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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from __________ to __________

Commission file number 001-39888

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

Delaware	**84-2224323**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
650 California Street	
San Francisco, California	**94108**
(Address of principal executive offices)	(Zip Code)

(415) 984-0490
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value $0.00001 per share	AFRM	The Nasdaq Global Select Market

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

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

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

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

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

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

As of November 3, 2021, the number of shares of the registrant’s Class A common stock outstanding was 208,195,315 and the number of shares of the registrant's Class B common stock outstanding was 72,810,224.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Form 10-Q"), as well as information included in oral statements or other written statements made or to be made by us, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve substantial risks and uncertainties. All statements other than statements of historical fact contained in this report, including statements regarding our future results of operations and financial condition, business strategy, and plans and objectives of management for future operations, are forward-looking statements. In some cases, forward-looking statements may be identified by words such as "anticipate," "believe," "continue," "could," "design," "estimate," "expect," "intend," "may," "plan," "potentially," "predict," "project," "should," "will," "would," or the negative of these terms or other similar expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our expectations regarding our future revenue, expenses, and other operating results and key operating metrics;
- our ability to attract additional merchants and retain and grow our relationships with our existing merchant partners;
- our ability to compete successfully in a highly competitive industry;
- our ability to attract new consumers and retain and grow our relationships with our existing consumers;
- our expectations regarding product launches;
- our ability to successfully engage new originating bank partners;
- the availability of funding sources to support our business model;
- our ability to effectively price and score credit risk using our proprietary risk model;
- the performance of loans facilitated through our platform;
- the future growth rate of our revenue and related key operating metrics;
- our ability to achieve or sustain profitability in the future;
- our ability to remain in compliance with laws and regulations that currently apply or become applicable to our business;
- our ability to protect our confidential, proprietary, or sensitive information;
- past and future acquisitions, investments, and other strategic investments;
- our ability to maintain, protect, and enhance our brand and intellectual property;
- litigation, investigations, regulatory inquiries, and proceedings;
- the impact of macroeconomic conditions on our business, including the impact of the COVID-19 pandemic; and
- the size and growth rates of the markets in which we compete.

Forward-looking statements are based on our management's beliefs and assumptions and on information currently available. These forward-looking statements are subject to a number of known and unknown risks, uncertainties and assumptions, including risks described in the section titled "Risk Factors" and elsewhere in this Form 10-Q and our most recently filed Annual Report on Form 10-K. Other sections of this Form 10-Q may include additional factors that could harm our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors 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 from those contained in, or implied by, any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements, events, or circumstances. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report or to conform these statements to actual results or to changes in our expectations. You should read this Form 10-Q and the documents that we have filed as exhibits to this report with the understanding that our actual future results, levels of activity, performance, and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

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

Investors and others should note that we may announce material business and financial information to our investors using our investor relations website (investors.affirm.com), our filings with the Securities and Exchange Commission ("SEC"), webcasts, press releases, and conference calls. We use these mediums, including our website, to communicate with investors and the general public about our company, our products, and other issues. It is possible that the information that we make available on our website may be deemed to be material information. We therefore encourage investors and others interested in our company to review the information that we make available on our website. The contents of our website are not incorporated into this filing. We have included our investor relations website address as an inactive textual reference and for convenience only, and do not intend it to be an active link to our website.

Part I - Financial Information

Item 1. Unaudited Financial Statements

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

	September 30, 2021	June 30, 2021
Assets		
Cash and cash equivalents	$ 1,439,531	$ 1,466,558
Restricted cash	236,282	226,074
Securities available for sale at fair value	456,266	16,170
Loans held for sale	1,808	13,030
Loans held for investment	2,244,826	2,022,320
Allowance for credit losses	(152,021)	(117,760)
Loans held for investment, net	2,092,805	1,904,560
Accounts receivable, net	100,951	91,575
Property, equipment and software, net	84,925	62,499
Goodwill	540,770	516,515
Intangible assets	71,378	67,930
Commercial agreement assets	207,431	227,377
Other assets	169,952	274,679
Total Assets	**$ 5,402,099**	**$ 4,866,967**
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 425,854	$ 57,758
Payable to third-party loan owners	38,462	50,079
Accrued interest payable	3,304	2,751
Accrued expenses and other liabilities	450,662	323,577
Notes issued by securitization trusts	1,621,638	1,176,673
Funding debt	484,821	680,602
Total liabilities	3,024,741	2,291,440
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Class A common stock, par value $0.00001 per share: 3,030,000,000 shares authorized, 200,336,842 shares issued and outstanding as of September 30, 2021; 3,030,000,000 shares authorized, 181,131,728 shares issued and outstanding as of June 30, 2021	2	2
Class B common stock, par value $0.00001 per share: 140,000,000 shares authorized, 77,380,330 shares issued and outstanding as of September 30, 2021; 140,000,000 authorized, 88,226,376 shares issued and outstanding as of June 30, 2021	1	1
Additional paid in capital	3,579,763	3,467,236
Accumulated deficit	(1,205,100)	(898,485)
Accumulated other comprehensive gain	2,692	6,773
Total stockholders' equity	2,377,358	2,575,527
Total Liabilities and Stockholders' Equity	**$ 5,402,099**	**$ 4,866,967**

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

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

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

	September 30, 2021	June 30, 2021
Assets of consolidated VIEs, included in total assets above		
Restricted cash	$ 164,868	$ 142,385
Loans held for investment	2,035,653	1,743,810
Allowance for credit losses	(127,744)	(94,463)
Loans held for investment, net	1,907,909	1,649,347
Accounts receivable, net	8,195	8,209
Other assets	3,501	3,683
Total assets of consolidated VIEs	**$ 2,084,473**	**$ 1,803,624**
Liabilities of consolidated VIEs, included in total liabilities above		
Accounts payable	$ 2,873	$ 2,927
Accrued interest payable	3,139	2,613
Accrued expenses and other liabilities	3,627	3,820
Notes issued by securitization trusts	1,621,638	1,176,673
Funding debt	374,817	607,394
Total liabilities of consolidated VIEs	**2,006,094**	**1,793,427**
Total net assets	**$ 78,379**	**$ 10,197**

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

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

	Three Months Ended September 30,	
	2021	**2020**
Revenue		
Merchant network revenue	$ 92,244	$ 93,265
Virtual card network revenue	19,395	5,958
Total network revenue	111,639	99,223
Interest income	117,302	54,237
Gain on sales of loans	30,979	16,434
Servicing income	9,465	4,084
Total Revenue, net	**$ 269,385**	**$ 173,978**
Operating Expenses		
Loss on loan purchase commitment	$ 51,678	$ 65,868
Provision for credit losses	63,647	28,931
Funding costs	16,753	10,352
Processing and servicing	25,201	13,498
Technology and data analytics	78,013	33,768
Sales and marketing	63,960	22,582
General and administrative	136,204	32,273
Total Operating Expenses	**435,456**	**207,272**
Operating Loss	**$ (166,071)**	**$ (33,294)**
Other (expense) income, net	(140,373)	29,445
Loss Before Income Taxes	**$ (306,444)**	**$ (3,849)**
Income Tax Expense	171	97
Net Loss	**$ (306,615)**	**$ (3,946)**
Other Comprehensive Income (Loss)		
Foreign currency translation adjustments	$ (3,802)	$ 405
Unrealized gain (loss) on securities available for sale, net	(279)	—
Net Other Comprehensive (Loss) Income	(4,081)	405
Comprehensive Loss	**$ (310,696)**	**$ (3,541)**
Per share data:		
Net loss per share attributable to common stockholders for Class A and Class B:		
Basic	$ (1.13)	$ (0.06)
Diluted	$ (1.13)	$ (0.47)
Weighted average common shares outstanding:		
Basic	271,677,516	64,778,024
Diluted	271,677,516	68,256,189

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

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

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount				
Balance as of June 30, 2021	**—**	**—**	**269,358,104**	**$ 3**	**$ 3,467,236**	**$ (898,485)**	**$ 6,773**	**$ 2,575,527**
Issuance of common stock upon exercise of stock options	—	—	7,403,503	—	37,470	—	—	37,470
Issuance of common stock in acquisition	—	—	183,733	—	10,000	—	—	10,000
Vesting of restricted stock units	—	—	772,653	—	—	—	—	—
Repurchases of common stock	—	—	(821)	—	(5)	—	—	(5)
Stock-based compensation	—	—	—	—	104,879	—	—	104,879
Tax withholding on stock-based compensation	—	—	—	—	(39,817)	—	—	(39,817)
Foreign currency translation adjustments	—	—	—	—	—	—	(3,802)	(3,802)
Unrealized gain (loss) on securities available for sale	—	—	—	—	—	—	(279)	(279)
Net Loss	—	—	—	—	—	(306,615)	—	(306,615)
Balance as of September 30, 2021	**—**	**—**	**277,717,172**	**$ 3**	**$ 3,579,763**	**$ (1,205,100)**	**$ 2,692**	**$ 2,377,358**

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount				
Balance as of June 30, 2020	**122,115,971**	**$ 804,170**	**47,684,427**	**—**	**80,373**	**(447,167)**	**(302)**	**$ (367,096)**
Issuance of common stock	—	—	388,246	—	1,741	—	—	1,741
Repurchases of common stock	—	—	(115,625)	—	(584)	—	—	(584)
Issuance of redeemable convertible preferred stock, net of issuance costs of $440	21,824,141	434,434	—	—	—	—	—	—
Vesting and exercise of warrants for common stock	—	—	5,074,398	—	67,645	—	—	67,645
Stock-based compensation	—	—	—	—	7,175	—	—	7,175
Conversion of convertible debt	4,444,321	88,559	—	—	(42,124)	—	—	(42,124)
Effects of adoption of new accounting standards	—	—	—	—	—	(9,980)	—	(9,980)
Foreign currency translation adjustments	—	—	—	—	—	—	405	405
Net Loss	—	—	—	—	—	(3,946)	—	(3,946)
Balance as of September 30, 2020	**148,384,433**	**1,327,163**	**53,031,446**	**$ —**	**$ 114,226**	**$ (461,093)**	**$ 103**	**$ (346,764)**

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

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

	Three Months Ended September 30,	
	2021	**2020**
Cash Flows from Operating Activities		
Net Loss	$ (306,615)	$ (3,946)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for credit losses	63,647	28,931
Amortization of premiums and discounts on loans, net	(35,708)	(11,123)
Gain on sales of loans	(30,979)	(16,434)
Changes in fair value of assets and liabilities	139,884	(30,202)
Amortization of commercial agreement assets	18,971	14,261
Amortization of debt issuance costs	5,231	1,083
Stock-based compensation	93,189	6,203
Depreciation and amortization	10,541	3,720
Other	4,002	608
Purchases of loans held for sale	(896,786)	(346,878)
Proceeds from the sale of loans held for sale	888,580	338,926
Change in operating assets and liabilities:		
Accounts receivable, net	(12,076)	10,175
Other assets	78,086	(64,412)
Accounts payable	368,096	6,110
Payable to third-party loan owners	(11,618)	(3,793)
Accrued interest payable	553	798
Accrued expenses and other liabilities	(11,848)	63,669
Net Cash Provided by (Used in) Operating Activities	365,150	(2,304)
Cash Flows from Investing Activities		
Purchases and origination of loans held for investment	(1,847,458)	(1,177,769)
Proceeds from the sale of loans held for investment	195,039	75,049
Principal repayments and other loan servicing activity	1,486,099	749,128
Acquisition, net of cash and restricted cash acquired	(5,999)	—
Additions to property, equipment and software	(16,347)	(4,169)
Purchases of securities available for sale	(443,560)	—
Proceeds from maturities and repayments of securities available for sale	889	—
Other investing cash inflows	4,827	—
Other investing cash outflows	(3,000)	—
Net Cash Used in Investing Activities	(629,510)	(357,761)
Cash Flows from Financing Activities		
Proceeds from funding debt	682,106	773,938
Payment of debt issuance costs	(6,609)	(4,617)
Principal repayments of funding debt	(873,778)	(890,556)
Proceeds from issuance of notes and residual trust certificates by securitization trusts	499,789	518,232
Principal repayments of notes issued by securitization trusts	(55,204)	(14,777)
Proceeds from issuance of redeemable convertible preferred stock, net	—	434,434
Proceeds from exercise of common stock options and warrants	37,470	1,741
Repurchases of common stock	(4)	(584)
Payments of tax withholding for stock-based compensation	(39,817)	—
Net Cash Provided by Financing Activities	243,953	817,811
Effect of exchange rate changes on cash, cash equivalents and restricted cash	3,588	—
Net (Decrease) Increase in Cash and Cash Equivalents and Restricted Cash	(16,819)	457,746
Cash and cash equivalents and restricted cash, beginning of period	1,692,632	328,128
Cash and Cash Equivalents and Restricted Cash, end of period	$ 1,675,813	$ 785,874

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

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

	Three Months Ended September 30,	
	2021	**2020**
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 10,195	$ 6,934
Cash paid for income taxes	72	—
Cash paid for operating leases	4,475	3,148
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Stock-based compensation included in capitalized internal-use software	$ 11,690	$ 972
Additions to property and equipment included in accrued expenses	56	15
Issuance of warrants in exchange for commercial agreement	—	67,645
Conversion of convertible debt	—	88,559
Issuance of common stock in connection with acquisition	10,000	—

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

1. Business Description

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying interim condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), as contained in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), disclosure requirements for interim financial information, and the requirements of Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended June 30, 2021. The balance sheet as of June 30, 2021 has been derived from the audited financial statements at that date. Management believes these interim condensed consolidated financial statements reflect all adjustments, including those of a normal and recurring nature, which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. Certain prior period amounts have been reclassified to conform to the current period presentation.

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

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

Use of Estimates

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires the use of estimates, judgments and assumptions that affect the reported amounts in the interim condensed consolidated financial statements and the accompanying notes. Material estimates that are particularly susceptible to significant change relate to determination of the variable consideration for revenue, the allowance for credit losses, capitalized internal-use software development costs, valuation allowance for deferred tax assets, convertible debt derivatives, loss on loan purchase commitment, the fair value of servicing assets and liabilities, discount on self-originated loans, the fair value and useful lives of tangible and intangible assets acquired and liabilities assumed resulting from business combinations, the fair value of contingent consideration related to business combinations, the evaluation for impairment of intangible assets and goodwill, the incremental borrowing rate used in discounting our lease liabilities, the fair value of available for sale debt securities including retained interests in our securitizations trusts, the fair value of residual certificates issued by our securitization trusts held by third parties, and stock-based compensation. We base our estimates on historical experience, current events and other factors we believe to be reasonable under the circumstances. To the extent that there are material differences between these estimates and actual results, our financial condition or operating results will be materially affected.

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

Immaterial Correction of Prior Period Amounts

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

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

We measure stock-based compensation based on the fair value of an award at the grant date and recognize expense over the vesting period of the award based on the estimated portion of the award that is expected to vest. An incorrect determination of the grant date and service inception dates for certain awards granted prior to our initial public offering (“IPO”), as well as incorrect treatment of expense recognition for certain terminated employees, resulted in an understatement of additional paid in capital of $4.5 million as of June 30, 2021.

Accordingly, we are correcting the relevant financial statements and related footnotes as of June 30, 2021 within these interim condensed consolidated financial statements from amounts previously reported. We have evaluated the materiality of these misstatements based on an analysis of quantitative and qualitative factors and concluded they were not material to the prior period financial statements, individually or in aggregate.

The following table provides the impact of the correction on our consolidated balance sheet as of June 30, 2021, as presented below (in thousands):

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

Significant Accounting Policies

Except for the addition of policies described below for marketable securities, there were no material changes to our significant accounting policies as disclosed in Note 2. Summary of Significant Accounting Policies of our Annual Report on Form 10-K for the fiscal year ended June 30, 2021, which was filed with the SEC on September 17, 2021.

Marketable Securities

During the three months ended September 30, 2021, we purchased certain investments in marketable debt securities which are accounted for under ASC Topic 320, “Investments - Debt Securities” (“ASC 320”). We have classified these investments as available for sale, as defined within ASC 320. These investments are held at fair value with changes in fair value recorded in unrealized gain (loss) on securities available for sale, net within other comprehensive income (loss). As of the end of each reporting period, management reviews each security where the fair value is less than the amortized cost to determine whether any portion of the decline in fair value is due to a credit loss and/or whether or not we intend to sell or will be required to sell such security before recovery of its amortized cost basis. The portion of any decline in fair value which management identifies as a credit loss will be recognized as an allowance for credit losses through other (expense) income, net rather than unrealized gain (loss) on securities available for sale, net. To the extent management intends to sell or may be required to sell a security in an unrealized loss position, we 1) reverse any previously recorded allowance for credit losses with an offsetting entry to reduce the amortized cost basis of the security and 2) write-off any remaining portion of the amortized cost basis to equal its fair value, with this change recorded through other (expense) income, net.

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

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

Refer to Note 12. Investments for additional information.

Advertising Costs

Advertising costs are expensed as incurred and are included within sales and marketing in our interim condensed consolidated statements of operations and comprehensive loss. For the three months ended September 30, 2021 and 2020, advertising costs totaled $18.3 million and $1.4 million, respectively.

