

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 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 March 31, 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: 001-38678

UPWORK INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of incorporation or organization)
475 Brannan Street, Suite 430
San Francisco, California
(Address of principal executive offices)

46-4337682
(I.R.S. Employer Identification No.)

94107
(Zip Code)

(650) 316-7500
(Registrant's telephone number, including area code)

2625 Augustine Drive, Suite 601
Santa Clara, California 95054
(Former name, former address and former fiscal year, if changed since last report)

| Title of Each Class | Securities registered pursuant to Section 12(b) of the Act: Trading Symbol | Name of Each Exchange on Which Registered |
|--|---|---|
| Common Stock, \$0.0001 par value per share | UPWK | The Nasdaq Stock Market LLC |

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

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

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

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

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

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

As of April 30, 2021, there were 126,144,849 shares of the registrant's common stock outstanding.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | March 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 104,316 | \$ 94,081 |
| Marketable securities | 65,513 | 75,570 |
| Funds held in escrow, including funds in transit | 161,403 | 135,042 |
| Trade and client receivables – net of allowance of \$1,792 and \$1,661 as of March 31, 2021 and December 31, 2020, respectively | 51,894 | 47,018 |
| Prepaid expenses and other current assets | 10,742 | 9,090 |
| Total current assets | 393,868 | 360,801 |
| Property and equipment, net | 27,868 | 28,139 |
| Goodwill | 118,219 | 118,219 |
| Intangible assets, net | — | 667 |
| Operating lease asset | 18,818 | 19,729 |
| Other assets, noncurrent | 1,560 | 1,672 |
| Total assets | \$ 560,333 | \$ 529,227 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 12,080 | \$ 6,455 |
| Escrow funds payable | 161,403 | 135,042 |
| Debt, current | 7,586 | 7,581 |
| Accrued expenses and other current liabilities | 26,762 | 32,868 |
| Deferred revenue | 18,157 | 16,801 |
| Total current liabilities | 225,988 | 198,747 |
| Debt, noncurrent | 1,263 | 3,142 |
| Operating lease liability, noncurrent | 19,714 | 20,506 |
| Other liabilities, noncurrent | 7,867 | 7,522 |
| Total liabilities | 254,832 | 229,917 |
| Commitments and contingencies (Note 6) | | |
| Stockholders' equity | | |
| Common stock, \$0.0001 par value; 490,000,000 shares authorized as of March 31, 2021 and December 31, 2020; 125,962,107 and 124,795,222 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively | 13 | 12 |
| Additional paid-in capital | 508,147 | 494,122 |
| Accumulated deficit | (202,659) | (194,824) |
| Total stockholders' equity | 305,501 | 299,310 |
| Total liabilities and stockholders' equity | \$ 560,333 | \$ 529,227 |

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

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

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2021 | 2020 |
| Revenue | \$ 113,619 | \$ 83,196 |
| Cost of revenue | 30,441 | 23,485 |
| Gross profit | 83,178 | 59,711 |
| Operating expenses | | |
| Research and development | 26,613 | 19,348 |
| Sales and marketing | 39,604 | 30,678 |
| General and administrative | 23,531 | 17,824 |
| Provision for transaction losses | 1,127 | 912 |
| Total operating expenses | 90,875 | 68,762 |
| Loss from operations | (7,697) | (9,051) |
| Interest expense | 199 | 230 |
| Other (income) expense, net | (78) | 731 |
| Loss before income taxes | (7,818) | (10,012) |
| Income tax provision | (17) | (9) |
| Net loss | \$ (7,835) | \$ (10,021) |
| Net loss per share, basic and diluted | \$ (0.06) | \$ (0.09) |
| Weighted-average shares used to compute net loss per share, basic and diluted | 125,279 | 114,119 |

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

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

| <u>Three Months Ended March 31, 2021</u> | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity |
|---|---------------------|---------------|---|--------------------------------|---|
| | Shares | Amount | | | |
| Balances as of December 31, 2020 | 124,795,222 | \$ 12 | \$ 494,122 | \$ (194,824) | \$ 299,310 |
| Issuance of common stock upon exercise of stock options | 748,396 | 1 | 2,596 | — | 2,597 |
| Stock-based compensation expense | — | — | 11,264 | — | 11,264 |
| Issuance of common stock for settlement of RSUs | 418,489 | — | — | — | — |
| Tides Foundation common stock warrant expense and other | — | — | 165 | — | 165 |
| Net loss | — | — | — | (7,835) | (7,835) |
| Balances as of March 31, 2021 | <u>125,962,107</u> | <u>\$ 13</u> | <u>\$ 508,147</u> | <u>\$ (202,659)</u> | <u>\$ 305,501</u> |

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

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

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------------|
| | 2021 | 2020 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (7,835) | \$ (10,021) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Provision for transaction losses | 901 | 767 |
| Depreciation and amortization | 3,194 | 2,308 |
| Amortization of debt issuance costs | 19 | 13 |
| Amortization of premium (discount) on purchases of marketable securities, net | 10 | (174) |
| Amortization of operating lease asset | 911 | 969 |
| Tides Foundation common stock warrant expense | 188 | 188 |
| Stock-based compensation expense | 11,226 | 5,537 |
| Changes in operating assets and liabilities: | | |
| Trade and client receivables | (5,584) | (5,891) |
| Prepaid expenses and other assets | (1,542) | (464) |
| Operating lease liability | (401) | (459) |
| Accounts payable | 5,540 | 994 |
| Accrued expenses and other liabilities | (6,291) | 3,881 |
| Deferred revenue | 1,540 | 650 |
| Net cash provided by (used in) operating activities | <u>1,876</u> | <u>(1,702)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of marketable securities | (20,976) | (26,789) |
| Proceeds from maturities of marketable securities | 31,000 | 33,000 |
| Purchases of property and equipment | (70) | (1,288) |
| Internal-use software and platform development costs | (2,298) | (1,999) |
| Net cash provided by investing activities | <u>7,656</u> | <u>2,924</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Changes in escrow funds payable | 26,360 | 14,834 |
| Proceeds from exercises of stock options | 2,597 | 3,165 |
| Proceeds from borrowings on debt | — | 15,000 |
| Repayment of debt | (1,893) | (1,893) |
| Net cash provided by financing activities | <u>27,064</u> | <u>31,106</u> |
| NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH | 36,596 | 32,328 |
| Cash, cash equivalents, and restricted cash—beginning of period | 232,463 | 159,603 |
| Cash, cash equivalents, and restricted cash—end of period | <u>\$ 269,059</u> | <u>\$ 191,931</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$ 105 | \$ 239 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES: | | |
| Property and equipment purchased but not yet paid | \$ 173 | \$ 2,435 |
| Internal-use software and platform development costs incurred but not yet paid | \$ — | \$ 40 |

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

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

Note 1—Description of Business

Upwork Inc., which is referred to as the Company or Upwork, operates a work marketplace that connects businesses, which are referred to as clients, with independent talent. Independent talent on the Company's work marketplace, which are referred to as freelancers, and, together with clients, as users, include independent professionals and agencies of varying sizes and are an increasingly sought-after, critical, and expanding segment of the global workforce. The Company is currently headquartered in San Francisco, California.

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

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States, which is referred to as U.S. GAAP, and applicable rules and regulations of the SEC regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this Quarterly Report should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, which is referred to as the Annual Report, filed with the SEC on February 24, 2021.

The condensed consolidated balance sheet as of December 31, 2020 included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by U.S. GAAP.

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

The accompanying condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, changes in stockholders' equity and cash flows for the interim periods, but do not purport to be indicative of the results of operations or financial condition to be anticipated for the full year ending December 31, 2021.

Use of Estimates

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

Due to the COVID-19 pandemic and the restrictions intended to prevent its spread, the Company is evaluating its current need for office space. The Company may determine to either close or sublease certain of its offices, either of which may result in impairment charges primarily related to the Company's operating lease asset and associated leasehold improvements.

Notwithstanding the foregoing, the Company is not aware of any specific event or circumstance that would require an update to its estimates or judgments or a revision of the carrying value of its assets or liabilities. These estimates

may change as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

Recently Adopted Accounting Pronouncements

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

Recent Accounting Pronouncements Not Yet Adopted

The Company has reviewed all accounting pronouncements issued during the three months ended March 31, 2021 and concluded they were either not applicable or not expected to have a material impact on the Company's condensed consolidated financial statements.

Note 3—Revenue

Disaggregation of Revenue

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

Remaining Performance Obligations

As of March 31, 2021, the Company had approximately \$22.5 million of remaining performance obligations. The Company's remaining performance obligations consist of transaction price that has been allocated to unexercised material rights related to the Company's arrangements with freelancers subject to tiered service fees, subscriptions, memberships, "Connects" (virtual tokens that allow freelancers to bid on projects on the Company's platform), and certain incentive payments made to the Company by payment processors. As of March 31, 2021, the Company expects to recognize approximately \$18.2 million over the next 12 months, with the remaining balance recognized thereafter.

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

Contract Balances

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

| | March 31, 2021 | December 31, 2020 |
|---|-----------------------|--------------------------|
| Trade and client receivables, net of allowance | \$ 51,894 | \$ 47,018 |
| Contract liabilities | | |
| Deferred revenue | 18,157 | 16,801 |
| Deferred revenue (component of other liabilities, noncurrent) | 4,361 | 4,177 |

During the three months ended March 31, 2021, changes in the contract liabilities balances were a result of normal business activity and deferral of revenue related to arrangements with freelancers subject to tiered service fees and related allocation of transaction price to material rights.

Revenue recognized during the three months ended March 31, 2021 that was included in deferred revenue as of December 31, 2020 was \$6.2 million. Revenue recognized during the three months ended March 31, 2020 that was included in deferred revenue as of December 31, 2019 was \$5.1 million.

Note 4—Fair Value Measurements

The Company defines fair value as the exchange price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must

maximize the use of observable inputs and minimize the use of unobservable inputs. The authoritative guidance describes three levels of inputs that may be used to measure fair value:

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

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

The Company’s financial instruments that are carried at fair value consist of Level I and Level II assets as of March 31, 2021 and December 31, 2020. The following tables set forth the fair value of the Company’s financial assets measured at fair value on a recurring basis based on the three-tier fair value hierarchy (in thousands):

| | March 31, 2021 | | | |
|----------------------------|----------------|-----------|-----------|------------|
| | Level I | Level II | Level III | Total |
| Cash equivalents | | | | |
| Money market funds | \$ 90,036 | \$ — | \$ — | \$ 90,036 |
| Marketable securities | | | | |
| Commercial paper | — | 50,971 | — | 50,971 |
| Treasury bills | 4,500 | — | — | 4,500 |
| U.S. government securities | 10,042 | — | — | 10,042 |
| Total financial assets | \$ 104,578 | \$ 50,971 | \$ — | \$ 155,549 |

| | December 31, 2020 | | | |
|----------------------------|-------------------|-----------|-----------|------------|
| | Level I | Level II | Level III | Total |
| Cash equivalents | | | | |
| Money market funds | \$ 65,723 | \$ — | \$ — | \$ 65,723 |
| Commercial paper | — | 5,999 | — | 5,999 |
| Marketable securities | | | | |
| Commercial paper | — | 50,965 | — | 50,965 |
| Treasury Bills | 4,499 | — | — | 4,499 |
| U.S. government securities | 20,106 | — | — | 20,106 |
| Total financial assets | \$ 90,328 | \$ 56,964 | \$ — | \$ 147,292 |

For each of the three months ended March 31, 2021 and 2020, the gross unrealized gains and losses on the Company’s marketable securities were immaterial. As of March 31, 2021 and 2020, the Company considered any decreases in market value to be temporary in nature and did not consider any of the Company’s marketable securities to be other-than-temporarily impaired. As such, the Company did not record any impairment charges with respect to its marketable securities during each of the three months ended March 31, 2021 and 2020.

As of March 31, 2021 and December 31, 2020, the Company had debt obligations outstanding of \$8.9 million and \$10.8 million, respectively, under the Company's Loan and Security Agreement, as amended, which is referred to as the Loan Agreement. As of March 31, 2021, the carrying value approximated fair value as borrowings under the Loan Agreement bore interest at variable rates, and the Company believes its credit risk quality is consistent with when the debt was originated. The Company considered the balances outstanding under the Loan Agreement to be Level II liabilities as of March 31, 2021 and December 31, 2020. See "Note 7—Debt."

Note 5—Balance Sheet Components

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

The following table reconciles cash and cash equivalents, restricted cash, and funds held in escrow that are restricted as reported in the condensed consolidated balance sheets to the total of the same amounts shown in the condensed consolidated statements of cash flows as of March 31, 2021 and December 31, 2020 (in thousands):

| | March 31, 2021 | December 31, 2020 |
|--|-----------------------|--------------------------|
| Cash and cash equivalents | \$ 104,316 | \$ 94,081 |
| Restricted cash | 3,340 | 3,340 |
| Funds held in escrow, including funds in transit | 161,403 | 135,042 |
| Total cash, cash equivalents, and restricted cash as shown in the condensed consolidated statement of cash flows | <u>\$ 269,059</u> | <u>\$ 232,463</u> |

Property and Equipment, Net

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

| | March 31, 2021 | December 31, 2020 |
|--|-----------------------|--------------------------|
| Computer equipment and software | \$ 5,006 | \$ 4,819 |
| Internal-use software and platform development | 22,798 | 20,727 |
| Leasehold improvements | 14,612 | 14,613 |
| Office furniture and fixtures | 3,354 | 3,354 |
| Total property and equipment | 45,770 | 43,513 |
| Less: accumulated depreciation | (17,902) | (15,374) |
| Property and equipment, net | <u>\$ 27,868</u> | <u>\$ 28,139</u> |

For the three months ended March 31, 2021 and 2020, depreciation expense related to property and equipment was \$1.0 million and \$0.7 million, respectively.

For the three months ended March 31, 2021 and 2020, the Company capitalized \$2.1 million and \$1.6 million of internal-use software and platform development costs, respectively.

For the three months ended March 31, 2021 and 2020, amortization expense related to the capitalized internal-use software and platform development costs was \$1.5 million and \$0.9 million, respectively.

Intangible Assets, Net

All of the Company's identifiable intangible assets were acquired in March 2014 from the combination of Elance, Inc. and oDesk Corporation. For each of the three months ended March 31, 2021 and 2020, amortization expense of intangible assets was \$0.7 million. As of March 31, 2021, all of the Company's identifiable intangible assets were fully amortized.

Accrued Expenses and Other Current Liabilities

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

| | March 31, 2021 | December 31, 2020 |
|--|------------------|-------------------|
| Accrued compensation and related benefits | \$ 9,203 | \$ 14,007 |
| Accrued freelancer costs | 963 | 1,235 |
| Accrued indirect taxes | 2,522 | 3,818 |
| Accrued vendor expenses | 8,036 | 8,662 |
| Accrued payment processing fees | 1,618 | 1,219 |
| Operating lease liability, current | 4,116 | 3,725 |
| Other | 304 | 202 |
| Total accrued expenses and other current liabilities | <u>\$ 26,762</u> | <u>\$ 32,868</u> |

Stockholders' Equity

On January 18, 2021, which is referred to as the CEO Award Grant Date, the compensation committee of the board of directors of the Company approved a stock option grant, which is referred to as the CEO Award, exercisable for up to 1,500,000 shares of the Company's common stock to Hayden Brown, the Company's President and Chief Executive Officer, under the Company's 2018 Employee Incentive Plan, which is referred to as the 2018 EIP. The CEO Award is subject to a service-based vesting requirement, which is referred to as the Service Condition, and a performance-based vesting requirement, which is referred to as the Market Condition. In order for any shares subject to the CEO Award to be exercisable, both the Service Condition and the Market Condition must be satisfied with respect to such shares. The CEO Award vests with respect to the Service Condition in sixteen equal quarterly installments following the CEO Award Grant Date, subject to Ms. Brown's continuous service to the Company as Chief Executive Officer, Executive Chairperson, or any C-level officer position. The CEO Award vests with respect to the Market Condition upon the achievement of certain volume weighted-average common stock price targets measured over any consecutive 90-day period between the CEO Award Grant Date and April 18, 2026. The 90-day volume weighted-average common stock price targets, and the number of shares of the CEO Award that become vested with respect to the Market Condition upon the achievement of each such target, are reflected in the following table:

| Stock Price | Number of Shares Vested |
|-------------|-------------------------|
| \$60 | 100,000 |
| \$70 | 200,000 |
| \$80 | 300,000 |
| \$90 | 400,000 |
| \$100 | 500,000 |

Stock-based compensation expense associated with the CEO Award will be recognized over the longer of the expected achievement period for the Market Condition and the Service Condition. The Market Condition period and the valuation of each tranche of the CEO Award were determined using a Monte Carlo simulation. Stock-based compensation expense for the CEO Award is recorded as a component of general and administrative expense in the Company's condensed consolidated statement of operations. In the event the Market Condition is met prior to the expected achievement period, any then-unrecognized compensation expense associated with the shares that have vested with respect to both the Market Condition and the Service Condition will be recognized immediately in the Company's condensed consolidated statements of operations.

For the three months ended March 31, 2021, the Company recorded stock-based compensation expense of \$2.5 million related to the CEO Award. As of March 31, 2021, total unrecognized stock-based compensation cost was \$26.3 million, which is expected to be recognized over a weighted-average period of 1.9 years.

On February 17, 2021, which is referred to as the PSU Grant Date, the compensation committee of the board of directors of the Company approved performance stock unit awards, which are referred to as PSU Awards, to certain members of the Company's leadership team under the 2018 EIP. The number of performance stock units, which are referred to as PSUs, that are earned by the recipients, which is referred to as Earned PSUs, will be determined based on the Company's revenue achievement during fiscal year 2021, which is referred to as the PSU Performance Condition. Upon attainment of the PSU Performance Condition, the Earned PSUs will be subject to a time-based vesting requirement conditioned on the recipient of the PSU Award continuing to provide service to the Company for four years from the PSU Grant Date, which is referred to as the PSU Service Condition. The Earned PSUs will vest with respect to 25% of the Earned PSUs on the one-year anniversary of the PSU Grant Date and 1/16th of the Earned PSUs on a quarterly basis thereafter.

Stock-based compensation expense associated with the PSU Awards is a component of operating expenses in the Company's condensed consolidated statements of operations and will be recognized over the longer of the expected achievement period for the PSU Performance Condition and the PSU Service Condition. The grant date fair value of the PSU Awards was determined using the Company's closing common stock price on the PSU Grant Date multiplied by the number of PSUs that were probable of being earned on the PSU Grant Date. At each interim reporting date prior to the date on which the compensation committee of the board of directors certifies the PSU Performance Condition, the number of PSUs that are probable of being earned is reassessed and any changes are reflected in the total stock-based compensation expense associated with the PSU Awards.

During the three months ended March 31, 2021, the Company recorded stock-based compensation expense of \$0.4 million related to the PSU Awards. As of March 31, 2021, total unrecognized stock-based compensation cost was \$5.5 million, which is expected to be recognized over a weighted-average period of 1.7 years.

Note 6—Commitments and Contingencies

Letters of Credit

In conjunction with the Company's operating lease agreements, as of March 31, 2021 and December 31, 2020, the Company had three irrevocable letters of credit outstanding in the aggregate amount of \$1.0 million. The letters of credit are collateralized by restricted cash in the same amount. No amounts had been drawn against these letters of credit as of March 31, 2021 and December 31, 2020.

Contingencies

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

As of March 31, 2021 and December 31, 2020, the Company was not a party to any material legal proceedings or claims, nor is the Company aware of any pending or threatened litigation or claims, including non-income tax matters, that could reasonably be expected to have a material adverse effect on its business, operating results, cash flows, or financial condition. Accordingly, the amounts accrued for contingencies for which the Company believes a loss is probable were not material as of March 31, 2021 and December 31, 2020.

Indemnification

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

worker classification services for losses arising from worker misclassification. It is not possible to determine the maximum potential loss under these indemnification provisions due to the Company's limited history of prior indemnification claims and the facts and circumstances involved in each particular provision.

Note 7—Debt

The following table presents the carrying value of the Company's debt obligations as of March 31, 2021 and December 31, 2020 (in thousands):

| | March 31, 2021 | December 31, 2020 |
|--|-----------------------|--------------------------|
| First Term Loan—18 months of interest-only payments ended in March 2019 followed by 36 equal monthly installments of principal plus interest, maturing March 2022; interest at prime plus 0.25% per annum | \$ 5,000 | \$ 6,250 |
| Second Term Loan—17 months of interest-only payments ended in March 2019 followed by 42 equal monthly installments of principal plus interest, maturing September 2022; interest at prime plus 0.25% per annum | 3,857 | 4,500 |
| Total debt | 8,857 | 10,750 |
| Less: unamortized debt discount issuance costs | (8) | (27) |
| Balance | 8,849 | 10,723 |
| Debt, current | (7,586) | (7,581) |
| Debt, noncurrent | <u>\$ 1,263</u> | <u>\$ 3,142</u> |
| Weighted-average interest rate | 4.39 % | 5.64 % |

Under the Loan Agreement, the aggregate amount of the facility is up to \$49.0 million, consisting of a term loan in the original principal amount of \$15.0 million, which is referred to as the First Term Loan, a term loan in the original principal amount of \$9.0 million, which is referred to as the Second Term Loan, and, together with the First Term Loan, as the Term Loans, and a revolving line of credit, which permits borrowings of up to \$25.0 million subject to customary conditions. The Company has granted its lender first-priority liens against substantially all of its assets, as collateral, excluding the Company's intellectual property (but including proceeds therefrom) and the funds and assets held by the Company's subsidiary, Upwork Escrow Inc. The Company has also agreed to a negative pledge on its intellectual property. The Loan Agreement also requires that the Company maintain an adjusted quick ratio of 1.75. The Loan Agreement also includes a restrictive covenant on dividend payments other than dividends paid solely in common stock. The Company was in compliance with its covenants under the Loan Agreement as of March 31, 2021 and December 31, 2020.

Pursuant to the terms of the Loan Agreement, the Company commenced repayment on the Term Loans in April 2019. During the three months ended March 31, 2021, the Company repaid \$1.3 million and \$0.6 million related to the First Term Loan and Second Term Loan, respectively. During the three months ended March 31, 2020, the Company repaid \$1.3 million and \$0.6 million related to the First Term Loan and Second Term Loan, respectively.

