

Employee Stock Purchase Plan

Overview of Upstart's ESPP



Agenda

- 1 ESPP Basics
- 2 ESPP Contribution Example
- 3 Payroll Deduction Example
- 4 Tax Treatment
- 5 Charles Schwab Enrollment
- 6 Changes & Withdrawals



What is an ESPP?

- The Upstart Employee Stock Purchase Plan provides eligible Upstarters the opportunity to purchase Upstart stock at a discount through payroll deductions.
- You choose if you want to participate and how much to contribute
- Contribute between 1% and 15% of your base pay

Eligibility

You are currently eligible to participate in the ESPP if you meet the following criteria:

- A full-time Upstart employee
- Joined Upstart prior to the beginning of the offering period
- Work at least 20 hours per week
- Work for Upstart on a regular, not seasonal, basis

Contributions

- Contributions are calculated based on a % of your pre-tax base pay and are deducted via payroll on a post-tax basis
- No interest is paid on your contributions
- Bonuses and sales commissions are not included as part of the contribution calculation
- No more than 2,000 shares are able to be purchased each offering period
- You can change your contribution election during the offering period only one time (decrease only)

ESPP Cycle

Open Enrollment
Jan 30 - Feb 12

Purchase Date
Aug 15

Offering Period
Feb 15 - Aug 15

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

Purchase Date
Feb 15

Open Enrollment
Late July - Mid Aug

Offering Period
Aug 15 - Feb 15

What is the enrollment period?

- The specific dates when Upstarters can opt to participate in the ESPP plan (see [go/ESPP](#) for upcoming dates)
- **Current participants:** no action needed unless you want to change your contribution percentage (including increasing your rate or re-enrolling if current contribution % is zero).

What is the offering period?

- Offering periods are the time during which the contributions you elect to make are being deducted from your pay and saved up to purchase stock.
- Offering periods are six-months long and run as follows:
 - February 15th to August 15th
 - August 15th to February 15th

What is the purchase date?

- The purchase date is the last day of the Offering Period & the day share purchases are calculated.
- Shares will be delivered to your Charles Schwab Equity Award Center account 3-5 business days after each purchase.

What is the purchase price?

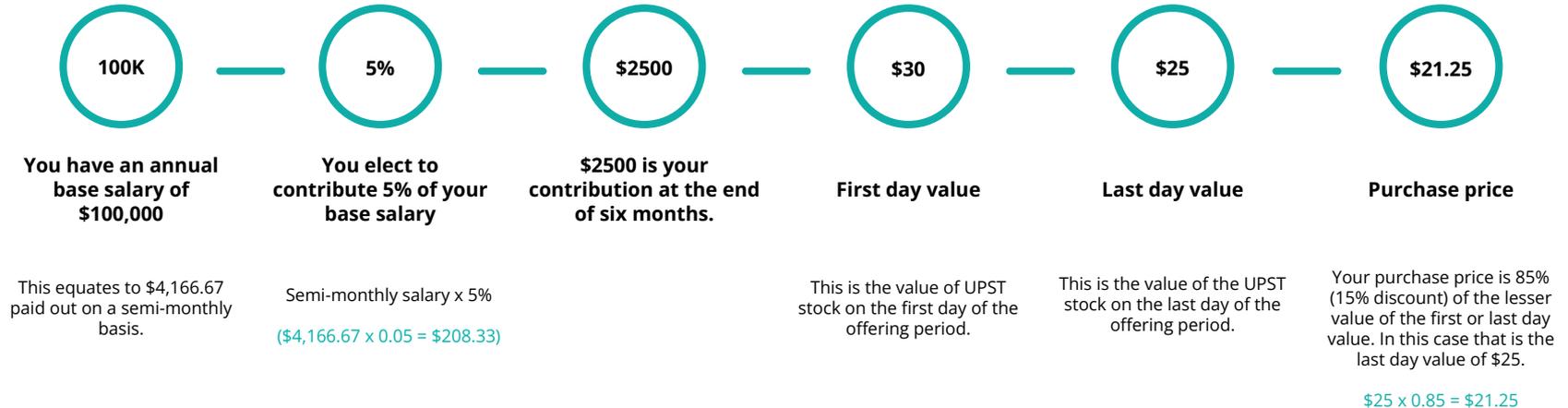
The purchase price is equal to 85% (15% discount) of the lesser of the value of UPST stock on either the first day of the offering period or the last day of the offering period (purchase date).

