We have in the past been forced to rely on litigation, opposition, and cancellation actions, and other claims and enforcement actions to protect our intellectual property, including to dispute registration or use of marks that may be confusingly similar to our own marks. Similar claims and other litigation may be necessary in the future to enforce and protect our intellectual property rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Further, our efforts to enforce our intellectual property rights may be met with defenses; counterclaims attacking the scope, validity, and enforceability of our intellectual property rights; or counterclaims and countersuits asserting infringement by us of third-party intellectual property rights. Our failure to secure, protect, and enforce our intellectual property rights could adversely affect our brand and our business, and we could lose the right to use certain intellectual property or lose the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others.

***We are vulnerable to intellectual property infringement claims and challenges to our intellectual property rights brought against us by third parties.***

We operate in a highly competitive industry, and there has been considerable activity in our industry to develop and enforce intellectual property rights. Successful intellectual property infringement claims against us or our users or third-party partners could result in monetary liability or a material disruption in the conduct of our business. We cannot be certain that aspects of our platform, content, and brand names do not or will not infringe valid patents, trademarks, copyrights, or other intellectual property rights held by third parties. We are now, have in the past been, and may in the future be, subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. Companies, including non-practicing entities, have also sent us demand letters alleging that we infringe their intellectual property and proposing that we license certain of their patents. Our competitors have in the past challenged, and may in the future challenge, our registration or use of our trademarks, including “Upwork,” and, if successful, such a challenge could adversely affect our business. Any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to cease selling or using products and services that incorporate the intellectual property that we allegedly infringe; make substantial payments for legal fees, settlement payments, or other costs or damages; obtain a license to sell or use the relevant technology, which may not be available on reasonable terms or at all; or redesign the allegedly infringing products and services to avoid infringement, which could be costly, time-consuming, or impossible. Any claims or litigation, regardless of merit, could divert management’s attention and cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering aspects of our platform, or require that we comply with other unfavorable terms. Our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. We may also be obligated to indemnify certain clients on our platform or strategic partners or others in connection with such infringement claims, or to obtain licenses from third parties or modify our platform, and each such obligation would require us to expend additional resources. Some of our infringement indemnification obligations related to intellectual property are contractually capped at a very high amount or not capped at all.

Any disputes resulting from allegations of intellectual property infringement, including current disputes, could subject us to significant legal costs and liability for damages and invalidate our proprietary rights. Any current or potential future intellectual property disputes or litigation also could force us to do one or more of the following:

- cease conducting certain operations in some or all jurisdictions, or stop using technology that contains the allegedly infringing intellectual property;
- stop using the name “Upwork” or other trademarks in some or all jurisdictions;
- incur significant legal expenses;
- pay substantial damages to the party whose intellectual property rights we may be found to be infringing;
- pay substantial amounts in settlement to a party that asserts allegations of intellectual property infringement;
- make expensive changes to our platform or our methods of doing business; or
- attempt to obtain a license to the relevant intellectual property from third parties, which may not be available on reasonable terms or at all.

Even if intellectual property claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results. We expect that the occurrence of infringement claims is likely to grow as the market for freelancers and the clients that engage them grows. Accordingly, our exposure to damages resulting from infringement claims could increase and this could require us to expend additional financial and management resources.

***We may be unable to integrate acquired businesses and technologies successfully or to achieve the expected benefits of such acquisitions. We may acquire or invest in additional companies, which may divert our management’s attention, result in additional dilution to our stockholders, and consume resources that are necessary to sustain our business.***

Our business strategy may, from time to time, include acquiring other complementary products, technologies, or businesses. At any given time, we may be engaged in discussions or negotiations with respect to one or more of these types of transactions. Any acquisition, investment, or business relationship may result in unforeseen or additional operating difficulties, risks, and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, services, personnel, or operations of the acquired companies particularly if the key personnel of the acquired companies choose not to work for us, if an acquired company’s software is not easily adapted to work with ours, if expected synergies fail to materialize, or otherwise. Acquisitions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for the development of our business. Moreover, the anticipated benefits of any acquisition, investment, or business relationship may not be realized or we may be exposed to unknown or additional risks and liabilities.