Note 8—Net Loss per Share

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

| | Three Months Ended March 31, | |
|---|---|------------------|
| | 2021 | 2020 |
| Numerator: | | |
| Net loss | \$ (7,835) | \$ (10,021) |
| Denominator: | | |
| Weighted-average shares used to compute net loss per share, basic and diluted | 125,279,109 | 114,118,958 |
| Net loss per share, basic and diluted | \$ (0.06) | \$ (0.09) |

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

| | As of March 31, | |
|---|------------------------|-------------------|
| | 2021 | 2020 |
| Options to purchase common stock | 5,578,018 | 13,181,714 |
| Common stock issuable upon exercise of common stock warrants | 400,000 | 450,000 |
| Common stock issuable upon vesting of restricted stock units | 5,849,692 | 6,132,421 |
| Common stock issuable in connection with employee stock purchase plan | 498,084 | 1,454,352 |
| Total | 12,325,794 | 21,218,487 |

Note 9—Segment and Geographical Information

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

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

| | Three Months Ended March 31, | |
|----------------------|---|------------------|
| | 2021 | 2020 |
| Marketplace | \$ 104,670 | \$ 74,782 |
| Managed services | 8,949 | 8,414 |
| Total revenue | \$ 113,619 | \$ 83,196 |

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

| | Three Months Ended March 31, | |
|----------------------|---|------------------|
| | 2021 | 2020 |
| Freelancers | | |
| United States | \$ 18,115 | \$ 13,997 |
| India | 9,587 | 7,473 |
| Philippines | 7,073 | 5,137 |
| Rest of world | 33,689 | 24,355 |
| Total freelancers | 68,464 | 50,962 |
| Clients | | |
| United States | 33,261 | 22,959 |
| Rest of world | 11,894 | 9,275 |
| Total clients | 45,155 | 32,234 |
| Total revenue | \$ 113,619 | \$ 83,196 |

Substantially all of the Company's long-lived assets were located in the United States as of March 31, 2021 and December 31, 2020.

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

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

Overview

Independent talent is an increasingly sought-after, critical, and expanding segment of the global workforce. We operate the world’s largest work marketplace that connects businesses, which we refer to as clients, with independent talent, as measured by gross services volume, which we refer to as GSV. GSV represents the total amount that clients spend on both our marketplace offerings and our managed services offering as well as additional fees we charge to both clients and freelancers for other services. We define freelancers as users that advertise and provide services to clients through our work marketplace, and we define clients as users that work with freelancers through our work marketplace. Freelancers on our work marketplace include independent professionals and agencies of varying sizes. The clients on our work marketplace range in size from small businesses to Fortune 100 companies. With users in over 180 countries, our work marketplace enabled \$0.8 billion and \$0.6 billion of GSV for the three months ended March 31, 2021 and 2020, respectively, representing a period-over-period increase of 41%. For purposes of determining countries where we enable GSV, we include both the countries in which the clients that paid for the applicable services are located, as well as the countries in which the freelancers that provided those services are located.

We generate revenue from both freelancers and clients, with a majority of our revenue generated from service fees charged to freelancers. We also generate revenue from fees charged to both clients and freelancers for other services, such as for transacting payments through our work marketplace, premium offerings, purchases of “Connects” (virtual tokens that allow freelancers to bid on projects on our platform), foreign currency exchange, and our Upwork Payroll offering. In addition, we provide a managed services offering where we engage freelancers to complete projects, directly invoice the client, and assume responsibility for work performed.

In the first quarter of 2021, we continued to identify opportunities to prioritize our advertising and marketing efforts in order to reach new and existing clients seeking to engage with independent talent. As a result, we continued to experience strong client acquisition, and our first quarter results were fueled by both new and existing clients. For the three months ended March 31, 2021 and 2020, we generated total revenue of \$113.6 million and \$83.2 million, respectively, representing a period-over-period increase of 37%.

In the first quarter, we also made significant investments in research and development to build new product features and launch new offerings and in operations and personnel, and we intend to continue to focus on these efforts. For the three months ended March 31, 2021, we generated a net loss of \$7.8 million and adjusted EBITDA of \$6.9 million, compared to a net loss of \$10.0 million and adjusted EBITDA loss of \$1.0 million for the three months ended March 31, 2020. Adjusted EBITDA is a financial measure that is not prepared in accordance with, and is not an alternative to, financial measures prepared in accordance with U.S. generally accepted accounting principles, which we refer to as U.S. GAAP. See the section titled “Key Financial and Operational Metrics—Non-GAAP Financial Measures” below for a definition of adjusted EBITDA and information regarding our use of adjusted EBITDA and a reconciliation of adjusted EBITDA to net loss, the most directly comparable financial measure prepared under U.S. GAAP.

Impact of the COVID-19 Pandemic on Our Business

The COVID-19 pandemic and the resulting restrictions intended to prevent its spread have accelerated the secular shift toward remote and independent work. While we have not incurred significant disruptions to our business thus far from the COVID-19 pandemic, we continue to monitor the potential impact it could have on our business as well as various uncertainties, which include, but are not limited to, the duration of the pandemic, its effect on the economy, its impact to the businesses of our clients, actions that may be taken by governmental authorities related to the pandemic, and other factors identified in Part II, Item 1A “Risk Factors” in this Quarterly Report, including the

risk factor titled “Our business experienced, and may again experience, an adverse impact from the ongoing COVID-19 pandemic. In addition, users may reduce their use of our work marketplace as the pandemic subsides.”

Key Financial and Operational Metrics

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

| | Three Months Ended March 31, | | Change | |
|---|---------------------------------|-------------|------------|--------|
| | 2021 | 2020 | \$ | % |
| <i>(in thousands, except percentages)</i> | | | | |
| GSV | \$ 786,777 | \$ 559,493 | \$ 227,284 | 41 % |
| Marketplace revenue | \$ 104,670 | \$ 74,782 | \$ 29,888 | 40 % |
| Marketplace take rate | 13.5 % | 13.6 % | N/A | (0.1)% |
| Net loss | \$ (7,835) | \$ (10,021) | \$ 2,186 | 22 % |
| Adjusted EBITDA ⁽¹⁾ | \$ 6,911 | \$ (1,018) | \$ 7,929 | 779 % |

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

| | As of March 31, | | Change | |
|---|-----------------|-------|--------|------|
| | 2021 | 2020 | | % |
| <i>(in thousands, except percentages)</i> | | | | |
| Core clients | 152.4 | 128.8 | 23.6 | 18 % |
| Client spend retention | 106 % | 102 % | N/A | 4 % |

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

Gross Services Volume (GSV)

GSV includes both client spend and additional fees charged for other services. Client spend, which we define as the total amount that clients spend on both our marketplace offerings and our managed services offering, is the primary component of GSV. GSV also includes additional fees charged to both clients and freelancers for other services and

offerings, such as for transacting payments through our work marketplace, user memberships, purchases of Connects, and foreign currency exchange.

GSV is an important metric because it represents the amount of business transacted through our work marketplace. Our marketplace revenue is primarily comprised of the service fees paid by freelancers as a percentage of the total amount freelancers charge clients for services accessed through our work marketplace. Therefore, marketplace revenue is correlated to GSV, and we believe that our marketplace revenue will grow as GSV grows, although they could grow at different rates. For a discussion of how we measure and evaluate the correlation between marketplace revenue and GSV, see “—Marketplace Take Rate” below. Growth in the number of core clients and increased client spend retention are the primary drivers of GSV growth, and we expect the client spend retention trends discussed in “—Client Spend Retention,” below, to affect the rate at which GSV grows. We derive a substantial portion of our GSV and revenue from small- and medium-sized businesses. In the first quarter, we continued to invest in advertising, marketing, and brand awareness campaigns in order to reach new and existing clients seeking to engage with independent talent. As a result, we continued to experience strong client acquisition, and our first quarter results were fueled by both new and existing clients. For the three months ended March 31, 2021, our work marketplace enabled \$0.8 billion of GSV, representing a period-over-period growth rate of 41%. We expect our GSV to fluctuate between periods due to a number of factors, including the current COVID-19 pandemic and its impact on our clients’ businesses; the number of Sundays (i.e., the day we bill and recognize revenue for the majority of our freelancer service fees each week) or the number of Mondays (i.e., the day we bill and recognize revenue for a substantial portion of our client fees each week) in any given quarter; and the volume of projects that are posted by clients on our work marketplace, the characteristics of those projects, such as size, duration, and pricing, and the availability and qualifications of freelancers to complete those projects.

Marketplace Revenue

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

Marketplace revenue is the primary driver of our business and provides comparability to other online marketplaces. The growth rate of marketplace revenue fluctuates in relation to the growth rate of GSV. Therefore, marketplace revenue is correlated to GSV, and we believe that our marketplace revenue will grow as GSV grows, although they could grow at different rates. Our first quarter results were fueled by both existing and new clients, who drove an increase in freelancer billings, which, in turn, drove an increase in marketplace revenue. We expect our marketplace revenue growth rates to continue to vary from period to period due to a variety of other factors such as the impact of the COVID-19 pandemic and any resulting macroeconomic impact on the businesses and spending behavior of our current and prospective clients; the number of Sundays (i.e., the day we bill and recognize revenue for the majority of our freelancer service fees each week) or the number of Mondays (i.e., the day we recognize revenue for a substantial portion of our client fees each week) in any given quarter; the lapping of significant launches of new products, pricing changes, and other monetization efforts; the performance of client spend retention; and the ability of the recent and continued investments in marketing, brand awareness campaigns, and sales to acquire, and achieve increased spend from, clients and the timing of those results.

Marketplace Take Rate

Marketplace take rate measures the correlation between marketplace revenue and GSV and is calculated by dividing marketplace revenue by marketplace GSV. Marketplace take rate is an important metric because it is the key indicator of how well we monetize spend on our work marketplace from our Upwork Basic, Plus, and Enterprise and other premium offerings. We expect our marketplace take rate to vary from period to period as marketplace revenue and GSV vary as a result of a variety of factors, such as the number of Sundays (i.e., the day we bill and recognize revenue for the majority of our freelancer service fees each week) or the number of Mondays (i.e., the day we recognize revenue for a substantial portion of our client fees each week) in any given quarter; pricing changes; the ability of the recent and continued investments in marketing, brand awareness campaigns, and sales to acquire, and

achieve increased spend from, clients and the timing of those results; and ongoing efforts to improve processes on our work marketplace, including project proposals and purchases of Connects, among others.

Core Clients

We believe that the number of core clients is an indicator of our growth and the overall health of our business because core clients are a primary driver of GSV and, therefore, marketplace revenue. We define a core client as a client that has spent at least \$5,000 in the aggregate since it began using our work marketplace and also had spend activity on our work marketplace during the 12 months preceding the date of measurement. We believe that aggregate spend of at least \$5,000 indicates that the client is actively using our work marketplace. Historically, these core clients have been more likely to continue using our work marketplace. In the first quarter of 2021, we continued to prioritize our advertising and marketing efforts in order to reach new and existing clients seeking to engage with independent talent. As a result of these efforts, we saw an increase in core client acquisitions. We continue to see businesses of all sizes use our work marketplace in a recurring way for larger, more complex projects, and we expect the number of core clients to continue to increase over time but could vary quarter by quarter depending, in part, on the extent to which the COVID-19 pandemic and any resulting macroeconomic downturn impacts our business, the businesses of our clients, and other factors identified in Part II, Item 1A “Risk Factors” in this Quarterly Report, including the risk factor titled “Our business experienced, and may again experience, an adverse impact from the ongoing COVID-19 pandemic. In addition, users may reduce their use of our work marketplace as the pandemic subsides.”

Client Spend Retention

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

Long-term and recurring use by freelancers and clients are the primary drivers of growth in our marketplace and give us increased revenue visibility. While continued use of our work marketplace by freelancers is a factor that impacts our ability to attract and retain clients, we currently have a significant surplus of freelancers in relation to the number of clients actively engaging freelancers for most categories of services on our work marketplace. As a result of this surplus, we primarily focus our efforts on retaining client spend and acquiring new clients, as opposed to acquiring new freelancers and retaining existing freelancers. Moreover, we generate revenue when clients engage and pay freelancers, and therefore, our key metrics and operating results are directly impacted by client spend. Additionally, the number of freelancers retained between periods is merely one of many factors that may impact client spend in a particular period and is not a primary driver of our key metrics and operating results.

As of March 31, 2021 and 2020, client spend retention was 106% and 102%, respectively. As a result of the COVID-19 pandemic and execution against our strategic initiatives, we experienced an acceleration in client spend from new and existing clients in 2020 that continued throughout the first quarter of 2021. As a result, we experienced an increase in client spend retention as of March 31, 2021 compared to March 31, 2020. As we acquire more large enterprise, global account, and mid-market clients in current and future periods, we expect them to continue to make positive contributions to our client spend retention in future years. Client spend retention will continue to vary from period to period due to client size and spending behavior, among other factors, including the impact of the ongoing COVID-19 pandemic, the related restrictions intended to prevent its spread, and the resulting macroeconomic downturn on the businesses and spending behavior of our clients.

Non-GAAP Financial Measures

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

We define adjusted EBITDA as net income (loss) adjusted for stock-based compensation expense, depreciation and amortization, interest expense, other (income) expense, net, income tax (benefit) provision, and, if applicable, other

non-cash transactions. Adjusted EBITDA is not prepared in accordance with, and is not an alternative to, financial measures prepared in accordance with U.S. GAAP.

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

| | Three Months Ended March 31, | |
|---|---|-------------------|
| | 2021 | 2020 |
| Net Loss | \$ (7,835) | \$ (10,021) |
| Add back (deduct): | | |
| Stock-based compensation expense | 11,226 | 5,537 |
| Depreciation and amortization | 3,194 | 2,308 |
| Interest expense | 199 | 230 |
| Other (income) expense, net | (78) | 731 |
| Income tax provision | 17 | 9 |
| Tides Foundation common stock warrant expense | 188 | 188 |
| Adjusted EBITDA | <u>\$ 6,911</u> | <u>\$ (1,018)</u> |

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

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

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

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

- other companies, including companies in our industry, may calculate adjusted EBITDA or similarly titled measures differently, which reduces the usefulness of this measure for comparative purposes.

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

Components of Our Results of Operations

Revenue

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

The COVID-19 pandemic and the resulting restrictions intended to prevent its spread have accelerated the secular shift toward remote and independent work. In the first quarter of 2021, we continued to execute on opportunities to prioritize our advertising and marketing efforts in order to reach new and existing clients seeking to engage with independent talent. As a result, we continued to experience strong client acquisition, and our first quarter results were fueled by both new and existing clients, who drove an increase in freelancer billings, which, in turn, drove an increase in marketplace revenue. We are continuously evaluating the nature of and extent to which the COVID-19 pandemic will impact our business, operating results, and financial condition.

Managed Services Revenue. Through our managed services offering, we are responsible for providing services and engaging freelancers directly or as employees of third-party staffing providers to perform services for clients on our behalf. The freelancers providing services in connection with our managed services include independent talent and agencies of varying sizes. Under U.S. GAAP, we are deemed to be the principal in these managed services arrangements and therefore recognize the entire GSV of managed services projects as managed services revenue, as compared to recognizing only the percentage of the client spend that we receive, as we do with our marketplace offerings. Managed services revenue grew at a slower rate than our marketplace revenue in the first quarter of 2021, and we anticipate this trend to continue, as we primarily focus on increasing client usage of and spend on our marketplace offerings.

Cost of Revenue and Gross Profit

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

We expect cost of revenue to increase in absolute dollars in future periods due to higher payment processing fees, third-party hosting fees, and personnel-related costs in order to support growth on our work marketplace. Compared to 2020, we expect third-party hosting fees to increase in 2021, as we complete our migration from the AWS data centers in California to the AWS data center in Oregon, because we will need to use both AWS facilities during the migration period. We plan to substantially complete this migration in the second quarter of 2021. Additionally, we are implementing disaster-relief protocols that will increase third-party hosting costs in future periods.

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

Gross Profit and Gross Margin. Our gross profit and gross margin may fluctuate from period to period. Such fluctuations may be influenced by our revenue, the mix of payment methods that our clients choose, the timing and amount of investments to expand hosting capacity, our continued investments in our services and support teams, the timing and amounts paid to freelancers in connection with our managed services offering, and the amortization

expense associated with capitalized internal-use software and platform development costs. In addition, gross margin will be impacted by fluctuations in our revenue mix between marketplace revenue and managed services revenue. For example, our managed services revenue grew at a slower rate than our marketplace revenue for the three months ended March 31, 2021 compared to the same period in 2020, and we anticipate this trend to continue, as we primarily focus on increasing client usage of and spend on our marketplace offerings. As a result, we expect gross profit to increase in absolute dollars in future periods, although gross margin, expressed as a percentage of total revenue, may vary from period to period.

Operating Expenses

Research and Development. Research and development expense primarily consists of personnel-related costs and third-party hosting costs related to development. Research and development costs are expensed as incurred, except to the extent that such costs are associated with internal-use software and platform development that qualifies for capitalization. In the first quarter of 2021, we continued to make significant investments in research and development to build new product features and launch new offerings, and we believe continued investments in research and development are important to attain our strategic objectives. As a result, we expect research and development expense to increase in absolute dollars in future periods, although this expense, expressed as a percentage of total revenue, may vary from period to period.

Sales and Marketing. Sales and marketing expense consists primarily of expenses related to personnel-related costs, including sales commissions, which we expense as they are incurred, and advertising and marketing activities. We continue to invest in marketing, brand awareness campaigns, and sales. We expect this expense to increase in absolute dollars in future periods, although this expense expressed as a percentage of total revenue may vary from period to period.

General and Administrative. General and administrative expense consists primarily of personnel-related costs for our executive, finance, legal, human resources, corporate development, and operations functions; outside consulting, legal, and accounting services; and insurance. We expect to continue to invest in corporate infrastructure and to incur additional expenses associated with operating as a public company, including increased stock-based compensation expense related to executive compensation arrangements, legal and accounting costs, investor relations costs, insurance premiums, and compliance costs. Additionally, in light of the COVID-19 pandemic and the restrictions intended to prevent its spread, we are evaluating our current need for office space. In April 2021, we entered into a sublease providing for the sublease of the entirety of our former headquarters in Santa Clara, California. The sub-sublease requires the consent of our landlord and master lessor, both of which have not been obtained as of this filing. We are currently evaluating the impact this agreement could have on our condensed financial statements and, if fully executed, could result in the recognition of an impairment charge in an amount between \$7.0 million and \$8.0 million during the second quarter of 2021. Additionally, we may determine to either close or sublease certain of our other offices, either of which could result in further impairment charges being recognized in general and administrative expense. As a result, we expect general and administrative expense to increase in absolute dollars in future periods, although this expense, expressed as a percentage of total revenue, may vary from period to period.

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

Interest Expense

Interest expense consists of interest on our outstanding borrowings.

Other (Income) Expense, Net

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

Results of Operations

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2021 | 2020 |
| Revenue | | |
| Marketplace | \$ 104,670 | \$ 74,782 |
| Managed services | 8,949 | 8,414 |
| Total revenue | 113,619 | 83,196 |
| Cost of revenue ⁽¹⁾ | 30,441 | 23,485 |
| Gross profit | 83,178 | 59,711 |
| Operating expenses | | |
| Research and development ⁽¹⁾ | 26,613 | 19,348 |
| Sales and marketing ⁽¹⁾ | 39,604 | 30,678 |
| General and administrative ⁽¹⁾ | 23,531 | 17,824 |
| Provision for transaction losses | 1,127 | 912 |
| Total operating expenses | 90,875 | 68,762 |
| Loss from operations | (7,697) | (9,051) |
| Interest expense | 199 | 230 |
| Other (income) expense, net | (78) | 731 |
| Loss before income taxes | (7,818) | (10,012) |
| Income tax provision | (17) | (9) |
| Net loss | \$ (7,835) | \$ (10,021) |

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

| | Three Months Ended March 31, | |
|--------------------------------|---------------------------------|----------|
| | 2021 | 2020 |
| Cost of revenue | \$ 201 | \$ 174 |
| Research and development | 3,297 | 1,950 |
| Sales and marketing | 1,278 | 928 |
| General and administrative | 6,450 | 2,485 |
| Total stock-based compensation | \$ 11,226 | \$ 5,537 |

Comparison of the Three Months Ended March 31, 2021 and 2020

Revenue

(in thousands, except percentages)

| | Three Months Ended March 31, | | | |
|-----------------------------|------------------------------|-----------|-----------|------|
| | 2021 | 2020 | Change | |
| Marketplace | \$ 104,670 | \$ 74,782 | \$ 29,888 | 40 % |
| Percentage of total revenue | 92 % | 90 % | | |
| Managed services | \$ 8,949 | \$ 8,414 | 535 | 6 % |
| Percentage of total revenue | 8 % | 10 % | | |
| Total revenue | \$ 113,619 | \$ 83,196 | \$ 30,423 | 37 % |

For the three months ended March 31, 2021, total revenue was \$113.6 million, an increase of \$30.4 million, or 37%, as compared to the same period in 2020.

For the three months ended March 31, 2021, marketplace revenue represented 92% of total revenue and increased by \$29.9 million, or 40%, compared to the same period in 2020. Marketplace revenue increased primarily due to an increase in GSV, which grew by 41% during the three months ended March 31, 2021 as compared to the same period in 2020, and an 18% increase in the number of core clients as of March 31, 2021 compared to March 31, 2020. We believe these increases in marketplace revenue, GSV, and core clients were primarily due to investments in marketing to accelerate the acquisition of new clients and drive brand awareness and investments in research and development to build new product features. Marketplace revenue also increased as a result of an increase in spend from existing clients and new client acquisition that was driven by the shift toward remote work, due in part to the COVID-19 pandemic and execution of our strategic initiatives. This increase in client acquisition, which began in 2020 and accelerated throughout the first quarter of 2021, continued to drive an increase in freelancer billings, which, in turn, drove an increase in marketplace revenue. Freelancer service fees generated \$62.1 million and \$44.1 million of marketplace revenue during the three months ended March 31, 2021 and 2020, respectively. Client payment processing and administration fees generated \$17.3 million and \$12.2 million of marketplace revenue during the three months ended March 31, 2021 and 2020, respectively.

Managed services revenue represented 8% and 10% of total revenue for the three months ended March 31, 2021 and 2020, respectively. Managed services revenue increased by \$0.5 million, or 6%, for the three months ended March 31, 2021 compared to the same period in 2020. Managed services revenue grew at a slower rate than our marketplace revenue in the three months ended March 31, 2021 compared to the same period in 2020, and we anticipate this trend to continue as we primarily focus on increasing client usage of and spend on our marketplace offerings.