\$25K IRS Limit

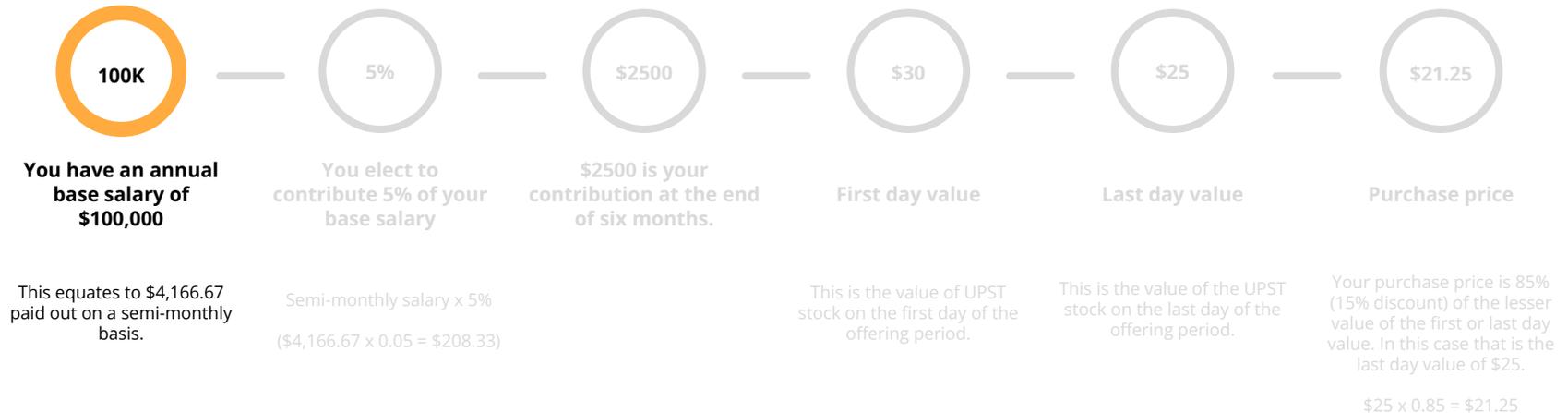
- You may not purchase more than \$25,000 worth of stock during a calendar year
- Any contributions that exceed this limit will be refunded to you after a purchase
 - This applies **before** the 15% discount is applied
- The limit is calculated based on the value of the stock on the first day of the offering period
 - *For example, if the value of the stock on the first day of the offering period is \$50, you would not be able to purchase more than 500 shares*
- If the offering period crosses calendar years and a portion of the \$25,000 limit remains unused it will rollover and be applicable to the next calendar year
 - *For example, if you contributed \$15,000 to ESPP in the previous calendar year, \$10,000 will rollover to the current calendar year and your total limit for the current calendar year would be \$35,000 (\$10,000 rollover from previous year + \$25,000 standard limit for current year)*