We may in the future seek to acquire or invest in additional businesses, products, technologies, or other assets. We also may enter into relationships with other businesses to expand our platform or our ability to provide our platform in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing, or investments in other companies. Negotiating these transactions can be time consuming, difficult, and expensive, and our ability to close these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our stockholders’ ownership interest;
- use cash that we may need in the future to operate our business;
- become subject to different laws and regulations due to the nature or location of the acquired business, products, technologies, or other assets, or become subject to more stringent scrutiny or differing applications of laws and regulations to which we are currently subject as a result of such transactions;
- incur debt on terms unfavorable to us or that we are unable to repay;
- incur expenses or substantial liabilities;



- encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures;
- encounter difficulties in assimilating acquired operations and development cultures;
- encounter diversion of management’s attention to other business concerns;
- become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges; and
- be required to adopt new, or change our existing, accounting policies.

Any of these risks could adversely impact our business and operating results.

***Litigation could have a material adverse impact on our operating results and financial condition.***

From time to time, we are involved in litigation. The outcome of any litigation (including class actions and individual lawsuits or arbitration), regardless of its merits, is inherently uncertain. Regardless of the merits or ultimate outcome of any claims that have been or may be brought against us or that we may bring against others, pending or future litigation could result in a diversion of management’s attention and resources and reputational harm, and we may be required to incur significant expenses defending against these claims or pursuing claims against third parties in order to protect our rights. If we are unable to prevail in litigation, we could incur substantial liabilities. We may also determine that the most cost-effective and efficient way to resolve a dispute is to enter into a settlement agreement. Where we can make a reasonable estimate of the liability relating to pending litigation and determine that it is probable, we record a related liability. As additional information becomes available, we assess the potential liability and revise estimates as appropriate. However, because of uncertainties relating to litigation, the amount of our estimates could be wrong as determining reserves for pending litigation is a complex, fact-intensive process that is subject to judgment calls. Any adverse determination related to litigation or a settlement agreement could require us to change our technology or our business practices in costly ways, prevent us from offering certain products or services, require us to pay monetary damages, fines, or penalties, or require us to enter into royalty or licensing arrangements, and could adversely affect our operating results and cash flows, harm our reputation, or otherwise negatively impact our business.

***Clients sometimes fail to pay their invoices, necessitating action by us to compel payment.***

In connection with our Upwork Enterprise and Business offerings and for certain legacy clients, we advance payments to freelancers for invoiced services on behalf of the client and subsequently invoice the client for such services. In addition, in certain instances, we will advance payment on a freelancer invoice if the client issues a chargeback or their payment method is declined and the freelancer assigns us the right to recover any funds from the client. From time to time, clients fail to pay for these services rendered by a freelancer, and as a result, we may be adversely affected both from the inability to collect amounts due and the cost of enforcing the applicable agreement or our terms of service, including through arbitration or litigation. We may experience an increase in the failure of clients to pay for services in the event of a macroeconomic downturn, such as a downturn resulting from the COVID-19 pandemic, as clients become unable or unwilling to pay for services rendered. Furthermore, some clients may seek bankruptcy protection or other similar relief and fail to pay amounts due, or pay those amounts more slowly, either of which could adversely affect our operating results, financial position, and cash flow. All of these risks are made more likely by the COVID-19 pandemic and responses to it, necessarily resulting in increased costs to us as we advance payments to freelancers and seek to compel payment from our clients. Payments missed due to the pandemic may not be recoverable by us and may result in a material adverse effect on our business.

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments, and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Quarterly Report. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity as of the date of the financial statements, and the amount of revenue and expenses, during the periods presented, that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our condensed

consolidated financial statements include those related to determination of revenue recognition, the useful lives of assets, assessment of the recoverability of long-lived assets, goodwill impairment, allowance for doubtful accounts, reserves relating to transaction losses, the valuation of warrants, stock-based compensation, and accounting for income taxes. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of industry or financial analysts and investors, resulting in a decline in the trading price of our common stock.