Cost of Revenue and Gross Margin

(in thousands, except percentages)

| | Three Months Ended March 31, | | | |
|---|------------------------------|-----------|----------|------|
| | 2021 | 2020 | Change | |
| Cost of revenue | \$ 30,441 | \$ 23,485 | \$ 6,956 | 30 % |
| Components of cost of revenue: | | | | |
| Cost of freelancer services to deliver managed services | 7,208 | 6,962 | 246 | 4 % |
| Other components of cost of revenue | 23,233 | 16,523 | 6,710 | 41 % |
| Total gross margin | 73 % | 72 % | | |

For the three months ended March 31, 2021, cost of revenue increased by \$7.0 million, or 30%, compared to the same period in 2020. The increase was primarily due to a \$6.7 million, or 41%, increase in other components of cost of revenue, which was driven by an increase of \$4.9 million in payment processing fees due to an increase in client spend on our platform, \$1.2 million in third-party hosting costs, \$0.3 million in amortization of capitalized platform development costs, and \$0.3 million in personnel-related and other costs.

Research and Development

(in thousands, except percentages)

| | Three Months Ended March 31, | | | |
|-----------------------------|------------------------------|-----------|----------|------|
| | 2021 | 2020 | Change | |
| Research and development | \$ 26,613 | \$ 19,348 | \$ 7,265 | 38 % |
| Percentage of total revenue | 23 % | 23 % | | |

For the three months ended March 31, 2021, research and development expense increased by \$7.3 million, or 38%, as compared to the same period in 2020. The increase was primarily due to investments we made to increase the size of our workforce in connection with the execution of our strategic initiatives, which resulted in increases in personnel-related costs of \$5.8 million and outside consultant costs of \$0.6 million, as well as licensed software and other costs of \$0.9 million.

Sales and Marketing

(in thousands, except percentages)

| | Three Months Ended March 31, | | | |
|-----------------------------|------------------------------|-----------|----------|------|
| | 2021 | 2020 | Change | |
| Sales and marketing | \$ 39,604 | \$ 30,678 | \$ 8,926 | 29 % |
| Percentage of total revenue | 35 % | 37 % | | |

For the three months ended March 31, 2021, sales and marketing expense increased by \$8.9 million, or 29%, as compared to the same period in 2020. This increase was primarily due to increases of \$8.3 million in marketing, brand awareness, and advertising costs and increases in bonus expense and other costs of \$0.6 million.

In an effort to further our acquisition of, and achieve increased spend from, clients, we will continue to invest in marketing, brand awareness campaigns, and sales.

General and Administrative

(in thousands, except percentages)

| | Three Months Ended March 31, | | | |
|-----------------------------|------------------------------|-----------|----------|------|
| | 2021 | 2020 | Change | |
| General and administrative | \$ 23,531 | \$ 17,824 | \$ 5,707 | 32 % |
| Percentage of total revenue | 21 % | 21 % | | |

For the three months ended March 31, 2021, general and administrative expense increased by \$5.7 million, or 32%, as compared to the same period in 2020. This increase was primarily due to an increase of \$5.4 million in personnel-related costs, including increased stock-based compensation expense related to executive compensation arrangements, and \$0.3 million in insurance, facilities-related, and other expenses.

In light of the COVID-19 pandemic and the restrictions intended to prevent its spread, we are evaluating our current need for office space. In April 2021, we entered into a sublease providing for the sublease of the entirety of our former headquarters in Santa Clara, California. The sub-sublease requires the consent of our landlord and master lessor, both of which have not been obtained as of this filing. We are currently evaluating the impact this agreement could have on our condensed financial statements and, if fully executed, could result in the recognition of an impairment charge in an amount between \$7.0 million and \$8.0 million during the second quarter of 2021. Additionally, we may determine to either close or sublease certain of our other offices, either of which could result in further impairment charges being recognized in general and administrative expense. As a result, we expect general and administrative expense to increase in absolute dollars in future periods, although this expense, expressed as a percentage of total revenue, may vary from period to period.

Provision for Transaction Losses

(in thousands, except percentages)

| | Three Months Ended March 31, | | | |
|----------------------------------|------------------------------|--------|--------|------|
| | 2021 | 2020 | Change | |
| Provision for transaction losses | \$ 1,127 | \$ 912 | \$ 215 | 24 % |
| Percentage of total revenue | 1 % | 1 % | | |

For the three months ended March 31, 2021, provision for transaction losses increased by \$0.2 million, or 24%, as compared to the same period in 2020, and represented approximately 1% of revenue for the three months ended March 31, 2021 and 2020. We expect provisions for transaction losses to approximate 1% of revenue and to increase proportionally as GSV grows.

Interest Expense and Other (Income) Expense, Net

(in thousands, except percentages)

| | Three Months Ended March 31, | | | |
|-----------------------------|------------------------------|--------|---------|--------|
| | 2021 | 2020 | Change | |
| Interest expense | \$ 199 | \$ 230 | \$ (31) | (13)% |
| Other (income) expense, net | (78) | 731 | (809) | (111)% |

For the three months ended March 31, 2021, other income, net was \$0.1 million, as compared to other expense, net of \$0.7 million for the same period in 2020, which was primarily driven by foreign currency exchange gains of \$0.7 million in the first quarter of 2021.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash and cash equivalents, marketable securities, and amounts available for borrowing under our Loan and Security Agreement, as amended, which we refer to as the Loan Agreement, referred to below under “—Term and Revolving Loans.” Our cash equivalents and marketable securities primarily consist of money market funds, commercial paper, treasury bills, and U.S. government securities. As of March 31, 2021 and December 31, 2020, we had \$104.3 million and \$94.1 million in cash and cash equivalents, respectively. As of March 31, 2021 and December 31, 2020, we had \$65.5 million and \$75.6 million in marketable securities, respectively.

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

We also believe that our principal sources of liquidity will allow us to manage the impact of the COVID-19 pandemic on our business operations for the foreseeable future, which could include reductions in revenue and delays in payments from users, as further described below in “Risk Factors—Our business experienced, and may again experience, an adverse impact from the ongoing COVID-19 pandemic. In addition, users may reduce their use of our work marketplace as the pandemic subsides” in Part II, Item 1A in this Quarterly Report. The challenges posed by the COVID-19 pandemic on our business are expected to continue to evolve. Consequently, we will

continue to evaluate our financial position in light of future developments, particularly those relating to the COVID-19 pandemic.

Escrow Funding Requirements

As a licensed internet escrow agent, we offer escrow services to users of our work marketplace and, as such, we are required to hold our users' escrowed cash and in-transit cash in trust as an asset and record a corresponding liability for escrow funds held on behalf of freelancers and clients on our balance sheet. We expect the balances of our funds held in escrow, including funds held in transit, and the related liability to grow as GSV grows and may vary from period to period. Escrow regulations require us to fund the trust with our operating cash to cover shortages due to the timing of cash receipts from clients for completed hourly billings. Freelancers submit their billings for hourly contracts to their clients on a weekly basis every Sunday, and the aggregate amount of such billings is added to escrow funds payable to freelancers on the same day. As of each Sunday of each week, we have not yet collected funds for hourly billings from clients as these funds are in transit. Therefore, in order to satisfy escrow funding requirements, every Sunday we fund the shortage of cash in trust with our own operating cash and typically collect this cash shortage from clients within the next several days. As a result, we expect our total cash and cash flows from operating activities to be impacted when a quarter ends on a Sunday. As of March 31, 2021 and December 31, 2020, funds held in escrow were \$161.4 million and \$135.0 million, respectively. To the extent we have not yet collected funds for hourly billings from clients which are in transit due to timing differences in receipt of cash from clients and payments of cash to freelancers, we may, from time to time, utilize the revolving line of credit under our Loan Agreement to satisfy escrow funding requirements.

Term and Revolving Loans

Under our Loan Agreement, the aggregate amount of the facility is up to \$49.0 million, consisting of a term loan in the original principal amount of \$15.0 million, which we refer to as the First Term Loan, a term loan in the original principal amount of \$9.0 million, which we refer to as the Second Term Loan, and, together with the First Term Loan, as the Term Loans, and a revolving line of credit, which permits borrowings of up to \$25.0 million subject to customary conditions. The First Term Loan matures in March 2022, and the Second Term Loan and revolving line of credit mature in September 2022. All borrowings under the Loan Agreement bear interest at floating rates, and, therefore, our borrowing costs are affected by changes in market interest rates.

Our obligations under the Loan Agreement are secured by first priority liens on substantially all of our assets excluding our intellectual property (but including proceeds therefrom) and the funds and assets held by our subsidiary Upwork Escrow Inc., which we refer to as Upwork Escrow. The Loan Agreement prohibits us from pledging our intellectual property. The Loan Agreement also includes a restriction on dividend payments, other than dividends payable solely in common stock. The Loan Agreement contains affirmative covenants, including a covenant requiring that we maintain an adjusted quick ratio, and also contains certain non-financial covenants. We were in compliance with our covenants under the Loan Agreement as of March 31, 2021 and December 31, 2020.

Pursuant to the terms of the Loan Agreement, we commenced repayment on the Term Loans in April 2019. During the three months ended March 31, 2021, we repaid \$1.3 million and \$0.6 million related to the First Term Loan and Second Term Loan, respectively. During the three months ended March 31, 2020, we repaid \$1.3 million and \$0.6 million related to the First Term Loan Second Term Loan, respectively.

Cash Flows

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

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 2021 | 2020 |
| Net cash provided by (used in) operating activities | \$ 1,876 | \$ (1,702) |
| Net cash provided by investing activities | 7,656 | 2,924 |
| Net cash provided by financing activities | 27,064 | 31,106 |
| Net increase in cash, cash equivalents, and restricted cash ⁽¹⁾ | \$ 36,596 | \$ 32,328 |

⁽¹⁾ Includes increases in funds held in escrow, including funds in transit of \$26.4 million and \$14.8 million during the three months ended March 31, 2021 and 2020, respectively.

Operating Activities

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

For the three months ended March 31, 2021, net cash provided by operating activities was \$1.9 million, which resulted from non-cash charges of \$16.4 million, offset by a net loss of \$7.8 million and net cash outflows of \$6.7 million from changes in operating assets and liabilities. The change in operating assets and liabilities primarily resulted from the increase in trade and client receivables of \$5.6 million. Due to fluctuations in revenue and the number of transactions on our platform, coupled with fluctuations in the timing of cash receipts from clients, our trade and client receivables will likely continue to fluctuate in the future.

For the three months ended March 31, 2020, net cash used in operating activities was \$1.7 million, which resulted from non-cash charges of \$9.6 million, offset by a net loss of \$10.0 million and net cash outflows of \$1.3 million from changes in operating assets and liabilities. The change in operating assets and liabilities primarily resulted from the increase in trade and client receivables of \$5.9 million.

Investing Activities

For the three months ended March 31, 2021, net cash provided by investing activities was \$7.7 million, which was primarily a result of proceeds from maturities of marketable securities of \$31.0 million, offset by investing \$21.0 million in various marketable securities, as well as \$2.3 million of internal-use software and platform development costs that we paid during the period.

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

Financing Activities

For the three months ended March 31, 2021, net cash provided by financing activities was \$27.1 million, which resulted primarily from an increase in escrow funds payable of \$26.4 million and cash received from stock option exercises of \$2.6 million, partially offset by repayments of borrowings on debt of \$1.9 million.

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

Obligations and Other Commitments

Our principal commitments consist of obligations under our non-cancellable operating leases for office space and the Loan Agreement. The following table summarizes our contractual obligations as of March 31, 2021 (in thousands):

| | Total | Less than 1 Year | 1 - 3 Years | 3 - 5 Years | More Than 5 Years |
|-------------------------------|-----------|---------------------|----------------|----------------|----------------------|
| Leases ⁽¹⁾ | \$ 31,329 | \$ 6,450 | \$ 13,459 | \$ 6,908 | \$ 4,512 |
| Debt principal | 8,857 | 7,571 | 1,286 | — | — |
| Total contractual obligations | \$ 40,186 | \$ 14,021 | \$ 14,745 | \$ 6,908 | \$ 4,512 |

⁽¹⁾ Represents minimum operating lease payments under operating leases for office facilities, excluding potential lease renewals and tenant improvement allowances.

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

As of March 31, 2021 and December 31, 2020, we had accrued liabilities related to uncertain non-income tax positions based on management's best estimate of its liability, which are reflected on our condensed consolidated balance sheets. We could be subject to examination in various jurisdictions related to income and non-income tax matters. The resolution of these types of matters, giving recognition to the recorded reserve, could have an adverse impact on our business.

Off-Balance Sheet Arrangements

As of March 31, 2021, we did not have any relationships with other entities or financial partnerships such as entities often referred to as structured finance or special purpose entities that have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

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

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

Except as otherwise disclosed in "Note 2—Basis of Presentation and Summary of Significant Accounting Policies" of the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations," there have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended December 31, 2020, which we refer to as our Annual Report.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

Interest Rate Risk

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. We do not make investments for trading or speculative purposes. Because our cash and cash equivalents have a relatively short maturity, our portfolio’s fair value is relatively insensitive to interest rate changes. Borrowings under our Loan Agreement have variable interest rates. We had \$8.9 million and \$10.8 million aggregate principal amount of borrowings outstanding under our Loan Agreement as of March 31, 2021 and December 31, 2020, respectively. We do not believe that a hypothetical increase or decrease in interest rates of 100 basis points would have a material impact on our operating results or financial condition.

Foreign Currency Risk

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, as of March 31, 2021. Our disclosure controls and procedures are designed to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures, and is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, which we refer to as the SEC. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2021, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

Summary of Risk Factors

Some of the more material risks that we face include:

- Our growth depends on our ability to attract and retain a community of freelancers and clients, and the loss of our users, failure to maintain or grow spend of our current users, or failure to attract new users could adversely impact our business.
- If we fail to attract new users, new users fail to transact at the rates we expect, or we fail to maintain or increase activity by existing users in a cost-effective manner or at all, our revenue will grow more slowly than expected or may decline and our business will be adversely impacted.
- We have experienced growth in recent periods and expect to continue to invest in our growth for the foreseeable future. If we are unable to manage our growth effectively, our business, revenue and profits, and financial condition could be adversely affected.
- Our business experienced, and may again experience, an adverse impact from the ongoing COVID-19 pandemic. In addition, users may reduce their use of our work marketplace as the pandemic subsides.
- We face payment and fraud risks that could adversely impact our business.
- We have a limited operating history under our current business strategy and pricing model, and may continue to evolve our business strategy and pricing model, which makes it difficult to evaluate our business and future prospects.
- Changes to our pricing model have in the past adversely affected, and could in the future adversely affect, our business.
- If we are unable to maintain our payment partner relationships on favorable terms, or at all, our business could be adversely affected.
- Our revenue growth and ability to achieve and sustain profitability will depend in part on being able to increase the productivity, effectiveness, and efficiency of our sales force.
- Because we derive the substantial majority of our revenue from our marketplace offerings, our inability to generate revenue from our marketplace offerings would adversely affect our business operations, financial results, and growth prospects.
- We face intense competition and could lose market share to our competitors, including if we fail to continue to develop and enhance our existing products and services, which could adversely affect our business, operating results, and financial condition.
- If the market for freelancers and the services they offer develops more slowly than we expect, our growth may slow or stall, and our operating results could be adversely affected.

- If we fail to develop, maintain, and enhance our brand and reputation cost-effectively, our business and financial condition may be adversely affected.
- Because a substantial portion of the services offered by freelancers and sought by clients on our work marketplace is information technology services, a decline in freelancers offering information technology services or the market for information technology service providers on our work marketplace could adversely affect our business.
- Users circumvent our work marketplace, which adversely impacts our business.
- Our sales efforts are increasingly targeted at large enterprise, global account, and mid-market clients, and as a result we may encounter greater pricing, implementation, and customization challenges, we may incur additional costs, and we may have to delay revenue recognition for more complicated transactions, each of which could adversely impact our business and operating results.
- Errors, defects, or disruptions in our work marketplace, including any security breach, other hacking or phishing attack, or other privacy or security incident, could diminish demand, adversely impact our financial results, and subject us to liability.
- We and our users may be subject to new and existing laws and regulations, both in the United States and internationally.
- Having an international community of users and engaging freelancers internationally exposes us to risks that could have an adverse effect on our business, operating results, and financial condition.
- There may be adverse tax, legal, and other consequences if the contractor classification or employment status of freelancers that use our work marketplace is challenged, and our business could be adversely affected by changes in laws regarding contractor classification.
- The success of our business relies on demand for freelancers and any change that affects demand for freelancers, including regulatory or tax changes, or adverse perception regarding use of freelancers, would adversely affect our business.
- We have a history of net losses, anticipate increasing our operating expenses in the future, and may not achieve or sustain profitability.
- Our operating results may fluctuate from quarter to quarter, which makes our future results difficult to predict.
- The stock price of our common stock has been and may continue to be volatile, and you could lose all or part of your investment.
- Adverse or changing economic and political conditions may negatively impact our business.
- We may be adversely affected by natural disasters and other catastrophic events, including the current COVID-19 pandemic, by man-made problems such as terrorism, or failures of technology, that could disrupt our business operations and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.

Risks Related to our Business Operations, Execution, and Growth

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

The size of our community of users, including both freelancers and clients, is critical to our success. Our ability to achieve significant growth in revenue in the future will depend, in large part, upon our ability to attract new users, including large enterprise, global account, and mid-market clients, as well as freelancers that meet the criteria sought by such clients, to, and retain existing users on, our work marketplace. Moreover, if we retain users but they do not transact at the rates we expect, our growth will be negatively impacted. Achieving growth in, and retention of, our community of users may require us to increasingly engage in sophisticated, costly, and lengthy sales and marketing and internationalization or localization efforts that may not result in additional users that transact on our work

marketplace or effectively retain our current users that transact on our work marketplace, or may not do so in a cost-effective manner. For example, in 2019 and 2020 we made significant investments in sales and marketing to acquire new clients and drive brand awareness, and have continued to do so in 2021. We may also modify our pricing model, offerings, or other services and features to attract and retain such users. Such modifications may not have the intended effect of attracting and retaining users and may have unintended negative consequences, such as a loss of users or a reduction of user activity or spend on our work marketplace. For example, in 2019 and the first half of 2020, we experienced a decline in client spend retention, which we believe was related to the launch of our U.S.-to-U.S. domestic marketplace offering in the second half of 2017.

In addition, as discussed below, the COVID-19 pandemic and the resulting global macroeconomic downturn adversely affected our business for a period of time, and may adversely affect it again, including to the extent the pandemic worsens in regions in which a large number of freelancers are located. In particular, the increases in user acquisition that we have experienced due in part to the shift toward remote work as a result of the COVID-19 pandemic may slow or decline once the impact of the COVID-19 pandemic is mitigated and users return more frequently to physical offices or are otherwise no longer subject to restrictions related to the COVID-19 pandemic.

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

Freelancers have many different ways of marketing their services, securing clients, and obtaining payments from clients, including advertising to, and engaging with, prospective clients through other online or offline platforms and methods, signing up for online or offline third-party agencies and staffing firms, using other payment services, or finding full-time or part-time on-site or remote employment directly with a business. If we fail to attract new freelancers, including freelancers located in specific geographic regions from which clients are seeking to engage remote freelancers, freelancers decrease their use of, or cease using, our work marketplace or prefer to take remote employment opportunities that are increasingly available as a result of the shift to remote work, the quality or types of services provided by freelancers that use our work marketplace are not satisfactory to clients, or freelancers increase their fees for services more than clients are willing to pay, clients may decrease their use of, or cease using, our work marketplace and our revenue may be adversely impacted.

Clients have similarly diverse options to find and pay service providers, such as engaging and paying service providers directly, finding service providers through other online or offline platforms or through staffing firms and agencies, using other payment services, or hiring temporary, full-time, or part-time employees directly or through an agency.

Beginning in the second half of 2019, we began evolving our offerings, products, brand positioning, and marketing to better address large enterprise, global account, and mid-market prospects and clients with larger, longer-term talent needs. And more recently, in the wake of the COVID-19 pandemic, we have prioritized our advertising, marketing, and certain product development efforts to reach those new and existing clients seeking to engage with remote freelancers in light of the restrictions intended to prevent the spread of COVID-19. The evolution of these and other efforts, either individually or in the aggregate, may not be successful in producing sales or growing client spend from these target clients, and in the event these efforts result in the loss of or reduction in spend by other clients that is not offset by increased activity from these target clients, they may result in a temporary or long-term deceleration in GSV growth. Moreover, any increase in user acquisition resulting from the COVID-19 pandemic may slow or decline once the impact of the COVID-19 pandemic has subsided.

Users can generally decide to cease using our work marketplace and related services at any time. Users may stop using our work marketplace and related services if the quality of the user experience on our work marketplace, including our support capabilities, does not meet their expectations or keep pace with the quality of the user experience generally offered by competitive products and services. Users may also choose, and in the past have chosen, to cease using our work marketplace if they perceive that our pricing model, including associated fees, is not in line with the value they derive from our work marketplace, or for other reasons, including cost-cutting measures or other effects of the COVID-19 pandemic. Moreover, as discussed below in the risk factor titled "Users circumvent our work marketplace, which adversely impacts our business," users circumvent the payment services on our work marketplace and pay freelancers directly or through another service, which is likely to happen more frequently during a macroeconomic downturn, such as the one caused by the COVID-19 pandemic, as users may be

more cost sensitive during such period. In addition, expenditures by clients may be cyclical and may reflect overall macroeconomic conditions or budgeting patterns.

Additionally, three clients each accounted for more than 10% of our trade and client receivables as of December 31, 2020 and two clients each accounted for more than 10% of our trade and client receivables as of December 31, 2019. Although for the year ended December 31, 2020, we did not have any clients that accounted for more than 10% of our revenue, a decrease in spend from any of these clients could have an adverse effect on our operating results.

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

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

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

We have experienced growth in a relatively short period of time. For example, our total revenue for the three months ended March 31, 2021 was \$113.6 million, representing a period-over-period growth rate of 37% over the same period in 2020. This revenue growth was due in part to the shift toward remote work resulting from the COVID-19 pandemic and therefore may not be indicative of future growth. Moreover, future period-over-period revenue growth rates, when compared against the third and fourth quarters of 2020 and the first quarter of 2021, may fail to meet the expectations of investors or securities analysts given the accelerated revenue growth experienced during such periods due to the COVID-19 pandemic and the resulting increased adoption of remote work and reduced seasonality experienced during such periods. Over time, we plan to continue to expand our operations and personnel significantly. Sustaining our growth will place significant demands on our management as well as on our administrative, operational, and financial resources. To manage our growth, we must continue to improve our operational, financial, and management information systems and processes; expand, motivate, and effectively manage and train our workforce; and effectively collaborate with our third-party partners, all of which can be more difficult with an increasingly remote workforce. If we are unable to manage our growth successfully without compromising our quality of service or our profit margins, or if new systems that we implement to assist in managing our growth do not produce the expected benefits, our business, operating results, financial condition, and ability to successfully market our work marketplace and serve our users could be adversely affected.