Recently Adopted Accounting Standards

Financial Instruments - Credit Losses

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

Following the loss of our emerging growth company status in the third quarter of the prior fiscal year, we adopted ASC 326 effective July 1, 2020 using the modified retrospective approach for our loans held for investment. For the three months ended September 30, 2020, this adoption resulted in a decrease in the provision for credit losses of $11.3 million.

Convertible Debt Instruments

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

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

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

3. Interest Income

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

	Three Months Ended September 30,	
	2021	**2020**
Interest income on unpaid principal balance	$ 82,941	$ 42,502
Amortization of discount on loans held for investment	38,445	14,770
Amortization of premiums on loans	(2,737)	(1,958)
Interest receivable charged-off, net of recoveries	(1,347)	(1,077)
Total interest income	$ 117,302	$ 54,237

We accrue interest income using the effective interest method. Interest income on a loan is accrued daily, based on the finance charge disclosed to the consumer, over the term of the loan based upon the principal outstanding. The accrual of interest on a loan is suspended if a formal dispute with the consumer involving either Affirm or the merchant of record is opened, or a loan is 120 days past due. Upon the resolution of a dispute with the consumer, the accrual of interest is resumed, and any interest that would have been earned during the disputed period is retroactively accrued. As of September 30, 2021 and June 30, 2021, the balance of loans held for investment on non-accrual status was $0.8 million and $1.1 million, respectively.

4. Loans Held for Investment and Allowance for Credit Losses

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

	September 30, 2021	June 30, 2021
Unpaid principal balance	$ 2,280,315	$ 2,058,863
Accrued interest receivable	16,817	15,466
Premiums on loans held for investment	7,175	7,071
Less: Discount due to loss on loan purchase commitment	(53,657)	(53,177)
Less: Fair value adjustment on loans acquired through business combination	(5,824)	(5,903)
Total loans held for investment	$ 2,244,826	$ 2,022,320

The majority of the loans that are underwritten using our technology platform and originated by our originating bank partners are later purchased by us. We purchased loans from our originating bank partners in the amount of $2,244.2 million and $1,524.1 million during the three months ended September 30, 2021 and 2020, respectively.

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

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

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

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

	Amortized Costs Basis by Fiscal Year of Origination						
	2022	2021	2020	2019	2018	Prior	Total
96+	$ 50,032	$ 5,695	$ 11	$ —	$ —	$ —	$ 55,738
94 – 96	96,076	74,820	819	8	—	—	171,723
90 – 94	236,342	211,078	4,191	246	2	—	451,859
<90	619,067	697,268	81,346	4,583	2	—	1,402,266
No score[(1)]	79,039	58,216	9,484	1,201	273	18	148,231
Total loan receivables	$ 1,080,556	$ 1,047,077	$ 95,851	$ 6,038	$ 277	$ 18	$ 2,229,817
Current period charge-offs	$ (29,454)	$ (943)	$ (56)	$ (1)	$ —	$ —	$ (30,454)
Current period recoveries	1,200	978	839	385	267	42	3,711
Current period net charge-offs	$ (28,254)	$ 35	$ 783	$ 384	$ 267	$ 42	$ (26,743)

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

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

	September 30, 2021	June 30, 2021
Non-delinquent loans	$ 2,111,756	$ 1,939,976
4 – 29 calendar days past due	60,191	43,838
30 – 59 calendar days past due	26,499	17,267
60 – 89 calendar days past due	17,558	12,044
90 – 119 calendar days past due	13,813	6,759
Total amortized cost basis	$ 2,229,817	$ 2,019,884

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

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

	Three Months Ended September 30,	
	2021	2020
Balance at beginning of period	$ 117,760	$ 95,137
Adjustment due to adoption of new accounting standard	—	10,083
Provision for credit losses	61,004	29,121
Charge-offs	(30,454)	(14,074)
Recoveries of charged-off receivables	3,711	2,754
Balance at end of period	$ 152,021	$ 123,021

5. Business Combination

ShopBrain

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

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

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

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

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

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

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

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

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

The transaction costs associated with the acquisition were approximately $0.1 million for the three months ended September 30, 2021, which are included in general and administrative expense within the interim condensed consolidated statements of operations and comprehensive loss.

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

6. Balance Sheet Components

Accounts Receivable, net

Our accounts receivable consist primarily of amounts due from payment processors, merchant partners, and servicing fees due from third-party loan owners. We evaluate accounts receivable estimated to be uncollectible and provide an allowance, as necessary, for doubtful accounts. This allowance was $7.1 million and $4.1 million as of September 30, 2021 and June 30, 2021, respectively.

Goodwill and Intangible Assets

The changes in the carrying amount of goodwill during the three months ended September 30, 2021 were as follows (in thousands):

Balance as of June 30, 2021	516,515
Additions	30,792
Effect of foreign currency translation	(6,537)
Balance as of September 30, 2021	$ 540,770

Refer to Note 5. Business Combination for a description of additions to goodwill during the three months ended September 30, 2021. No impairment losses related to goodwill were recorded during the three months ended September 30, 2021 and 2020.

Intangible assets consisted of the following (in thousands):

	September 30, 2021			
	Gross	**Accumulated Amortization**	**Net**	**Weighted Average Remaining Useful Life**
Merchant relationships	$ 38,510	$ (4,200)	$ 34,310	4.5
Developed technology	39,577	(6,166)	33,411	2.8
Trademarks and domains	3,668	(361)	3,307	3.3
Other intangibles	350	—	350	Indefinite
Total intangible assets	$ 82,105	$ (10,727)	$ 71,378	

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

Amortization expense for intangible assets was $5.5 million and $2.6 million for the three months ended September 30, 2021 and 2020, respectively. No impairment losses related to intangible assets were recorded during the three months ended September 30, 2021 and 2020.

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

2022 (remaining nine months)	$ 16,295
2023	21,286
2024	19,173
2025	7,193
2026 and thereafter	4,936
Total amortization expense	$ 68,883

Commercial Agreement Assets

In July 2020, we recognized an asset in connection with a commercial agreement with Shopify Inc. (“Shopify”), in which we granted warrants in exchange for the opportunity to acquire new merchant partners. This asset represents the probable future economic benefit to be realized over the four-year expected benefit period and is valued based on the fair value of the warrants on the grant date. We recognized an asset of $270.6 million associated with the fair value of the warrants, which were fully vested as of September 30, 2021. During the three months ended September 30, 2021 and 2020, we recorded amortization expense related to the commercial agreement asset of $17.0 million and $14.3 million, respectively, in our interim condensed consolidated statements of operations and comprehensive loss as a component of sales and marketing expense.

In January 2021, we recognized an asset in connection with a commercial agreement with an enterprise partner, in which we granted stock appreciation rights in exchange for the benefit of acquiring access to the partner's consumers. This asset represents the probable future economic benefit to be realized over the three-year expected benefit period and is valued based on the fair value of the stock appreciation rights on the grant date. We initially recognized an asset of $25.9 million associated with the fair value of the stock appreciation rights. During the three months ended September 30, 2021, we recorded amortization expense related to the asset of $1.9 million in our interim condensed consolidated statements of operations and comprehensive loss as a component of sales and marketing expense.

Other Assets

Other assets consisted of the following (in thousands):

	September 30, 2021	June 30, 2021
Operating lease right-of-use assets	$ 58,562	$ 57,828
Prepaid payroll taxes for stock-based compensation	23,291	111,278
Prepaid expenses	17,917	21,069
Equity securities, at cost	11,278	11,278
Processing reserves	25,021	14,042
Other receivables	24,692	26,423
Other assets	9,191	32,761
Total other assets	$ 169,952	$ 274,679

Accrued Expenses and Other Liabilities

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

	September 30, 2021	June 30, 2021
Contingent consideration liability	$ 290,719	$ 153,446
Operating lease liability	74,360	74,952
Accrued expenses	51,247	47,674
Commercial agreement liability	12,627	25,357
Other liabilities	21,709	22,148
Total accrued expenses and other liabilities	$ 450,662	$ 323,577

Our acquisition of PayBright included consideration transferred and shares held in escrow, contingent upon the achievement of future milestones. We classified the contingent consideration as a liability and will remeasure the liability to its fair value at each reporting date until the contingency is resolved. As of September 30, 2021, the fair value of the contingent consideration liability was $290.7 million. For further details on our fair value methodology with respect to the contingent consideration, see Note 13. Fair Value of Financial Assets and Liabilities.

In January 2021, we recognized a liability in connection with a commercial agreement with an enterprise partner of $25.4 million. During the three months ended September 30, 2021, we settled $12.6 million, or fifty percent, of this liability. The remaining fifty percent will be settled on the first year anniversary of the final prospectus date of January 12, 2021.

7. Leases

We lease facilities under operating leases with various expiration dates through 2030. We have the option to renew or extend our leases. Certain lease agreements include the option to terminate the lease with prior written notice ranging from 180 days to one year. As of September 30, 2021, we have not considered such provisions in the determination of the lease term, as it is not reasonably certain these options will be exercised. Lease terms range from one year to nine years.

Several leases require us to obtain standby letters of credit, naming the lessor as a beneficiary. These letters of credit act as security for the faithful performance by us of all terms, covenants and conditions of the lease agreement. The cash collateral and deposits for the letters of credit have been recognized as restricted cash in the interim condensed consolidated balance sheets and totaled $9.6 million and $9.9 million as of September 30, 2021 and June 30, 2021, respectively.

The weighted average remaining lease term as of September 30, 2021 was 5.6 years. The discount rate used in determining the lease liability for each individual lease was derived from a corporate yield curve which corresponded with the remaining lease term as of July 1, 2020 for leases that existed at the adoption of Leases (ASC Topic 842) ("ASC 842") and as of the lease commencement date for leases subsequently entered into or modified after July 1, 2020.

There was no impairment expense related to leases during the three months ended September 30, 2021 and 2020.

Total rent expense incurred for all locations totaled $3.8 million for both the three months ended September 30, 2021 and 2020. Total lease expense incurred for short term leases with a term 12 months or less totaled $0.2 million and $0.5 million for the three months ended September 30, 2021 and 2020, respectively.

We have subleased a portion of our leased facilities. Sublease income totaled $0.6 million during the three months ended September 30, 2021. There was no sublease income during the three months ended September 30, 2020.

Lease term and discount rate information are summarized as follows:

	September 30, 2021
Weighted average remaining lease term (in years)	5.6
Weighted average discount rate	4.7%

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

2022 (remaining nine months)	$	11,728
2023		16,117
2024		16,029
2025		16,132
2026		15,283
Thereafter		10,419
Total lease payments		85,708
Less imputed interest		(11,348)
Present value of lease liabilities	$	74,360

8. Commitments and Contingencies

Repurchase Obligation

Under the normal terms of our whole loans sales to third-party investors, we may become obligated to repurchase loans from investors in certain instances where a breach in representation and warranties is identified. Generally, a breach in representation and warranties would occur where a loan has been identified as subject to verified or suspected fraud. We would only experience a loss if the contractual repurchase price of the loan exceeds the fair value on the repurchase date. The aggregate outstanding balance of loans held by third-party investors or unconsolidated VIEs was $2,622.7 million and $2,453.9 million as of September 30, 2021 and June 30, 2021, respectively, of which we have recorded a repurchase liability of $2.1 million as of both September 30, 2021 and June 30, 2021 within accrued expenses and other liabilities in our interim condensed consolidated balance sheets.

Legal Proceedings

From time to time, we are subject to legal proceedings and claims in the ordinary course of business. The results of such matters often cannot be predicted with certainty. In accordance with applicable accounting guidance, we establish an accrued liability for legal proceedings and claims when those matters present loss contingencies which are both probable and reasonably estimable. All such liabilities arising from current legal and regulatory matters have been recorded in accrued expenses and other liabilities in our interim condensed consolidated balance sheets and these matters are immaterial, as of September 30, 2021.

Concentrations of Credit Risk

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

We are exposed to default risk on both loan receivables purchased from our originating bank partners and loan receivables that are self-originated. The ultimate collectability of a substantial portion of the loan portfolio is susceptible to changes in economic and market conditions. As of September 30, 2021 and June 30, 2021, approximately 14% and 15%, respectively, of loan receivables related to customers residing in the state of California. No other states or provinces exceeded 10%.

Concentrations of Revenue

For the three months ended September 30, 2021 and 2020, approximately 10% and 30%, respectively, of total revenue was driven by one merchant.

9. Transactions with Related Parties

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

10. Debt

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

Funding Debt

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

	September 30, 2021
2022	$ 137,153
2023	—
2024	246,647
2025	—
2026	—
Thereafter	111,266
Total	$ 495,066
Deferred debt issuance costs	(10,245)
Total funding debt, net of deferred debt issuance costs	$ 484,821

Warehouse Credit Facilities

Through trusts, we entered into warehouse credit facilities with certain lenders to finance the purchase and origination of our loans. Each trust entered into a credit agreement and security agreement with a third-party as administrative agent and a national banking association as collateral trustee and paying agent. Borrowings under these agreements are referred to as funding debt and these proceeds from the borrowings can only be used for the purposes of facilitating loan funding and origination, with advance rates ranging from 75% to 88% of the total collateralized balance. These trusts are bankruptcy-remote special-purpose vehicles in which creditors do not have recourse against the general credit of Affirm. These revolving facilities mature between 2024 and 2027, and subject to covenant compliance, generally permit borrowings up to 12 months prior to the final maturity date of each respective facility. As of September 30, 2021, the aggregate commitment amount of these facilities was $1,975.0 million on a revolving basis, of which $357.9 million was drawn, with $1,617.1 million remaining available. Some of the loans purchased from the originating bank partners are pledged as collateral for borrowings in our facilities. The unpaid principal balance of these loans totaled $425.7 million and $664.1 million as of September 30, 2021 and June 30, 2021, respectively.

Borrowings under these warehouse credit facilities bear interest at an annual benchmark rate of LIBOR or at an alternative commercial paper rate (which is either (i) the per annum rate equivalent to the weighted-average of the per annum rates at which all commercial paper notes were issued by certain lenders to fund advances or maintain loans, or (ii) the daily weighted-average of LIBOR, as set forth in the applicable credit agreement), plus a spread ranging from 1.65% to 4.00%. Interest is payable monthly. In addition, these agreements require payment of a monthly unused commitment fee ranging from 0.10% to 0.75% per annum on the undrawn portion available.

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

Other Funding Facilities

Prior to our acquisition of PayBright on January 1, 2021, PayBright entered into various credit facilities utilized to finance the origination of loan receivables in Canada. Similar to our warehouse credit facilities, borrowings under these agreements are referred to as funding debt, and proceeds from the borrowings may only be used for the purposes of facilitating loan funding and origination. These facilities are secured by PayBright loan receivables pledged to the respective facility as collateral, mature in 2022, and bear interest based on a commercial paper rate plus a spread ranging from 1.25% to 4.25%.

As of September 30, 2021, the aggregate commitment amount of these facilities was $267.2 million on a revolving basis, of which $125.4 million was drawn, with $141.9 million remaining available. The unpaid principal balance of loans pledged to these facilities totaled $72.0 million as of September 30, 2021.

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

Repurchase Agreement

On August 20, 2021, we entered into a sale and repurchase agreement pursuant to which we sold securities to a counterparty with an obligation to repurchase at a future date and price. As of September 30, 2021, we had $11.8 million in debt outstanding under our repurchase agreement disclosed within funding debt on the interim condensed consolidated balance sheets. The outstanding debt relates to $13.7 million in pledged securities disclosed within securities available for sale at fair value on the interim condensed consolidated balance sheets and will be amortized through regular principal and interest payments on the pledged securities. The interest rate is 1.08% on the senior pledged securities and 2.63% on the residual certificate pledged securities. The contractual repurchase date is in November 2021. Prior to the repurchase date and subject to mutual agreement by Affirm and the counterparty, we may enter into a repurchase date extension subject to market interest rates on such extension date.

Convertible Debt

In April 2020, we entered into an agreement with various investors pursuant to which we issued convertible notes in an aggregate principal amount of $75.0 million with maturity dates in April 2021 and bearing interest at a rate of 1.00% per annum.

In September 2020, as part of our Series G equity financing round, the convertible notes issued in April 2020 were fully converted into 4,444,321 shares of Series G-1 preferred stock.

Revolving Credit Facility

On January 19, 2021, we entered into a revolving credit agreement with a syndicate of commercial banks for a $185.0 million unsecured revolving credit facility. This facility bears interest at a rate equal to, at our option, either (a) a Eurodollar rate determined by reference to adjusted LIBOR for the interest period, plus an applicable margin of 2.50% per annum or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50% per annum, (ii) the rate last quoted by The Wall Street Journal as the U.S. prime rate, and (iii) the one-month adjusted LIBOR plus 1.00% per annum, in each case, plus an applicable margin of 1.50% per annum. The revolving credit agreement has a final maturity date of January 19, 2024. The facility contains certain covenants and restrictions, including certain financial maintenance covenants, and requires payment of a monthly unused commitment fee of 0.35% per annum on the undrawn balance available. There are no borrowings outstanding under the facility at September 30, 2021.