ESPP Contribution Example

Example: part I



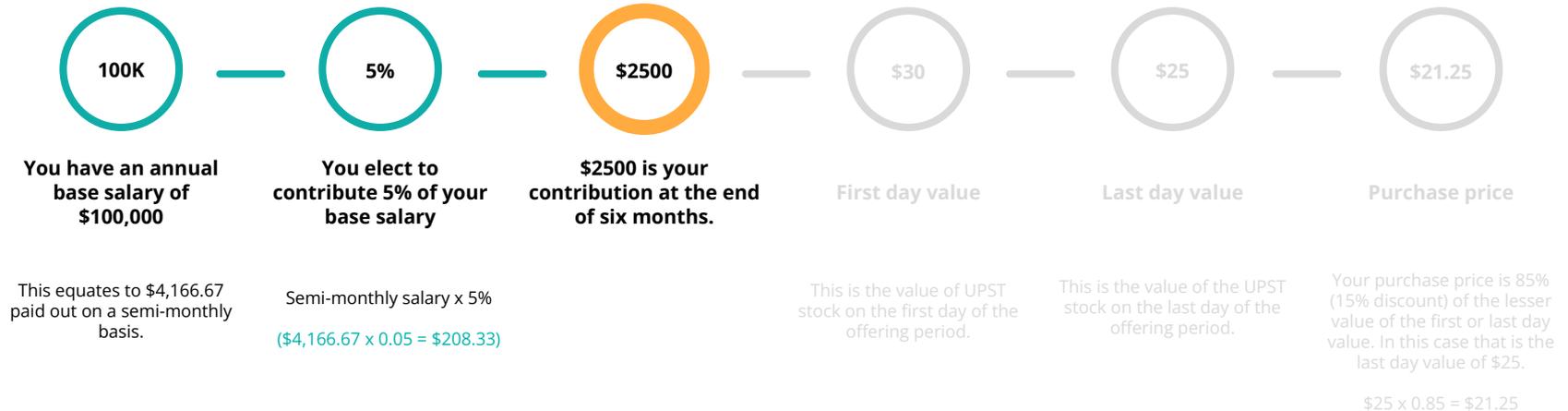
Example: part I



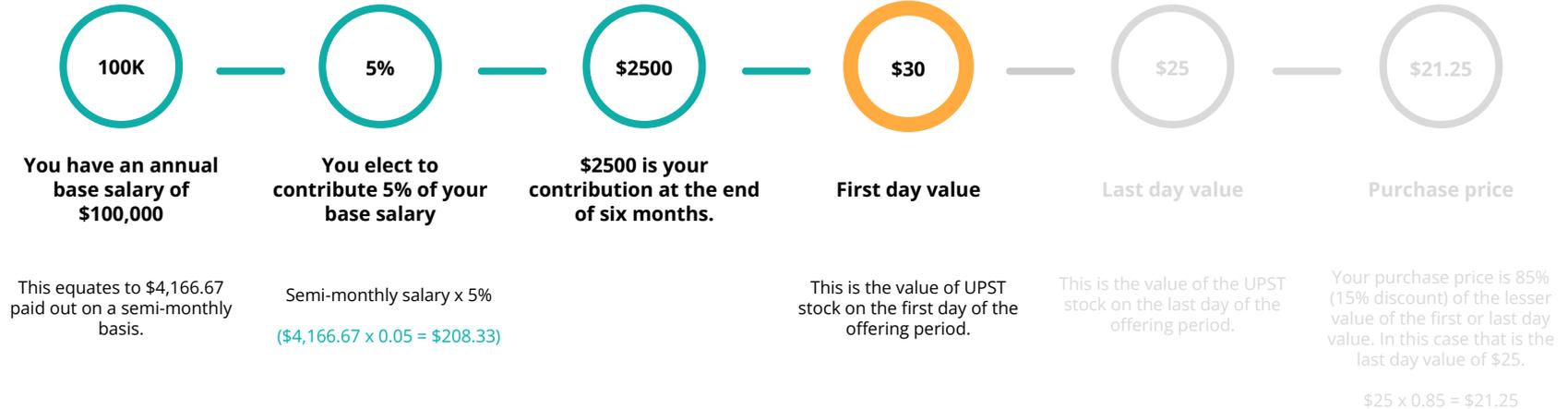
Example: part I



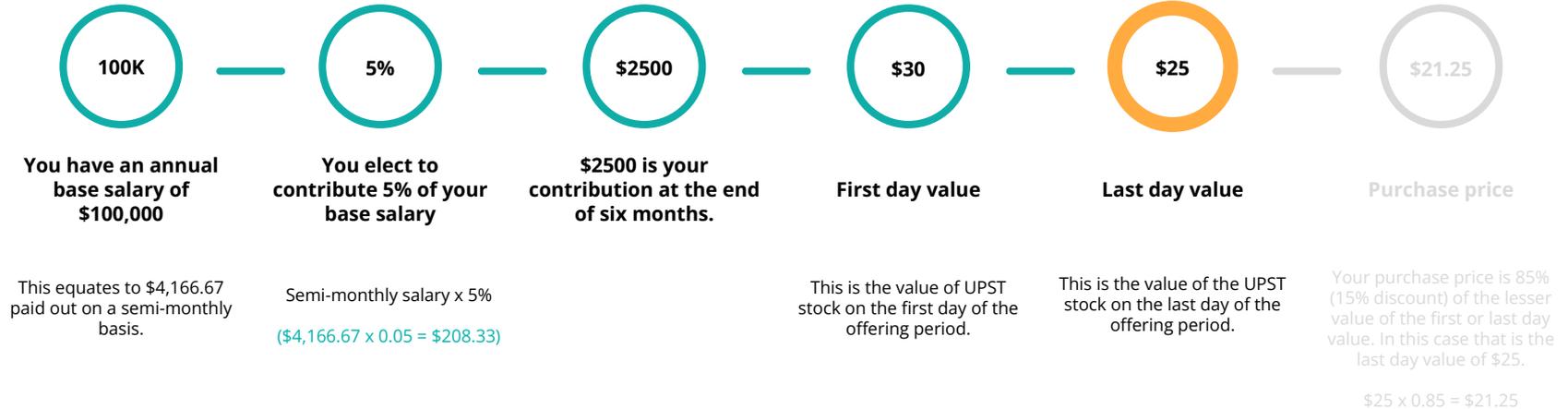
Example: part I



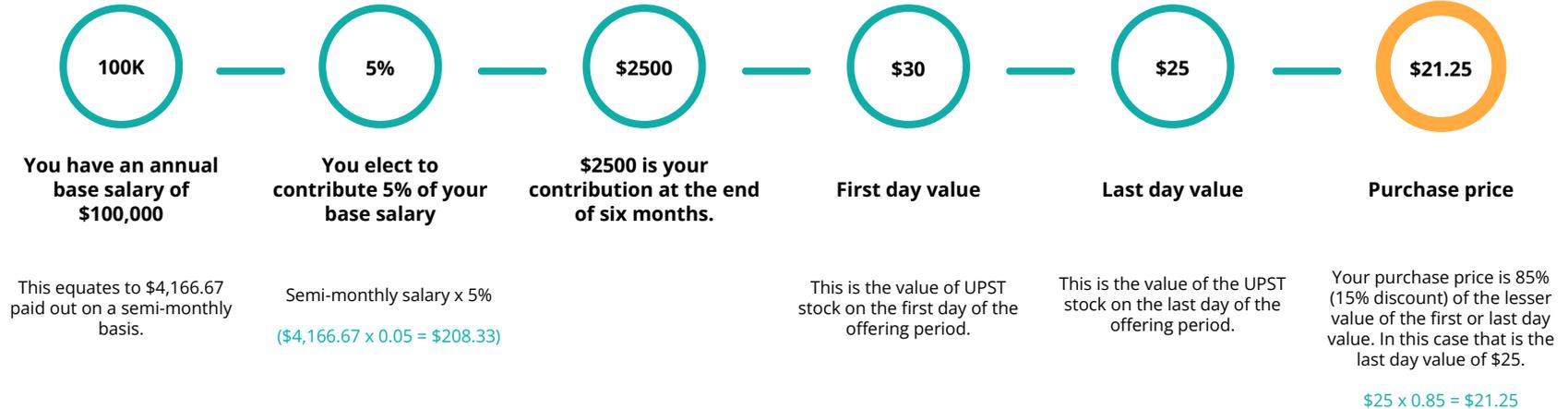
Example: part I



Example: part I



Example: part I



Example: part II

117

Shares purchased

You contributed \$2500
Your purchase price is \$21.50

$$\$2500/\$21.25 = 117.647059$$

Since we cannot purchase fractional shares, 117 shares will be deposited into your Charles Schwab EAC account.