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

Our business experienced, and may again experience, an adverse impact from the ongoing COVID-19 pandemic. In addition, users may reduce their use of our work marketplace as the pandemic subsides.

The COVID-19 pandemic adversely impacted our business for a period of time and has resulted in reductions in demand for our products and services by some of our clients, including small- and medium-sized business clients, which have been most impacted by the resulting macroeconomic downturn and from which we derive a substantial portion of our GSV and revenue. If these clients continue to reduce their spending or cease operations entirely, the COVID-19 pandemic may have a material adverse effect on our business, financial condition, results of operations, and cash flows. Conversely, beginning in 2020 we experienced an increase in GSV and revenue growth driven by an acceleration in the shift toward remote work, due in part to the COVID-19 pandemic. These positive impacts may

not continue following the COVID-19 pandemic and the relaxation or lifting of restrictions intended to prevent its spread.

The extent to which the ongoing COVID-19 pandemic will adversely affect our business, financial condition, results of operations, and cash flow will depend on future developments, which are highly uncertain and cannot reasonably be predicted with confidence at this time, including the duration, spread, and severity of the outbreak, or the occurrence of additional “waves” of the outbreak; the emergence of variant strains of the virus; the timing, availability, and efficacy of vaccinations; government responses to the pandemic and potential restrictions on our business and the businesses of our users; the impact of the pandemic on the U.S. and global economies and demand for our offerings; how quickly and to what extent normal economic and operating conditions resume; and the reaction of users and potential users to these developments, among others. The potential impacts of such developments include, but are not limited to:

- decline in demand on our work marketplace, resulting in lower GSV and lower revenue, following relaxation or lifting of restrictions intended to prevent the spread of COVID-19;
- reduced client spend on our products and services;
- diminished ability to acquire new clients, particularly large enterprise, global account, and mid-market clients;
- increased competition as new competitors enter our market segment due to the accelerated shift toward remote work;
- increased costs or reduced revenue as a result of marketing and promotional efforts to reach and support those affected by the COVID-19 pandemic;
- increased risk of fraud or other illegal activity conducted by bad actors seeking to take advantage of our users or us due to the uncertainty around the COVID-19 pandemic;
- longer sales cycles due to slower decision-making, reduced budgets, or delays in planned work by existing and potential clients;
- any impairment charges on our operating lease asset and related leasehold improvements being recognized as a general and administrative expense due to a reduction to our office space and our potential sublease of such office space at a rental rate that is less than our rent expense for such office space, or any termination fees we may incur as a result of our termination of the operating lease for such office space;
- reduced spend by clients or availability of freelancers located in areas or regions more affected by the COVID-19 pandemic;
- reduced GSV and revenue as a result of increased user circumvention of our work marketplace;
- reduced availability of key personnel to conduct important business activities, such as providing support to users and developing new products or offerings;
- impacts on payment partners, disbursement partners, or other critical third-party partners that may cause delays in processing payments to freelancers or other important functions of our work marketplace, result in an increase in payment transaction costs, lead to loss of revenue, or cause a decline in quality or availability of services, negatively affect our reputation or user activity on our work marketplace, or increase our operating costs;
- delayed or missed client payments to us or freelancers on our work marketplace, which may also result in increased transaction losses, numbers of disputes with users, and costs as we seek to compel payment, which we may not be able to recover;
- reduced ability to attract, train, integrate, and retain highly skilled personnel;
- reduced GSV and revenue as a result of freelancers reducing the fees they charge to clients due to an excess number of freelancers joining our work marketplace;

- difficulty in business planning and forecasting due to significant uncertainty in the impact of the COVID-19 pandemic on all aspects of our business and on our clients and freelancers and other business partners;
- significant disruption of global financial markets, which may impact our ability to access capital now or in the future or make capital available only on terms less favorable to us;
- reduced sublease income as a result of our sublease tenants being unable or unwilling to make the rental payments set forth in their respective sublease agreement;
- the diversion of resources and attention of our management and workforce away from important ongoing initiatives, including the introduction of new, or modifications to existing, offerings and products, as well as long-term strategic investments and business objectives;
- impairments to our goodwill or other long-term assets if their carrying value exceeds their fair value;
- increased obligations to satisfy our escrow funding requirements with our own funds or by drawing on our line of credit as a result of more frequent declines of client payment methods or increased client-issued chargebacks, which would negatively impact our cash flows and may result in higher credit card processing fees; and
- de-globalization, which may result in clients being less willing to connect with non-U.S. users of our work marketplace.

Although the COVID-19 pandemic did not have a material adverse impact on our financial results for the year ended December 31, 2020 or the three months ended March 31, 2021, the rapidly changing market and macroeconomic conditions caused by the COVID-19 pandemic have impacted the business of many of our clients, which resulted in a reduction in spend on our work marketplace for some of those affected clients. There can be no assurance that the positive impacts from the COVID-19 pandemic, such as increased client acquisitions, increased client spend, and increased client retention, will continue to offset those parts of our business that have been adversely impacted. Many of these risk factors are unpredictable and outside of our control, and any of these factors could amplify the other risks and uncertainties described elsewhere in this Quarterly Report. It is uncertain what impact that the various legislative and other government responses being undertaken in the United States and other countries, including with respect to the approval and distribution of vaccines, in which our users are located will have on the economy, our industry, our partners, our users, and our company. In connection with the COVID-19 pandemic, we have also implemented measures to protect the health of our workforce, including by adopting a flexible work model that we believe will result in most of our employees working remotely even after the pandemic is over. These measures may negatively impact the health and safety of our employees, impact workforce productivity, increase the risk of data security breaches and other privacy and security incidents, and may cause other disruptions to our business. As and to the extent offices reopen, our efforts to comply with applicable health guidelines may not prove sufficient to protect the health of our employees and other visitors to our offices, and our adoption of these measures may adversely affect our business operations. Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business due to the macroeconomic downturn that has occurred as a result and is likely to continue in the future. Furthermore, any increase in client acquisition due to the shift toward remote work as a result of the COVID-19 pandemic may slow or decline once the impact of the COVID-19 pandemic is mitigated and users are no longer subject to restrictions intended to prevent the spread of COVID-19.

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

Our work marketplace systems and controls relating to user authentication and fraud detection are complex. If our user authentication and fraud detection measures are not effective, our work marketplace may be perceived as not being secure, our reputation may be harmed, and our business may be adversely impacted. In addition, bad actors around the world use increasingly sophisticated methods to engage in illegal activities involving personal information, such as unauthorized or fraudulent use of another's identity, payment information, or other information; misrepresentation of the user's identity or skills, including using accounts that they have purchased, sold, or leased; and the improper acquisition or use of credit or debit card details and banking or other payment account information. These types of illegal activities may increase as platforms like ours gain more prominence, including due to the shift toward remote work as a result of the COVID-19 pandemic or in the event of a macroeconomic downturn, such as

the downturn resulting from the COVID-19 pandemic, as bad actors seek to take increasing advantage of us or our users. This conduct on our site could result in any of the following, each of which could adversely impact our business:

- bad actors may use our work marketplace, including our payment processing and disbursement methods, to engage in unlawful or fraudulent conduct, such as money laundering, moving funds to regions or persons restricted by sanctions or export controls, terrorist financing, fraudulent sale of services, bribery, breaches of security, unauthorized acquisition of data, extortion or use of ransomware, distribution or creation of malware or viruses, piracy or misuse of software and other copyrighted or trademarked content, and other misconduct;
- we may be, and historically have been, held liable for the unauthorized use of credit or debit card details and banking or other payment account information and required by card issuers, banks, and other payment partners to return the funds at issue and pay a chargeback or return fee, and if our chargeback or return rate becomes excessive, credit card networks may also require us to pay fines or other fees or cease doing business with us and the California Department of Financial Protection and Innovation, which we refer to as the DFPI, may require us to hold larger cash reserves or take other action with respect to our internet escrow license;
- we may be subject to additional risk and liability exposure, including for negligence, fraud, or other claims, if employees or third-party service providers, including freelancers that provide services to us, misappropriate our banking, payment, or other information or user information for their own gain or to facilitate the fraudulent use of such information;
- users that are subjected or exposed to the unlawful, fraudulent, or improper conduct of other users or other third parties may seek to hold us responsible for the conduct of or content posted by users, may lose confidence in our work marketplace, decrease or cease use of our work marketplace, seek to obtain damages and costs, or publicize their negative experiences, and law enforcement or administrative agencies could seek to hold us responsible for the conduct of or content posted by users, impose fines and penalties, bring criminal action, or require us to change our business practices, and private or public enforcement may increase depending on interpretations of and possible changes to intermediary liability provisions such as Section 230 of the Communications Decency Act of 1996;
- we may be subject to additional risk if clients fail to pay freelancers for services rendered, as freelancers may seek to hold us responsible for the clients' conduct and may lose confidence in our work marketplace, may decrease or cease use of our work marketplace, may publicize their negative experiences, or seek to obtain damages and costs;
- if freelancers misstate their qualifications or location, provide misinformation about their skills, identity, or otherwise, perform services they are not qualified or authorized to provide, produce insufficient or defective work product or work product with a viral or other harmful effect, clients or other third parties may seek to hold us responsible for the freelancers' acts or omissions and may lose confidence in our work marketplace, decrease or cease use of our work marketplace, or seek to obtain damages and costs; and
- we may suffer reputational damage adversely impacting our business as a result of the occurrence of any of the above.

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

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

We recently evolved, and will continue to evolve, our sales, marketing, and brand positioning efforts, as well as our business strategy. Recently we have expanded our focus on large enterprise, global account, mid-market, and other clients with larger, longer-term talent needs. In an effort to better serve this market segment, in recent years we have expanded our Upwork Enterprise offering and, in 2019, launched our Upwork Business offering, both of which were designed to help enterprises and other larger businesses connect with freelancers and provide these larger clients with additional products and services. We also continue to develop our current offerings and create and test additional premium offerings, features, and services to serve this and other market segments. We regularly launch new offerings, including two recent offerings “Direct Contracts,” a service for freelancers to easily charge clients that are not registered users on Upwork’s work marketplace, and “Project Catalog,” a feature through which freelancers can market pre-scoped projects easily purchased via a click-and-buy experience. Creating new offerings is expensive and time consuming, diverts the attention of our management, and not all offerings achieve market acceptance at the levels we expect and therefore may not be cost-effective to maintain. For example, in the fourth quarter of 2020, we decided that it was no longer cost-effective for our sales team to sell our Upwork Business offering. This decision resulted in a reduction in force of approximately one-third of our sales employees in November 2020.

Changes in our offerings and pricing, and the continued evolution of our business strategy and related pricing, subject us to a number of uncertainties, including our ability to plan for and model future growth and make accurate projections regarding our future performance. Our historical revenue growth should not be considered indicative of our future performance. In particular, there can be no assurance that our increased revenue growth due in part to the shift toward remote work resulting from the COVID-19 pandemic will continue following relaxation or lifting of restrictions intended to prevent the spread of COVID-19. We have encountered, and will continue to encounter, risks, difficulties, and uncertainties frequently experienced by growing companies in rapidly changing industries, including our ability to achieve market acceptance of our work marketplace and offerings and attract and retain users, as well as increasing competition and expenses as we continue to grow our business. In addition, we have in the past seen, and may in the future see, unexpected or unintended effects, sometimes negative, as a result of changes to our pricing model, products and offerings, and sales, brand positioning, and marketing efforts, including a failure to attract new clients that spend on our work marketplace or the loss of spend from existing clients. For example, in 2019 and the first half of 2020, we experienced a decline in client spend retention, which we believe was related to the launch of our U.S.-to-U.S. domestic marketplace offering in the second half of 2017. Also, in 2016, we implemented a significant change to our pricing model, which, for a period of time following the pricing change, contributed to GSV growing at a faster rate than revenue. We cannot ensure that we will be successful in addressing these and other challenges we may face in the future, and our business may be adversely affected if we do not manage these challenges successfully.

Changes to our pricing model have in the past adversely affected, and could in the future adversely affect, our business.

We implemented a significant change to our pricing model in 2016, which, for a period of time following the change, contributed to GSV growing at a faster rate than revenue. From time to time we have made, and will continue to make, other changes, including in 2019 when we launched new paid membership types for clients and new Connects pricing for freelancers, which resulted in user dissatisfaction and negatively impacted fill rates for projects on our work marketplace. We anticipate further changes to Connects pricing and policies in the future, which may have a negative impact on our revenue or marketplace take rate. From time to time, we will make further changes to our pricing model due to a variety of reasons, including due to changes to the market for our products and services or our business strategy, as new competitors enter our market segment, as we introduce or refine our offerings, as competitors introduce new products and services, and to grow our user base. Changes to any components of our pricing model, such as the recent changes made in the pricing and packaging of Connects purchases, have and may continue to, among other things, result in user dissatisfaction, lead to a loss of users on our work marketplace, result in a change to the way we recognize revenue, reduce the amount of revenue we generate as a percentage of GSV, reduce the rate or size of projects that get posted or completed on our work marketplace,

negatively impact fill rates for projects on our work marketplace, or otherwise negatively impact our reputation, operating results, financial condition, and cash flows.

If we are unable to maintain our payment partner relationships on favorable terms, or at all, our business could be adversely affected.

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

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

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

For example, in June 2020, Wirecard AG, a prepaid card issuer used by one of our payment partners to issue prepaid cards to our non-U.S. users, filed for insolvency and was ordered by the UK Financial Conduct Authority to cease all licensed activity. As a result, our non-U.S. users who previously chose to withdraw their funds to a prepaid card could not access their funds for several days. The order was eventually lifted, allowing those users to access their funds; however, this incident or any similar future incident concerning our payment partners or their respective vendors could cause our users to lose trust in our work marketplace and could have an adverse impact on our business.

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

In order to increase our revenue from our premium offerings and achieve and sustain profitability, we must improve the effectiveness and efficiency of our sales force and generate additional revenue from new and existing users. For example, in the fourth quarter of 2020 we completed an evaluation of the efficiency, productivity, and effectiveness of our sales force at generating revenue from our Upwork Business offering, as well as our other premium offerings. As part of this evaluation, we undertook a reduction in force of approximately one-third of our sales employees in an effort to drive efficiencies in our sales organization. This reduction may result in unintended consequences such as low employee morale and a decrease in the productivity and efficiency of our sales force.

There is significant competition for sales personnel with the skills and technical knowledge required to maintain a productive and efficient sales force. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training, effectively deploying, and retaining sufficient numbers of sales and sales support personnel to support our growth. It is difficult to find, and we may be unable to retain, a sufficient number of sales personnel with the specific skills and technical knowledge needed to sell our Upwork Enterprise, and other premium offerings. Furthermore, hiring and effectively deploying sales personnel, particularly in new markets, is complex and requires additional costs that we may not recover if the sales personnel fail to achieve full productivity. Even if we are able to hire qualified personnel, doing so may be costly and lengthy, as new sales personnel require significant training and can take a number of months to achieve full productivity. In addition, new sales personnel do not always achieve productivity milestones within the timelines that we have projected, negatively impacting our ability to achieve our long-term financial projections associated with such personnel. Not all of our sales personnel and planned hires have or will become productive, or do so as quickly as we expect. When our new sales personnel do not become fully productive on the timelines that we have projected, or at all, our revenue will not increase at anticipated rates, or at all, and our ability to achieve long-term projections may be negatively impacted. The COVID-19 pandemic and restrictions intended to prevent its spread adversely affected the productivity of our sales force for a period of time, and may adversely affect it again. Moreover, after the COVID-19 pandemic has subsided, the productivity of our sales force may diminish as users return more frequently to physical offices or are otherwise no longer subject to restrictions related to the COVID-19 pandemic. If our sales personnel are not successful in obtaining new business or increasing sales to our existing user base, our business and results of operations will be adversely affected.

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

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

Our business model subjects us to disputes with or between users of our work marketplace.

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

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

Our future success depends in large part on the continued services of senior management and other key personnel and our ability to retain and motivate them. In particular, we are dependent on the services of Hayden Brown, our President and Chief Executive Officer, and our future vision, strategic direction, work marketplace, and technology could be compromised if she were to take another position, become ill or incapacitated, or otherwise become unable to serve as our President and Chief Executive Officer. We rely on our leadership team and other key personnel in the areas of product, engineering, operations, security, marketing, sales, support, corporate development, and general and administrative functions. Our senior management and other key personnel are all employed on an at-will basis, which means that they could terminate their employment with us at any time, for any reason, and without notice, and we do not maintain any “key-person” life insurance policies. If we lose the services of senior management or other key personnel, if our succession plans prove inadequate, or if we are unable to attract, train, integrate, and retain the highly skilled personnel we need, our business, operating results, and financial condition could be adversely affected.

There have been, and may continue to be, changes in our management team resulting from the hiring or departure of executives. For example, in December 2019, we announced that our prior President and Chief Executive Officer, Stephane Kasriel, was resigning from this position, and that Hayden Brown, our prior Chief Marketing and Product Officer, would take the position of President and Chief Executive Officer effective January 1, 2020. Additionally, in August 2020, we announced that our prior Chief Financial Officer, Brian Kinion, was resigning from this position

and that Jeff McCombs would be appointed as our Chief Financial Officer. We have made, and may continue to make, other changes that have been and will be disruptive to our personnel, such as the reduction of a portion of our sales force in November 2020 and reorganizations of reporting lines of our workforce. These changes have resulted, and future personnel changes may result, in increased attrition or reduced productivity of our personnel, including senior management and key personnel, stemming from organizational restructuring, as new reporting relationships are established, and as other companies may increasingly target our executives. Any such changes may also result in a loss of institutional knowledge, cause disruptions to our business, or distract or result in diminished morale in or the loss of workers.

Our future success also depends on our continuing ability to attract, train, integrate, and retain highly skilled personnel, including software engineers and sales personnel. We face intense competition for qualified personnel from numerous software and other technology companies. In addition, competition for qualified personnel, particularly software engineers, is particularly intense. We may not be able to retain our current key personnel or attract, train, integrate, or retain other highly skilled personnel in the future, all of which may be more difficult during the COVID-19 pandemic. We may incur significant costs to attract and retain highly skilled personnel, we may lose new employees to our competitors or other technology companies before we realize the benefit of our investment in recruiting and training them, and our succession plans may be insufficient to ensure business continuity if we are unable to retain key personnel. To the extent we move into new geographies, we would need to attract and recruit skilled personnel in those areas.

Volatility or lack of appreciation in our stock price may also affect our ability to attract new talent and retain our key personnel. Conversely, many of our senior management and other key personnel have become, or will soon become, vested in a substantial amount of stock or stock options and may be more likely to leave us if the shares they own, or the shares underlying their vested options, have appreciated in value relative to the original purchase or issue price of the shares or the exercise price of the options. If we are unable to attract and retain suitably qualified individuals who are capable of meeting our growing technical, operational, and managerial requirements, on a timely basis or at all, or if we need to increase our compensation expense to retain our employees, our business, operating results, financial condition, and cash flows may be adversely affected.

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

In connection with our Upwork Enterprise offering, and for certain legacy clients, we advance payments to freelancers for invoiced services on behalf of the client and subsequently invoice the client for such services. In addition, in certain instances, we will advance payment on a freelancer invoice if the client issues a chargeback or their payment method is declined and the freelancer assigns us the right to recover any funds from the client. From time to time, clients fail to pay for these services rendered by a freelancer, and as a result, we may be adversely affected both from the inability to collect amounts due and the cost of enforcing the applicable agreement or our terms of service, including through arbitration or litigation. Furthermore, some clients may seek bankruptcy protection or other similar relief and fail to pay amounts due, or pay those amounts more slowly, either of which could adversely affect our operating results, financial position, and cash flow. All of these risks are made more likely during a macroeconomic downturn, such as the one caused by the COVID-19 pandemic, and could result in increased costs to us as we advance payments to freelancers and seek to compel payment from our clients.

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

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, which we refer to as the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the listing requirements of The Nasdaq Global Select Market, and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, makes some activities more difficult, time-consuming, or costly, and increases demand on our systems and resources. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results.

In addition, changing laws, regulations, and standards relating to corporate governance, stockholder litigation, and public disclosure, including with respect to environmental and social matters, are creating uncertainty for public companies, increasing legal and financial compliance costs, making some activities more time-consuming, and

increasing the likelihood and expense of litigation. We intend to continue to invest resources to comply with these evolving laws, regulations, and standards (or changing interpretations of them), which may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with these laws, regulations, and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us, and our business may be adversely affected. Complying with the public company rules and regulations, and being subject to heightened likelihood of litigation, makes it more expensive for us to obtain director and officer liability insurance, the costs of which can fluctuate significantly from year-to-year due to general market conditions in obtaining such insurance, but in recent years have risen significantly, consistent with the increase in market rates. As a result, we may be required to accept reduced coverage, incur substantially higher costs to obtain coverage, or may be unable to obtain coverage on economically reasonable terms, or at all. These factors could also make it more difficult for us to attract and retain qualified executives and qualified members of our board of directors, particularly to serve on our audit, risk and compliance committee, our compensation committee, and our nominating and governance committee.

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

Our management team has limited experience managing a public company.

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

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

Our business strategy may, from time to time, include acquiring complementary products, technologies, businesses, or other assets. We also may enter into relationships with other businesses to expand our work marketplace or our ability to provide our work marketplace in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing, or investments in other companies. Negotiating these transactions can be time-consuming, difficult, and expensive, and our ability to close these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close, and any acquisition, investment, or business relationship may result in unforeseen or additional operating difficulties, risks, and expenditures. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our stockholders' ownership interest;
- use cash that we may need in the future to operate our business;
- become subject to different laws and regulations due to the nature or location of the acquired business, products, technologies, or other assets, or become subject to more stringent scrutiny or differing applications of laws and regulations to which we are currently subject as a result of such transactions;
- incur debt on terms unfavorable to us or that we are unable to repay;
- incur expenses or assume substantial liabilities;
- encounter difficulties retaining key personnel of the acquired company or integrating diverse software codes or business cultures;
- encounter difficulties in assimilating acquired operations and development cultures or otherwise fail to realize the anticipated benefits of such transactions;

- encounter diversion of management’s attention to other business concerns;
- become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges; and
- be required to adopt new, or change our existing, accounting policies.

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

Risks Related to Our Industry, Products, and Services

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

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

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

The market segment for freelancers and the clients that engage them is highly competitive, rapidly evolving, fragmented, and subject to changing technology, shifting needs, and frequent introductions of new competitors as well as new products and services. The level of competition within such market segment has intensified, and may intensify further, due to the COVID-19 pandemic and the resulting increase in remote work, macroeconomic downturn, and increased unemployment rates. We compete with a number of online and offline platforms and services domestically and internationally to attract and retain users and expand our share of user spend. Our main competitors fall into the following categories:

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

- online and offline job boards, classified ads, and other traditional means of finding work and service providers, such as Craigslist, CareerBuilder, Indeed, Monster, and ZipRecruiter.