11. Securitization and Variable Interest Entities

Consolidated VIEs

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

Warehouse Credit Facilities

We established certain entities, deemed to be VIEs, to enter into warehouse credit facilities for the purpose of purchasing loans from our originating bank partners. Refer to Note 10. Debt for additional information. The creditors of the VIEs have no recourse to the general credit of Affirm and the liabilities of the VIEs can only be settled by the respective VIEs' assets; however, as the servicer of the loans pledged to our warehouse funding facilities, we have the power to direct the activities that most significantly impact the VIEs' economic performance. In addition, we retain significant economic exposure to the pledged loans and therefore, we are the primary beneficiary.

Securitizations

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

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

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

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

During the three months ended September 30, 2021, we consolidated Affirm Asset Securitization Trust 2020-Z1 ("2020-Z1"), Affirm Asset Securitization Trust 2020-A ("2020-A"), Affirm Asset Securitization Trust 2020-Z2 ("2020-Z2"), Affirm Asset Securitization Trust 2021-A ("2021-A"), and Affirm Asset Securitization Trust 2020-A ("2021-B"). Each securitization trust issued senior notes and residual certificates to finance the purchase of the loans facilitated by our platform. At the closing of each securitization, we contributed loans, facilitated through our technology platform and purchased from our originating bank partners, with an aggregate outstanding principal balance of $2,375.3 million. The 2020-Z1 and 2020-Z2 securitizations are secured by static pools of loans contributed at closing, whereas the 2020-A, 2021-A, and 2021-B securitization are revolving and we may contribute additional loans from time to time until the end of the revolving period. For the 2020-Z2 securitization, we purchased $27.9 million of loan receivables from our third-party loan buyers which were then contributed to the trust.

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

2021-B

On August 4, 2021, the notes under the 2021-B securitization were issued in five classes: Class A in the amount of $418.8 million, Class B in the amount of $28.0 million, Class C in the amount of $19.8 million, Class D in the amount of $22.5 million, and Class E in the amount of $11.0 million (collectively, the “2021-B notes”). The Class A, Class B, Class C, Class D, and Class E notes bear interest at a fixed rate of 1.03%, 1.24%, 1.40%, 2.54%, and 4.61%, respectively, and each class has a maturity date of August 17, 2026. Principal and interest payments began in October 2021 and are payable monthly. These notes are recorded at amortized cost on the interim condensed consolidated balance sheet. The associated debt issuance costs, which totaled $3.0 million as of September 30, 2021, are deferred and amortized into interest expense over the estimated weighted average life of the notes. The 2021-B notes held by third-party investors and the unamortized debt issuance costs are included in notes issued by securitization trusts with a balance of $500.0 million on the interim condensed consolidated balance sheets at September 30, 2021 and are secured by loan receivables at amortized cost of $490.0 million included in loans held for investment on the interim condensed consolidated balance sheets as of September 30, 2021.

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

	September 30, 2021		
	Assets	**Liabilities**	**Net Assets**
Warehouse credit facilities	$ 433,661	$ 381,909	$ 51,752
Securitizations	1,650,812	1,624,185	26,627
Total consolidated VIEs	$ 2,084,473	$ 2,006,094	$ 78,379

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

Unconsolidated VIEs

For the three months ended September 30, 2021, Affirm Asset Securitization Trust 2021-Z1 (“2021-Z1”) was an unconsolidated VIE. We did not retain significant economic exposure through our variable interests and therefore we determined that we are not the primary beneficiary as of September 30, 2021.

2021-Z1

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

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

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

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

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

The following tables present the aggregate carrying value of financial assets and liabilities for unconsolidated VIEs where we hold a variable interest but are not the primary beneficiary:

	September 30, 2021			
	Assets	Liabilities	Net Assets	Maximum Exposure to Losses
Securitizations	$ 262,451	$ 260,644	$ 1,807	$ 14,179
Total unconsolidated VIEs	$ 262,451	$ 260,644	$ 1,807	$ 14,179

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

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

Maximum exposure to losses represents our exposure through our continuing involvement as servicer and through our retained interests. For 2021-Z1, this includes $13.7 million in retained 2021-Z1 notes and residual certificates disclosed within securities available for sale at fair value in our interim condensed consolidated balance sheets and $0.5 million related to our 2021-Z1 servicing asset and receivables disclosed within other assets in our interim condensed consolidated balance sheets.

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

Retained Beneficial Interests in Unconsolidated VIEs

The investors of the securitizations have no direct recourse to the assets of Affirm, and the timing and amount of beneficial interest payments is dependent on the performance of the underlying loan assets held within each trust. We have classified our retained beneficial interests in 2021-Z1 as “available for sale” and as such they are disclosed at fair value in our consolidated balance sheets.

See Note 12. Investments and Note 13. Fair Value of Financial Assets and Liabilities for additional information on the fair value sensitivity of the notes receivable and residual certificates. Additionally, as of September 30, 2021, we have pledged the 2021-Z1 retained beneficial interests as collateral in connection with a repurchase agreement as described in Note 10. Debt.

12. Investments

Securities Available for Sale, at Fair Value

Securities available for sale primarily consist of cash equivalents and marketable debt securities. Retained interests in our off balance sheet securitization funding transactions are also classified as available for sale.

The amortized cost, gross unrealized gains and losses, allowance for credit losses, and fair value of securities available for sale as of September 30, 2021 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Certificates of deposit [1]	$ 46,714	$ 1	$ (1)	$ —	$ 46,714
Corporate bonds [1]	202,204	9	(128)	—	202,085
Commercial paper [1]	316,424	2	(4)	—	316,422
Government bonds					
Non-US	50,111	—	(38)	—	50,073
US	63,730	—	(9)	—	63,721
Securitization notes receivable and certificates	13,827	23	(105)	(1)	13,744
Other	2,003	—	—	—	2,003
Total securities available for sale	$ 695,013	$ 35	$ (285)	$ (1)	$ 694,762

[1] Certificates of deposit, corporate bonds, and commercial paper include $238.5 million classified as cash and cash equivalents within the interim condensed consolidated balance sheets.

The amortized cost, gross unrealized gains and losses, allowance for credit losses, and fair value of securities available for sale as of June 30, 2021 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Securitization notes receivable and certificates	$ 16,144	$ 29	$ —	$ (3)	$ 16,170
Total securities available for sale	$ 16,144	$ 29	$ —	$ (3)	$ 16,170

As of September 30, 2021 and June 30, 2021, there were no material reversals of prior period allowance for credit losses recognized for available for sale securities.

A summary of securities available for sale with unrealized losses for which an allowance for credit losses has not been recorded, aggregated by investment category and the length of time that individual securities have been in a continuous loss position as of September 30, 2021, is as follows:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Certificates of deposit	$ 26,702	$ (1)	$ —	$ —	$ 26,702	$ (1)
Corporate bonds	192,765	(128)	—	—	192,765	(128)
Commercial paper	203,958	(4)	—	—	203,958	(4)
Government bonds						
Non-US	50,073	(38)	—	—	50,073	(38)
US	60,617	(9)	—	—	60,617	(9)
Securitization notes receivable and certificates	689	(105)	—	—	689	(105)
Other	—	—	—	—	—	—
Total securities available for sale	$ 534,804	$ (285)	$ —	$ —	$ 534,804	$ (285)

There were no securities available for sale with unrealized losses for which an allowance for credit losses had not been recorded as of June 30, 2021.

The length of time contractual maturities of securities available for sale as of September 30, 2021, were as follows:

	Less than 1 year		1 year through 5 years			Total	
	Net Carrying Value	**Fair Value**	**Net Carrying Value**	**Fair Value**		**Net Carrying Value**	**Fair Value**
Certificates of deposit	$ 46,714	$ 46,714	$ —	$ —		$ 46,714	$ 46,714
Corporate bonds	138,172	138,115	64,032	63,970	63,970	202,204	202,085
Commercial paper	316,424	316,422	—	—		316,424	316,422
Government bonds							
Non-US	39,805	39,782	10,306	10,291		50,111	50,073
US	31,292	31,288	32,438	32,433		63,730	63,721
Securitization notes receivable and certificates [(1)]	—	—	13,826	13,744		13,826	13,744
Other	2,003	2,003	—	—		2,003	2,003
Total securities available for sale	$ 574,410	$ 574,324	$ 120,602	$ 120,438		$ 695,012	$ 694,762

(1) Based on weighted average life of expected cash flows as of September 30, 2021.

Gross proceeds from matured or redeemed securities for the three months ended September 30, 2021 were $50.7 million.

There were no portfolio sales or associated realized gains or losses for available for sale securities for the three months ended September 30, 2021.

We did not hold any securities classified as available for sale for the three months ended September 30, 2020.

Equity Securities, at Cost

Equity investments without a readily determinable fair value held at cost were $11.3 million as of September 30, 2021 and June 30, 2021 and are included in other assets within the interim condensed consolidated balance sheets.

We did not record any impairment or upward or downward adjustments at fair value as of September 30, 2021 and there were no realized gains or losses from sales of equity investments held at cost for the three months ended September 30, 2021 or September 30, 2020.

13. Fair Value of Financial Assets and Liabilities

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

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

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

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

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Financial Assets and Liabilities Recorded at Fair Value

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

	Level 1	Level 2	Level 3	Total
Assets:				
Servicing assets	$ —	$ —	$ 2,287	$ 2,287
Securities available for sale:				
Certificate of deposit [1]	—	46,714	—	46,714
Corporate bonds [1]	—	202,085	—	202,085
Commercial paper [1]	—	316,422	—	316,422
Government bonds:				
Non-U.S.	—	50,073	—	50,073
U.S.	—	63,721	—	63,721
Securitization notes receivable and residual trust certificates	—	—	13,744	13,744
Other	—	—	2,003	2,003
Total securities available for sale	—	679,015	15,747	694,762
Interest rate cap agreements	—	4,035	—	4,035
Total assets	$ —	$ 683,050	$ 18,034	$ 701,084
Liabilities:				
Servicing liabilities	$ —	$ —	$ 3,610	$ 3,610
Performance fee liability	—	—	1,335	1,335
Residual trust certificates, held by third-parties	—	—	745	745
Contingent consideration	—	—	290,719	290,719
Profit share liability	—	—	1,400	1,400
Total liabilities	$ —	$ —	$ 297,809	$ 297,809

(1) Certificates of deposit, corporate bonds, and commercial paper include $238.5 million classified as cash and cash equivalents within the interim condensed consolidated balance sheets.

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

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

There were no transfers between levels during the periods ended September 30, 2021 and June 30, 2021.

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

Securities Available for Sale

As of September 30, 2021, we held marketable securities classified as available for sale. Management obtains pricing from one or more third party pricing services for the purpose of determining fair value. Whenever available, the fair value is based on quoted bid prices as of the end of the trading day. When quoted prices are not available, other methods may be utilized including evaluated prices provided by third party pricing services.

Derivative Instruments (Interest Rate Cap Agreements)

As of September 30, 2021, we had two interest rate cap agreements outstanding to manage interest costs and the risk associated with variable interest rates. These derivatives have not been designated as hedging instruments. As of September 30, 2021 the interest rate caps are classified as Level 2 and recorded at fair value, based on prices quoted for similar financial instruments in markets that are not active. The interest rate caps are presented within other assets or accrued expenses and other liabilities on the interim condensed consolidated balance sheets. Any changes in the fair value of the financial instruments are reflected in other (expense) income, net, on the interim condensed consolidated statements of operations and comprehensive loss.

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

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

Servicing Assets and Liabilities

We sold loans with an unpaid balance of $1,093.1 million and $421.6 million for the three months ended September 30, 2021 and 2020, respectively, for which we retained servicing rights.

As of September 30, 2021 and June 30, 2021, we serviced loans which we sold with a remaining unpaid principal balance of $2,622.7 million and $2,453.9 million, respectively.

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

Adequate Compensation

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

Discount Rate

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

Net Default Rate

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

We earned $9.5 million and $4.1 million of servicing income for the three months ended September 30, 2021 and 2020, respectively.

As of both September 30, 2021 and June 30, 2021, the aggregate fair value of the servicing assets was measured at $2.3 million and presented within other assets on the interim condensed consolidated balance sheets. As of September 30, 2021 and June 30, 2021, the aggregate fair value of the servicing liabilities was measured at $3.6 million and $4.0 million, respectively, and presented within accrued expenses and other liabilities on the interim condensed consolidated balance sheets.

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

	Servicing Assets	
	September 30, 2021	**June 30, 2021**
Fair value at beginning of period	$ 2,349	$ 2,132
Initial transfers of financial assets	469	2,915
Subsequent changes in fair value	(531)	(2,698)
Fair value at end of period	$ 2,287	$ 2,349

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

	Servicing Liabilities	
	September 30, 2021	June 30, 2021
Fair value at beginning of period	$ 3,961	$ 1,540
Initial transfers of financial assets	1,975	8,794
Subsequent changes in fair value	(2,326)	(6,373)
Fair value at end of period	$ 3,610	$ 3,961

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

	Unobservable Input	Minimum	Maximum	Weighted Average
Servicing assets	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [(1)]	0.60 %	1.75 %	0.97 %
	Net default rate	0.70 %	4.43 %	1.59 %
Servicing liabilities	Discount rate	30.00 %	30.00 %	30.00 %
	Adequate compensation [(1)]	1.55 %	3.48 %	2.75 %
	Net default rate	1.05 %	13.54 %	10.60 %

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

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

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

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

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

	September 30, 2021	June 30, 2021
Servicing assets		
Net default rate assumption:		
Net default rate increase of 25%	$ —	$ (7)
Net default rate increase of 50%	$ 4	$ (15)
Adequate compensation assumption:		
Adequate compensation increase of 25%	$ (2,832)	$ (2,006)
Adequate compensation increase of 50%	$ (5,663)	$ (4,011)
Discount rate assumption:		
Discount rate increase of 25%	$ (29)	$ (4)
Discount rate increase of 50%	$ (61)	$ (1)
Servicing liabilities		
Net default rate assumption:		
Net default rate increase of 25%	$ (31)	$ (40)
Net default rate increase of 50%	$ (53)	$ (61)
Adequate compensation assumption:		
Adequate compensation increase of 25%	$ 2,482	$ 3,060
Adequate compensation increase of 50%	$ 4,963	$ 6,119
Discount rate assumption:		
Discount rate increase of 25%	$ (134)	$ (137)
Discount rate increase of 50%	$ (257)	$ (263)

Performance Fee Liability

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

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

	Performance Fee Liability	
	September 30, 2021	June 30, 2021
Fair value at beginning of period	$ 1,290	$ 875
Purchases of loans	330	1,372
Subsequent changes in fair value	(285)	(957)
Fair value at end of period	$ 1,335	$ 1,290

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

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

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	10.00%	10.00%	10.00%
Refund rate	4.50%	4.50%	4.50%
Default rate	1.78%	2.35%	2.00%

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

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	10.00%	10.00%	10.00%
Refund rate	4.50%	4.50%	4.50%
Default rate	1.78%	2.83%	1.80%

Convertible Debt Derivative

Refer to Note 10. Debt for a description of the convertible notes issued in April 2020. On September 11, 2020, the convertible notes were converted into 4,444,321 shares of Series G-1 redeemable convertible preferred stock. The conversion of the notes was accounted for as a debt extinguishment and as such, the related convertible debt derivative liability was extinguished.

Residual Trust Certificates Held by Third-Parties in Consolidated VIEs

Refer to Note 11. Securitization and Variable Interest Entities for a description of the 2020-Z2 securitization trust. Residual trust certificates held by third-party investor(s) are measured at fair value, using a discounted cash flow model, and presented within accrued expenses and other liabilities on the interim condensed consolidated balance sheets. Any changes in the fair value of the liability are reflected in other (expense) income, net, on the interim condensed consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the residual trust certificates held by third-parties (in thousands):

	Three Months Ended September 30, 2021
Fair value at beginning of period	$ 914
Repayments	(255)
Subsequent changes in fair value	86
Fair value at end of period	$ 745

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

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

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

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

	September 30, 2021
Discount rate assumption:	
Discount rate increase of 25%	$ (16)
Discount rate increase of 50%	$ (32)
Loss rate assumption:	
Loss rate increase of 25%	$ (22)
Loss rate increase of 50%	$ (43)
Prepayment rate assumption:	
Prepayment rate decrease of 25%	$ (7)
Prepayment rate decrease of 50%	$ (14)

Retained Beneficial Interests in Unconsolidated VIEs

As of September 30, 2021, the Company held notes receivable and residual trust certificates with an aggregate fair value of $13.7 million in connection with the 2021-Z1 securitization, which is an unconsolidated securitization. The balances correspond to the 5% economic risk retention the Company is required to maintain as the securitization sponsor. Refer to Note 11. Securitization and Variable Interest Entities for a further description of the 2021-Z1 securitization trust.