\$13.75

Roll over amount

This is the remaining value of the fractional share that will be rolled over into your next offering period (you can also have it refunded).

$$\$2,500 - (117 \times \$21.25) = \$13.75$$

\$2925

Value of your ESPP stock

$$117 \text{ shares} \times \$25 = \$2,925$$

\$438.75

Discount you received through the ESPP

The current value (on the final day of the offering period) was \$25, but you received a 15% discount and only paid \$21.25.

$$(\$117 \times \$25) - (\$117 \times \$21.25) = \$2925 - \$2486.25 = \$438.75$$

Example: part II

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Payroll Deduction Example

Payroll Deduction Example

Example: An Upstarter with a semi-monthly salary of \$5,000 who is contributing the maximum amount of 15% to their ESPP would be contributing \$750 from each of their paychecks ($\$5,000 \times 0.15 = \750).

The \$750 is *calculated before taxes*, but it is deducted *after taxes and other disbursements* (i.e. 401(k)). This is important to consider when determining your desired contribution amount.

Pay Component	Amount	Subtotal
Gross Salary	\$5,000	
Taxes	(\$1,750)	\$3,250
401(k)	(\$200)	\$3,050
ESPP Contribution	(\$750)	\$2,300

Tax Treatment Overview

Tax Treatment (US Treatment)

- Your ESPP purchase is not considered taxable income at the time of purchase*
- When you decide to sell your shares, the gain on the sale of shares is taxable
- The specific tax treatment depends on the timing of the sale

Talk with your personal tax/financial advisor for more guidance

* See appendix

What is a qualifying disposition?

A qualifying disposition is when you sell shares at least two years after the beginning of the Offering Period **AND** one year after purchase. Gain will be taxed in two pieces:

- The 15% purchase price discount is generally treated as ordinary income
- Any additional gain may be considered long-term capital gain

Talk with your personal tax/financial advisor for more guidance

What is a disqualifying disposition?

A disqualifying disposition is when you sell shares earlier than two years from beginning of Offering Period **AND** one year from purchase date

- The total discount on purchase date is generally treated as ordinary income
- Normal capital gains rules apply to post-purchase value increases

Talk with your personal tax/financial advisor for more guidance

Charles Schwab Enrollment Overview

Personal Value

\$10,266.94

Day Change

\$0.00 (0.00%)

1-Month Change

+\$10,062.73 (4,927.64%)

What is Personal Value?

Refresh Print

Accounts



Investment

Type

Cash & Cash Investments

Balance/Value

Individual

Brokerage

\$0.00

\$0.00
\$0.00 (0.00%)



Employer Sponsored

Equity Awards

Equity Awards

\$10,266.94



Disclosures

Equity Award Center

Notifications

Employee Stock Purchase Plan

Enroll in Demo Company - Demo Company ESPP Plan ZVZZT at a discount of 15%. [Learn More](#)

Enroll

ZVZZT, Demo Company \$10.02 **\$0.03 (0.30%)** Day's Range: \$10.01 - \$10.02

Equity Today

[View Equity Details](#)

Accounts Trade Research Products Guidance Service

Summary Balances

Enrollment - Demo Company Employee Stock Purchase Plan

Plan Description

1990 Employee Qualified Stock Purchase Plan provides employees of Demo Company and its designated subsidiaries with an opportunity to purchase Demo Company Inc. common stock through accumulated payroll deductions in whole percentage amounts not exceeding 15% or less than 2%.
ONLINE CONTRIBUTION RATE ADJUSTMENTS: Any increase to your contribution rate is limited to open enrollment periods. Any election to increase your rate will be contingent on your re-enrollment in to a new lower priced offering period. Any decrease to your contribution rate is allowed once per month but once the rate is lowered it cannot be increased again until you begin a new offering period. For the 1990 ESPP Plan any increases in contribution rates for which you are NOT ELIGIBLE will be reversed by Demo Company.