In addition, well-established internet companies, such as Google, LinkedIn, and Amazon, social media platforms, such as Facebook, and businesses that operate driving, delivery, and other commoditized marketplaces, such as Uber Technologies, have entered or may decide to enter into our market segment. Some of these companies have launched or may launch, or have acquired or may acquire companies or assets that offer products and services that directly compete with our work marketplace. For example, LinkedIn launched ProFinder in 2016 and Open for Business in 2019, and in 2021 announced it is developing a new offering called Marketplaces, each of which are services to connect LinkedIn members with one another for freelance service relationships. Many of these established internet companies and other competitors are considerably larger than we are and have considerably greater financial and other resources than we do.

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

We also compete with companies that utilize emerging technologies and assets, such as blockchain, artificial intelligence, augmented reality, cryptocurrency, and machine learning. These competitors may offer products and services that may, among other things, provide automated alternatives to the services that freelancers provide on our work marketplace, use machine learning algorithms to connect businesses with service providers more effectively than we do, or otherwise change the way that businesses engage or pay service providers so as to make our work marketplace less attractive to users. Many of the companies and services that utilize these technologies in our market are still new and not yet fully mature in their capabilities or network scale; however, we may face increased competition should these companies or services, or new entrants, succeed.

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

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

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

The market for online freelancers and the services they offer is relatively new, rapidly evolving, and unproven. Our future success will depend in large part on the continued growth and expansion of this market and the willingness of businesses to engage freelancers to provide services. It is difficult to predict the size, growth rate, and expansion of this market, whether any expansion will be long-term or temporary, particularly in light of the recent shift toward remote work due to the COVID-19 pandemic, the entry of products and services that are competitive to ours, the success of existing competitive products and services, or technological, macroeconomic, legal, regulatory, or other developments that will impact the overall demand for freelancer services. Furthermore, many businesses may be unwilling to engage freelancers for a variety of reasons, including perceived negative connotations with outsourcing work, quality of work, or privacy or data security concerns or the rapidly evolving regulations that may impact the demand for independent contractor services more generally, including as discussed further in the risk factor titled “There may be adverse tax, legal, and other consequences if the contractor classification or employment status of freelancers that use our work marketplace is challenged.” If the market for freelancers and the services they offer does not achieve widespread adoption, or there is a reduction in demand for freelancer services, including once the COVID-19 pandemic has subsided, it could result in decreased revenue and our business could be adversely affected.

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

The Upwork brand did not exist before 2015. We believe that developing, maintaining, evolving, and enhancing awareness and integrity of our brand and reputation in a cost-effective manner are important to achieving widespread acceptance and use of our work marketplace and are important elements in attracting new users and retaining existing users. Successful promotion and positioning of our brand, products, and business model depend on, among other things, the effectiveness of our marketing efforts and brand messaging, our ability to provide a reliable, trustworthy, and useful work marketplace and products at competitive prices, the perceived value of our work marketplace and products, and our ability to provide quality support. In order to reach the brand awareness and acceptance levels of some of our competitors, we need to continuously invest in marketing programs that may not be successful in achieving meaningful awareness and acceptance levels, particularly during early phases of expansion into newer user awareness segments, such as international users. Further, brand promotion activities may not resonate with existing or potential users or yield increased revenue, and even if they do, the increased revenue may not offset the expenses we incur in building, evolving, and maintaining our brand and reputation. For example, we invested heavily in advertising in the United States in 2019 and 2020 to increase our brand awareness, which investment has continued in 2021, and it is not certain that these investments have had or will have sufficient positive impact on our brand to be cost effective. Likewise, publicity efforts or news coverage may undermine our brand promotion efforts or harm our reputation or may not resonate with existing or potential users. We have also recently evolved, and will continue to evolve, our marketing and brand positioning efforts, including to expand our focus on large enterprise, global account, mid-market, and other clients, with larger, longer-term talent and contracting needs and may not be successful in achieving the brand awareness and acceptance levels in a cost-effective manner, or without harming other areas of our business.

We also rely on our community of users in a variety of ways, including their willingness to give us feedback regarding our work marketplace, and failure of our users to provide feedback on their experience on our work marketplace or our failure to adequately address any concerns could negatively impact the willingness of them or prospective users to use our work marketplace. For example, the recent changes made in the pricing and packaging of Connects purchases has and may continue to result in user dissatisfaction and negatively impact fill rates for projects on our work marketplace. If we fail to promote and maintain our brand successfully, address user concerns, or to maintain loyalty among our users, or if we incur substantial expenses in unsuccessful attempts to promote and maintain our brand, we may fail to attract new users or retain our existing users and our business and financial condition may be adversely affected.

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

The market for our work marketplace is characterized by rapid technological change, frequent product and service introductions and enhancements, changing user demands, and evolving industry standards. The introduction of products and services embodying new technologies can quickly make existing products and services obsolete and unmarketable. We invest substantial resources in researching and developing new products and services and enhancing our work marketplace by incorporating additional features, improving functionality, and adding other improvements to meet our users' evolving demands in our increasingly highly competitive industry. For example, in 2020 we invested a significant amount of resources to launch a new product feature "Project Catalog," through which freelancers can market pre-scoped projects easily purchased via a click-and-buy experience. The success of any enhancements or improvements to, or new features of, our work marketplace or any new products and services, such as "Project Catalog," depends on several factors, including timely completion, competitive pricing, adequate quality testing, integration with new and existing technologies on our work marketplace and third-party partners' technologies, and overall demand and market acceptance consistent with the intent of such products or services. We cannot be sure that we will succeed, on a timely or cost-effective basis, in developing, marketing, and delivering enhancements or new features to our work marketplace or any new products and services that respond to continued changes in the market for talent or business services. Any enhancements or new features to our work marketplace or any new products and services may not achieve, and in the past certain features and offerings have not achieved, market acceptance, been cost-effective, or produced the intended effect. In the past, we have experienced unintended negative effects, including reduced client spend retention, diminished fill rates for projects on our work marketplace, and user dissatisfaction from certain modifications to our products, services, and features. For example, in 2019 and the first half of 2020, we experienced a decline in client spend retention which we believe was related to the launch of our U.S.-to-U.S. domestic marketplace offering in the second half of 2017.

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

Because a substantial portion of the services offered by freelancers and sought by clients on our work marketplace is information technology services, a decline in freelancers offering information technology services or the market for information technology service providers on our work marketplace could adversely affect our business.

A significant portion of the services offered by freelancers and sought by clients on our work marketplace relates to information technology. If, for any reason, the market for information technology services declines, including as a result of the relaxation or lifting of restrictions intended to prevent the spread of COVID-19, a macroeconomic downturn such as the one caused by the COVID-19 pandemic, increased use of artificial intelligence, automation, or otherwise, if talent is not available on our work marketplace or willing to perform these services or businesses satisfy their needs for these services through alternative means, including through use of our competitors' products, or if the freelancers on our work marketplace are not located in specific geographic regions in which clients are seeking to engage remote freelancers, the growth in the number of users on our work marketplace may slow or decline and as a result our revenue and business may be adversely impacted.

If we or our third-party partners experience a security breach, other hacking or phishing attack, ransomware or other malware attack, or other privacy or security incident, whether intentionally or unintentionally caused by us or by third parties, our work marketplace may be perceived as not being secure, our reputation may be harmed,

demand for our work marketplace may be reduced, our operations may be disrupted, we may incur significant legal costs, fines, or liabilities, and our business could be adversely affected.

Our business involves the storage, processing, and transmission of users' proprietary, confidential, and personal information as well as the use of third-party partners and vendors who store, process, and transmit users' proprietary, confidential, and personal information. We also maintain certain other proprietary and confidential information relating to our business and personal information of our personnel. Our systems, and the systems of our vendors and third-party partners, may be vulnerable to privacy or security incidents, such as computer viruses and other malicious software, physical or electronic break-ins, or vulnerabilities resulting from intentional or unintentional service provider actions, and similar disruptions that could make all or portions of our website or applications unavailable for periods of time. Any such privacy or security incident, whether intentionally or unintentionally caused by us or by third parties, that we experience could result in unauthorized access to, misuse of, or unauthorized acquisition of our, our personnel's, or our users' data; the loss, corruption, or alteration of this data; interruptions in our operations; or damage to our computers or systems or those of our users. Any of these could expose us to claims, litigation, fines, enforcement actions, other potential liability, and reputational harm. An increasing number of online services have disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their services. Additionally, ransomware or other malware, viruses, social engineering (including business email compromise and related wire-transfer fraud), and general hacking in our industry have become more prevalent and more complex. Bad actors often use uncertainty caused by a crisis, such as the COVID-19 pandemic, to try to take advantage of us, our users, and our vendors and third-party partners by using social engineering and other methods to persuade their victims to make fraudulent payments, or to download viruses, ransomware, or other malware into computer systems and networks. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not foreseeable or recognized until launched against a target, we and our vendors and third-party partners may be unable to anticipate these techniques or to implement adequate preventative measures, despite our efforts to implement and maintain a robust information security program. If we or our vendors or third-party partners experience an actual or perceived breach or privacy or security incident, public perception of the effectiveness of our security measures and brand could be harmed, and we could lose users and business. Data security breaches and other privacy and security incidents may also result from non-technical means, such as, for example, actions taken by employees or contractors, such as freelancers that we engage on our work marketplace to perform services for us.

Any compromise of our security or the security of our vendors or third-party partners could result in a violation of applicable privacy and other laws, regulatory or other governmental investigations, enforcement actions, litigation, and legal and financial exposure, including potential contractual liability. We may also need to expend significant resources to protect against, and to address issues created by, security breaches and other privacy and security incidents. While we maintain cyber liability insurance, these liabilities may exceed the amounts covered by our insurance; further, we cannot be certain that our insurance coverage will extend to or be adequate for liabilities actually incurred, or that insurance will continue to be available to us on economically reasonable terms, or at all. Any such compromise could also result in damage to our reputation and a loss of confidence in our security measures. In addition, significant unavailability of our work marketplace due to security breaches and other privacy and security incidents could cause users to decrease their use of or cease using our work marketplace. Any of these effects could adversely impact our business.

Depending on the nature of the information compromised, in the event of a security breach or other privacy or security incident, we may also have obligations to notify affected individuals and entities and regulators about the incident, and we may need to provide some form of remedy, such as a subscription to credit monitoring services, pay significant fines to one or more regulators, or pay compensation in connection with a class-action settlement (including under the private right of action under the California Consumer Privacy Act of 2018, which we refer to as the CCPA). Such breach notification laws continue to evolve and may be inconsistent from one jurisdiction to another. Complying with these obligations could cause us to incur substantial costs and could increase negative publicity surrounding any incident that compromises our, our users', our employees', our contractors', or other confidential, proprietary, or personal information.

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

We depend in part on various internet search engines, such as Google, as well as other channels to direct a significant amount of traffic to our website. Our ability to maintain the number of visitors directed to our website is not entirely within our control. For example, our competitors' search engine optimization and other efforts such as paid search may result in their websites receiving a higher search result page ranking than ours, internet search engines or other channels that we utilize to direct traffic to our website have in the past and could again revise their methodologies or implement other changes or penalties that adversely impact traffic to our website, or we may make changes to our website that adversely impact our search engine optimization rankings and traffic. As a result, links to our website may not be prominent enough to drive sufficient traffic to our website, and we may not be able to influence the results.

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

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

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

Users circumvent our work marketplace, which adversely impacts our business.

Our business depends on users transacting through our work marketplace. Despite our efforts to prevent them from doing so, users circumvent our work marketplace and engage with or pay each other through other means to avoid the fees that we charge. Circumvention by users of our work marketplace is also likely to have increased and may continue to increase in response to a macroeconomic downturn, such as the macroeconomic downturn caused by the COVID-19 pandemic, as users may be more cost-sensitive with respect to our fees. In addition, enhancements and changes we make with respect to our products, services, and features may unintentionally cause, and may have unintentionally caused in the past, users to circumvent our work marketplace. Moreover, the changes we make to decrease circumvention by users have in the past and could inadvertently result in user dissatisfaction, increased user circumvention, and a decline in user activity on our work marketplace. The loss of revenue associated with circumvention of our work marketplace has an adverse impact on our business, cash flows, operating results, and financial condition. In addition, our efforts to reduce circumvention may be costly or disruptive to implement, fail to have the intended effect or have an adverse effect on our brand or user experience, cause users to cease using our work marketplace, reduce the attractiveness of our work marketplace, divert the attention of management, or otherwise harm our business.

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

Our sales efforts are increasingly targeted at large enterprise, global account, and mid-market clients, and as a result, we face greater costs, longer sales cycles, and less predictability in completing some of our sales and in increasing spend by existing clients. For larger clients, use of our work marketplace may require approvals by multiple departments and executive-level personnel and require us to provide greater levels of services and client education regarding the uses, benefits, security, privacy, worker classification, payments, and compliance services offered on our work marketplace. Larger enterprises typically have longer decision-making and implementation cycles and may demand more customization, higher levels of support, a broader range of services, and greater payment flexibility. During the COVID-19 pandemic, some existing and potential clients have failed to respond to our sales outreach, slowed down decision-making, delayed planned work on our work marketplace, and sought to negotiate pricing and other terms that are less favorable to us. This has led, and may continue to lead, to diminished productivity and effectiveness of our sales force, longer sales cycles, and otherwise negatively impacting our sales efforts. Restrictions in place to prevent the spread of COVID-19 restrict our ability to travel and negotiate in person, which may also negatively impact our sales efforts. In addition, large enterprise, global account, and mid-market clients may require greater functionality and scalability that can lead to delays in sales or difficulties in growing client spend. We are often required to spend time and resources to better familiarize potential large enterprise, global account, and mid-market clients with the value propositions of our work marketplace generally. Despite our efforts in familiarizing potential large enterprise, global account, and mid-market clients with the benefits of our work marketplace, these potential clients may decide not to use our work marketplace if, among other reasons, they do not feel that their procurement or compliance needs are or will be met. In addition, sales opportunities with large enterprise, global account, and mid-market companies may require us to devote greater sales and administrative support and professional services resources to individual clients, which could increase our costs, lengthen our sales cycle, and divert our own sales and professional services resources to a smaller number of larger clients. We may spend substantial time, effort, and money in our sales efforts without being successful in producing sales or growing client spend.

Moreover, in the fourth quarter of 2020, we undertook a reduction in force of approximately one-third of our sales employees in an effort to drive efficiencies in our sales organization. This reduction may result in unintended consequences such as low employee morale and a decrease in the productivity and efficiency of our sales force.

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

We also have in the past agreed, and may in the future agree, to take on additional risk for worker classification, privacy, security, work product, payments, or other matters for larger enterprise, global account, and mid-market clients, or to other terms that are less favorable to us in order to secure a client's business or increase its spend, including as discussed further in the risk factor titled "There may be adverse tax, legal, and other consequences if the contractor classification or employment status of freelancers that use our work marketplace is challenged." All these factors can add further risk and expenses to business conducted with these clients even after a successful sale.

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

Our work marketplace enables our users to manage important aspects of their businesses, and any errors, defects, or disruptions in our work marketplace, or other performance problems with our work marketplace or infrastructure could harm our brand and reputation and may damage the businesses of users. As the usage of our work marketplace grows, we will need an increasing amount of technical infrastructure, including network capacity and computing power, to continue to operate our work marketplace. It is possible that we may fail to continue to effectively scale and grow our technical infrastructure to accommodate these increased demands, which may adversely affect our user experience. We also rely on third-party software and infrastructure, including the infrastructure of the internet, to

provide our work marketplace. Any failure of or disruption to this software and infrastructure could also make our work marketplace unavailable to our users. For example, for a short period of time in May 2019, due to an inadvertent error by a regulatory agency in Bangladesh, users in Bangladesh were unable to access our website and other websites that included “-rk.com” in their website addresses. Also, certain jurisdictions, such as India, Pakistan, Uganda, and Myanmar, have in the past voluntarily shut down the internet in response to civil unrest or prior to contested political elections and, in the event any such governmental action were to take place again, it would adversely affect user activity on our work marketplace throughout the duration of such shut down. Our work marketplace is constantly changing with new updates, which may contain undetected errors when first introduced or released. Any errors, defects, disruptions in service, or other performance or stability problems with our work marketplace, or the inadequacy of our efforts to adequately prevent or timely remedy errors or defects, could result in negative publicity, loss of or delay in market acceptance of our work marketplace, loss of competitive position, our inability to timely and accurately maintain our financial records, inaccurate or delayed invoicing of clients, delay of payment to us or freelancers, claims by users for losses sustained by them, or investigation and corrective action taken by the DFPI or other regulatory agencies. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help resolve the issue. Accordingly, any errors, defects, or disruptions in our work marketplace could adversely impact our brand and reputation, revenue, and operating results.

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

We currently host our work marketplace, serve our users, and support our operations using AWS, a provider of cloud infrastructure services. We do not have control over the operations of the facilities of AWS that we use. AWS’s facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, cybersecurity attacks, terrorist attacks, power losses, telecommunications failures, and similar events or could be subject to break-ins, computer viruses, sabotage, intentional acts of vandalism, and other misconduct. The occurrence of any of these events, a decision to close the facilities or cease or limit providing services to us without adequate notice, or other unanticipated problems could result in interruptions to our work marketplace, including lengthy interruptions. Our work marketplace’s continuing and uninterrupted performance is critical to our success and users may become dissatisfied by any system failure that interrupts our ability to provide our work marketplace to them. We may not be able to easily switch our AWS operations to another cloud or other data center provider if there are disruptions or interference with our use of AWS, and, even if we do switch our operations, other cloud and data center providers are subject to the same risks. Sustained or repeated system failures could reduce the attractiveness of our work marketplace to users, cause users to decrease their use of or cease using our work marketplace, and adversely affect our business. Moreover, negative publicity arising from these types of disruptions could damage our reputation and may adversely impact use of our work marketplace. We may not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any events that cause interruptions in our service and we cannot be certain that insurance will continue to be available to us on economically reasonable terms, or at all.

AWS does not have an obligation to renew its agreements with us on commercially reasonable terms, or at all. If we are unable to renew our agreements or unable to renew on commercially reasonable terms, our agreements are prematurely terminated, or we add additional infrastructure providers, we may experience costs or downtime in connection with the transfer to, or the addition of, new data center providers. If these providers charge high costs for or increase the cost of their services, we may have to increase the fees to use our work marketplace and our operating results may be adversely impacted. We also plan to substantially complete the transition during the second quarter of 2021 to a different AWS facility in an effort to reduce long-term costs, to gain access to servers with enhanced functionality, and increase operational resilience. During this transition, we may experience resulting downtime, cause errors in our work marketplace or services, including escrow or payment services, or incur additional costs, particularly if we encounter an unforeseen issue or incident during the migration. We expect to incur increased costs during the migration, as we will need to use two AWS data facilities at one time during the transition period.

In addition, we and other customers of AWS have been subject to litigation by third parties claiming that AWS and basic HTTP functions infringe their patents. Although we expect Amazon to indemnify us with respect to at least a

portion of such claims, such litigation has been, and may in the future continue to be, time consuming, and may divert management's attention and, if Amazon fails to fully indemnify us, adversely impact our operating results.

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

Our success depends in large part on our proprietary technology and data. We rely on various intellectual property rights, including patents, copyrights, trademarks, and trade secrets, as well as confidentiality provisions and contractual arrangements, to protect our proprietary rights. In addition, to protect our brand, we also expend substantial resources to register and defend our trademarks and to prevent others from using the same or substantially similar marks. As the adoption of remote work becomes more prevalent and competitors enter our market segment, particularly due to the recent shift toward remote work resulting from the COVID-19 pandemic, our exposure to unauthorized copying and use of our work marketplace, technology, intellectual property, and other proprietary information may increase. If we do not protect and enforce our intellectual property rights successfully or cost-effectively, our competitive position may suffer, which would adversely impact our operating results.

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

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

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

We rely on trade secrets as an important aspect of our intellectual property program and to cover much of our technology and know-how. We seek to protect our trade secrets and obtain rights in intellectual property developed by service providers through confidentiality and invention assignment or intellectual property ownership agreements with our employees, contractors, and other parties. In addition, for employees of third-party staffing providers or other contractors, the employer agrees to enter into these agreements with individual workers. We also take other measures to protect our information and data, including implementing acceptable use policies, limiting access to our information and data through technological means, and monitoring and limiting the dissemination of our information and data outside of company-owned information systems. We cannot ensure that these agreements, or all the terms thereof, will be enforceable or compliant with applicable law, or these agreements and other measures will be effective in controlling access to, use of, and distribution of our proprietary information or in effectively securing and maintaining exclusive ownership of intellectual property developed by our current or former employees and contractors. Most of our employees and all of the contractors with which we work are remote, which may make it more difficult to control use of confidential materials, increasing the risk that our source code or other confidential or trade secret information may be exposed. Further, these agreements with our employees, contractors, and other parties may not prevent other parties from independently developing technologies that are substantially equivalent or superior to our work marketplace. Any failure to protect intellectual property that we develop or our proprietary technology and data would adversely affect our business, operating results, and financial condition.

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

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

We operate in a highly competitive industry, and there has been considerable activity in our industry to develop and enforce intellectual property rights. Intellectual property infringement claims against us or our users or third-party partners could result in monetary liability or a material disruption in the conduct of our business. We cannot be certain that aspects of our work marketplace, content, and brand names do not or will not infringe valid patents, trademarks, copyrights, or other intellectual property rights held by third parties, including our competitors. Also, we are now, have in the past been, and may in the future be, subject to legal proceedings and claims relating to the intellectual property of others, including our competitors, in the ordinary course of our business. The likelihood of intellectual property-related litigation and disputes may increase due to the increased attention on our market segment due to the recent shift to remote work resulting from the COVID-19 pandemic. Companies, including non-practicing entities and our competitors, have also sent us demand letters and instituted proceedings alleging that we infringe their intellectual property, seeking licensing fees, royalties and damages, and demanding that we cease certain commercial activity. We may receive such demand letters and be subject to similar proceedings in the future. Our competitors and other third parties have in the past challenged, and may in the future challenge, our registration or use of our trademarks, including “Upwork,” and other intellectual property rights, and, if successful, such a

challenge could adversely affect our brand and business. Our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have or trademarks or other rights that pre-date and take precedence over our own. We may also be obligated to indemnify certain clients on our work marketplace or strategic partners or others in connection with such infringement claims, or to obtain licenses from third parties or modify our work marketplace or marketing strategy, and each such obligation would require us to expend additional resources. Some of our infringement indemnification obligations related to intellectual property are contractually capped at a very high amount or not capped at all.