These assets are measured at fair value using a discounted cash flow model, and presented within securities available for sale at fair value on the interim condensed consolidated balance sheets. Changes in the fair value, other than declines in fair value due to credit recognized as an impairment, are reflected in other comprehensive income (loss) on the interim condensed consolidated statements of operations and comprehensive loss. Declines in fair value due to credit are reflected in other (expense) income, net on the interim condensed consolidated statements of operations and comprehensive loss.

The following table summarizes the activity related to the fair value of the residual trust certificates (in thousands):

	Three Months Ended September 30, 2021
Fair value at beginning of period	$ 16,170
Cash received (due to payments or sales)	(2,304)
Change in unrealized gain (loss)	(111)
Accrued interest	(14)
Reversal of (impairment on) securities available for sale	3
Fair value at end of period	$ 13,744

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

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

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	0.88%	17.19%	1.41%
Loss rate	0.61%	0.92%	0.61%
Prepayment rate	5.25%	10.50%	10.50%

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

	September 30, 2021
Discount rate assumption:	
Discount rate increase of 25%	$ (52)
Discount rate increase of 50%	$ (103)
Loss rate assumption:	
Loss rate increase of 25%	$ (19)
Loss rate increase of 50%	$ (38)
Prepayment rate assumption:	
Prepayment rate decrease of 25%	$ (11)
Prepayment rate decrease of 50%	$ (22)

Contingent Consideration

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

The following table summarizes the activity related to the fair value of the PayBright contingent consideration during the three months ended September 30, 2021 (in thousands):

	Three Months Ended September 30, 2021
Fair value at beginning of period	$ 153,447
Subsequent changes in fair value	141,592
Effect of foreign currency translation	(4,320)
Fair value at end of period	$ 290,719

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

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

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	12.50%	12.50%	12.50%
Equity volatility	22.00%	97.00%	70.00%
Revenue volatility	7.00%	102.00%	31.00%

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

Profit Share Liability

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

The following table summarizes the activity related to the fair value of the profit share liability during the three months ended September 30, 2021 (in thousands):

	Three Months Ended September 30, 2021
Fair value at beginning of period	$ 2,464
Facilitation of loans	1,040
Actual performance	—
Subsequent changes in fair value	(2,104)
Fair value at end of period	$ 1,400

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

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

Unobservable Input	Minimum	Maximum	Weighted Average
Discount rate	30.00%	30.00%	30.00%
Program profitability	1.78%	3.16%	3.16%

Financial Assets and Liabilities Not Recorded at Fair Value

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

	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 1,439,531	$ 1,439,531	$ —	$ —	$ 1,439,531
Restricted cash	236,282	236,282	—	—	236,282
Loans held for sale	1,808	—	1,808	—	1,808
Loans held for investment, net	2,092,805	—	—	2,034,563	2,034,563
Accounts receivable, net	100,951	—	100,951	—	100,951
Other assets	89,452	—	89,452	—	89,452
Total assets	$ 3,960,829	$ 1,675,813	$ 192,211	$ 2,034,563	$ 3,902,587
Liabilities:					
Accounts payable	$ 425,854	$ —	$ 425,854	$ —	$ 425,854
Payable to third-party loan owners	38,462	—	38,462	—	38,462
Accrued interest payable	3,304	—	3,304	—	3,304
Accrued expenses and other liabilities	152,853	—	150,787	2,066	152,853
Notes issued by securitization trusts	1,621,638	—	—	1,889,744	1,889,744
Funding debt	495,066	—	—	495,066	495,066
Total liabilities	$ 2,737,177	$ —	$ 618,407	$ 2,386,876	$ 3,005,283

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

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

14. Redeemable Convertible Preferred Stock and Stockholders’ Equity

Redeemable Convertible Preferred Stock

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

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

Common Stock

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

	September 30, 2021	June 30, 2021
Available outstanding under stock option plan	50,358,651	58,417,514
Available for future grant under stock option plan	43,127,440	29,793,755
Total	93,486,091	88,211,269

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

15. Equity Incentive Plans

2012 Stock Plan

Under our Amended and Restated 2012 Stock Plan (the "Plan"), we may grant incentive and nonqualified stock options, restricted stock, and restricted stock units ("RSUs") to employees, officers, directors, and consultants. As of September 30, 2021, the maximum number of shares of common stock which may be issued under the Plan is 118,374,202 Class A shares. As of September 30, 2021 and June 30, 2021, there were 43,127,440 and 29,793,755 shares of Class A common stock, respectively, available for future grants under the Plan.

Stock Options

For stock options granted before our IPO in January 2021, the minimum expiration period is seven years after termination of employment or 10 years from the date of grant. For stock options granted after our IPO, the minimum expiration period is three months after termination of employment or 10 years from the date of grant. Stock options generally vest over a period of four years or with 25% vesting on the 12 month anniversary of the vesting commencement date, and the remainder vesting on a pro-rata basis each month over the next three years.

The following table summarizes our stock option activity for the three months ended September 30, 2021:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Balance, June 30, 2021	31,662,750	$ 10.42	6.30	
Granted	—	—		
Exercised	(7,424,538)	5.08		
Forfeited, expired or cancelled	(383,466)	36.19		
Balance, September 30, 2021	23,854,746	11.67	6.59	
Vested and exercisable, September 30, 2021	14,234,138	$ 5.30	6.57	$ 1,620,245
Vested and exercisable, and expected to vest thereafter[1] September 30, 2021	23,253,440	$ 10.70	6.59	$ 2,521,414

(1) Options expected to vest reflect the application of an estimated forfeiture rate.

When an employee exercises stock options, we collect and remit taxes on the employee’s behalf to applicable taxing authorities. As of September 30, 2021 and June 30, 2021, the balance of equity exercise taxes payable was $395.2 million and $23.7 million, respectively, which is included in accounts payable on the interim condensed consolidated balance sheets.

Stock Options for Non-Employees

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

Stock Options with Early Exercise Rights

In accordance with the Plan, we allow for early exercise of stock options while retaining the right to repurchase any unvested options upon termination at the original exercise price. The proceeds received from early exercise of stock options has been recorded within accrued expenses and other liabilities on the interim condensed consolidated balance sheets. As of September 30, 2021, the early exercise liability totaled $0.6 million.

Value Creation Award

In November 2020, in connection with an overall review of the compensation of Max Levchin, our Chief Executive Officer, in advance of the IPO, and taking into account Mr. Levchin’s leadership since the inception of the Company, the comparatively modest level of cash compensation he had received from the Company during his many years of service, and that he did not hold any unvested equity awards, the Company's Board of Directors approved a long-term, multi-year performance-based stock option grant providing Mr. Levchin with the opportunity to earn the right to purchase up to 12,500,000 shares of the Company's Class A common stock (the “Value Creation Award”). We recognize stock-based compensation on these awards using an accelerated attribution method over the requisite service period, and only if performance-based conditions are considered probable of being satisfied. During the three months ended September 30, 2021, we incurred stock-based compensation expense of $42.3 million associated with the Value Creation Award as a component of general and administrative expense within the interim condensed consolidated statements of operations and comprehensive loss.

As of September 30, 2021, unrecognized compensation expense related to the Value Creation Award was approximately $305.9 million. The period over which such compensation expense will be recognized is approximately 4.3 years.

Restricted Stock Units

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

RSUs granted after IPO are subject to a service-based vesting condition. We record stock-based compensation expense for service-based RSUs on a straight-line basis over the requisite service period, which is generally four years.

During the three months ended September 30, 2021, we awarded 1,550,917 RSUs to certain employees under the Plan.

The following table summarizes our RSU activity during the three months ended September 30, 2021:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2021	14,242,111	$ 37.93
Granted	1,550,917	67.03
Vested	(1,292,316)	22.54
Forfeited, expired or cancelled	(496,807)	38.51
Non-vested at September 30, 2021	14,003,905	$ 42.32

As of September 30, 2021, unrecognized compensation expense related to unvested RSUs was approximately $498.3 million. The weighted-average period over which such compensation expense will be recognized is approximately 2.73 years.

Stock-Based Compensation Expense

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

	Three Months Ended September 30,	
	2021	2020
General and administrative	$ 67,742	$ 3,204
Technology and data analytics	20,067	2,213
Sales and marketing	5,024	760
Processing and servicing	356	26
Total stock-based compensation in operating expenses	93,189	6,203
Capitalized into property, equipment and software, net	11,690	972
Total stock-based compensation expense	$ 104,879	$ 7,175

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

We estimate the grant date fair value based on the probability of achievement of the revenue targets at each reporting period.

16. Income Taxes

For the three months ended September 30, 2021 and 2020, we recorded income tax expense of $0.2 million and $0.1 million, respectively, which was primarily attributable to various U.S. state and foreign income taxes and the tax amortization of certain intangibles.

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

17. Net Loss per Share Attributable to Common Stockholders

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

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

	Three Months Ended September 30, 2021	
	Class A	**Class B**
Numerator:		
Basic		
Net Loss	$ (212,082)	$ (94,533)
Net Loss Attributable to Common Stockholders	$ (212,082)	$ (94,533)
Diluted		
Net Loss	$ (212,082)	$ (94,533)
Net Loss Attributable to Common Stockholders	$ (212,082)	$ (94,533)
Denominator:		
Basic		
Weighted average shares outstanding, basic	187,916,455	83,761,061
Total-basic	187,916,455	83,761,061
Diluted		
Weighted average common shares outstanding, diluted	187,916,455	83,761,061
Total-diluted	187,916,455	83,761,061
Net loss per share attributable to common stockholders:		
Basic	$ (1.13)	$ (1.13)
Diluted	$ (1.13)	$ (1.13)

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

		Three Months Ended September 30, 2020
Numerator:		
Basic		
Net Loss	$	(3,946)
Net Loss Attributable to Common Stockholders	**$**	**(3,946)**
Diluted		
Net Loss	$	(3,946)
Gain on conversion of convertible debt		(30,106)
Interest on convertible debt prior to conversion		398
Amortization of debt discount prior to conversion		1,792
Net Loss Attributable to Common Stockholders	**$**	**(31,862)**
Denominator:		
Basic		
Weighted average shares outstanding, basic		64,778,024
Total-basic		**64,778,024**
Diluted		
Weighted average common shares outstanding, diluted		64,778,024
Weighted average common shares attributable to convertible debt prior to conversion		3,478,165
Total-diluted		**68,256,189**
Net loss per share attributable to common stockholders:		
Basic	$	(0.06)
Diluted	$	(0.47)

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

	As of September 30,	
	2021	2020
Redeemable convertible preferred stock	—	148,384,433
Stock options, including early exercise of options	36,354,746	42,213,842
Restricted stock units	14,003,905	7,802,245
Common stock warrants	—	15,929,262
Total	50,358,651	214,329,782

18. Segments and Geographical Information

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

Revenue

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

	Three Months Ended September 30,	
	2021	2020
United States	$ 261,603	$ 172,242
Canada	7,782	1,736
Total	$ 269,385	$ 173,978

Long-Lived Assets

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

	September 30, 2021	June 30, 2021
United States	$ 140,935	$ 118,076
Canada	2,552	2,251
Total	$ 143,487	$ 120,327

19. Subsequent Events

On November 10, 2021, we entered into an amended and restated commercial agreement with Amazon.com Services LLC ("Amazon Services") and Amazon Payments, Inc. In connection with this agreement, we issued to Amazon Services: (i) a warrant (the "First Warrant") to purchase up to an aggregate of 7,000,000 shares of Class A common stock at an exercise price of $0.01 per share; and (ii) a warrant (the "Second Warrant" and, together with the First Warrant, the "Warrants") to purchase up to an aggregate of 15,000,000 shares of Class A common stock at an exercise price of $100.00 per share. The Warrants vest in multiple tranches in accordance with the terms of the Warrants. The First Warrant expires on May 9, 2025 and the Second Warrant expires on May 9, 2029.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the interim condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q ("Form 10-Q") and our audited consolidated financial statements and the related notes and the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the fiscal year ended June 30, 2021 included in our Annual Report on Form 10-K (our "Annual Report"). Some of the information contained in this discussion and analysis, including information with respect to our planned investments to drive future growth, includes forward-looking statements that involve risks and uncertainties. You should review the sections titled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" of this Form 10-Q and our most recently filed Annual Report on Form 10-K for a discussion of forward-looking statements and important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. For the periods presented, references to originating bank partners are to Cross River Bank and Celtic Bank.

Overview

We are building the next generation platform for digital and mobile-first commerce. We believe that by using modern technology, the very best engineering talent, and a mission-driven approach, we can reinvent payments and commerce. Our solutions, which are built on trust and transparency, make it easier for consumers to spend responsibly and with confidence, easier for merchants to convert sales and grow, and easier for commerce to thrive.

Our point-of-sale solution allows consumers to pay for purchases in fixed amounts without deferred interest, hidden fees, or penalties. We empower consumers to pay over time rather than paying for a purchase entirely upfront. This increases consumers' purchasing power and gives them more control and flexibility. Our platform facilitates both true 0% APR payment options and interest-bearing loans. On the merchant side, we offer commerce enablement, demand generation, and customer acquisition tools. Our solutions empower merchants to more efficiently promote and sell their products, optimize their customer acquisition strategies, and drive incremental sales. We also provide valuable product-level data and insights — information that merchants cannot easily get elsewhere — to better inform their strategies. Finally, our consumer app unlocks the full suite of Affirm products for a delightful end-to-end consumer experience. Consumers can use our app to manage payments, open a high-yield savings account, and access a personalized marketplace.

Our company is predicated on the principles of simplicity, transparency, and putting people first. By adhering to these principles, we have built enduring, trust-based relationships with consumers and merchants that we believe will set us up for long-term, sustainable success. We believe our innovative approach uniquely positions us to define the future of commerce and payments.

Technology and data are at the core of everything we do. Our expertise in sourcing, aggregating, and analyzing data has been what we believe to be the key competitive advantage of our platform since our founding. We believe our proprietary technology platform and data give us a unique advantage in pricing risk. We use data to inform our risk scoring in order to generate value for our consumers, merchants, and capital partners. We collect and store petabytes of information that we carefully structure and use to regularly recalibrate and revalidate our models, thereby getting to risk scoring and pricing faster, more efficiently, and with a higher degree of confidence. We also prioritize building our own technology and investing in product and engineering talent as we believe these are enduring competitive advantages that are difficult to replicate. Our solutions use the latest in machine learning, artificial intelligence, cloud-based technologies, and other modern tools to create differentiated and scalable products.

We have achieved significant growth in recent periods. Our total revenue, net was approximately $269.4 million and $174.0 million for the three months ended September 30, 2021 and 2020, respectively. We incurred net losses of $306.6 million and $3.9 million for the three months ended September 30, 2021 and 2020, respectively.

The combination of our differentiated product offering, efficient go-to-market strategy, and strong monetization engine has resulted in fast growth.

- ***Rapid GMV growth.*** We grew our Gross Merchandise Volume ("GMV") by approximately 84% period-over-period to $2.7 billion during the three months ended September 30, 2021 from $1.5 billion during the three months ended September 30, 2020.

- ***Increased consumer engagement.*** The number of active consumers on our platform grew by 1.6 million consumers from June 30, 2021 to September 30, 2021, an increase of 22%, to a total of 8.7 million.

- ***Expanded merchant network.*** We have also continued to scale the breadth and reach of our platform. From June 30, 2021 to September 30, 2021, our merchant base expanded by 253% to 102,217 active merchants.

Our business was designed to scale efficiently. Our partnerships with banks and other funding relationships have allowed us to remain equity capital efficient. Since July 1, 2016, we have processed approximately $20.2 billion of GMV on our platform. As of September 30, 2021, we had over $7.3 billion in funding capacity from a diverse set of capital partners, including through our warehouse facilities, securitization trusts, and forward flow arrangements, an increase of $0.8 billion from $6.5 billion as of June 30, 2021.

Through the diversity of these funding relationships, the equity capital required to build our total platform portfolio has declined from approximately 4% of the total platform portfolio as of June 30, 2021, to approximately 3% as of September 30, 2021. We define our total platform portfolio as the unpaid principal balance outstanding of all loans facilitated through our platform as of the balance sheet date, including both those loans held for investment and those loans owned by third-parties. This amount totaled $5.0 billion and $4.7 billion as of September 30, 2021 and June 30, 2021, respectively. Additionally, we define the equity capital required as the balance of loans held for investment plus loans held for sale less funding debt and notes issued by securitization trusts, per our interim condensed consolidated balance sheet. This amount totaled $140.2 million and $178.1 million as of September 30, 2021 and June 30, 2021, respectively. Equity capital required as a percent of the last twelve months' GMV was 1% and 2% as of September 30, 2021 and June 30, 2021, respectively.

We believe that our continued success will depend on many factors, including our ability to attract additional merchant partners, retain our existing merchant partners, and grow and develop our relationships with new and existing merchant partners (including our relationship with Amazon), help our merchants grow their revenue on our platform, and develop new innovative solutions to establish the ubiquity of our network and breadth of our platform. For a further discussion of trends, uncertainties and other factors that could impact our operating results, see the section entitled "Risk Factors" in Item 1A, which is incorporated herein by reference.