Purchase Period: 01/01/2017 - 06/30/2017
Purchase Date: 06/30/2017

Set Contribution Amount

Please select or enter the percentage amount that you'd like to contribute from payroll deductions towards your discounted stock.

Percentage contribution %
Minimum: 1%, Maximum: 15%, (increments of 1%)

You will be enrolled in Demo Company's employee stock purchase plan. This will generate automatic payroll deductions at the rate you've selected to purchase company shares automatically each offering period.

Enrollment Agreement

I, Joyce Rosenberg, would like to contribute 10% of my eligible compensation each pay period

A 24 month offering period commences on the first trading day occurring on or after the first day of February and August of each year. A participant shall elect to have payroll deductions made on each payday during the offering period in amounts not exceeding 15% or less than 2% of his or her compensation and not at a rate which exceeds twenty-five thousand dollars in fair market value (determined at the offering date) for each calendar year in which an offering period is outstanding.

I agree to the terms & conditions of the enrollment agreement.

Cancel Enroll

Equity Award Center
Notification
Employee Stock Purchase Plan
Enroll in Demo Company
ZVVVT_X_Demo
Equity Summary
\$516.7K
Total
Manage ESPP Elections

02/01/2017 Refresh
No market value available
No future releases on... to the plan's EAC... need to change.

Current market value based on stock price as of 02:02 PM ET, 02/01/2017
Marked values are not displayed for private companies

Equity Summary Details

Changes & Withdrawals

Making changes to your contribution

- If you are currently enrolled, you do not need to re-enroll. Your contribution elections carry over from one Offering Period to the next.
- You can increase or decrease your contribution rate for a future Offering Period only during the enrollment period.
- During the Offering Period you can only make **one** decrease to your contribution rate.
- You can withdraw from the ESPP anytime before the Offering Period cut-off date.
 - *Note: If you withdraw, your contributions will be returned to you in the next available payroll and you will not purchase stock.*
- If you withdraw or reduce your contribution to zero, you will need to re-enroll in the plan if you want to participate in the future.

[Refresh](#)

Order Status

Trade

ZVZZT, Demo Company \$10.02 \$0.01 (0.10%) Day's Range: \$9.99 - \$10.02

Equity Today

[View Equity Details](#)

Current Positions

Quantity

Value

Owned Shares [Sell](#)[Manage ESPP](#)

Employee Stock Purchase Plan Shares

47

\$471.53

Equity Award Shares

453

\$4,539.06

500

\$5,010.59

Companies -

Events & Activities -

All Award Events

Upcoming

2018

15 Vesting Day

Equity Award Center

Page last updated: 02:07 PM ET, 02/01/2017 [Refresh](#)[Dashboard](#) > [Manage ESPP Elections](#)

Demo Company Company - Demo Company ESPP Plan

Plan Description

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Current Purchase Period

Status: Enrolled

Current Contribution: 10%

If you enroll during this period

Contributions will be deducted during this period

And stock will be purchased on this date

10/31/2016 - 02/15/2017

01/01/2017 - 06/30/2017

06/30/2017

[Change](#)[Withdraw](#)

Contribution History

[View a detailed contribution history](#)

Next Steps

Important Recap & Reminders

- You can contribute between 1% and 15% of your base pay
 - Contributions can only be made via payroll deductions (you cannot add money to your account in any other way).
- You may not purchase more than \$25,000 worth of stock during a calendar year and no more than **2,000 shares per offering period**
 - Any contributions that exceed this limit will be refunded to you after a purchase

Additional contact information & resources

Upstart

Stock-Administration@Upstart.com
[go/ESPP](#)

Charles Schwab

Stock Plan Services: 1-800-654-2593
eac.schwab.com

Thank you!