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

***Our corporate structure and intercompany arrangements are subject to the tax laws of various jurisdictions, and we could be obligated to pay additional taxes, which could adversely impact our operating results.***

We may expand the geographic scope of our operations and personnel to support our global user base. Our corporate structure and associated transfer pricing policies contemplate future growth into international markets, and consider the functions, risks, and assets of the various entities involved in the intercompany transactions. The amount of taxes we pay in different jurisdictions may depend on the application of the tax laws of the various jurisdictions, including the United States, to our international business activities, changes in tax rates, new or revised tax laws or interpretations of existing tax laws and policies, and our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for pricing intercompany transactions pursuant to the intercompany arrangements or disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a challenge or disagreement were to occur, and our position was not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations. Our financial statements could fail to reflect adequate reserves to cover such a contingency.

***Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.***

As of December 31, 2019, we had net operating loss carryforwards for U.S. federal income tax purposes and state income tax purposes of \$220 million and \$50 million, respectively, available to offset future taxable income. Our federal net operating loss carryforward amounts began to expire in 2019, including \$14.5 million that expired in 2019 and \$21.6 million that will expire in 2020, and will continue to expire in 2021 and future years. The state net operating loss carryforward amounts will begin to expire in 2028. Realization of these net operating loss carryforwards depends on future income, and there is a risk that our existing carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could materially and adversely affect our operating results.

In addition, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), if a corporation undergoes an “ownership change,” generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period, the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income may be limited. In addition, we may experience ownership changes in the future as a result of subsequent shifts in our stock ownership. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carry-forwards and other tax attributes to offset U.S. federal taxable income may be subject to limitations, which could potentially result in increased future tax liability to us.

***Our platform contains open source software components, and failure to comply with the terms of the underlying licenses could restrict our ability to market or operate our platform.***

Our platform incorporates certain open source software. An open source license typically permits the use, modification, and distribution of software in source-code form subject to certain conditions. Some open source licenses contain conditions that any person who distributes a modification or derivative work of software that was subject to an open source license make the modified version subject to the same open source license. Distributing software that is subject to this kind of open source license can lead to a requirement that certain aspects of our platform be distributed or made available in source code form. Although we do not believe that we have used open source software in a manner that might condition its use on our distribution of any portion of our platform in source code form, the interpretation of open source licenses is complex and, despite our efforts, it is possible that we may be liable for copyright infringement, breach of contract, or other claims if our use of open source software is adjudged not to comply with the applicable open source licenses.

Moreover, we cannot ensure that our processes for controlling our use of open source software in our platform will be effective. If we have not complied with the terms of an applicable open source software license, we may need to seek licenses from third parties to continue offering our platform and the terms on which such licenses are available may not be economically feasible, to re-engineer our platform to remove or replace the open source software, to discontinue offering our platform if re-engineering could not be accomplished on a timely basis, to pay monetary damages, or to make available the source code for aspects of our proprietary technology, any of which could adversely affect our business, operating results, and financial condition.

In addition to risks related to license requirements, use of open source software can involve greater risks than those associated with use of third-party commercial software, as open source licensors generally do not provide warranties or assurances of title, performance, or non-infringement, nor do they control the origin of the software. There is typically no support available for open source software, and we cannot ensure that the authors of such open source software will implement or push updates to address security risks or will not abandon further development and maintenance. Many of the risks associated with the use of open source software, such as the lack of warranties or assurances of title or performance, cannot be eliminated, and could, if not properly addressed, negatively affect our business.