Our Financial Model

Our Revenue Model

From merchants, we earn a fee when we help them convert a sale and facilitate a transaction. While merchant fees depend on the individual arrangement between us and each merchant and vary based on the terms of the product offering, we generally earn larger merchant fees on 0% APR financing products. For the three months ended September 30, 2021 and 2020, 0% APR financing represented 43% and 46%, respectively, of total GMV facilitated through our platform.

From consumers, we earn interest income on the simple interest loans that we purchase from our originating bank partners. Interest rates charged to our consumers vary depending on the transaction risk, creditworthiness of the consumer, the repayment term selected by the consumer, the amount of the loan, and the individual arrangement with a merchant. Because our consumers are never charged deferred or compounding interest, late fees, or penalties on the loans, we are not incentivized to profit from our consumers' hardships.

In order to accelerate our ubiquity, we facilitate the issuance of virtual cards directly to consumers through our app, allowing them to shop with merchants that may not yet be fully integrated with Affirm. When these virtual cards are used over established card networks, we earn a portion of the interchange fee from the transaction.

Our Loan Origination and Servicing Model

When a consumer applies for a loan through our platform, the loan is underwritten using our proprietary risk model. Once approved for the loan, the consumer then selects his/her preferred repayment option. The substantial majority of these loans are funded and issued by our originating bank partners.

A substantial majority of the loans facilitated through our platform are originated through our originating bank partners: Cross River Bank, an FDIC-insured New Jersey state-chartered bank, and Celtic Bank, an FDIC-insured Utah state-chartered industrial bank. These partnerships allow us to benefit from our partners' ability to originate loans under their banking licenses while complying with various federal, state, and other laws. Under this arrangement, we must comply with our originating bank partners' credit policies and underwriting procedures, and our originating bank partners maintain ultimate authority to decide whether to originate a loan or not. When an originating bank partner originates a loan, it funds the loan out of its own funds and may subsequently offer and sell the loan to us. Pursuant to our agreements with these partners, we are obligated to purchase the loans facilitated through our platform that our partner offers us and our obligation is secured by cash deposits. To date, we have purchased all of the loans facilitated through our platform and originated by our originating bank partners. When we purchase a loan from an originating bank partner, the purchase price is equal to the outstanding principal balance of the loan, plus a fee and any accrued interest. The originating bank partner also retains an interest in the loans purchased by us through a loan performance fee that is payable by us on the aggregate principal amount of a loan that is paid by a consumer. See Note 13. Fair Value of Financial Assets and Liabilities for more information on the performance fee liability.

We are also able to originate loans directly under our lending, servicing, and brokering licenses in Canada and across various states in the U.S. through our consolidated subsidiaries. As of September 30, 2021, we had originated approximately $394.0 million of loans in Canada. As of September 30, 2021, we had directly originated $722.4 million of loans in the U.S. pursuant to our state licenses.

We act as the servicer on all loans that we originate directly or purchase from our originating bank partners and earn a servicing fee on loans we sell to our funding sources. We do not sell the servicing rights on any of the loans, allowing us to control the consumer experience end-to-end. To allow for flexible staffing to support overflow and seasonal traffic, we partner with several sub-servicers to manage customer care, first priority collections, and third-party collections in accordance with our policies and procedures.

Our Funding Sources

We maintain a capital-efficient model through a diverse set of funding sources. When we originate a loan directly or purchase a loan originated by our originating bank partners, we often utilize warehouse facilities with certain lenders to finance our lending activities or loan purchases. We sell the loans we originate or purchase from our originating bank partners to whole loan buyers and securitization investors through forward flow arrangements and securitization transactions, and earn servicing fees from continuing to act as the servicer on the loans.

Key Operating Metrics

We collect and analyze operating and financial data of our business to assess our performance, formulate financial projections, and make strategic decisions. In addition to revenue, net (loss) income, and other results under accounting principles generally accepted in the United States ("U.S. GAAP"), the following tables set forth key operating metrics we use to evaluate our business.

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
Gross Merchandise Volume (GMV)	$ 2,712,939	$ 1,475,929

GMV

We measure gross merchandise volume to assess the volume of transactions that take place on our platform. We define GMV as the total dollar amount of all transactions on the Affirm platform during the applicable period, net of refunds. GMV does not represent revenue earned by us. However, the GMV processed through our platform is an indicator of the success of our merchants and the strength of our platform. For the three months ended September 30, 2021, GMV was $2.7 billion, which represented an increase of approximately 84% as compared to $1.5 billion for the three months ended September 30, 2020.

	September 30, 2021	June 30, 2021	September 30, 2020
	(in thousands, except per consumer data)		
Active Consumers	8,692	7,121	3,882
Transactions per Active Consumer (x)	2.3	2.3	2.2

Active Consumers

We assess consumer adoption and engagement by the number of active consumers across our platform. Active consumers are the primary measure of the size of our network. We define an active consumer as a consumer who engages in at least one transaction on our platform during the 12 months prior to the measurement date. As of September 30, 2021, we had 8.7 million active consumers, representing an increase of approximately 22% compared to 7.1 million at June 30, 2021, and approximately 124% compared to $3.9 million at September 30, 2020.

Transactions per Active Consumer

We believe the value of our network is amplified with greater consumer engagement and repeat usage, highlighted by increased transactions per active consumer. Transactions per active consumer is defined as the average number of transactions that an active consumer has conducted on our platform during the 12 months prior to the measurement date. As of September 30, 2021, we had approximately 2.3 transactions per active consumer, an increase of 3% compared to June 30, 2021, and approximately 8% compared to September 30, 2020. Transactions per active consumer includes incremental transactions completed by active consumers on the PayBright and Returnly platforms during the twelve months prior to the measurement date and prior to the acquisitions of PayBright and Returnly by Affirm.

Factors Affecting Our Performance

Expanding our Network, Diversity, and Mix of Funding Relationships

Our capital efficient funding model is integral to the success of our platform. As we scale the number of transactions on our network and grow GMV, we maintain a variety of funding relationships in order to support our network. Our diversified funding relationships include warehouse facilities, securitization trusts, forward flow arrangements, and partnerships with banks. Given the short duration and strong performance of our assets, funding can be recycled quickly, resulting in a high-velocity, capital efficient funding model. We have continued to reduce the percentage of our equity capital required to fund our total platform portfolio from approximately 4% as of June 30, 2021 to approximately 3% as of September 30, 2021. The mix of on-balance sheet and off-balance sheet funding will also impact our results in any given period.

Mix of Business on Our Platform

The mix of products that our merchants offer and our consumers purchase in any period affects our operating results. The mix impacts GMV, revenue, and the financial results of that period. Differences in product mix relate to different loan durations, APR mix, and varying proportion of 0% APR versus interest-bearing financings. For example, our low average order value ("AOV") products generally benefit from shorter duration, but also have lower revenue as a percentage of GMV when compared to high AOV products. These mix shifts are driven in part by merchant-side activity relating to the marketing of their products, whether the merchant is fully integrated within our network, and general economic conditions affecting consumer demand. In addition, we expect that our commercial agreement with Shopify to offer Shop Pay Installments powered by Affirm and our recent Split Pay offering, a short-term payment plan for purchases under $250 with 0% APR, will increase the mix of our shorter duration, low AOV products. Differences in the mix of high versus low AOV will also impact our results. For example, we expect that transactions per active consumer may increase while revenue as a percentage of GMV may decline in the medium term to the extent that a greater portion of our GMV comes from Split Pay and other low-AOV offerings.

Sales and Marketing Investment

We have historically relied on the strength of our merchant relationships and positive user experience to develop our consumer brand and grow the ubiquity of our platform. During the three months ended September 30, 2021, we increased our investment in sales and marketing channels that we believe will drive further brand awareness and preference among both consumers and merchants. Given the nature of our revenue, our investment in sales and marketing in a given period may not impact results until subsequent periods. Additionally, given the increasingly competitive nature of merchant acquisition, we expect that we may make significant investments in retaining and acquiring new merchants. We are focused on the effectiveness of sales and marketing spending and will continue to be strategic in maintaining efficient consumer and merchant acquisition.

Seasonality

We experience seasonal fluctuations in our revenue as a result of consumer spending patterns. Historically, our revenue has been the strongest during the second quarter of our fiscal year due to increases in retail commerce occurring through the holiday season. Additionally, revenue associated with the purchase of home fitness equipment historically has been strongest in the third quarter of our fiscal year. Adverse events that occur during these months could have a disproportionate effect on our financial results for the fiscal year.

Timing of Merchant Transaction Recognition Change

The timing of our revenue recognition is tied to when a merchant captures payment and confirms a transaction financed through our platform, which we refer to as the merchant capture date. If a merchant recognizes the payment collection and confirms the transaction later in their transaction process, we expect that this change would delay the merchant capture date, which would delay our recognition of GMV and revenue related to that merchant's transactions by a corresponding amount. Such a delay would adversely affect the GMV and revenue that we recognize from such merchant's transactions in the quarterly period of such change, as the merchant capture date for a portion of such transactions would shift to a future quarterly period. We typically experience small timing differences between the consumer purchase date and the date when a merchant captures payment; however, these differences have historically been immaterial.

In December 2020, the implementation of such a change began with respect to our largest merchant, Peloton, who implemented a change in the timing of when the transaction is considered captured. This resulted in a delay in the recognition of GMV and revenue related to these transactions in the period ended December 31, 2020.

In the three months ended September 30, 2021, we facilitated $29.6 million more transaction volume on our platform than was captured and confirmed by our merchants, an increase of $16.1 million from the three months ended September 30, 2020, in which we facilitated $13.5 million more transaction volume than was captured and confirmed by our merchants. As of September 30, 2021 and over the multi-year life of our merchant partnership with Peloton, we had facilitated approximately $18.1 million more transaction volume than had been captured and confirmed by the merchant. As of September 30, 2020, we had not yet implemented the change in timing of when the transactions is considered captured.

For more information on factors affecting our performance, see the section titled “Risk Factors” in Item 1A.

Impact of COVID-19

The COVID-19 pandemic has had, and continues to have, a significant impact on the U.S. economy and the markets in which we operate. Our positive performance during this period demonstrates the value and effectiveness of our platform, the resiliency of our business model, and the capabilities of our risk management and underwriting approach. However, some of the COVID-19 related trends underlying this positive performance, in particular the significant revenue generated from certain types of merchants, may not continue at current levels.

Diversified Mix of Merchant Partners

We have a diversified set of merchant partners across industries, which allows us to capitalize on industry tailwinds and changing consumer spending behavior, economic conditions, and other factors that may affect a particular type of merchant or industry. For example, following the onset of the COVID-19 pandemic, our revenue from merchant partners in the travel, hospitality, and entertainment industries declined significantly, but we saw a significant increase in revenue from merchant partners offering home fitness equipment, home office products, and home furnishings. While we have benefited as a result of such consumer spending trends, there can be no assurance that such trends will continue or that the levels of total revenue and merchant network revenue that we generate from merchants in fitness equipment, home office products, and home furnishings industries will continue; in fact, we have begun to see these trends begin to reverse as access to COVID-19 vaccinations has increased. The decline of sales by our merchants for any reason will generally result in lower credit sales and, therefore, lower loan volume and associated fee income for us. However, the beginnings of economic reopening and recovery present new opportunities for growth in our diverse merchant base, including early indications of strong recovery in the travel and hospitality sectors, in which we believe we are well positioned.

Dynamic Changes to Risk Model

As part of our risk mitigation platform, we closely track data and trends to measure risk and manage exposure, leveraging our flexibility to quickly adjust and adapt. In response to the macroeconomic impact of the COVID-19 pandemic, we initiated a series of refinements to our risk model based on our real-time data observations and analysis. We were able to respond, implement, and test the updates to our model quickly due to the adaptability of our infrastructure, underwriting, and risk management models. This resulted in decreases across both charge-offs and delinquencies. As macroeconomic conditions improved, the embedded flexibility of the model allowed our risk tolerances to return closer to pre-pandemic levels while still maintaining low losses. Our proprietary risk model was not designed to take into account the longer-term impacts of social, economic, and financial disruptions caused by the COVID-19 pandemic, and while we continue to make refinements to our risk model as new information becomes available to us, any changes to our risk model may be ineffective and the performance of our risk model may decline.

Resilient Allowance Model

At the onset of the COVID-19 pandemic in March 2020, we factored in updated loss multiples using macroeconomic data to reflect stressed expected loss scenarios emerging from forecasted delinquencies and defaults. This stressing of the model resulted in an increase of the allowance for credit losses as a percentage loans held for investment reaching a high of 14.8% as of March 31, 2020. In the months subsequent to this and during fiscal year 2021, we saw stronger than expected repayment history in the portfolio and increased credit quality of loans held on our balance sheet from credit tightening, resulting in a release of the allowance over time. As the economic reopening and recovery continues, we believe our allowance model is well equipped to forecast expected loss scenarios resulting from both the shifting product mix of loans on our balance sheet as well as a return to pre-pandemic credit levels over time. As of September 30, 2021 and June 30, 2021, the allowance for credit losses as a percentage of loans held for investment was 6.8% and 5.8%, respectively. Should macroeconomic factors or expected losses change, we may increase or decrease the allowance for credit losses.

Components of Results of Operations

Revenue

Merchant Network Revenue

Merchant partners are charged a fee on each transaction processed through the Affirm platform. The fees vary depending on the individual arrangement between us and each merchant and on the terms of the product offering. The fee is recognized at the point in time the terms of the executed merchant agreement have been fulfilled and the merchant successfully confirms the transaction. We may originate certain loans via our wholly-owned subsidiaries, with zero or below market interest rates. In these instances, the par value of the loans originated is in excess of the fair market value of such loans, resulting in a loss, which we record as a reduction to merchant network revenue. In order to continue to expand our consumer base, we may originate loans under certain merchant arrangements that we do not expect to achieve positive revenue. In these instances, the loss is recorded as sales and marketing expense. During the three months ended September 30, 2021 and 2020, we generated 34% and 54% of our revenue from merchant network fees, respectively.

Virtual Card Network Revenue

A smaller portion of our revenue comes from our Virtual Card product. We have agreements with issuer processors to facilitate transactions through the issuance of virtual debit cards to be used by consumers at checkout. Consumers can apply for a virtual debit card through the Affirm app and, upon approval, receive a single-use virtual debit card to be used for their purchase online or offline at a non-integrated merchant. The virtual debit card is funded at the time a transaction is authorized using cash held by the issuer processor in a reserve fund, which is ultimately funded and maintained by us. Our originating bank partner then originates a loan to the consumer once the transaction is confirmed by the merchant. The non-integrated merchants are charged interchange fees by the issuer processor for virtual debit card transactions, as with all debit card purchases, and the issuer processor shares a portion of this revenue with us. We also leverage this issuer processor as a means of integrating certain merchants. Similarly, for these arrangements with integrated merchants, the merchant is charged interchange fees by the issuer processor and the issuer processor shares a portion of this revenue with us. This revenue is recognized as a percentage of both our loan volume transacted on the payment processor network and net interchange income, and this revenue is presented net of associated processing fees. We generated 7% and 3% of our revenue from virtual card network fees for the three months ended September 30, 2021 and 2020, respectively.

Interest Income

We also earn revenue through interest earned on loans facilitated by our platform. Interest income includes interest charged to consumers over the term of the consumers' loans based on the principal outstanding and is calculated using the effective interest method. In addition, interest income includes the amortization of any discounts or premiums on loan receivables created upon either the purchase of a loan from our originating bank partners or the origination of a loan. These discounts and premiums are accreted or amortized over the life of the loan using the effective interest method and represented 33% and 27% of total interest income for the three months ended September 30, 2021 and 2020, respectively. During the three months ended September 30, 2021 and 2020, we generated 44% and 31% of our revenue from interest income, respectively.

Gain on Sales of Loans

We sell a portion of the loans we purchase from our originating bank partners to third-party investors. We recognize a gain or loss on sale of such loans as the difference between the proceeds received, adjusted for initial recognition of servicing assets and liabilities obtained at the date of sale, and the carrying value of the loan. During the three months ended September 30, 2021 and 2020, we generated 11% and 9% of our revenue from gain on sales of loans, respectively.

Servicing Income

We earn a specified fee from providing professional services to manage loan portfolios on behalf of our third-party loan owners. Under the servicing agreements with our third party loan owners, we are entitled to collect servicing fees on the loans that we service, which are paid monthly based upon an annual fixed percentage of the outstanding loan portfolio balance. During the three months ended September 30, 2021 and 2020, we generated 4% and 2% of our revenue from servicing fees, respectively.

We expect our revenue may vary from period to period based on, among other things, the timing and size of onboarding of new merchants, the mix of 0% APR loans versus interest-bearing loans with simple interest, type and mix of products that our merchants offer to their customers, the rate of repeat transactions, transaction volume, and seasonality of or fluctuations in usage of our platform.

Operating Expenses

Our operating expenses consist of the loss on loan purchase commitment made to our originating bank partners, the provision for credit losses, funding costs, processing and servicing, technology and data analytics, sales and marketing, and general and administrative expenses. Salaries and personnel-related costs, including benefits, bonuses, stock-based compensation expense and occupancy, comprise a significant component of several of these expense categories. An allocation of overhead, such as rent and other overhead, is based on employee headcount and included in processing and servicing, technology and data analytics, sales and marketing, and general and administrative expenses.