APPENDIX: Tax Examples

Tax Treatment: Example

Value on the first
day of the
Offering Period:

\$30

Value on final
day of the
Offering Period
(purchase date):

\$25

Purchase price
(with discount):
 $\$25 \times 85\% =$

\$21.25

Number of
shares:

100

Discount:
 $(\$25 - \$21.25) \times 100$ shares

\$375

Tax Treatment: Example

Value on the first day of the Offering Period:

\$30

Value on final day of the Offering Period (purchase date):

\$25

Purchase price (with discount):
 $\$25 \times 85\% =$

\$21.25

Number of shares:

100

Discount:
 $(\$25 - \$21.25) \times$
100 shares

\$375

Sale Price

\$50

Purchase Price

\$21.25

Sale Value
 $(\$50 \times 100)$

\$5,000

Purchase Value
 $(\$21.25 \times 100)$

\$2,125

Total Gain
 $(\$5,000 - \$2,125)$

\$2,875

Tax Treatment: Example

Value on the first day of the Offering Period:	Value on final day of the Offering Period (purchase date):	Purchase price (with discount): $\$25 \times 85\% =$	Number of shares:	Discount: $(\$25 - \$21.25) \times 100$ shares
\$30	\$25	\$21.25	100	\$375
Sale Price	Purchase Price	Sale Value $(\$50 \times 100)$	Purchase Value $(\$21.25 \times 100)$	Total Gain $(\$5,000 - \$2,125)$
\$50	\$21.25	\$5,000	\$2,125	\$2,875

Qualifying Disposition: **\$375** of the \$2,875 gain taxable as ordinary income and **\$2,500** taxable as long term capital gains

Disqualifying Disposition: **\$375** of the \$2,875 gain taxable as ordinary income and **\$2,500** taxable as short term capital gains

Disqualifying Disposition: Ohio Taxes

- Upstart is required to withhold local taxes from disqualifying dispositions on ESPP sales by our employees in certain jurisdictions in Ohio.
- ESPP shares that were not held for at least two years from the beginning of the offering period from which they were acquired or one year from the date they were purchased, are sold, that means that the holding period for the shares was not met, ultimately causing the sales of those shares to be a disqualifying disposition for tax purposes.

Value on Purchase Date	\$25.00
<u>Purchase Price with Discount</u>	<u>\$21.25</u>
	\$ 3.75

Taxed as Ordinary Income
\$3.25 x 100 shares = \$375

2.5% Local Ohio Tax x \$375 = \$9.38

*\$9.38 in local taxes will be owed at the time of your sale transaction.
Upstart will pay this on your behalf and will make arrangements with you to recoup this amount.*

Sale Price	\$50
<u>Value on Purchase Date</u>	<u>\$25</u>
	\$25

Taxed as **Short Term** Capital Gain
\$25 x 100 shares = \$2,500

Tax at Purchase: Pennsylvania Taxes

- Upstart is required to withhold local and state taxes on the discount at the time of purchase for Pennsylvania employee. Pennsylvania does not recognize the qualified status of the ESPP; however, it still qualifies for the Federal tax to be delayed until sale.

Value on Purchase Date	\$25.00
<u>Purchase Price with Discount</u>	<u>\$21.25</u>
	\$ 3.75

Taxed as Ordinary Income
\$3.75 x 100 shares = \$375

3.2% PA State Tax x \$375 = \$12.00

\$12.00 in state taxes will be owed at the time of purchase. Upstart will collect this through payroll within 1 paycycle of the purchase. The \$375.00 will be reported on your W-2 for PA state taxable income and taxes paid

At the time of sale, the difference between the actual purchase price and the FMV determined by the length of time the shares were held will then be reported on your W-2 for Federal taxes only.