Any litigation or other disputes relating to allegations of intellectual property infringement could subject us to significant legal costs and liability for damages, invalidate our proprietary rights, or force us to do one or more of the following:

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

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

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

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

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

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

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

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

Risks Related to Legal and Regulatory Matters

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

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

class action waiver provisions, unfair competition, terms of service, website accessibility, background checks (such as the Fair Credit Reporting Act, 15 U.S.C. § 1681), escheatment, and federal contracting may also be adopted, implemented, or interpreted to apply to us and other online services marketplaces or our users. Likewise, these laws affect our users, and their application, or uncertainty around their application, may affect demand for our work marketplace.

New laws, regulations and orders enacted in response to the COVID-19 pandemic or the resulting macroeconomic downturn may also affect our business in ways that we did not anticipate, and existing laws and regulations may be interpreted and enforced differently than they have in the past in response to the pandemic. These laws may change rapidly and compliance may be costly to us. For example, the restrictions intended to prevent the spread of COVID-19 currently enacted in many jurisdictions may result in a loss of productivity of our workforce and an increase in data security breaches and other privacy and security incidents, among other things. On the other hand, a loosening of these restrictions as certain geographic areas begin to reopen may result in a decline in user activity on our work marketplace.

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

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

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

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

successfully or in a cost-effective manner, or if these laws and regulations are found to apply to our users or cause a decline in demand for freelancer services, our business, operating results, and financial condition could be adversely affected.

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

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

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

Risks inherent in conducting business with an international user base, engaging freelancers globally, localizing our work marketplace, and expanding our operations internationally include, but are not limited to:

- being deemed to conduct business or have operations in the jurisdictions where users, including freelancers that provide services to us, are resident and being subject to their laws and regulatory requirements, including those concerning taxation;
- new, changed, or conflicting regulatory requirements;
- varying worker classification standards, regulations, and approaches to enforcement and requirements and expectations of employment;
- compliance with U.S. and foreign laws designed to combat money laundering and the financing of terrorist activities;
- the imposition of taxes on transactions between us and our users or among our users, or the imposition of liability on us for the failure to collect and remit taxes owed by our users;
- compliance with U.S. and foreign laws and regulations regarding privacy, data protection, information security, and the collection, storing, retention, sharing, use, processing, transfer, disclosure, and protection of personal information and other content;

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

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

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

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

We offer an optional service to our Upwork Enterprise and premium clients, through which we help classify freelancers as employees of third-party staffing providers or independent contractors. For clients that subscribe to this service, subject to applicable law and the terms of our agreement with the client, we indemnify clients from misclassification risk and make warranties to the client, such as to compliance with applicable laws. In addition, we offer a number of other premium services where we provide increased assistance to users to find and contract with

one another. Third-party staffing providers employ freelancers classified as employees for clients, and failure of these staffing providers to comply with all legal and tax requirements could adversely affect our business. Moreover, material business changes to one or more of our third-party staffing providers could lead to increased costs for clients or us, a reduced profit margin, a diminished user experience, or the inability to offer the staffing provider services in one or more jurisdictions. We also use our work marketplace to find, classify, and engage freelancers to provide services for us and for our managed services offering. In general, any time a court or administrative agency determines that we or our clients that use our work marketplace have misclassified a freelancer as an independent contractor, we or our users could incur tax and other liabilities for failing to properly withhold or pay taxes on the freelancer's compensation as well as potential wage and hour and other liabilities depending on the circumstances and jurisdiction. We have in the past been, and may in the future be, subject to administrative inquiries and audits concerning the taxation and classification of our workers and the users of our work marketplace. We cannot be certain that any insurance coverage that we have or may obtain will extend to or be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

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

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

The regulatory landscape regarding contractor classification is rapidly changing, and changes in these laws could adversely affect demand for our services and platform and adversely affect our business.

Worker classification and independent contractor issues, including AB 5, have been the subject of widespread national discussion and it is possible that other jurisdictions, including the federal government, several states such as

New York, Washington, Illinois, and others, as well jurisdictions outside the United States, such as the United Kingdom and the European Union, which we refer to as the EU, through its work on the Platform Workers Directive and other legislative and regulatory instruments, may enact similar laws. Additionally, initiatives such as California's Proposition 22 (which was passed in 2020) alter, and other potential legislation could alter, the legislative and regulatory landscape regarding how governments may choose to regulate independent contractors broadly and specific sectors as well, which may affect how our users run their businesses. In addition, legislation may be passed with retroactive effect, such as AB 5. As a result, there is significant uncertainty regarding the worker classification regulatory landscape and what it will look like in future years, and compliance with any new legislation or regulations may be costly and difficult or they may be impossible to comply with in a commercially reasonable manner. In addition, any developments or changes in the regulatory environment impacting worker classification and independent contractors may reduce the demand for independent contractors more generally in one or more jurisdictions and have an adverse effect on our business, operating results, and financial condition.

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

The application of federal, state, local, and international tax laws to services provided over the internet is evolving. In addition to income taxes, in the United States and various foreign jurisdictions, we may also be subject to non-income based taxes, such as payroll, sales, use, value-added, and goods and services taxes (including the "digital service tax"), and we may also be subject to increased obligations as a withholding agent. Many of the fundamental statutes and regulations that impose these taxes were established before the adoption and growth of the internet and ecommerce. In addition, governments are increasingly looking for ways to increase revenue, which has resulted in aggressive enforcement and new interpretations of existing tax laws, enacting new laws and promulgating new regulations (particularly those establishing an economic nexus as a basis to collect taxes from companies with no local presence), discussions about tax reform, and other legislative action to increase tax revenue, including through indirect taxes. New income, payroll, sales, use, value-added, goods and services, platform, intermediary, digital services, or other tax laws, statutes, rules, regulations, or ordinances are regularly enacted and could be enacted at any time (possibly with retroactive effect), could be applied solely or disproportionately to services provided over the internet, could target certain products and services offered on our work marketplace, or could otherwise affect our or our users' tax obligations or financial position and operating results. Many countries in the EU, as well as the United Kingdom, India, and a number of other countries and organizations, such as the Organisation for Economic Co-operation and Development, have recently proposed or recommended changes to existing tax laws or have enacted new laws that could impact our tax obligations. The impact and burden of these regulations and proposed regulations on our business and the businesses of our users is uncertain, but may have a negative impact on our business.

We currently collect and remit indirect taxes on our fees in a number of jurisdictions and may begin collecting and remitting indirect taxes in additional jurisdictions. Our collection of indirect taxes on our fees in these jurisdictions may cause our users to use other platforms or other alternatives that do not collect indirect taxes on their fees, which may in turn affect our financial results. In addition, tax authorities may raise questions about, challenge or disagree with our determination as to whether we are obligated to collect indirect taxes or our calculation, reporting, or collection of taxes and may require us to remit additional taxes and interest, and could impose associated penalties and fees. Should any new taxes become applicable or the application of existing taxes be deemed to apply to us or our users, or if the taxes we pay are found to be deficient, our business could be adversely impacted. We have in the past been, and may in the future be, audited by tax authorities with respect to non-income taxes, and we may have exposure to additional non-income tax liabilities, which could have an adverse effect on our operating results and financial condition. In addition, our future effective tax rates could be favorably or unfavorably affected by changes in tax rates, changes in the valuation of our deferred tax assets or liabilities, the effectiveness of our tax planning strategies, or changes in tax laws or their interpretation. Such changes could have an adverse impact on our operating results and financial condition.

Moreover, state, local, and foreign tax jurisdictions have differing rules and regulations governing sales, income, use, value-added, payroll, services, and other taxes, and these rules and regulations can be complex and are subject to varying interpretations and enforcement positions that may change over time. Existing tax laws, statutes, rules,

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

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

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

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

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

Moreover, on July 16, 2020, the Court of Justice of the European Union, which we refer to as the CJEU, declared the EU-U.S. Privacy Shield to be an invalid mechanism for transferring personal information from the EU to the United States. In addition, while the CJEU upheld the adequacy of the standard contractual clauses (a standard form of contract approved by the European Commission as an adequate personal information transfer mechanism, and potential alternative to the Privacy Shield), it made clear that reliance on them alone may not necessarily be sufficient in all circumstances. The use of standard contractual clauses for the transfer of personal information specifically to the United States remains under review by a number of European data protection supervisory authorities. German and Irish supervisory authorities have indicated that the standard contractual clauses alone provide inadequate protection for EU-U.S. data transfers. On August 10, 2020, the U.S. Department of Commerce and the European Commission announced new discussions to evaluate the potential for an enhanced EU-U.S. Privacy Shield framework to comply with the July 16 judgment of the CJEU. The CJEU's decision (and certain regulatory guidance issued in its wake) and recent statements by EU supervisory authorities have led to uncertainty regarding the legality of EU-U.S. data flows in general and those conducted under the Privacy Shield in particular. The CJEU's decision may continue to create new compliance obligations applicable to our business, users, vendors, and third-party partners, which could cause us to change our business practices. As further guidance is issued by European authorities, the full rights and responsibilities resulting from the CJEU's decision may continue to change.

As supervisory authorities continue to issue further guidance on personal information, we could suffer additional costs, complaints, or regulatory investigations or fines, and if we are otherwise unable to transfer personal information between and among countries and regions in which we operate, it could affect the manner in which we provide our services, the geographical location or segregation of our relevant systems and operations, and could adversely affect our financial results.

Further, in connection with its process of leaving the EU, the United Kingdom has enacted the Data Protection Act 2018, which we refer to as the Data Protection Act, that is substantially consistent with the GDPR. From the beginning of 2021 (when the transitional period following Brexit (as defined below) expired), we will have to continue to comply with the GDPR and also the Data Protection Act, with each regime having the ability to fine up to the greater of €20 million (£17 million) or 4% of global turnover. The relationship between the United Kingdom and the EU remains uncertain, for example, how data transfers between the United Kingdom and the EU and other jurisdictions will be treated and the role of the United Kingdom's supervisory authority. These changes will lead to additional costs as we try to ensure compliance with new privacy legislation and will increase our overall risk exposure.

Additionally, in June 2018, California passed the CCPA, which provides new privacy rights for consumers and new operational requirements for companies. The CCPA became effective on January 1, 2020 and enforcement began on July 1, 2020, along with related regulations which came into force thereafter. Fines for noncompliance may be up to \$7,500 per violation without limitations. Additionally, on November 3, 2020 Californians passed a ballot initiative called the California Privacy Rights Act, which we refer to as the CPRA, which will (upon becoming effective in 2023) extend the CCPA and impose additional data protection obligations on companies doing business in California, including additional consumer rights processes and opt outs for certain uses of sensitive data. The costs of compliance with, and other burdens imposed by, the GDPR, CCPA, and CPRA may limit the use and adoption of our products and services and could have an adverse impact on our business. Because the GDPR, the UK's Data Protection Act, the CCPA, and the CPRA are in force or recently passed, their application in practice may change or develop over time through judicial decisions or as new regulations, guidance or interpretations are provided by regulatory and governing bodies, such as federal and state administrative agencies, and our interpretations of these laws and efforts to comply with the rules and regulations of these laws may be deemed invalid. Additionally, the CCPA has prompted a number of proposals for new federal and state-level privacy legislation, such as in New York, New Hampshire, and other jurisdictions. If passed, these new laws could add additional complexity, impact our business strategies, increase our potential liability, increase our compliance costs, and adversely affect our business. For example, Virginia recently passed the Virginia Consumer Data Protection Act into law on March 2, 2021, which will go into effect on January 1, 2023.

Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to users, employees, contractors, or other third parties, or any other legal obligations or regulatory requirements relating to privacy, data protection, or information security may result in governmental investigations or enforcement actions, litigation, claims, or public statements against us by consumer advocacy groups or others and could result in

significant liability, cause our users to lose trust in us, and otherwise have an adverse effect on our reputation and business. Our ability to comply with a global patchwork of competing privacy regimes may be inhibited by the competing nature of those regimes. It is possible that, as new regulatory requirements come into law, especially those which may diverge, even slightly, from existing regulatory frameworks, such as the United Kingdom's Data Protection Law, we may incur costs related to compliance, or may need to seek remedies to ensure such competing regimes are interpreted and enforced fairly. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our users may limit the adoption and use of, and reduce the overall demand for, our work marketplace.

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

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

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

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

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

Although we believe that our operations comply with existing U.S. federal, state, and international laws and regulatory requirements related to escrow, money transmission, and the handling or moving of money, the laws or regulations may change, and interpretations of existing laws and regulations may also change. As a result, Upwork Escrow or Upwork Global could be required to be licensed as an escrow agent or a money transmitter (or other similar licensee) in other U.S. states or other jurisdictions or may choose to obtain such a license even if not required. Such a decision could also require Upwork Escrow or Upwork Global to register as a money services business under federal laws and regulations. It is also possible that Upwork Escrow or Upwork Global could become subject to regulatory enforcement or other proceedings in those states or other jurisdictions with escrow, money transmission, or other similar statutes or regulatory requirements related to the handling or moving of money, which

could in turn have a significant impact on our business, even if we were to ultimately prevail in such proceedings. Upwork Escrow or Upwork Global may also be required to become licensed as a payment institution (or obtain a similar license) under the European Payment Services Directive or other international laws and regulations or may choose to obtain such a license even if not required. Any developments or inconsistencies in the laws or regulations related to escrow, money transmission, or the handling or moving of money; material changes to the mandate, purview or regulatory approach at the DFPI; or increased scrutiny of our business may lead to additional compliance costs and administrative overhead.

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

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

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

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

implement sufficient OFAC controls and be found to have violated OFAC regulations, user perception of online freelance marketplaces in general may decrease and our business, brand, and reputation may be adversely affected.

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

We are also subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, and the UK Bribery Act 2010, and may be subject to other anti-bribery, anti-money laundering, and sanctions laws in countries in which we conduct activities or have users. We face significant risks if we fail to comply with the FCPA and other anti-corruption laws that prohibit companies and their agents and third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to foreign government officials, political parties, or private-sector recipients for the purpose of obtaining or retaining business, directing business to any person, or securing any advantage. In many foreign countries, particularly in countries with developing economies, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. We may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities, and we may be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners, and agents, even if we prohibit or do not explicitly authorize such activities. We have implemented an anti-corruption compliance policy, but we cannot ensure that all of our employees, users, and agents, as well as those contractors to which we outsource certain of our business operations, will not take actions in violation of our policies or agreements and applicable law, for which we may be ultimately held responsible.

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

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

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

In addition, various countries regulate the import and export of certain encryption and other technology, including imposing import and export permitting and licensing requirements, and have enacted laws that could limit our ability to distribute aspects of our work marketplace or could limit our users’ ability to access our work marketplace in those countries. Changes in our work marketplace, or future changes in export and import regulations may prevent our international users from utilizing our work marketplace or, in some cases, prevent the export or import of our work marketplace to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, or change in the countries, governments, persons, or technologies targeted by such regulations, could result in decreased use of our work marketplace by existing or potential users with international operations. Any decreased use of our work marketplace or limitation on our ability to export or sell our products would likely adversely affect our business, operating results, and financial results.

Risks Related to Finance, Accounting, and Tax Matters

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

We have a history of incurring net losses, and we expect to incur net losses for the foreseeable future. For the three months ended March 31, 2021 and years ended December 31, 2020 and 2019, we incurred net losses of \$7.8 million, \$22.9 million, and \$16.7 million, respectively. As of March 31, 2021, we had an accumulated deficit of \$202.7 million. We have made, and expect to continue to make, significant expenditures related to the development and expansion of our business, including investing in marketing programs and activities, such as brand promotion efforts, including those designed to reach new and existing clients seeking to engage with remote freelancers in light of the COVID-19 pandemic; enhancing our Upwork Enterprise and other premium offerings; expanding our services and features; expanding our international user base; localizing our offerings in select locations; broadening and deepening the categories on our work marketplace; promoting client engagement of those freelancers that typically optimize to deliver larger projects, including through our Upwork Payroll offering; enhancing our mobile product offering and our U.S.-to-U.S. domestic marketplace offering; expanding our sales force; and in connection with legal, accounting, and other administrative expenses related to operating as a public company. These and other efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently, or at all, to offset these higher expenses. While our revenue has grown in recent years, we may not be able to sustain the same level of growth in future periods, or at all. For example, we experienced a reduction in the growth of GSV and revenue in the second quarter of 2020 due to the effects of the COVID-19 pandemic and could experience a similar reduction in GSV and revenue growth following the COVID-19 pandemic. If our revenue declines or fails to grow at a rate faster than increases in our operating expenses, we will not be able to achieve and maintain profitability in future periods. As a result, we may continue to generate losses. We cannot ensure that we will achieve profitability in the future or that, if we do become profitable, we will be able to sustain profitability.

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

Our quarterly operating results have fluctuated in the past and may fluctuate in the future, particularly during a macroeconomic downturn such as the one caused by the COVID-19 pandemic. Additionally, we have a limited operating history under our current business strategy and pricing model, and we make pricing, product, and other changes from time to time, all of which make it difficult to forecast our future results. As a result, you should not rely upon our past quarterly operating results as indicators of future performance. You should take into account the risks, difficulties, and uncertainties frequently encountered by companies in highly competitive and rapidly evolving markets. Our operating results in any given quarter can be influenced by numerous factors, many of which are unpredictable or are outside of our control, including:

- uncertainty regarding demand for our work marketplace following the COVID-19 pandemic;
- ongoing uncertainty and impact on the global economy and spending by large, medium, and small companies relating to the COVID-19 pandemic, the shift to remote work, availability of qualified freelancers, and uncertainty regarding the timing and nature of any future economic recovery, as discussed further below;
- our ability to generate significant revenue from our Upwork Basic, Plus, and Enterprise offerings, and our other premium offerings;
- spending patterns of clients, including whether those clients that use our work marketplace frequently or for larger projects, reduce their spend, stop using our work marketplace, or change their method of payment to us, including in each case as a result of the implementation of macroeconomic or other external factors such as increased competition, pricing changes, or the introduction of new or modified products or services on our work marketplace, such as changes made in the pricing and packaging of Connects;
- due to our tiered pricing model for freelancer service fees, the mix in any period between freelancers that have billed larger amounts to clients on our work marketplace, where we charge a lower rate on billings, and freelancers that have billed clients less on our work marketplace, where we charge a higher rate on billings;

- our ability to maintain and grow our community of users, including our ability to acquire large enterprise, global account, and mid-market clients with larger, longer-term talent needs and qualified freelancers;
- our ability to respond to competitive developments, including new and emerging competitors, pricing changes, and the introduction of new products and services by our competitors;
- our ability to attract, retain and grow small- and medium-sized business clients;
- our ability to attract and retain freelancers that provide the types and quality of services sought by clients on our work marketplace, particularly freelancers that provide services for which client demand exceeds supply on our work marketplace;
- our ability to attract and retain freelancers in geographic regions in which clients are seeking to engage remote freelancers;
- the success of our marketing and brand positioning efforts;
- the productivity and effectiveness of our sales force;
- the length and complexity of our sales cycles;
- the demand for and types and quality of skills and services that are offered on our work marketplace by freelancers;
- ongoing uncertainty regarding U.S. and global political conditions;
- the number of users circumventing our work marketplace and our fees, which could increase during economic downturns, such as the current macroeconomic downturn caused by the COVID-19 pandemic;
- our ability to introduce new products and services or enhance existing products and services without adversely affecting our existing revenue;
- our ability to generate significant revenue from new products and services;
- fluctuations in gross margin and managed services revenue due to our recognition of the entire GSV from our managed services offering as revenue, including the amounts paid to freelancers;
- the disbursement methods chosen by freelancers;
- fluctuations in the prices that freelancers charge clients on our work marketplace;
- changes to our pricing model, including associated fees, and any resulting change in our ability to generate revenue, such as the pricing and packaging of Connects purchases, or how we recognize revenue;
- spending patterns and project bidding behavior of freelancers with respect to the products and services available to them on our work marketplace, such as membership fees and Connects purchases;
- revenue recognition fluctuations for arrangements subject to our tiered pricing model for freelancer service fees;
- data security or privacy breaches or incidents and associated remediation costs and reputational harm;
- litigation, regulatory investigations or enforcement actions, and adverse judgments, settlements, or other litigation-related costs;
- any impairment charges on our operating lease asset and related leasehold improvements being recognized as a general and administrative expense due to a reduction to our office space and our potential sublease of such office space at a rental rate that is less than our rent expense for such office space, or any termination fees we may incur as a result of our termination of the operating lease for such office space;
- the impact of sales, use, and other tax laws and regulations in jurisdictions in which we have users, including the requirement in certain jurisdictions to collect indirect taxes on user fees, to withhold and remit taxes related to income or earnings, or to pay any such taxes or resulting penalties as a result of our failure to comply with such requirements;

- seasonal spending patterns by clients or work patterns by freelancers, seasonality in the labor market, mitigated impact of typical seasonality in the labor market due to the COVID-19 pandemic and the resulting restrictions intended to prevent its spread, and the unpredictable seasonal work patterns of users following the relaxation or lifting of such restrictions, as well as the number of business days, the number of Mondays (i.e., the day we recognize revenue for a substantial portion of our client fees each week) or the number of Sundays (i.e., the day we bill and recognize revenue for the majority of our freelancer service fees each week) in any given quarter, as well as local, national, or international holidays;
- changes in the mix of products and services that our enterprise clients or other users demand;
- changes in the law or interpretation of law, or in the statutory, legislative, or regulatory environment, such as with respect to privacy, data security, wage and hour regulations, worker classification (including classification of independent contractors or similar workers and classification of employees as exempt or non-exempt), internet regulation, payment processing, global trade, or tax obligations;
- fluctuations in the mix of payment provider costs and the revenue generated from payment providers;
- the episodic nature of freelance work generally or changes to demand for freelance work due to political or regulatory changes or uncertainty;
- the impact of public health pandemics, especially the COVID-19 pandemic, or other global or regional events or conditions;
- fluctuations in trade and client receivables due to the timing of cash receipts from clients and the number of transactions on our work marketplace;
- increases in, and timing of, operating expenses that we may incur to grow and expand our operations and to remain competitive, such as advertising and other marketing expenses, including those associated with evolving our brand positioning and as we seek to grow our international user base;
- the cost and time needed to develop and upgrade our work marketplace to incorporate new technologies or develop new or improved offerings;
- the impact of outages of our work marketplace and associated reputational harm;
- changes in the mix of countries in which our users are located, which impacts the amount of revenue we derive from foreign exchange;
- potential costs to attract, onboard, retain, and motivate qualified talent to perform services for us;
- the impact of reductions in our workforce, including claims against us from departing employees or others;
- changes to financial accounting standards and the interpretation of those standards that may affect the way we recognize and report our financial results, including changes in accounting rules governing recognition of revenue;
- costs related to the acquisition of businesses, talent, technologies, or intellectual property, including potentially significant amortization costs and possible write-downs;
- general economic and political conditions and government regulations in the countries where we currently have significant numbers of users or where we currently operate or may expand in the future;
- fluctuations in transaction losses;
- fluctuations in currency exchange rates;
- operating lease expenses and other real estate expenses;
- lease termination fees or rent expense that is in excess of sublease income for a particular office space;
- non-cash accounting charges such as stock-based compensation expense, including those related to executive compensation arrangements, and depreciation and amortization; and

- losses and expenses from indemnification, dispute assistance, and similar contractual obligations we owe to clients.