As of September 30, 2021, we had 1,876 employees, compared to 1,641 employees as of June 30, 2021. We increased our headcount and personnel related costs across our business in order to support our growth expansion strategy. We expect headcount to continue to increase during fiscal year 2022 given our focus on growth and expansion.

Loss on Loan Purchase Commitment

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

Provision for Credit Losses

Provision for credit losses consists of amounts charged against income during the period to maintain an allowance for credit losses. Our allowance for credit losses represents our estimate of the credit losses inherent in our loans held for investment and is based on a variety of factors, including the composition and quality of the portfolio, loan specific information gathered through our collection efforts, current economic conditions, and our historical net charge-off and loss experience. These costs are incurred on a per loan basis.

Funding Costs

Funding costs consist of the interest expense we incur on our borrowings and amortization of fees and other costs incurred in connection with funding the purchases and origination of loans. Excluding the amortization of debt issuance costs, which totaled $5.2 million and $1.1 million for the three months ended September 30, 2021 and 2020, respectively, we incur an expense per loan pledged to our debt funding sources.

Processing and Servicing

Processing and servicing expense consists primarily of payment processing fees, third-party customer support and collection expense salaries and personnel-related costs of our customer care team, and allocated overhead. Payment processing costs are primarily driven by the number and dollar value of consumer repayments which grow as the number of transactions and GMV processed on our platform increases. Customer care loan servicing costs are primarily staffing costs related to third-party and in-house loan servicing agents, the demand for which generally increases with the number of transactions on our platform. Collection fees are fees paid to agencies as percentages of the dollars of repayment they recuperate from borrowers whose loans had previously been charged off. Processing and servicing expenses are predominantly per transaction processing fees and third-party staffing fees that generally increase with consumer contact.

Technology and Data Analytics

Technology and data analytics expense consists primarily of the salaries, stock-based compensation, and personnel-related costs of our engineering and product employees as well as our credit and analytics employees who develop our proprietary risk model, which totaled $50.5 million and $21.1 million for the three months ended September 30, 2021 and 2020, respectively.

Additionally, for the three months ended September 30, 2021and 2020, $26.8 million and $5.1 million, respectively, of salaries and personnel costs that relate to the creation of internally-developed software were capitalized into property, equipment and software, net on the interim condensed consolidated balance sheets, and amortized into technology and data analytics expense over the useful life of the developed software. This amortization expense totaled $3.6 million and $2.6 million for the three months ended September 30, 2021 and 2020, respectively. Additional technology and data analytics expenses include platform infrastructure and hosting costs, third-party data acquisition expenses, and expenses related to the maintenance of existing technology assets and our technology platform as a whole.

Sales and Marketing

Sales and marketing expense consists primarily of salaries and personnel-related costs, as well as costs of general marketing and promotional activities, promotional event programs, sponsorships, and allocated overhead. In July 2020, we recognized an asset in connection with a commercial agreement with Shopify in which we granted warrants in exchange for their promotion of the Affirm platform with potential new merchant partners. This asset represents the probable future economic benefit to be realized over the four-year expected benefit period and is valued based on the fair value of the warrants at the grant date. This value is amortized on a straight-line basis over the four-year expected benefit period into sales and marketing expense, due to the nature of the expected benefit.

Additionally, in order to continue to expand our consumer base, we may originate certain loans via our wholly-owned subsidiaries with zero or below market interest rates under certain merchant arrangements that we do not expect to achieve positive revenue. In these instances, the par value of the loans originated is in excess of the fair market value of such loans, which results in a loss. These losses are recorded as sales and marketing expense. These losses totaled $5.1 million during the three months ended September 30, 2021. We expect that our sales and marketing expense will increase as a percentage of revenue as we expand our sales and marketing efforts to drive our growth, expansion, and diversification.

General and Administrative

General and administrative expenses consist primarily of expenses related to our finance, legal, risk operations, human resources, and administrative personnel. General and administrative expenses also include costs related to fees paid for professional services, including legal, tax and accounting services, and allocated overhead.

We expect to incur additional expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, and increased expenses for insurance, investor relations, and professional services. We expect that our general and administrative expense will increase in absolute dollars as our business grows.

Other Income and Expenses

Other Income, Net

Other (expense) income, net consists of interest earned on our money market funds included in cash and cash equivalents and restricted cash, interest earned on securities available for sale, gains and losses incurred on both our interest rate caps, and fair value adjustments resulting from changes in the fair value of our contingent consideration liability.

Income Tax Expense

Our income tax expense consists of U.S. federal and state income taxes, Canadian federal and provincial income taxes, and income taxes attributable to other foreign jurisdictions.

Results of Operations

The following tables set forth selected interim condensed consolidated statements of operations and comprehensive loss data for each of the periods presented in dollars:

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020
	(in thousands)	
Revenue		
Merchant network revenue	$ 92,244	$ 93,265
Virtual card network revenue	19,395	5,958
Total network revenue	111,639	99,223
Interest income [(1)]	117,302	54,237
Gain on sales of loans [(1)]	30,979	16,434
Servicing income	9,465	4,084
Total Revenue, net	**$ 269,385**	**$ 173,978**
Operating Expenses [(2)]		
Loss on loan purchase commitment	$ 51,678	$ 65,868
Provision for credit losses	63,647	28,931
Funding costs	16,753	10,352
Processing and servicing	25,201	13,498
Technology and data analytics	78,013	33,768
Sales and marketing	63,960	22,582
General and administrative	136,204	32,273
Total Operating Expenses	**435,456**	**207,272**
Operating Loss	**$ (166,071)**	**$ (33,294)**
Other (expense) income, net	(140,373)	29,445
Loss Before Income Taxes	**$ (306,444)**	**$ (3,849)**
Income Tax Expense	171	97
Net Loss	**$ (306,615)**	**$ (3,946)**
Other Comprehensive Income (Loss)		
Foreign currency translation adjustments	$ (3,802)	$ 405
Unrealized gain (loss) on securities available for sale, net	(279)	—
Net Other Comprehensive Income (Loss)	**(4,081)**	**405**
Comprehensive Loss	**$ (310,696)**	**$ (3,541)**

(1) Upon purchase of a loan from our originating bank partners at a price above the fair market value of the loan or upon the origination of a loan with a par value in excess of the fair market value of the loan, a discount is included in the amortized cost basis of the loan. For loans held for investment, this discount is amortized over the life of the loan into interest income. When a loan is sold to a third-party loan buyer, the unamortized discount is released in full at the time of sale and recognized as part of the gain or loss on sales of loans. However, the cumulative value of the loss on loan purchase commitment or loss on origination, the interest income recognized over time from the amortization of discount while retained, and the release of discount into gain on sales of loans, together net to zero over the life of the loan. The following table details activity for the discount, included in loans held for investment, for the periods indicated:

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
Balance at the beginning of the period	$ 53,177	$ 28,659
Additions from loans purchased, net of refunds	77,270	58,143
Amortization of discount	(38,445)	(14,770)
Unamortized discount released on loans sold	(38,345)	(15,997)
Balance at the end of the period	$ 53,657	$ 56,035

(2) Amounts include stock-based compensation as follows:

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
General and administrative	$ 67,742	$ 3,204
Technology and data analytics	20,067	2,213
Sales and marketing	5,024	760
Processing and servicing	356	26
Total stock-based compensation in operating expenses	93,189	6,203
Capitalized into property, equipment and software, net	11,690	972
Total stock-based compensation expense	$ 104,879	$ 7,175

Comparison of the Three Months Ended September 30, 2020 and 2021

Total Revenue, net

	Three Months Ended September 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Merchant network revenue	$ 92,244	$ 93,265	$ (1,021)	(1)%
Virtual card network revenue	19,395	5,958	13,437	226 %
Total network revenue	111,639	99,223	12,416	13 %
Interest income	117,302	54,237	63,065	116 %
Gain on sales of loans	30,979	16,434	14,545	89 %
Servicing income	9,465	4,084	5,381	132 %
Total Revenue, net	269,385	173,978	95,407	55 %

Total Revenue, net for the three months ended September 30, 2021 increased by $95.4 million or 55%, primarily due to an increase of $1,237.0 million or 84% in GMV on our platform, from $1,475.9 million for the three months ended September 30, 2020 to $2,712.9 million for the three months ended September 30, 2021. This increase in GMV was driven by the strong network effects of the expansion of our active merchant base to 102,217 as of September 30, 2021 compared with 6,519 as of September 30, 2020 and an increase in average transactions per consumer to 2.3 as of September 30, 2021 from 2.2 as of September 30, 2020.

Merchant network revenue for the three months ended September 30, 2021 decreased by $1.0 million or 1%, compared to the three months ended September 30, 2020. Merchant network revenue as a percentage of GMV for the three months ended September 30, 2021 decreased to 3% compared to 6% for the three months ended September 30, 2020.

Merchant network revenue growth is generally correlated with both GMV growth and the mix of loans on our platform as different loan characteristics are positively or negatively correlated with merchant fee revenue as a percentage of GMV. In particular, merchant network revenue as a percentage of GMV typically increases with the term length and AOV of our loans, and typically decreases with shorter duration and higher APR loans. Specifically, long-term 0% APR loans typically carry higher merchant fees as a percentage of GMV and have a higher AOV.

The decrease in merchant network revenue during the three month period was primarily driven by reductions in the concentration of long-term 0% APR loans, our highest merchant fee category, and a corresponding decrease in AOV driven by the rapid adoption of our Split Pay product. For the three months ended September 30, 2021, approximately 10% of total revenue was driven by our largest merchant partner, for which we facilitate long-term 0% APR loans with a higher merchant fee, compared with 30% of total revenue in the comparative period. More broadly, for the three months ended September 30, 2021 and 2020, loans with a term length greater than 12 months accounted for 20% and 39%, respectively. AOV was lower at $402 and $661 for the three months ended September 30, 2021 and 2020, respectively.

Additionally, we recorded a reduction of merchant network revenue of $11.9 million for the three months ended September 30, 2021, associated with the creation of discounts upon origination of loans with a par value in excess of the fair value of such loans, which was not material during the three months ended September 30, 2020.

Virtual card network revenue for the three months ended September 30, 2021 increased by $13.4 million or 226% compared to the three months ended September 30, 2020. This increase was driven by an increase in GMV processed through our issuer processor of 210% for the three months September 30, 2021, due to increased activity on our virtual card-enabled mobile application as well as growth in existing and new merchants integrated using our virtual card platform.

Interest income for the three months ended September 30, 2021 increased by $63.1 million or 116%, compared to the three months ended September 30, 2020. Generally, interest income is correlated with the changes in the average balance of loans held for investment, as we recognize interest on loans held for investment using the effective interest method over the life of the loan. The average balance of loans held for investment increased by 74% to $2,133.6 million for the three months ended September 30, 2021, compared to the same period in the prior fiscal year.

As an annualized percentage of average loans held for investment, total interest income increased from approximately 18% during the three months ended September 30, 2020 to 22% during the three months ended September 30, 2021. This change was driven by an increase in the average proportion of 0% APR loans being held on our interim condensed consolidated balance sheet as a percentage of the total loans held for investment, which increased from 25% during the three months ended September 30, 2020 to 41% during the three months ended September 30, 2021. The shift was largely due to continued volume of longer-term 0% APR loans, including those being held on our balance sheet through our consolidated 2020-Z1 and 2020-Z2 securitizations, as well as growth in short-term Split Pay loans being held for investment.

While we do recognize interest income on 0% APR loans via the amortization of the loan discount, this is generally earned at a lower rate than consumer interest on interest-bearing loans. The total amortization of discounts on loans held for investment increased by $23.7 million or 160% for the three months ended September 30, 2021, compared with the three months ended September 30, 2020, and represented 33% of total interest income for the three months ended September 30, 2021, compared to 27% for the three months ended September 30, 2020. This increase included the amortization of discounts arising from self-originated loans held for investment of $16.4 million during the three months ended September 30, 2021, which was nil for the three months ended September 30, 2020.

Gain on sales of loans for the three months ended September 30, 2021 increased by $14.5 million or 89%, compared to the three months ended September 30, 2020. We sold loans with an unpaid balance of $1,093.1 million for the three months ended September 30, 2021 and $421.6 million for the three months ended and September 30, 2020, for which we retained servicing rights. This increase was primarily due to higher loan sale volume, favorable loan sale pricing terms, and optimizing the allocation of loans to loan buyers with higher pricing terms.

Servicing income for the three months ended September 30, 2021 increased by $5.4 million or 132% compared to the three months ended September 30, 2020. This increase was primarily due to an increase in the average unpaid principal balance of loans owned by third-party loan owners and increases in negotiated servicing rates with new and existing third-party loan owners.

Operating Expenses

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
Loss on loan purchase commitment	$ 51,678	$ 65,868
Provision for credit losses	63,647	28,931
Funding costs	16,753	10,352
Processing and servicing	25,201	13,498
Total transaction costs	157,279	118,649
Technology and data analytics	78,013	33,768
Sales and marketing	63,960	22,582
General and administrative	136,204	32,273
Total operating expenses	$ 435,456	$ 207,272

Loss on Loan Purchase Commitment

	Three Months Ended September 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Loss on loan purchase commitment	$ 51,678	$ 65,868	$ (14,190)	(22)%
Percentage of total revenue, net	19 %	38 %		

Loss on loan purchase commitment for the three months ended September 30, 2021 decreased by $14.2 million or 22% compared to the three months ended September 30, 2020. This decrease was due to a decrease in the volume and concentration of long-term 0% APR loans purchased from our originating bank partners compared to the prior period, which are purchased above fair market value. During the three months ended September 30, 2021, we purchased $724.4 million of 0% APR loan receivables from our originating bank partners, representing a decrease of $13.2 million or 2%, compared to the three months ended September 30, 2020.

Provision for Credit Losses

	Three Months Ended September 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Provision for credit losses	$ 63,647	$ 28,931	$ 34,716	120 %
Percentage of total revenue, net	24 %	17 %		

Provision for credit losses generally represents the amount of expense required to maintain the allowance for credit losses on our interim condensed consolidated balance sheet, which represents management’s estimate of future losses. In the event that our loans outperform expectation and/or we reduce our expectation of credit losses in future periods, we may release reserves and thereby reduce the allowance for credit losses, yielding income in the provision for credit losses. The provision is determined by the change in estimates for future losses and the net charge-offs incurred in the period. We record provision expense for each loan we retain as loans held for investment, whether we originate the loan or purchase it from one of our originating bank partners.

At the onset of the COVID-19 pandemic in March 2020, we factored in updated loss multiples using macroeconomic data to reflect stressed expected loss scenarios emerging from forecasted delinquencies and defaults. This stressing of the model resulted in an increase of the allowance for credit losses as a percentage of loans held for investment up to 14.6% at its peak as of March 31, 2020. In the months subsequent to this, we saw stronger than expected repayment history and increased credit quality in the portfolio, and during the three months ended September 30, 2020, this percentage decreased from 9.2% as of June 30, 2020 to 8.7%, resulting in a release of the allowance and in turn, a relatively reduced provision for credit losses for the period.

Additionally, during the prior fiscal year, following the loss of our emerging growth company status, we adopted ASU 2016-13, “Financial Instruments — Credit Losses (Topic 326)” using the modified retrospective approach. The amendments replaced the incurred loss impairment methodology for computing our allowance for credit losses with the current expected credit loss model ("CECL"), effective July 1, 2020. As part of this modified retrospective approach to adoption, we recorded an adjustment further reducing the provision for credit losses by $11.3 million for the three months ended September 30, 2020.

During the three months ended September 30, 2021, the allowance for credit losses as a percentage of loans held for investment increased from 5.8% as of June 30, 2021 to 6.8%. This increase was driven by in part by a deconcentration of long-term, high-credit-quality 0% APR loans, rapid growth of new product lines with higher expected losses, and normalization of credit closer to pre-pandemic levels. The combination of reduced provision for credit losses due to release of stressed expected loss scenarios and the adoption of CECL in the prior year and normalization of credit levels in the current period resulted in an increase in provision for credit losses of $34.7 million or 120% compared to the three months ended September 30, 2020.

Funding Costs

	Three Months Ended September 30,		Change	
	2021	**2020**	**$**	**%**
	(in thousands, except percentage)			
Funding costs	$ 16,753	$ 10,352	$ 6,401	62 %
Percentage of total revenue, net	6 %	6 %		

Funding costs for the three months ended September 30, 2021 increased by $6.4 million or 62%, compared to the three months ended September 30, 2020. Funding costs for a given period are correlated with the sum of the average balance of funding debt and the average balance of notes issued by securitization trusts. This increase was primarily due to the introduction of notes issued by securitization trusts during the current fiscal year, which bear interest at fixed rates. The average balance of notes issued by securitization trusts during the three months ended September 30, 2021 was $1,399.2 million, compared with $249.5 million during the three months ended September 30, 2020. The average balance of funding debt for the three months ended September 30, 2021 decreased by $175.7 million or 23%, compared to the three months ended September 30, 2020 while the average reference interest rate decreased by 47% during each periods.