***We track certain performance metrics with internal tools and do not independently verify such metrics. Certain of our performance metrics are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.***

We track certain performance metrics, including GSV, the number of core clients, client spend retention, and marketplace take rate with internal tools, which are not independently verified by any third party. Our internal tools have a number of limitations and our methodologies for tracking these metrics may change over time, which could result in unexpected changes to our metrics, including the metrics we report. If the internal tools we use to track these metrics undercount or overcount performance or contain algorithmic or other technical errors, the data we report may not be accurate. In addition, limitations or errors with respect to how we measure data (or the data that we measure) may affect our understanding of certain details of our business, which could affect our longer-term strategies. If our performance metrics are not accurate representations of our business, user base, or traffic levels; if we discover material inaccuracies in our metrics; or if the metrics we rely on to track our performance do not provide an accurate measurement of our business, our reputation may be harmed, we may be subject to legal or regulatory actions, and our operating and financial results could be adversely affected.

***Our loan and security agreement provides our lender with a first-priority lien against substantially all of our assets (excluding our intellectual property), and contains financial covenants and other restrictions on our actions, which could limit our operational flexibility and otherwise adversely affect our financial condition.***

Our Loan Agreement restricts our ability to, among other things:

- incur additional indebtedness;
- sell certain assets;
- declare dividends or make certain distributions; and

- undergo a merger or consolidation or other transactions.

In addition, the interest rates we pay under our Loan Agreement are derived from the prime rate, which may increase in the future. Interest rate increases will result in us having to make higher interest payments and reduce the amount of working capital available to us. Our Loan Agreement also prohibits us from falling below an adjusted quick ratio. Our ability to comply with this covenant is dependent upon our future business performance.

Our failure to comply with the covenants or payment requirements, or the occurrence of other events specified in our Loan Agreement, could result in an event of default under the Loan Agreement, which would give our lender the right to terminate their commitments to provide additional loans under the Loan Agreement and to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, we have granted our lender first-priority liens against substantially all of our assets, as collateral, excluding our intellectual property (but including proceeds therefrom) and the funds and assets held by Upwork Escrow. We have also agreed to a negative pledge on our intellectual property. Failure to comply with the covenants or other restrictions in the Loan Agreement could result in a default. If the debt under our Loan Agreement was to be accelerated, we may not have sufficient cash on hand or be able to sell sufficient assets to repay it, which would have an immediate adverse effect on our business and operating results. This could potentially cause us to cease operations and result in a complete loss of your investment in our common stock.

***We may require additional capital to fund our business and support our growth, including in connection with any future acquisitions or strategic investments, and any inability to generate or obtain such capital may adversely affect our operating results and financial condition.***

In order to support our growth and respond to business challenges, such as developing new features or enhancements to our platform, acquiring new technologies, and improving our infrastructure, we have made significant financial investments in our business and we intend to continue to make such investments. In addition, we may, from time to time, seek to acquire or strategically invest in other complementary products, technologies, or businesses. As a result, we may need to engage in equity or debt financings, in addition to our Loan Agreement, to provide the funds required for these investments, acquisitions, and other business endeavors. If we raise additional funds through equity or convertible debt issuances, our existing stockholders may suffer significant dilution and these securities could have rights, preferences, and privileges that are superior to that of holders of our common stock. If we obtain additional funds through debt financing, we may not be able to obtain such financing on terms favorable to us. Such terms may involve additional restrictive covenants making it difficult to engage in capital raising activities and pursue business opportunities, including potential acquisitions and strategic investments. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired and our business may be adversely affected, requiring us to delay, reduce, or eliminate some or all of our operations. Moreover, significant disruptions of global financial markets due to the COVID-19 pandemic may impact our ability to access capital now or in the future, and capital may be available only on terms less favorable to us.

***We may be required to comply with governmental export control laws and regulations. Our failure to comply with these laws and regulations could have an adverse effect on our business and operating results.***

We may be subject to U.S. export controls and sanctions regulations that prohibit the shipment or provision of certain products and services to certain countries, governments, and persons targeted by U.S. sanctions. While we take precautions to prevent aspects of our platform from being exported in violation of these laws, including implementing internet protocol address blocking, we cannot guarantee that the precautions we take will prevent violations of export control and sanctions laws. If we are found to be in violation of U.S. sanctions or export control laws, it could result in substantial fines and penalties for us and for the persons working for us.