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

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

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

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

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

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

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

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

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

We have recently remediated a material weakness in our internal control over financial reporting and if we fail to develop and maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable laws and regulations could be impaired.

A material weakness is a deficiency or combination of deficiencies in our internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our consolidated financial statements would not be prevented or detected on a timely basis. As previously disclosed, we identified a number of adjustments relating to previously issued consolidated financial statements that resulted in a revision to our consolidated financial statements as of and for the year ended December 31, 2016 and determined that this control deficiency constituted a material weakness in our internal control over financial reporting. We successfully remediated the material weakness during the quarter ended June 30, 2020.

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

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

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

As of December 31, 2020, we had net operating loss carryforwards for U.S. federal income tax purposes and state income tax purposes of \$343.1 million and \$72.9 million, respectively, available to offset future taxable income. Our federal net operating loss carryforward amounts began to expire in 2019, including \$14.5 million that expired in 2019, \$15.1 million that expired in 2020, and \$21.6 million that will expire in 2021, and will continue to expire in 2022 and future years. The state net operating loss carryforward amounts will begin to expire in 2028. Realization of these net operating loss carryforwards depends on future income, and there is a risk that our existing carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could materially and adversely affect our operating results.

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

result, if we earn net taxable income, our ability to use our pre-change net operating loss carry-forwards and other tax attributes to offset U.S. federal taxable income may be subject to limitations, which could potentially result in increased future tax liability to us.

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

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

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

Our loan and security agreement with Silicon Valley Bank, as amended, which we refer to as the Loan Agreement, restricts our ability to, among other things:

- incur additional indebtedness;
- sell certain assets;
- declare dividends or make certain distributions; and
- undergo a merger or consolidation or other transactions.

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

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

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

In order to support our growth and respond to business challenges, such as developing new features or enhancements to our work marketplace, acquiring new technologies, and improving our infrastructure, we have made significant financial investments in our business and we intend to continue to make such investments. In addition, we may, from time to time, seek to acquire or strategically invest in other complementary products, technologies, or

businesses. As a result, we may need to engage in equity or debt financings, in lieu of or in addition to borrowing funds under our Loan Agreement, to obtain the funds required for these investments, acquisitions, and other business endeavors. If we raise additional funds through equity or convertible debt issuances, our existing stockholders may suffer significant dilution and these securities could have rights, preferences, and privileges that are superior to those of holders of our common stock. If we obtain additional funds through debt financing, we may not be able to obtain such financing on terms favorable to us. Such terms may involve additional restrictive covenants making it difficult to engage in capital raising activities and pursue business opportunities, including potential acquisitions and strategic investments. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired and our business may be adversely affected, requiring us to delay, reduce, or eliminate some or all of our operations.

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

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

Risks Related to Ownership of Our Common Stock

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

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market. The perception that these sales might occur may also cause the market price of our common stock to decline. A substantial portion of our common stock is held by stockholders that acquired their shares prior to the initial public offering of our common stock. We are unable to predict the timing of when such stockholders will sell all or a portion of their common stock or the effect on the market price of our common stock of any such sales. All shares of our common stock are freely tradable, generally without restrictions or further registration under the Securities Act of 1933, as amended, which we refer to as the Securities Act, subject to certain exceptions for shares held by our "affiliates" as defined in Rule 144 under the Securities Act. In addition, the shares issued upon exercise of outstanding stock options or settlement of outstanding RSUs will be available for immediate resale in the United States on the open market.

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

We may also issue our shares of common stock or securities convertible into shares of our common stock from time to time in connection with a financing, an acquisition, investments, or otherwise. We also expect to grant additional equity awards to employees, directors, and consultants under our 2018 Equity Incentive Plan and rights to purchase our common stock under our 2018 Employee Stock Purchase Plan. Any such issuances could result in substantial dilution to our existing stockholders and cause the market price of our common stock to decline.

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

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

- actual or anticipated fluctuations in our revenue and other operating results;

- changes in the financial projections we may provide to the public or our failure to meet these projections;
- overall performance of the equity markets;
- the economy as a whole and market conditions in our industry;
- failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- lawsuits threatened or filed against or by us or against our key personnel, litigation involving our industry, or lawsuits threatened or filed against our users relating to their use of our work marketplace;
- recruitment or departure of key personnel;
- developments or disputes concerning our or other parties' products, services, or intellectual property rights;
- negative publicity related to the real or perceived quality or security of our work marketplace, as well as the failure to timely launch new products and services that gain market acceptance;
- acquisitions, strategic partnerships, joint ventures, or capital commitments;
- speculative trading practices by stockholders and other market participants;
- increased interest and trading in our stock from retail investors;
- rumors and market speculation involving us or other companies in our industry and/or other industries;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business, including those governing worker classification, taxation of workers, or withholding and remitting taxes on income or earnings;
- announcements by us or our competitors of new or terminated products or services, commercial relationships, or significant technical innovations;
- sales of shares of our common stock by us or our stockholders, including sales of large blocks of our stock relative to the size of our public float;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- political changes or events, such as the ongoing U.S. and global political and international relations environment; and
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events.

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

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

As of March 31, 2021, our executive officers, directors, 5% or greater stockholders, and affiliated entities together beneficially owned a meaningful portion of our common stock. As a result, these stockholders, acting together, could have substantial influence over most matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing, or deterring a change of control of our company, could

deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company, and might ultimately affect the market price of our common stock.

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

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If industry analysts cease coverage of us or fail to publish reports on us regularly, the trading price and trading volume for our common stock would be negatively affected. As of March 31, 2021, there were six securities analysts that cover us and publish reports on us regularly. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, the price of our common stock would likely decline. If one or more of these analysts cease coverage of us, which has occurred previously, or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our common stock price and trading volume to decline.

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

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

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

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

- provide that our board of directors is classified into three classes of directors with staggered three-year terms;
- permit the board of directors to establish the number of directors and fill any vacancies and newly created directorships;
- require super-majority voting to amend some provisions in our restated certificate of incorporation and amended and restated bylaws;
- authorize the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- provide that only the chairperson of our board of directors, our chief executive officer, president, lead independent director, or a majority of our board of directors will be authorized to call a special meeting of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter, or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, our restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law,

which we refer to as the DGCL, our restated certificate of incorporation, or our amended and restated bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. Our amended and restated bylaws also provide that the federal district courts of the United States would be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to this provision.

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

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

General Risks

Adverse or changing economic conditions may negatively impact our business.

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

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

A significant natural disaster, such as an earthquake, blizzard, hurricane, fire, flood, or other catastrophic event, such as a power loss or telecommunications failure, or other technological failure resulting in the permanent destruction of data, could have a material adverse impact on our business, financial condition, and operating results. In the event of natural disaster or other catastrophic event, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in development of our work marketplace, lengthy interruptions in service, security breaches, and loss of critical data, all of which could have an adverse effect on our operating results. Certain of our departments are situated primarily in one geographical area and any natural disaster or catastrophic event to such area or the surrounding communities where our employees live may impact productivity or revenue generating activities by employees based in that office. Our corporate headquarters and many key personnel are located in the San Francisco Bay Area, a region known for seismic activity and catastrophic fires. In addition, natural disasters and other catastrophic events could affect our partners' ability to perform services for users on a timely basis. In the event any such partners' information technology systems or service abilities are hindered by any of the events discussed above, our ability to provide our work marketplace and other services may be impaired, resulting in

missing financial targets for a particular quarter or year, or longer period. Further, if a natural disaster or other catastrophic event occurs in a region from which we derive a significant portion of our revenue, users in that region may delay or forego use of our work marketplace or other services, which may adversely impact our operating results. In addition, acts of terrorism, civil disorder, public health pandemics (including the COVID-19 pandemic), or military conflict could cause disruptions in our business or the business and activity of our partners, users, or the economy as a whole. These disruptions may be more severe than in the case of natural disasters. All of the aforementioned risks may be exacerbated if our or our partners' business continuity and disaster recovery plans prove to be inadequate. To the extent that any of the above results in delays or reductions in platform availability, activities or other services, our business, financial condition, and operating results would be adversely affected.

We may be adversely affected by the withdrawal of the United Kingdom from the EU Single Market and Customs Union.

In January 2020, the United Kingdom formally withdrew from the EU, which we refer to as Brexit. Upon its withdrawal, pursuant to an agreement reached between the United Kingdom and the EU, a transition period came into effect which ended on December 31, 2020, from which time the United Kingdom withdrew from the EU Single Market and Customs Union. On December 24, 2020, the EU and the United Kingdom agreed the terms of a trade and cooperation agreement which sets out the terms of their future relationship, which we refer to as the Trade Agreement. The Trade Agreement has been approved by the UK Parliament, and applies provisionally until the end of April 2021, until the European Parliament approves the Trade Agreement. The Trade Agreement offers United Kingdom and EU businesses preferential access to each other's markets, ensuring imported goods will be free of tariffs and quotas. However, economic relations between the United Kingdom and the EU will now be on more restricted terms than before and there remains uncertainty around the post-Brexit regulatory environment, as the provisions of the Trade Agreement do not cover the services sector. This uncertainty could cause significant economic disruption and further depress consumer confidence and the economy of the United Kingdom. Our results of operations derived from revenue earned from clients and freelancers in the United Kingdom may be adversely affected by such uncertainty. Brexit could also contribute to instability in global financial and foreign exchange markets, including volatility in the value of the Euro and the British Pound, which are currencies in which we transact business. In addition, we could be adversely impacted by changes in trade policies, labor, tax or other laws and regulations, and intellectual property rights and supply chain logistics. All or any one of these factors could adversely affect our business, revenue, financial condition, and results of operations.

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

None.

Item 6. Exhibits.

| Exhibit Number | Description | Incorporated by Reference | | | | Filed or Furnished Herewith |
|----------------|---|---------------------------|----------|---------|-------------|-----------------------------|
| | | Form | File No. | Exhibit | Filing Date | |
| 10.1 | Stock Option Agreement, dated January 18, 2021, by and between Upwork Inc. and Hayden Brown. | | | | | X |
| 10.2 | Fifth Amendment to Loan and Security Agreement, dated February 8, 2021, by and between Upwork Inc. and Silicon Valley Bank. | | | | | X |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | 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 | Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document). | | | | | X |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document. | | | | | X |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. | | | | | X |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. | | | | | X |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. | | | | | X |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. | | | | | X |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101). | | | | | X |

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

SIGNATURES

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

UPWORK INC.

Date: May 4, 2021

By: _____
/s/ Hayden Brown
Hayden Brown
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 4, 2021

By: _____
/s/ Jeff McCombs
Jeff McCombs
Chief Financial Officer
(Principal Financial and Accounting Officer)

**NOTICE OF STOCK OPTION GRANT
(GLOBAL)**

**UPWORK INC.
2018 EQUITY INCENTIVE PLAN
GRANT NUMBER: 3103**

Unless otherwise defined herein, the terms defined in the Upwork Inc. (the “*Company*”) 2018 Equity Incentive Plan (the “*Plan*”) shall have the same meanings in this Notice of Stock Option Grant (the “*Notice of Grant*”) and the attached Stock Option Agreement, including Exhibit A attached hereto (collectively, the “*Option Agreement*”). You have been granted an Option to purchase Shares under the Plan subject to the terms and conditions of the Plan, this Notice of Grant and the Option Agreement.

Name: Hayden Brown

Address: 158 Sunkist Lane, Los Altos, CA 94022

Number of Shares: 1,500,000

Exercise Price Per Share: \$38.80

Date of Grant: January 18, 2021

Type of Option: _____ Non-Qualified Stock Option ___x___ Incentive Stock Option

Expiration Date: January 18, 2031; subject to earlier expiration as provided in the Plan or the Option Agreement.

Vesting Schedule: The Option will vest in accordance with the vesting schedule set forth in Exhibit A. The actual number of Shares subject to the Option that vest, if any, may be lower than the Number of Shares set forth above depending on the extent to which the Shares subject to the Option vest pursuant to a time-based vesting requirement, a performance-based vesting requirement, and other conditions set forth in Exhibit A.

This Notice of Grant may be executed and delivered electronically, whether via the Company’s intranet or the Internet site of a third party or via email or any other means of electronic delivery specified by the Company. By accepting this Option, you consent to the electronic delivery and acceptance as further set forth in the Option Agreement. You acknowledge that the vesting of the Option pursuant to this Notice of Grant is earned only by continuing Service, but you understand that your employment or consulting relationship with the Company or a Parent, Subsidiary or Affiliate is for an unspecified duration and can be terminated and that nothing in this Notice of Grant, the Option Agreement or the Plan changes the nature of that relationship. By accepting this Option, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan, this Notice of Grant and the Option Agreement.

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UPWORK INC.

Hayden Brown

By: /s/ Brian Levey

Hayden Brown

Its: Secretary

Stock Option Agreement

UPWORK INC. 2018 EQUITY INCENTIVE PLAN

You have been granted an Option by Upwork Inc. (the “*Company*”) under the 2018 Equity Incentive Plan (the “*Plan*”) to purchase Shares (the “*Option*”), subject to the terms, restrictions and conditions of the Plan, the Notice of Stock Option Grant (the “*Notice of Grant*”) and this Stock Option Agreement, including Exhibit A attached hereto (collectively, the “*Agreement*”).

1. Grant of Option. You have been granted the Option for the number of Shares set forth in the Notice of Grant at the Exercise Price per Share set forth in the Notice of Grant. In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option (“*ISO*”), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an ISO, to the extent that it exceeds the \$100,000 limit under Code Section 422(d), it shall be treated as a Nonqualified Stock Option (“*NSO*”).

2. Termination.

(a) General Rule. Subject to Exhibit A, if your Service terminates for any reason except death or Disability, and other than for Cause, then this Option will expire at the close of business at Company headquarters on the date three months after your termination of Service (subject to the expiration detailed in Section 6 or as provided in the Plan). If your Service is terminated for Cause, this Option will expire upon the date of such termination.

You acknowledge and agree that the vesting schedule set forth in the Notice of Grant may change prospectively in the event that your service status changes between full and part-time status in accordance with Company policies relating to work schedules and vesting of awards. You acknowledge that, subject to Exhibit A, the vesting of the Option pursuant to this Agreement is earned only by continuing Service.

(b) Death; Disability. Subject to Exhibit A, if you die before your Service terminates (or you die within three months of your termination of Service other than for Cause), then this Option will expire at the close of business at Company headquarters on the date 12 months after the date of death (subject to the expiration detailed in Section 6 or as provided in the Plan). Subject to Exhibit A, if your Service terminates because of your Disability, then this Option will expire at the close of business at Company headquarters on the date 12 months after your termination date (subject to the expiration detailed in Section 6 or as provided in the Plan).

(c) Termination Date. For purposes of this Option, your Service will be considered terminated as of the date you are no longer actively providing Service (regardless of the reason for such termination and whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or consulting agreement, if any), and your period of Service will not include any contractual notice period or any period of “garden leave” or similar period mandated under labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or consulting agreement, if any. In case of any dispute as to whether and when your termination of Service has occurred for purposes of this Option, the Committee shall have the sole discretion to determine whether such termination has occurred (including whether you may still be considered to be providing Service while on a leave of absence) and the effective date of such termination.

(d) No Notice. You are responsible for keeping track of these exercise periods following your termination of Service for any reason. The Company is not obligated to provide further notice of such periods and you should not depend on the Company or the Plan Broker (as defined below) providing any such notice (even if such notices have been provided in the past or are provided in some but not all termination circumstances). In no event shall this Option be exercised later than the Expiration Date set forth in the Notice of Grant.

3. Exercise of Option.

(a) Right to Exercise. This Option is exercisable during its term in accordance with the vesting schedule set forth in the Notice of Grant and the applicable provisions of the Plan and this Agreement. In the event of your death, Disability, or other cessation of Service, the exercisability of the Option is governed by the applicable provisions of the Plan, the Notice of Grant and this Agreement. This Option may not be exercised for a fraction of a Share.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice in a form specified by the Company (the "**Exercise Notice**"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "**Exercised Shares**"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be delivered in person, by mail, via electronic mail or facsimile or by other authorized method to the Secretary of the Company or other person designated by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of a fully executed Exercise Notice accompanied by the aggregate Exercise Price and any applicable Tax-Related Obligations that are required to be withheld as detailed in Section 8 below.

(c) Exercise by Another. If another person wants to exercise this Option after it has been transferred to him or her in compliance with this Agreement, that person must prove to the Company's satisfaction that he or she is entitled to exercise this Option. That person must also complete the proper Exercise Notice form (as described above) and pay the Exercise Price (as described below) and any applicable Tax-Related Obligations that are required to be withheld as described in Section 8 below.

4. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at your election:

(a) your personal check, wire transfer, or a cashier's check;

(b) for U.S. taxpayers only: certificates for shares of Company stock that you own, along with any forms needed to effect a transfer of those shares to the Company; the value of the shares, determined as of the effective date of the Option exercise, will be applied to the Exercise Price. Instead of surrendering shares of Company stock, you may attest to the ownership of those shares on a form provided by the Company and have the same number of shares subtracted from the Exercised Shares issued to you. However, you may not surrender, or attest to the ownership of, shares of Company stock in payment of the Exercise Price of your Option if your action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to this Option for financial reporting purposes;

(c) cashless exercise through irrevocable directions to a securities broker approved by the Company to sell all or part of the Exercised Shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the Exercise Price and any applicable Tax-Related Obligations that are required to be withheld. The balance of the sale proceeds, if any, will be delivered to you. The directions must be given by signing a special notice of exercise form provided by the Company; or

(d) other method authorized by the Company;

subject to any restrictions required by the Company for legal or administrative reasons.

5. **Non-Transferability of Option.** In general, except as provided below, only you may exercise this Option prior to your death. You may not transfer or assign this Option, except as provided below. For instance, you may not sell this Option or use it as security for a loan. If you attempt to do any of these things, this Option will immediately become invalid.

However, if you are a U.S. taxpayer, you may dispose of this Option in your will. If you are a U.S. taxpayer and this Option is designated as a NSO in the Notice of Grant, then the Committee may, in its sole discretion, allow you to transfer this Option as a gift to one or more family members. For purposes of this Agreement, "family member" means a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law (including adoptive relationships), any individual sharing your household (other than a tenant or employee), a trust in which one or more of these individuals have more than 50% of the beneficial interest, a foundation in which you or one or more of these persons control the management of assets, and any entity in which you or one or more of these persons own more than 50% of the voting interest. In addition, if you are a U.S. taxpayer and this Option is designated as a NSO in the Notice of Grant, then the Committee may, in its sole discretion, allow you to transfer this Option to your spouse or former spouse pursuant to a domestic relations order in settlement of marital property rights. The Committee will allow you to transfer this Option only if both you and the transferee(s) execute the forms prescribed by the Committee, which include the consent of the transferee(s) to be bound by this Agreement.

This Option may not be transferred in any manner other than by will or by the laws of descent or distribution or court order and may be exercised during your lifetime only by you, your guardian, or legal representative, as permitted in the Plan and applicable local laws. The terms of the Plan and this Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of you.

6. **Term of Option.** This Option shall in any event expire on the Expiration Date set forth in the Notice of Grant, which date is ten years after the grant date (five years after the grant date if this Option is designated as an ISO in the Notice of Grant and you are a Ten Percent Stockholder). You are responsible for keeping track of the Expiration Date. The Company is not obligated to provide notice of the Expiration Date and you should not depend on the Company or the Plan Broker (as defined below) providing any such notice (even if such notices have been provided in the past or are provided in some but not all circumstances).

7. **Tax Consequences.** You should consult a tax adviser for tax consequences relating to this Option in the jurisdiction(s) in which you are subject to tax. **YOU SHOULD CONSULT A TAX ADVISER BEFORE ACCEPTING THIS OPTION, EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.**

(a) **Exercising the Option.** You will not be allowed to exercise this Option unless you make arrangements acceptable to the Company to pay Tax-Related Obligations that are required to be withheld as further described in Section 8 below.

(b) **Notice of Disqualifying Disposition of ISO Shares.** If you sell or otherwise dispose of any of the Shares acquired pursuant to an ISO on or before the later of (i) two years after the grant date, or (ii) one year after the exercise date, you shall immediately notify the Company in writing of such disposition. You agree that you may be subject to income tax withholding by the Company on the compensation income recognized from such early disposition of ISO Shares by payment in cash or out of the current compensation paid to you.

8. **Responsibility for Taxes.** Regardless of any action the Company or, if different, your employer (the "**Employer**") takes with respect to any or all income tax, social insurance, payroll tax,

fringe benefits tax, payment on account and other tax-related items related to your participation in the Plan and legally applicable to you (“**Tax-Related Obligations**”), you acknowledge that the ultimate liability for all Tax-Related Obligations is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Obligations in connection with any aspect of this Option, including the grant, vesting or exercise of this Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of this Option to reduce or eliminate your liability for Tax-Related Obligations or achieve any particular tax result. You acknowledge that if you are subject to Tax-Related Obligations in more than one jurisdiction, the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Obligations in more than one jurisdiction.

Prior to exercise of the Option or any other relevant taxable or tax withholding event, as applicable, you shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy any withholding obligation the Company and/or the Employer may have for Tax-Related Obligations. In this regard, you authorize the Company and/or the Employer, and their respective agents, at their discretion, to withhold all applicable Tax-Related Obligations from your wages or other cash compensation paid to you by the Company and/or the Employer or by withholding from proceeds of the sale of the Shares either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf and you hereby authorize such sale pursuant to this authorization). The Committee may also authorize one or a combination of the following methods to satisfy Tax-Related Obligations: (a) payment by you to the Company or the Employer of an amount equal to the Tax-Related Obligations in cash, (b) having the Company withhold otherwise deliverable cash or Shares having a value equal to the Tax-Related Obligations to be withheld, (c) delivering to the Company already-owned Shares having a value equal to the Tax-Related Obligations to be withheld, or (d) any other arrangement approved by the Company and permissible under applicable law; in all cases, under such rules as may be established by the Committee and in compliance with the Company’s Insider Trading Policy and 10b5-1 Trading Plan Policy, if applicable; provided, however, that if you are a Section 16 officer of the Company under the Exchange Act, then the method of withholding shall be a mandatory sale (unless the Committee shall establish an alternate method prior to the taxable or withholding event). You shall pay to the Company or the Employer any amount of Tax-Related Obligations that the Company or the Employer may be required to withhold as a result of your participation in the Plan or your issuance of Shares upon exercise of the Option that cannot be satisfied by the means previously described.