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Processing and Servicing

	Three Months Ended September 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Processing and servicing	$ 25,201	$ 13,498	$ 11,703	87 %
Percentage of total revenue, net	9 %	8 %		

Processing and servicing expense for the three months ended September 30, 2021 increased by $11.7 million or 87% compared to the three months ended September 30, 2020. This increase was primarily due to an $8.4 million or 140% increase in payment processing fees due to increased servicing activity and payments volume for the three months ended September 30, 2021. Additionally, processing fees paid to our customer referral partners decreased by $1.4 million or 233%, for the three months ended September 30, 2021. Personnel costs increased by $6.4 million or 119% for the three months ended September 30, 2021 driven by growth in headcount, while third-party loan servicing and collections spend remained relatively flat, increasing only 4% due to vendor cost improvements.

Technology and Data Analytics

	Three Months Ended September 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Technology and data analytics	$ 78,013	$ 33,768	$ 44,245	131 %
Percentage of total revenue, net	29 %	19 %		

Technology and data analytics expense for the three months ended September 30, 2021 increased by $44.2 million or 131% compared to the three months ended September 30, 2020. This increase was primarily due to a $29.4 million or 139% increase in engineering, product, and data science personnel costs for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, net of capitalized costs for internally developed software, to continue to support our growth and technology platform as a whole. The largest component of these personnel costs was stock-based compensation, which accounted for $17.9 million of the increase compared to the three months ended September 30, 2020, largely due to vesting of RSUs.

Additionally, there was an $8.1 million or 119% increase in data infrastructure and hosting costs for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, due to increased capacity requirements of our technology platform, as well as a $2.1 million or 68% increase in underwriting data provider costs for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, due to cost improvements achieved as a result of contract renegotiations.

Sales and Marketing

	Three Months Ended September 30,		Change	
	2021	2020	$	%
	(in thousands, except percentage)			
Sales and marketing	$ 63,960	$ 22,582	$ 41,378	183 %
Percentage of total revenue, net	24 %	13 %		

Sales and marketing expense for the three months ended September 30, 2021 increased by $41.4 million or 183% compared to the three months ended September 30, 2020. This increase was primarily due to $2.8 million of expense incurred during the three months ended September 30, 2021 associated with the amortization of an asset associated with our commercial agreement with Shopify, which was recognized in July 2020. This asset represents the probable future economic benefit to be realized over the four-year expected benefit period and is valued based on the fair value of the warrants granted to Shopify under such commercial agreement at the grant date. This value is amortized on a straight-line basis over the four-year expected benefit period. Additionally, stock-based compensation related to employees in the sales and marketing functions increased $4.3 million or 561% compared to three months ended September 30, 2020, largely due to the vesting of RSUs.

Furthermore, there was a $10.9 million or 1,211% increase in brand and consumer marketing spend during the three months ended September 30, 2021 compared to the three months ended September 30, 2020, associated with our expanded brand-activation, holiday shopping, lifestyle, and travel marketing campaigns, as well as a $5.7 million or 1,425% increase in business-to-business marketing spend compared to the three months ended September 30, 2020.

General and Administrative

	Three Months Ended September 30,		Change	
	2021	**2020**	**$**	**%**
	(in thousands, except percentage)			
General and administrative	$ 136,204	$ 32,273	$ 103,931	322 %
Percentage of total revenue, net	51 %	19 %		

General and administrative expense for the three months ended September 30, 2021 increased by $103.9 million or 322% compared to the three months ended September 30, 2020. This increase was primarily due to an increase of $81.8 million or 403% in personnel costs during the three months ended September 30, 2021 compared to the three months ended September 30, 2020, as a result of increased headcount as we continue to grow our finance, legal, operations, and administrative organizations. The largest component of these personnel costs was stock-based compensation, which increased by $64.5 million compared to the three months ended September 30, 2020. This was primarily due to $42.3 million of expense recognized during the three months ended September 30, 2021 based on a long-term, multi-year performance-based stock option award granted to our Chief Executive Officer prior to our IPO, as well as the vesting of RSUs for which the service-based condition had been met prior to the IPO and the performance-based condition that was met on the IPO date.

Additionally, professional fees increased by $3.4 million or 74% during the three months ended September 30, 2021 compared to the three months ended September 30, 2020, to support our acquisitions, international expansion, and regulatory compliance programs.

Other (Expense) Income, net

	Three Months Ended September 30,		Change	
	2021	**2020**	**$**	**%**
	(in thousands, except percentage)			
Other (expense) income, net	$ (140,373)	$ 29,445	$ (169,818)	(577)%
Percentage of total revenue, net	(52)%	17 %		

For the three months ended September 30, 2021, other (expense) income, net, was largely comprised of a loss of $141.6 million recognized based on the change in fair value of the contingent consideration liability associated with our acquisition of PayBright, driven by increases in the value of our common stock.

For the three months ended September 30, 2020, other (expense) income, net was primarily comprised of a gain of $30.1 million recognized upon the conversion of convertible notes into shares of Series G-1 preferred stock. The conversion of convertible notes was accounted for as a debt extinguishment since the number of shares of Series G-1 preferred stock issued upon conversion was variable and this gain represented the difference between the carrying value of the debt at the time of extinguishment and the allocated proceeds.

Liquidity and Capital Resources

Sources and Uses of Funds

We have incurred losses since our inception, accumulating a deficit of $1.2 billion and $0.9 billion as of September 30, 2021 and June 30, 2021, respectively. We have historically financed the majority of our operating and capital needs through the private sales of equity securities, borrowings from debt facilities and convertible debt, third-party loan sale arrangements, and cash flows from operations. In September and October 2020, we issued an aggregate of 21,836,687 shares of Series G preferred stock for aggregate cash proceeds of $435.1 million. On January 15, 2021, we closed an initial public offering of our Class A common stock with cash proceeds, before expenses, of $1.3 billion.

As of September 30, 2021, our principal sources of liquidity were cash and cash equivalents, available capacity from revolving debt facilities, revolving securitizations, forward flow loan sale arrangements, and certain cash flows from our operations. We believe that our existing cash balances, available capacity under our revolving debt facilities, revolving securitizations and off-balance sheet loan sale arrangements, and cash from operations, are sufficient to meet both our existing operating, working capital, and capital expenditure requirements and our currently planned growth for at least the next 12 months. We cannot provide assurance, however, that our business will generate sufficient cash flows from operations or that future borrowings will be available to us in an amount sufficient to enable us to fund our liquidity needs in the long-term. Our ability to do so depends on prevailing economic conditions and other factors, many of which are beyond our control. Our on- and off-balance sheet facilities provide funding subject to various constraining limits on the financed portfolios. These limits are generally tied to loan-level attributes such as loan term, credit quality, and interest rate, as well as borrower- and merchant-level attributes.

Cash and Cash Equivalents

As of September 30, 2021, we had approximately $1.4 billion of cash to fund our future operations compared to approximately $1.5 billion as of June 30, 2021. Our cash and cash equivalents were held primarily for continued investment in our business, for working capital purposes, and to facilitate a portion of our lending activities. Our policy is to invest cash in excess of our immediate working capital requirements in short-term investments and deposit accounts to preserve the principal balance and maintain adequate liquidity.

Restricted Cash

Restricted cash consists primarily of: (i) deposits restricted by standby letters of credit for office leases; (ii) funds held in accounts as collateral for our originating bank partners; and (iii) servicing funds held in accounts contractually restricted by agreements with warehouse credit facilities and third-party loan owners. We have no ability to draw on such funds as long as they remain restricted under the applicable arrangements. Our policy is to invest restricted cash held in debt facility related accounts and cash deposited as collateral for leases in investments designed to preserve the principal balance and provide liquidity. Accordingly, such cash is invested primarily in money market instruments that offer daily purchase and redemption and provide competitive returns consistent with our policies and market conditions.

Funding Debt

The following table summarizes our funding debt facilities as of September 30, 2021:

Maturity Fiscal Year	Borrowing Capacity	Principal Outstanding
	(in thousands)	
2022	$ 267,240	$ 137,153
2023	—	—
2024	1,325,000	246,647
2025	—	—
2026	—	—
Thereafter	650,000	111,266
Total	$ 2,242,240	$ 495,066

Warehouse Credit Facilities

Through trusts, we entered into warehouse credit facilities with certain lenders to finance the purchase and origination of our loans. These trusts are consolidated variable interest entities ("VIEs"), and each trust entered into a credit agreement and security agreement with a commercial bank as administrative agent and a national banking association as collateral trustee and paying agent. Borrowings under these agreements are referred to as funding debt. These credit agreements contain operating covenants, including limitations on the incurrence of certain indebtedness and liens, restrictions on certain intercompany transactions, and limitations on the amount of dividends and stock repurchases. Our funding debt facilities include concentration limits for various loan characteristics including credit quality, product mix, geography, and merchant concentration. As of September 30, 2021, we were in compliance with all applicable covenants in the agreements. Refer to Note 10. Debt in the notes to the interim consolidated financial statements included elsewhere in this Form 10-Q for additional information.

These revolving facilities mature between 2022 and 2027, and subject to covenant compliance generally permit borrowings up to 12 months prior to the final maturity date. Borrowings under these facilities generally occur multiple times per week, and generally coincide with the purchase of loans from our originating bank partners. We manage liquidity by accessing diversified pools of capital and avoid concentration with any single counterparty; we are diversified across different types of investors including investment banks, asset managers, and insurance companies.

Borrowings under these facilities bear interest at an annual benchmark rate of LIBOR or at an alternative commercial paper rate (which is either (i) the per annum rate equivalent to the weighted-average of the per annum rates at which all commercial paper notes were issued by certain lenders to fund advances or maintain loans, or (ii) the daily weighted-average of LIBOR, as set forth in the applicable credit agreement), plus a spread ranging from 1.65% to 4.00%. Interest is payable monthly. In addition, these agreements require payment of a monthly unused commitment fee ranging from 0.10% to 0.75% per annum on the undrawn portion available.

Other Funding Facilities

Prior to our acquisition of PayBright on January 1, 2021, PayBright entered into various credit facilities utilized to finance the origination of loans in Canada. Similar to our warehouse credit facilities, borrowings under these agreements are referred to as funding debt, and proceeds from the borrowings may only be used for the purposes of facilitating loan funding and origination. These facilities are secured by PayBright loan receivables pledged to the respective facility as collateral, mature in 2022, and bear interest based on a commercial paper rate plus a spread ranging from 1.25% to 4.25%.

Revolving Credit Facility

On January 19, 2021, we entered into a revolving credit agreement with a syndicate of commercial banks for a $185.0 million unsecured revolving credit facility. This facility bears interest at a rate equal to, at our option, either (a) a Eurodollar rate determined by reference to adjusted LIBOR for the interest period, plus an applicable margin of 0.25% per annum or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50% per annum, (ii) the rate last quoted by The Wall Street Journal as the U.S. prime rate, and (iii) the one-month adjusted LIBOR plus 1.00% per annum, in each case, plus an applicable margin of 1.50% per annum. The revolving credit agreement has a final maturity date of January 19, 2024. The facility contains certain covenants and restrictions, including certain financial maintenance covenants, and requires payment of a monthly unused commitment fee of 0.35% per annum on the undrawn balance available. There are no borrowings outstanding under the facility at September 30, 2021. Refer to Note 10. Debt.

Securitizations

In connection with asset-backed securitizations, we sponsor and establish trusts to ultimately purchase loans facilitated by our platform. Securities issued from our asset-backed securitizations are senior or subordinated, based on the waterfall criteria of loan payments to each security class. The subordinated residual interests issued from these transactions are first to absorb credit losses in accordance with the waterfall criteria. The assets are transferred into a trust such that the assets are legally isolated from the creditors of Affirm and are not available to satisfy our obligations. These assets can only be used to settle obligations of the underlying trusts. Each securitization trust issued senior notes and residual certificates to finance the purchase of the loans facilitated by our platform. The 2020-Z1, 2020-Z2, and 2021-Z1 securitizations are secured by static pools of loans contributed at closing, whereas the 2020-A, 2021-A and 2021-B securitizations are revolving and we may contribute additional loans from time to time until the end of the revolving period. Refer to Note 11. Securitization and Variable Interest Entities.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Three Months Ended September 30,	
	2021	**2020**
	(in thousands)	
Net Cash Provided by (Used in) Operating Activities	$ 365,150	(2,304)
Net Cash Used in Investing Activities	(629,510)	(357,761)
Net Cash Provided by Financing Activities[1]	243,953	817,811

(1) Amounts include net cash provided by the issuance of redeemable convertible preferred stock and convertible debt as follows:

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
Proceeds from issuance of redeemable convertible preferred stock, net of repurchases and issuance costs	$ —	$ 434,434
Proceeds from issuance of common stock, net of repurchases	37,466	1,157
Net cash provided by equity-related financing activities	$ 37,466	$ 435,591
Net cash provided by debt-related financing activities	246,304	382,220
Payments of tax withholding for stock-based compensation	(39,817)	—
Net cash provided by financing activities	$ 243,953	$ 817,811

Operating Activities

Our largest sources of operating cash are fees charged to merchant partners on transactions processed through our platform and interest income from consumers' loans. Our primary uses of cash from operating activities are for general and administrative, technology and data analytics, funding costs, processing and servicing, and sales and marketing expenses.

Cash provided in operating activities for the three months ended September 30, 2021 was $365.2 million, an increase of $367.5 million from cash used in operating activities of $2.3 million for the three months ended September 30, 2020. This reflects our net loss of $306.6 million, adjusted for non-cash charges of $268.8 million, net cash outflows of $8.2 million from the purchase and sale of loans held for sale, and net cash inflows of $411.2 million provided by changes in our operating assets and liabilities.

Non-cash charges primarily consisted of: provision for credit losses, which increased by $34.7 million or 120% due to an increase on loans held for investment, partially offset by lower than expected credit losses and improved credit quality of the portfolio; gain on sales of loans, which increased by $14.5 million from $16.4 million for the three months ended September 30, 2020 due to improved loan sale economics and increased loan sales since the first quarter of the prior fiscal year; and amortization of premiums and discounts, which increased by $24.6 million or 221% due to increased amortization of discounts related to loans purchased from our originating bank partners at a price above fair market value. Furthermore, we incurred $93.2 million of stock-based compensation, up from $6.2 million due to accelerated vesting of RSUs for which the service-based condition had been met prior to the IPO and the performance-based condition was met on the IPO date, and losses of $141.6 million due to the increase in the fair value of our contingent consideration liability, driven by changes in the value of our common stock.

Our net cash inflows resulting from changes in operating assets and liabilities increased to $411.2 million for the three months ended September 30, 2021 compared to net cash inflows of $12.5 million for the three months ended September 30, 2020. This shift was primarily due to increases to accounts payable driven by $395.2 million of employee option exercise taxes payable, associated with the timing of significant employee stock option exercises during the period.

Investing Activities

Cash used in investing activities for the three months ended September 30, 2021 was $629.5 million, an increase of $271.7 million from $357.8 million for the three months ended September 30, 2020. The main driver of this was $1,847.5 million of purchases of loans, representing an increase of $669.7 million or 57% compared to the first quarter of the prior year, due partly to continued growth in GMV. Additionally, we recorded cash outflows of approximately $443.6 million related to purchases of available for sale securities in the current period. These cash outflows were partially offset by $1,486 million of repayments of loans, representing an increase of $737.0 million, or 98%, compared to the first quarter of the prior year, due to a higher average balance of loans held for investment and generally increasing credit quality of the portfolio.

Financing Activities

Cash provided by financing activities for the three months ended September 30, 2021 was $244.0 million, a decrease of $573.9 million from $817.8 million during the three months ended September 30, 2020. A main driver of this was the issuance of notes by our newly formed securitization trust during the three months ended September 30, 2021 resulted in net cash inflows of $444.6 million, net of in-period principal repayments. This cash inflow represented new financing activities compared to the three months ended September 30, 2020 but was partially offset by $191.7 million of net cash outflows from funding debt as principal repayments on debt exceeded proceeds from draws on these revolving credit facilities. This net cash outflow from funding debt was in contrast to a net cash inflow from the conversion of convertible notes of $434.4 million during the three months ended September 30, 2020. The shift between periods is largely due to the availability of new funding sources in our securitization trusts. Additionally, we recorded payments of approximately $39.8 million for tax withholding associated with stock-based compensation during the three months ended September 30, 2021 which did not occur in the prior periods as the vesting of RSUs was triggered by the initial public offering in January 2021.

Liquidity and Capital Risks and Requirements

There are numerous risks to our financial results, liquidity, capital raising, and debt refinancing plans, some of which may not be quantified in our current liquidity forecasts. The principal factors that could impact our liquidity and capital needs are customer delinquencies and defaults, a prolonged inability to adequately access capital market funding, declines in loan purchases and therefore revenue, fluctuations in our financial performance, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced products, and the continuing market adoption of our platform. We intend to support our liquidity and capital position by pursuing diversified debt financings (including new securitizations and revolving debt facilities) and extending existing secured revolving facilities to provide committed liquidity in case of prolonged market fluctuations.