In addition, various countries regulate the import and export of certain encryption and other technology, including imposing import and export permitting and licensing requirements, and have enacted laws that could limit our ability to distribute aspects of our platform or could limit our users' ability to access our platform in those countries. Changes in our platform, or future changes in export and import regulations may prevent our international users from utilizing our platform or, in some cases, prevent the export or import of our platform to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, or change in the countries, governments, persons, or technologies targeted by such regulations, could

result in decreased use of our platform by existing or potential users with international operations. Any decreased use of our platform or limitation on our ability to export or sell our products would likely adversely affect our business, operating results, and financial results.

***Our reported financial results may be adversely affected by changes in U.S. GAAP.***

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

In particular, in May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification (Topic 605), Revenue Recognition (Topic 605). The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On December 31, 2019, Topic 606 became effective for us retroactive to January 1, 2019. Under Topic 606, more estimates, judgments, and assumptions are required within the revenue recognition process than were previously required. This includes more enhanced disclosures in our condensed consolidated financial statements to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with our customers. Under Topic 606, we are required to estimate the standalone selling price of certain performance obligations that represents a material right, which requires significant judgment. Our reported financial position and financial results may be harmed if our estimates or judgments prove to be wrong, assumptions change, or actual circumstances differ from those in our assumptions. Any difficulties in applying Topic 606 could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm our business.

***If currency exchange rates fluctuate substantially in the future, the results of our operations, which are reported in U.S. dollars, could be adversely affected.***

As we expand our international footprint, we will become more exposed to the effects of fluctuations in currency exchange rates. Although we expect an increasing number of sales contracts to be denominated in currencies other than the U.S. dollar in the future, all of our sales contracts are and have historically been denominated in U.S. dollars. However, we offer clients the option to settle invoices denominated in U.S. dollars in the local currencies of several non-U.S. countries, and therefore, a portion of our revenue is subject to foreign currency risk. While we currently use derivative instruments to hedge certain exposures to fluctuations in foreign currency exchange rates, the use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, a strengthening of the U.S. dollar could increase the real cost of transacting on our platform to clients located outside of the United States and could result in a loss of such clients, which could adversely affect our business, operating results, financial condition, and cash flows.

***We may be adversely affected by the withdrawal of the United Kingdom from the European Union.***

In January 2020, the United Kingdom formally withdrew from the EU (“Brexit”). Upon its withdrawal, pursuant to an agreement reached between the United Kingdom and the EU, a transition period came into effect until at least December 31, 2020, during which period EU rules will continue to be applicable to and in the United Kingdom. The transition period can be extended, but the United Kingdom has currently indicated that they will not request an extension. During the transitional period, the United Kingdom and the EU are to negotiate the terms of their future trading relationship. However, uncertainty remains as to what further post-Brexit agreements will be agreed to by the United Kingdom and the EU, if any. The ongoing uncertainty on the status of such agreements sustains the possibility of the United Kingdom leaving the EU without any agreement in place, a so-called “hard Brexit,” which would likely cause significant economic disruption and further depress consumer confidence and the economy of the United Kingdom. Our results of operations derived from revenue earned from clients and freelancers in the United Kingdom may be adversely affected by the uncertainty surrounding the future relationship between the United Kingdom and the EU, and those effects would be increased in the event of a hard Brexit. Brexit could also contribute

to instability in global financial and foreign exchange markets, including volatility in the value of the Euro and the British Pound, which are currencies in which we transact business. In addition, we could be adversely impacted by changes in trade policies, labor, tax or other laws and regulations, and intellectual property rights and supply chain logistics. All or any one of these factors could adversely affect our business, revenue, financial condition, and results of operations.