Depending on the withholding method, the Company may withhold or account for Tax-Related Obligations by considering applicable statutory withholding rates or other applicable withholding rates, including up to the maximum applicable rate in your jurisdiction in which case you may receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent in Shares. If the obligation for Tax-Related Obligations is satisfied by withholding in Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Options, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Obligations.

Finally, you acknowledge that the Company has no obligation to deliver Shares or proceeds from the sale of Shares to you until you have satisfied the obligations in connection with the Tax-Related Obligations as described in this Section.

9. Nature of Grant. In accepting this Option, you acknowledge, understand and agree that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan;

- (b) the grant of this Option is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of stock options, or benefits in lieu of stock options, even if stock options have been granted in the past;
- (c) all decisions with respect to future stock options or other grants, if any, will be at the sole discretion of the Company;
- (d) you are voluntarily participating in the Plan;
- (e) this Option and any Shares acquired under the Plan, and the income from and value of same, are not intended to replace any pension rights or compensation;
- (f) this Option and any Shares acquired under the Plan, and the income from and value of same, are not part of normal or expected compensation or salary for any purpose including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, holiday pay, bonuses, long-service awards, leave-related payments, pension or retirement benefits or payments or welfare benefits or similar mandatory payments;
- (g) unless otherwise agreed with the Company, this Option and any Shares acquired under the Plan, and the income from and value of same, are not granted as consideration for, or in connection with, any Service you may provide as a director of a Subsidiary or Affiliate;
- (h) the future value of the Shares underlying this Option is unknown, indeterminable, and cannot be predicted with certainty;
- (i) if the underlying Shares do not increase in value, this Option will have no value;
- (j) if you exercise this Option and acquire Shares, the value of such Shares may increase or decrease, even below the Exercise Price;
- (k) no claim or entitlement to compensation or damages shall arise from forfeiture of this Option resulting from the termination of your Service (for any reason whatsoever whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are providing Service or the terms of your employment or service agreement, if any); and
- (l) neither the Company nor the Employer, nor any Parent, Subsidiary or Affiliate, shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of this Option or of any amounts due to you pursuant to the exercise of this Option or the Shares acquired upon exercise of this Option or the subsequent sale of any Shares acquired upon exercise.

10. Data Privacy.

(a) Declaration of Consent. By accepting this Option and indicating consent by signing this Agreement or via the Company's online acceptance procedure, you are declaring that you agree with the data processing practices described herein and consent to the collection, processing and use of Data by the Company and the transfer of Data to the recipients mentioned below, including recipients located in countries which may not have a similar level of protection from the perspective of your country's data protection law.

(b) Data Collection and Usage. The Company and the Employer may collect, process and use certain personal information about you, including, but not limited to, your name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number, salary, nationality, job title, any shares of stock or directorships held in the

Company, details of all Options granted under the Plan or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in your favor (“Data”), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is your consent.

(c) Stock Plan Administration Service Providers. The Company transfers Data to Morgan Stanley and its subsidiaries (“Plan Broker”), an independent service provider based in the United States, which is assisting the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner. You may be asked to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan.

(d) International Data Transfers. The Company and its service providers are based in the United States. Your country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program. The Company’s legal basis, where required, for the transfer of Data is your consent.

(e) Data Retention. The Company will hold and use the Data only as long as is necessary to implement, administer and manage your participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws.

(f) Voluntariness and Consequences of Consent Denial or Withdrawal. Participation in the Plan is voluntary and you are providing the consents herein on a purely voluntary basis. If you do not consent, or if you later seek to revoke your consent, your salary from or employment and career with the Employer will not be affected; the only consequence of refusing or withdrawing your consent is that the Company would not be able to grant the Option under the Plan to you or administer or maintain your participation in the Plan.

(g) Data Subject Rights. You may have a number of rights under data privacy laws in your jurisdiction. Depending on where you are based, such rights may include the right to (i) request access or copies of Data the Company processes, (ii) rectification of incorrect Data, (iii) deletion of Data, (iv) restrictions on processing of Data, (v) portability of Data, (vi) lodge complaints with competent authorities in your jurisdiction, and/or (vii) receive a list with the names and addresses of any potential recipients of Data. To receive clarification regarding these rights or to exercise these rights, you understand that you can contact your local human resources representative.

11. Acknowledgement. The Company and you agree that this Option is granted under and governed by the Notice of Grant, this Agreement and the provisions of the Plan (incorporated herein by reference). You: (i) acknowledge receipt of a copy of the Plan and the Plan prospectus, (ii) represent that you have carefully read and are familiar with their provisions and the provisions of the Notice of Grant and this Agreement, and (iii) hereby accept this Option subject to all of the terms and conditions set forth in this Agreement and those set forth in the Plan and the Notice of Grant. You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions relating to the Plan, the Notice of Grant and this Agreement.

12. Consent to Electronic Delivery and Acceptance of All Plan Documents and Disclosures. By your acceptance of this Option, you consent to the electronic delivery of the Notice of Grant, this Agreement, the Plan, account statements, Plan prospectuses required by the U.S. Securities and Exchange Commission, U.S. financial reports of the Company, and all other documents that the Company is required to deliver to its securityholders (including, without limitation, annual reports and proxy statements) or other communications or information related to this Option. Electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in

administering the Plan, the delivery of the document via e-mail or such other delivery determined at the Company's discretion. You acknowledge that you may receive from the Company a paper copy of any documents delivered electronically at no cost if you contact the Company by telephone, through a postal service or electronic mail at stockadmin@upwork.com. You further acknowledge that you will be provided with a paper copy of any documents delivered electronically if electronic delivery fails; similarly, you understand that you must provide on request to the Company or any designated third party a paper copy of any documents delivered electronically if electronic delivery fails. You agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company. Also, you understand that your consent may be revoked or changed, including any change in the electronic mail address to which documents are delivered (if you have provided an electronic mail address), at any time by notifying the Company of such revised or revoked consent by telephone, postal service or electronic mail at stockadmin@upwork.com. Finally, you understand that you are not required to consent to electronic delivery.

13. Compliance with Laws and Regulations. The exercise of this Option will be subject to and conditioned upon compliance by the Company and you with all applicable state, federal and foreign laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's common stock may be listed or quoted at the time of such issuance or transfer, which compliance the Company shall, in its absolute discretion, deem necessary or advisable. You understand that the Company is under no obligation to register or qualify the Company's common stock with any state, federal or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the Shares. Further, you agree that the Company shall have unilateral authority to amend the Plan and this Agreement without your consent to the extent necessary to comply with securities or other laws applicable to issuance of Shares. Finally, the Shares issued pursuant to this Agreement shall be endorsed with appropriate legends, if any, determined by the Company.

14. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the underlying Shares. You should consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

15. Governing Law; Venue. This Agreement, all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflict of laws. For purposes of litigating any dispute that may arise directly or indirectly from the Plan, the Notice of Grant and this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California in Santa Clara County, California or the federal courts of the United States for the Northern District of California and no other courts.

16. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of this Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of this Agreement shall be enforceable in accordance with its terms.

17. No Rights as Employee, Director or Consultant. Nothing in this Agreement shall create a right to employment or other Service or be interpreted as forming or amending an employment, service contract or relationship with the Company and this Agreement shall not affect in any manner whatsoever any right or power of the Company, or a Parent, Subsidiary or Affiliate, to terminate your Service, for any reason, with or without Cause.

18. Award Subject to Company Clawback or Recoupment. To the extent permitted by applicable law, the Option shall be subject to clawback or recoupment pursuant to any clawback or recoupment policy adopted by the Board or the Committee or required by law during the term of your employment or other Service that is applicable to you. In addition to any other remedies available under such policy, applicable law may require the cancellation of your Option (whether vested or unvested) and the recoupment of any gains realized with respect to your Option.

19. Entire Agreement; Enforcement of Rights. This Agreement, the Plan and the Notice of Grant constitute the entire agreement and understanding of the parties relating to the subject matter herein and supersede all prior discussions between them. Any prior agreements, commitments or negotiations concerning this Option are superseded. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing and signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

20. Insider Trading Restrictions/Market Abuse Laws. You acknowledge that, depending on the laws of applicable jurisdictions, including but not limited to your country and the United States, you may be subject to insider trading restrictions and/or market abuse laws, which may affect your ability to accept, acquire, sell or otherwise dispose of Shares, rights to Shares (*e.g.*, Options) or rights linked to the value of Shares under the Plan during such times as you are considered to have “material non-public information” or “inside information” regarding the Company (as defined by the laws or regulations in the relevant jurisdictions). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. You acknowledge that it is your responsibility to comply with any applicable restrictions, and you should speak to your personal advisor on this matter.

21. Foreign Asset/Account Reporting. You acknowledge that there may be certain foreign asset and/or account reporting requirements which may affect your ability to purchase or hold Shares acquired under the Plan or cash received from participating in the Plan (including from any dividends paid on Shares acquired under the Plan) in a brokerage or bank account outside your country. You may be required to report such accounts, assets or transactions to the tax or other authorities in your country.

22. Language. You acknowledge that you are proficient in the English language and understand the provisions in this Agreement and the Plan. If you have received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

23. Imposition of Other Requirements. The Company reserves the right to impose other requirements on your participation in the Plan, on this Option and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

24. Waiver. You acknowledge that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by you or any other Participant.

BY ACCEPTING THIS OPTION, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

Exhibit A

Vesting Schedule

As used in this Exhibit A, the following definitions shall apply to the following capitalized terms:

“**Achievement Date**” means the first trading date occurring during the Performance Period in which a Company Stock Price Target is achieved.

“**Cause**” shall have the same meaning ascribed to such term in your Change in Control and Severance Agreement with the Company (as may be amended from time to time).

“**Change of Control**” shall have the same meaning ascribed to such term in your Change in Control and Severance Agreement with the Company (as may be amended from time to time).

“**Company Stock Price**” means the volume-weighted average sale price of a Share on the Nasdaq stock exchange (or other national securities exchange on which the Shares are then listed) measured over any consecutive ninety (90) day period, as reported by, or based upon data reported by a reliable reporting service as determined by the Company. In case of any dispute as to the determination of the Company Stock Price, the Committee shall have the sole discretion to make the final determination.

“**Company Stock Price Target**” means each target with respect to the Company Stock Price as set forth in *Table 1* under Section 2 of this Exhibit A, subject to equitable adjustment by the Committee in the event that the Shares under the Plan are adjusted pursuant to Section 2.6 of the Plan.

“**Final Measurement Date**” means April 18, 2026, the last day of the Performance Period.

“**Good Reason**” shall have the same meaning ascribed to such term in your Change in Control and Severance Agreement with the Company, effective as of January 1, 2020.

“**Performance Period**” means the period commencing on January 18, 2021 and ending on April 18, 2026.

1. **Vesting.** All Shares subject to the Option shall be subject to a four-year service-based vesting requirement (the “**Time Vesting Requirement**”) and the achievement of certain Company Stock Price Targets (the “**Performance Vesting Requirement**”) such that the Shares subject to the Option may only be exercised to the extent such Shares have vested in accordance with both the Time Vesting Requirement and the Performance Vesting Requirement.
2. **Performance Vesting Requirement.** All Shares subject to the Option are eligible to vest with respect to the Performance Vesting Requirement to the extent the Company Stock Price equals or exceeds an applicable Company Stock Price Target as set forth in *Table 1*, below, in which case the number of Shares listed directly across from such Company Stock Price Target shall vest with respect to the Performance Vesting Requirement as of the Achievement Date. The determination of the number of Shares vested based on an applicable Company Stock Price Target shall not be determined through linear interpolation. The Company Stock Price must be at or above the Company Stock Price Target specified in *Table 1*, below, for the number of Shares listed directly across such Company Stock Price Target to vest with respect to the Performance Vesting Requirement. For the avoidance of doubt, (a) each Company Stock Price Target may only be achieved once during the Performance Period and (b) more than one Company Stock Price Target may be achieved on a particular date.

a. **Table 1.**

| Company Stock Price Target | Shares |
|----------------------------|---------|
| \$60.00 | 100,000 |
| \$70.00 | 200,000 |
| \$80.00 | 300,000 |
| \$90.00 | 400,000 |
| \$100.00 | 500,000 |

3. **Expiration of Performance Vesting.** The Option will expire with respect to any Shares that have not satisfied the Performance Vesting Requirement on or before the earlier of (a) the Final Measurement Date, (b) a Change of Control, and (c) the date on which you no longer serve as the Company’s Chief Executive Officer; provided that in the event that you no longer serve as the Company’s Chief Executive Officer, the Option will remain outstanding and eligible to vest as necessary to give effect to the terms set forth herein.
4. **Acceleration of Performance Vesting.** Notwithstanding Section 3 of this Exhibit A, in the event that your Service terminates in a manner described in this Section 4, certain Shares subject to the Option may be subject to accelerated vesting in accordance with the terms set forth herein.
- a. In the event of a Change in Control (a) during which you serve as the Company’s Chief Executive Officer, or (b) within three (3) months following a termination of your employment as Chief Executive Officer by the Company without Cause or your resignation as Chief Executive Officer for Good Reason, “Company Stock Price” will mean the price per share applicable to the Change in Control for the purpose of determining whether any additional Company Stock Price Targets are achieved as of the date of the Change in Control. If the price per share applicable to the Change in Control equals or exceeds an applicable Company Stock Price Target, then the number of Shares listed directly across such Company Stock Price Target shall vest with respect to the Performance Vesting Requirement.
 - b. In the event of a termination or resignation of your service with the Company as Chief Executive Officer either (a) by the Company without Cause or your resignation for Good Reason, or (b) due to your death or Disability, and such termination or resignation takes place on a date on which the volume-weighted average sale price of a Share on the Nasdaq stock exchange (or other national securities exchange on which the Shares are then listed) for a minimum of 45 consecutive days preceding such termination or resignation equals or exceeds an applicable Company Stock Price Target, as determined by the Committee in its sole discretion, then the number of Shares listed directly across such Company Stock Price Target shall vest with respect to the Performance Vesting Requirement.
 - c. In the event that your Service terminates in a manner that could not give rise to acceleration in accordance with the terms set forth in this Section 4, any Shares subject to the Option that remain then-unvested as of the date of such termination shall be forfeited and you will have no further rights with respect to such Shares.
5. **Time Vesting Requirement.**
- a. 1/16th of the Shares subject to the Option shall vest on each quarterly anniversary of the Date of Grant such that the Option shall be fully vested with respect to the Time Vesting Requirement on the four-year anniversary of the Date of Grant, subject to your continuous service to the Company as Chief Executive Officer, Executive Chairperson or any C-level officer position (each, a “**Designated Position**”) on each applicable vesting date.
 - b. Notwithstanding the foregoing, with respect to the Time Vesting Requirement only, the Shares subject to the Option shall accelerate as follows: (a) as set forth in your Change in Control and Severance Agreement with the Company (as may be amended from time to

time), and (b) in the event that you are terminated or resign from a Designated Position due to your death or Disability, the Option shall accelerate with respect to the Time Vesting Requirement with respect to that number of Shares subject to the Option that would have vested in accordance with the Time Vesting Requirement over the twelve (12) months immediately following such termination or resignation, only to the extent that as of immediately prior to the date of such death or Disability, such number of Shares have satisfied the Performance Vesting Requirement. For the avoidance of doubt, any vesting (including any vesting acceleration) with respect to the Time Vesting Requirement shall apply to each “tranche” of Shares proportionately such that, for example, on the two-year anniversary of the Date of Grant, fifty percent (50%) of each “tranche” shall vest with respect to the Time Vesting Requirement (e.g. 50,000 for the \$60 tranche, 100,000 for the \$70 tranche, etc.).

- c. For example, if the Performance Vesting Requirement is achieved with respect to the \$60 stock price target on or before the two year anniversary of the Date of Grant, then as of such date the Option will be vested with respect to the Performance Vesting Requirement as to 100,000 Shares, and of those Shares, 50,000 will be vested with respect to the Time Vesting Requirement (and therefore exercisable); the remaining 50,000 will vest with respect to the Time Vesting Requirement (and therefore become exercisable) ratably over the following eight quarters so long as you continue to provide services to the Company in a Designated Position. Further, if immediately following the two year anniversary of the Date of Grant, you are terminated without Cause or resign for Good Reason and within three months following such separation the Company effects a Change in Control pursuant to which the price per share applicable to the Change in Control is \$70, then the following acceleration will apply to the Option: (i) 200,000 Shares subject to the Option will accelerate and vest with respect to the Performance Vesting Requirement and (ii) 100% of the Shares subject to the Option will vest with respect to the Time Vesting Requirement, such that an aggregate of 300,000 Shares, inclusive of the 200,000 Shares in clause (i), subject to the Option will become exercisable.

6. **General Release.** To the extent that any acceleration of your Performance Award results from a termination by the Company without Cause or your resignation for Good Reason, either alone or in connection with a Change in Control, such acceleration shall be contingent upon your satisfaction of the release requirements set forth in Section 4 of your Change in Control and Severance Agreement with the Company (as may be amended from time to time).

**FIFTH AMENDMENT
TO
LOAN AND SECURITY AGREEMENT**

This Fifth Amendment to Loan and Security Agreement (this “**Amendment**”) is entered into this 8th day of February, 2021 by and between (a) **SILICON VALLEY BANK**, a California corporation (“**Bank**”), and (b) **UPWORK INC.**, a Delaware corporation, **ELANCE, INC.**, a Delaware corporation, **UPWORK GLOBAL INC.**, a California corporation, and **UPWORK TALENT GROUP INC.**, a Delaware corporation (each and together, jointly and severally, “**Borrower**”).

RECITALS

A. Bank and Borrower have entered into that certain Loan and Security Agreement dated as of September 19, 2017, as amended by that certain First Amendment to Loan and Security Agreement, dated as of November 29, 2017, as further amended by that certain Second Amendment to Loan and Security Agreement, dated as of September 17, 2018 (the “**Second Amendment**”), as further amended by that certain Third Amendment to Loan and Security Agreement, dated as of March 18, 2019, and as further amended by that certain Fourth Amendment to Loan and Security Agreement, dated as of August 13, 2020 (such agreement, as amended, and as the same may from time to time be further amended, modified, supplemented or restated, the “**Loan Agreement**”).

B. Bank has previously extended credit to Borrower for the purposes permitted in the Loan Agreement.

C. Borrower has requested that Bank amend the Loan Agreement to make certain revisions to the Loan Agreement as more fully set forth herein.

D. Bank has agreed to so amend certain provisions of the Loan Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.

2. Amendments to Loan Agreement.

2.1 Section 6.2 (Financial Statements; Reports). Section 6.2(h) is amended and restated as follows:

“(h) within ten (10) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower and/or any Guarantor with the SEC, any Governmental Authority succeeding to any or all of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms hereof

(to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower’s website or on the SEC EDGAR website, as applicable;”.

3. Limitation of Amendments.

3.1 The amendments set forth in Section 2 above are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

3.2 This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

4. Representations and Warranties. To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

4.1 Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties (i) relate to an earlier date or time period, in which case they are true and correct in all material respects as of such date or with respect to such time period or (ii) or are qualified by materiality in the text thereof, in which case they shall be true and correct in all respects), and (b) no Event of Default has occurred and is continuing;

4.2 Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

4.3 The current organizational documents of Borrower have been delivered to Bank on or prior to the date of this Amendment and remain true, accurate and complete, have not been amended, supplemented or restated and are and continue to be in full force and effect (or, if amended, supplemented and/or restated, have been delivered to Bank in connection with the execution of this Amendment) and shall be deemed to have been delivered on the date on which Borrower posted such documents, or provided a link thereto, on Borrower's website or on the SEC EDGAR website, as applicable;

4.4 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

4.5 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

4.6 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on Borrower, except as already has been obtained or made; and

4.7 This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

5. No Defenses of Borrower. Borrower hereby acknowledges and agrees that Borrower has no offsets, defenses, claims, or counterclaims against Bank with respect to the Obligations, or otherwise, and that if Borrower now has, or ever did have, any offsets, defenses, claims, or counterclaims against Bank existing or arising through and including the date of execution of this Amendment, whether known or unknown, at law or in equity, all of them are hereby expressly WAIVED and Borrower hereby RELEASES Bank from any liability thereunder.

6. Integration. This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Amendment and the Loan Documents merge into this Amendment and the Loan Documents.

7. Counterparts. This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

8. Effectiveness. As a condition precedent to the effectiveness of this Amendment and the Bank's obligation to make further Advances under the Revolving Line, the Bank shall have received the following prior to or concurrently with this Amendment, each in form and substance acceptable to Bank:

8.1 the due execution and delivery to Bank of this Amendment by each party hereto; and

8.2 Borrower's payment of Bank's legal fees and expenses incurred in connection with this Amendment and the other Loan Documents, up to Three Thousand Five Hundred Dollars (\$3,500).

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

BORROWER:

UPWORK INC.

By: /s/ Brian Levey
Name: Brian Levey
Title: Chief Business Affairs and Legal
Officer & Secretary

UPWORK GLOBAL INC.

By: /s/ Brian Levey
Name: Brian Levey
Title: General Counsel and Secretary

BANK:

SILICON VALLEY BANK

By: /s/ Alex Grotevant
Name: Alex Grotevant
Title: Vice President

ELANCE, INC.

By: /s/ Junko Swain
Name: Junko Swain
Title: President and Treasurer

UPWORK TALENT GROUP INC.

By: /s/ Junko Swain
Name: Junko Swain
Title: President and Treasurer

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

I, Hayden Brown, certify that:

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

Date: May 4, 2021

/s/ Hayden Brown

Hayden Brown

Chief Executive Officer

(Principal Executive Officer)

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

I, Jeff McCombs, certify that:

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

Date: May 4, 2021

/s/ Jeff McCombs

Jeff McCombs

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

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

- the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 31, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: May 4, 2021

/s/ Hayden Brown

Hayden Brown

Chief Executive Officer

(Principal Executive Officer)

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

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

- the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 31, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: May 4, 2021

/s/ Jeff McCombs

Jeff McCombs

Chief Financial Officer

(Principal Financial and Accounting Officer)