We may, in the future, enter into arrangements to acquire or invest in complementary businesses, products, and technologies. We may be required to seek additional equity or debt financing in connection with those efforts. In the event that we require additional financing, we may not be able to raise such financing on terms acceptable to us or at all. Additionally, as a result of any of these actions, we may be subject to restrictions and covenants in the agreements governing these transactions that may place limitations on us, and we may be required to pledge additional collateral as security. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in continued innovation, we may not be able to compete successfully, which would harm our business, operations, and financial condition. It is also possible that the actual outcome of one or more of our plans could be materially different than expected or that one or more of our significant judgments or estimates could prove to be materially incorrect.

Concentrations of Revenue

For the three months ended September 30, 2021 and 2020 approximately 10% and 30% of total revenue, respectively, was driven by one merchant partner, Peloton. We believe we have a strong relationship with Peloton and, in September 2020, we entered into a renewed merchant agreement with Peloton with an initial three-year term ending in September 2023, which automatically renews for additional and successive one-year terms until terminated. While we believe our growth will facilitate both revenue growth and merchant diversification as we continue to integrate with a wide range of merchants, our revenue concentration may cause our financial performance to fluctuate significantly from period to period based on the revenue from such merchant partner.

Contractual Obligations

There were no material changes outside of the ordinary course of business in our commitments and contractual obligations for the three months ended September 30, 2021 from the commitments and contractual obligations disclosed in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," set forth in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021, which was filed with the SEC on September 17, 2021.

Off-Balance Sheet Arrangements

Off-balance sheet loans relate to unconsolidated securitization transactions and loans sold to third-party investors for which we have some form of continuing involvement, including as servicer. For an off-balance sheet loan where servicing is the only form of continuing involvement, we would only experience a loss if we were required to repurchase such a loan due to a breach in representations and warranties associated with our loan sale or servicing contracts. As of September 30, 2021, the aggregate outstanding balance of loans held by third-party investors or off-balance sheet VIEs was $2.6 billion. As of September 30, 2021, we had one off-balance sheet VIE, the 2021-Z1 securitization. In the unlikely event principal payments on the loans backing any off-balance sheet securitization are insufficient to pay senior note holders, including any retained interest, then any amounts the Company contributed to the securitization reserve accounts may be depleted. See Note 11. Securitization and Variable Interest Entities of the accompanying notes to our interim condensed consolidated financial statements for more information.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. U.S. GAAP requires us to make certain estimates and judgments that affect the amounts reported in consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Because certain of these accounting policies require significant judgment, our actual results may differ materially from our estimates. To the extent that there are differences between our estimates and actual results, our future consolidated financial statement presentation, financial condition, results of operations, and cash flows will be affected.

We evaluate our significant estimates on an ongoing basis, including, but not limited to, estimates related to merchant network revenue, loss on loan purchase commitment, allowance for credit losses, stock-based compensation, and income taxes. We believe these estimates have the greatest potential effect on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

For further information, our significant accounting policies are described in Note 2. Summary of Significant Accounting Policies within the notes to the interim condensed consolidated financial statements.

Recent Accounting Pronouncements

Refer to Note 2. Summary of Significant Accounting Policies within the notes to the interim condensed consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the United States and Canada, and we are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and interest rates. Our market risk exposure is primarily the result of fluctuations in interest rates. Foreign currency exchange rates do not pose a material market risk exposure, as most of our revenue is earned in U.S. dollars.

Interest Rate Risk

Our cash and cash equivalents as of September 30, 2021 were held primarily in checking, money market, and savings accounts. As of September 30, 2021, we had $403.5 million of cash equivalents invested in money market funds, certificates of deposit, corporate bonds, and other commercial paper with maturities less than three months. Our cash and cash equivalents are held for working capital purposes. The fair value of our cash and cash equivalents would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of a majority of these instruments.

Our securities available for sale at fair value as of September 30, 2021 included $440.5 million of marketable debt securities with maturities greater than three months. Within the portfolio, fixed rate securities may have their fair market values adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Because our investment policy is to invest in conservative, interest-bearing investments and because our business strategy does not rely on generating material returns from our investment portfolio, we do not expect our market risk exposure on marketable debt securities to be material.

Interest rates may adversely impact our customers' spending levels and ability and willingness to pay outstanding amounts owed to us. Higher interest rates often lead to higher payment obligations by customers of our credit products to us, or to lenders under mortgage, credit card, and other consumer and merchant loans, which may reduce our customers' ability to remain current on their obligations to us. Therefore, higher interest rates may lead to increased delinquencies, charge-offs, and allowances for loans and interest receivable, which could have an adverse effect on our operating results.

Certain of our funding arrangements bear a variable interest rate. Given the fixed interest rates charged on the loans that we purchase from our originating bank partners, a rising variable interest rate would reduce our interest margin earned in these funding arrangements. Dramatic increases in interest rates may make these forms of funding nonviable. Additionally, certain of our loan sale agreements are repriced on a recurring basis using a mechanism tied to interest rates as well as loan performance. We maintain an interest rate hedging program which eliminates some, but not all, of the interest rate risk. As of September 30, 2021, a hypothetical 10% relative change in interest rates would not have a material impact on our interim condensed consolidated financial statements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this Quarterly Report on Form 10-Q. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2021.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitation on the Effectiveness of Internal Control

The effectiveness of any system of internal control over financial reporting is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting, no matter how well designed and operated, can only provide reasonable, not absolute assurance that its objectives will be met. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, results of operations, financial condition, or cash flows. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

Item 1A. Risk Factors

The risks described under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021 could materially and adversely affect our business, financial condition, and results of operations, and the trading price of our Class A common stock could decline. Those risks are not the only risks that we face—our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. In addition, you should carefully read and consider such risks, together with all of the other information in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021, in this Quarterly Report on Form 10-Q (including the disclosures below, in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in our condensed consolidated financial statements and related notes), and in the other documents that we file with the SEC.

Except as may be reflected in the updated risk factors included below, there have been no material changes from the risk factors previously disclosed under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

If we are unable to attract additional merchant partners, retain our existing merchant partners, and grow and develop our relationships with new and existing merchant partners, our business, results of operations, financial condition, and future prospects would be materially and adversely affected, as could the market price of our Class A common stock.

Our continued success is dependent on our ability to expand our merchant base and to grow our merchants’ revenue on our platform. We derive a significant portion of our revenue from merchant network fees earned from our merchant partners. The network fees are generally charged as a percentage of the transaction volume on our platform. In addition, as more merchants are integrated into our network, there are more reasons for consumers to shop with us.

If we are not able to attract additional merchants and to expand revenue and volume of transactions from existing merchants, we will not be able to continue to attract consumers or grow our business. Our ability to retain and grow our relationships with our merchant partners depends on the willingness of merchants to partner with us. The attractiveness of our platform to merchants depends upon, among other things: the size of our consumer base; our brand and reputation; the amount of merchant fees that we charge; our ability to sustain our value proposition to merchants for customer acquisition by demonstrating higher conversion at checkout and increased AOV; the attractiveness to merchants of our technology and data-driven platform; services and products offered by competitors; and our ability to perform under, and maintain, our merchant agreements. Furthermore, having a diversified mix of merchant partners is important to mitigate risk associated with changing consumer spending behavior, economic conditions and other factors that may affect a particular type of merchant or industry. For example, following the onset of the COVID-19 pandemic, our revenue from merchant partners in the travel, hospitality, and entertainment industries declined, but we saw a significant increase in revenue from merchant partners offering home fitness equipment, home office products, and home furnishings. We have begun to see these trends reverse as access to COVID-19 vaccinations has increased, but it is difficult to predict the impact that the continuing spread of the Delta variant and potential additional waves of the pandemic will have on our merchant partners and our business.

Our continued success also is dependent on our ability to successfully grow and develop relationships with our merchant partners, particularly early-stage relationships with large e-commerce retailers such as Amazon.com, Inc. Some of our agreements with our merchant partners are non-exclusive and lack any transaction volume commitments. The pace of development, integration and rollout of these early-stage relationships is often unpredictable and is generally not within our control. In addition, these merchant partners may have, or may enter into in the future, similar agreements with our competitors, which could adversely affect our ability to drive the level of transaction volume and revenue growth that we seek to achieve or to otherwise satisfy the high expectations of our investors and financial analysts relating to those relationships. In addition, our agreements with our merchant partners generally have terms that range from approximately 12 months to 36 months, and our merchants can generally terminate these agreements without cause upon 30 to 90 days’ prior written notice. We may, therefore, be compelled to renegotiate our agreements with merchant partners from time to time, possibly upon terms significantly less favorable to us than the terms included in our existing agreements with those merchant partners.

If we fail to retain any of our larger merchant partners or a substantial number of our smaller merchant partners, if we do not acquire new merchant partners, if we do not successfully grow and develop our relationships with our larger merchant partners, if we do not continually expand revenue and volume from the merchants on our platform, or if we do not attract and retain a diverse mix of merchant partners, our business, results of operations, financial condition, and future prospects would be materially and adversely affected. In addition, should investor expectations relating to the growth, development and retention of our merchant partners, particularly those expectations relating to our relationships with Amazon and Shopify Inc., not be achieved, the market price of our Class A common stock could decline.

The issuance by us of additional equity securities may dilute your ownership and adversely affect the market price of our Class A common stock.

Our amended and restated certificate of incorporation authorizes us to issue additional shares of Class A common stock and rights relating to Class A common stock for the consideration and on the terms and conditions established by our board of directors in its sole discretion, whether in connection with acquisitions or otherwise. Any Class A common stock or securities convertible into shares of our Class A common stock that we issue from time to time, including in connection with a financing, acquisition, investment or under any equity incentive plans or otherwise that we may adopt in the future, will dilute your percentage ownership.

In the future, we may attempt to obtain financing or to further increase our capital resources by issuing additional shares of our Class A common stock or securities convertible into shares of our Class A common stock or offering debt or other securities. We could also issue shares of our Class A common stock or securities convertible into our Class A common stock or debt or other securities in connection with acquisitions or other strategic transactions. In addition, as we did when we initially formed our partnership with Shopify and when we entered into the Amended and Restated Installment Financing Services Agreement with Amazon, we may issue additional shares of our Class A common stock or securities convertible into shares of Class A common stock as a means of initiating, developing, strengthening or preserving key merchant relationships. Issuing additional shares of our Class A common stock or securities convertible into shares of our Class A common stock or debt or other securities may dilute the economic and voting rights of our existing stockholders and would likely reduce the market price of our Class A common stock. Upon liquidation, holders of debt securities and preferred shares, if issued, and lenders with respect to other borrowings would receive a distribution on our distributable assets prior to the holders of our common stock. Debt securities convertible into equity securities could be subject to adjustments in the conversion ratio pursuant to which certain events may increase the number of equity securities issuable upon conversion. Preferred shares, if issued, could have a preference with respect to liquidating distribution or preferences with respect to dividend payments that could limit our ability to pay dividends to the holders of our common stock. Our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, which may adversely affect the amount, timing, and nature of our future offerings. As a result, holders of our Class A common stock bear the risk that our future offerings may reduce the market price of our Class A common stock and dilute their stockholdings in us.

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

Unregistered Sales of Equity Securities

On July 1, 2021, in connection with the closing of the transaction contemplated by the Asset Purchase Agreement entered into with Yroo Inc., a developer of technologies that enable and enhance consumer e-commerce shopping intelligence and experience (“ShopBrain”), and the shareholder representative party thereto to acquire certain assets and assume certain liabilities of ShopBrain, we issued an aggregate of 151,745 shares of our Class A common stock to ShopBrain at closing.

We believe this transaction was exempt from registration under the Securities Act in reliance upon Section 4(a)(2) of the Securities Act and/or Regulation D promulgated thereunder or Regulation S under the Securities Act. The recipients of the securities in this transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof. All recipients had adequate access, through their relationships with us, to information about us.

Purchases of Equity Securities

The following table presents information with respect to the Company's repurchases of shares of Class A common stock during the quarter ended September 30, 2021.

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - 31	—	$ —	—	—
August 1 - 31	821	5.39	—	—
September 1 - 30	—	—	—	—
Total	821	$ 5.39	—	—

(1) The shares purchased were repurchases of unvested shares of our Class A common stock that had been issued upon early exercise of stock options. Pursuant to the associated option award agreements, upon termination of employment of a person holding unvested shares, we were entitled to repurchase the unvested shares.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Corrected Financial Information

The following tables showing the correction of prior period amounts should be read in conjunction with Note 2. Summary of Significant Accounting Policies to our interim condensed consolidated financial statements in this Quarterly Report on Form 10-Q. This correction affected our consolidated balance sheet, consolidated statement of operations and comprehensive loss, consolidated statement of redeemable convertible preferred stock and stockholders' equity (deficit) and consolidated statement of cash flows for the year ended June 30, 2021.

We determined, based on consideration of quantitative and qualitative factors, that the error had an immaterial impact, individually and in aggregate, on our previously issued financial statements.

The correction does not impact the consolidated statement of operations and comprehensive loss or consolidated statement of cash flows for the three months ended September 30, 2021 as presented within this Quarterly Report on Form 10-Q. The following tables show the affected line items within the consolidated financial statements (in thousands) that are impacted by these misstatements.

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

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

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

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

The following tables showing the correction of prior period amounts should be read in conjunction with Note 2. Summary of Significant Accounting Policies. We also determined that stock based compensation recorded during the three and nine months ended March 31, 2021 was understated by $25.0 million, as the estimated fair value of RSUs granted during the three months ended December 31, 2020 did not reflect an increase in share value due to the anticipated IPO. As a result, the accompanying unaudited interim financial information for the three and nine months ended March 31, 2021 has been adjusted to reflect the combined increase in stock based compensation expense of $40.0 million from amounts previously reported.

We determined, based on consideration of quantitative and qualitative factors, that the errors had an immaterial impact, individually and in aggregate, on our previously issued financial statements. The following tables show the affected line items (in thousands) within the interim condensed consolidated financial statements.

	Three Months Ended March 31, 2021		
	As Previously Reported	Adjustments	As Corrected
Consolidated Statement of Operations and Comprehensive Loss			
Processing and servicing	21,335	33	21,368
Technology and data analytics	98,728	6,078	104,806
Sales and marketing	57,549	635	58,184
General and administrative	146,853	33,146	179,999
Total Operating Expenses	**400,121**	**39,892**	**440,013**
Loss Before Income Taxes	**(247,229)**	**(39,892)**	**(287,121)**
Net Loss Attributable to Common Stockholders	**(247,159)**	**(39,892)**	**(287,051)**
Net loss per share attributable to common stockholders for Class A and Class B:			
Basic	$ (1.06)	$ (0.17)	$ (1.23)
Diluted	$ (1.06)	$ (0.17)	$ (1.23)

	Nine Months Ended March 31, 2021		
	As Previously Reported	Adjustments	As Corrected
Consolidated Statement of Operations and Comprehensive Loss			
Processing and servicing	51,635	33	51,668
Technology and data analytics	174,130	6,078	180,208
Sales and marketing	119,243	635	119,878
General and administrative	220,042	33,146	253,188
Total Operating Expenses	**838,206**	**39,892**	**878,098**
Loss Before Income Taxes	**(277,610)**	**(39,892)**	**(317,502)**
Net Loss Attributable to Common Stockholders	**(277,715)**	**(39,892)**	**(317,607)**
Net loss per share attributable to common stockholders for Class A and Class B:			
Basic	$ (2.27)	$ (0.33)	$ (2.60)
Diluted	$ (2.48)	$ (0.32)	$ (2.80)

	Three Months Ended March 31, 2021		
	As Previously Reported	Adjustments	As Corrected
Consolidated Statement of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)			
Stock-based compensation - Additional Paid-In Capital	146,314	41,569	187,883
Net Loss - Accumulated Deficit	(247,159)	(39,892)	(287,051)
Balance as of March 31, 2021 - Total Stockholders' Equity	**2,404,021**	**1,677**	**2,405,698**

	Nine Months Ended March 31, 2021		
	As Previously Reported	Adjustments	As Corrected
Consolidated Statement of Cash Flows			
Cash Flows from Operating Activities			
Net Loss	(277,715)	(39,892)	(317,607)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	152,471	39,892	192,363
Net Cash Used in Operating Activities	**(173,217)**	**—**	**(173,217)**

Item 6. Exhibits

Exhibit Number	Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation	8-K	001-39888	3.1	January 15, 2021	
3.2	Amended and Restated Bylaws	8-K	001-39888	3.2	September 8, 2021	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	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

SIGNATURES

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

AFFIRM HOLDINGS, INC.

Date: November 15, 2021

By: /s/ Max Levchin
Max Levchin
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Michael Linford
Michael Linford
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Max Levchin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Affirm Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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: November 15, 2021

/s/ Max Levchin
Max Levchin
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Linford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Affirm Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant’s internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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: November 15, 2021

/s/ Michael Linford
Michael Linford
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Dated: November 15, 2021

/s/ Max Levchin

Max Levchin
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Dated: November 15, 2021

/s/ Michael Linford

Michael Linford
Chief Financial Officer
(Principal Financial Officer)