***We may be adversely affected by natural disasters and other catastrophic events, including the current COVID-19 pandemic, by man-made problems such as terrorism, or failures of technology, that could disrupt our business operations and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.***

A significant natural disaster, such as an earthquake, blizzard, hurricane, fire, flood, or other catastrophic event, such as a power loss or telecommunications failure, or other technological failure resulting in the permanent destruction of data, could have a material adverse impact on our business, financial condition, and operating results. In the event of natural disaster or other catastrophic event, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in development of our platform, lengthy interruptions in service, breaches of data security, and loss of critical data, all of which could have an adverse effect on our operating results. Certain of our departments are situated primarily in one office location and any natural disaster or catastrophic event to such office may impact productivity or revenue generating activities occurring in that office. Our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity and potentially subject to catastrophic fires. In addition, natural disasters and other catastrophic events could affect our partners' ability to perform services for users on a timely basis. In the event any such partners' information technology systems or service abilities are hindered by any of the events discussed above, our ability to provide our platform and other services may be impaired, resulting in missing financial targets for a particular quarter or year, or longer period. Further, if a natural disaster or other catastrophic event occurs in a region from which we derive a significant portion of our revenue, users in that region may delay or forego use of our platform or other services, which may adversely impact our operating results. In addition, acts of terrorism, civil disorder, public health pandemics (including the COVID-19 pandemic), or military conflict could cause disruptions in our business or the business and activity of our partners, users, or the economy as a whole. These disruptions may be more severe than in the case of natural disasters. All of the aforementioned risks may be augmented if our or our partners' business continuity and disaster recovery plans prove to be inadequate. To the extent that any of the above results in delays or reductions in platform availability, activities or other services, our business, financial condition, and operating results would be adversely affected.

#### **Risks Related to Ownership of Our Common Stock**

***The stock price of our common stock has been and may continue to be volatile, and you could lose all or part of your investment.***

The market price of our common stock has been and may continue to be volatile, particularly in light of the macroeconomic uncertainty created by the COVID-19 pandemic. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control and some of which will be impacted by the COVID-19 pandemic and the resulting shelter-in-place restrictions, including:

- actual or anticipated fluctuations in our revenue and other operating results;
- changes in the financial projections we may provide to the public or our failure to meet these projections;
- overall performance of the equity markets;
- recruitment or departure of key personnel;
- failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- sales of shares of our common stock by us or our stockholders;
- sales of large blocks of our stock relative to the size of our public float;

- acquisitions, strategic partnerships, joint ventures, or capital commitments;
- the economy as a whole and market conditions in our industry;
- negative publicity related to the real or perceived quality or security of our platform, as well as the failure to timely launch new products and services that gain market acceptance;
- rumors and market speculation involving us or other companies in our industry and/or other industries;
- announcements by us or our competitors of new or terminated products or services, commercial relationships, or significant technical innovations;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business, including those governing worker classification, taxation of workers, or withholding and remitting taxes on income or earnings;
- lawsuits threatened or filed against us or our key personnel, litigation involving our industry, or both, or lawsuits threatened or filed against our users relating to their use of our platform;
- developments or disputes concerning our or other parties' products, services, or intellectual property rights;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- political changes or events, such as Brexit or U.S. government shutdowns; and
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies, and technology companies in particular, have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies and are attributable, in part to outside factors such as the COVID-19 pandemic and its impact on the global economy. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business.

***Sales of substantial amounts of our common stock in the public markets, particularly sales by our directors, executive officers, and significant stockholders, or the perception that these sales could occur, could cause the market price of our common stock to decline and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate.***

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market. The perception that these sales might occur may also cause the market price of our common stock to decline. We had a total of 114,866,938 shares of our common stock outstanding as of March 31, 2020. All shares of our common stock are freely tradable, generally without restrictions or further registration under the Securities Act of 1933, as amended (the "Securities Act") subject to certain exceptions for shares held by our "affiliates" as defined in Rule 144 under the Securities Act.

In addition, as of March 31, 2020, we had outstanding (i) stock options that, if fully exercised, would result in the issuance of 13,661,934 shares of common stock and (ii) 6,132,421 unvested RSUs. We have filed registration statements on Form S-8 to register shares reserved for future issuance under our equity compensation plans. The shares issued upon exercise of outstanding stock options or settlement of outstanding RSUs will be available for immediate resale in the United States on the open market.

Moreover, certain holders of our common stock have rights, subject to certain conditions, to require us to file registration statements for the public resale of such shares or to include such shares in registration statements that we may file for us or other stockholders.

We may also issue our shares of common stock or securities convertible into shares of our common stock from time to time in connection with a financing, an acquisition, investments, or otherwise. We also expect to grant additional equity awards to employees, directors, and consultants under our 2018 Equity Incentive Plan and rights to purchase

our common stock under our 2018 Employee Stock Purchase Plan. Any such issuances could result in substantial dilution to our existing stockholders and cause the market price of our common stock to decline.

***The concentration of our stock ownership with insiders could limit your ability to influence corporate matters, including the ability to influence the outcome of director elections and other matters requiring stockholder approval.***

As of March 31, 2020, our executive officers, directors, 5% or greater stockholders, and affiliated entities together beneficially owned a significant portion of our common stock. As a result, these stockholders, acting together, could have substantial influence over most matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing, or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company, and might ultimately affect the market price of our common stock.

***If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, the price of our common stock and trading volume could decline.***

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If industry analysts cease coverage of us or fail to publish reports on us regularly, the trading price and trading volume for our common stock would be negatively affected. As of March 31, 2020, there were seven securities analysts that cover us and publish reports on us regularly. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, the price of our common stock would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our common stock price and trading volume to decline.

Even if our stock is actively covered by analysts, we do not have any control over the analysts or the measures that analysts or investors may rely upon to forecast our future results.

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

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. Additionally, our ability to pay dividends on our common stock is limited by restrictions under the terms of our Loan Agreement. We anticipate that for the foreseeable future we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

***Provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management, limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees, and limit the market price of our common stock.***

Provisions in our restated certificate of incorporation and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our restated certificate of incorporation and restated bylaws include provisions that:

- provide that our board of directors is classified into three classes of directors with staggered three-year terms;
- permit the board of directors to establish the number of directors and fill any vacancies and newly-created directorships;
- require super-majority voting to amend some provisions in our restated certificate of incorporation and restated bylaws;



- authorize the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- provide that only the chairperson of our board of directors, our chief executive officer, president, lead independent director, or a majority of our board of directors will be authorized to call a special meeting of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter, or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, our restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law (the “DGCL”) our restated certificate of incorporation, or our restated bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. Our restated bylaws also provide that the federal district courts of the United States would be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act (the “Federal Forum Provision”). Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to this provision.

These choice of forum provisions may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees.

Moreover, Section 203 of the DGCL may discourage, delay, or prevent a change of control of our company. Section 203 imposes certain restrictions on mergers, business combinations, and other transactions between us and holders of 15% or more of our common stock.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 6. Exhibits.**

Exhibit Number	Description	Incorporated by Reference				Filed or Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	<a href="#">Amended and Restated Bylaws.</a>	8-K	001-38678	3.1	January 28, 2020	
31.1	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
31.2	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
32.1*	<a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
32.2*	<a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).					X

\* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and are not deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.



**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Hayden Brown, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Upwork Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2020

/s/ Hayden Brown

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Hayden Brown

*Chief Executive Officer*

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Brian Kinion, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Upwork Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2020

/s/ Brian Kinion

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Brian Kinion

*Chief Financial Officer*

(Principal Financial and Accounting Officer)

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

I, Hayden Brown, Chief Executive Officer of Upwork Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: May 6, 2020

/s/ Hayden Brown

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Hayden Brown

*Chief Executive Officer*

(Principal Executive Officer)



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

I, Brian Kinion, Chief Financial Officer of Upwork Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 31, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: May 6, 2020

/s/ Brian Kinion

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Brian Kinion

*Chief Financial Officer*

(Principal Financial and Accounting Officer)